PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB2412

Project Name	BULGARIA ROAD INFRASTRUCTURE PROJECT
Region	EUROPE AND CENTRAL ASIA
Sector	Roads and highways (100%)
Project ID	P099894
Borrower(s)	BULGARIA MINISTRY OF FINANCE
Implementing Agency	
	The Road Executive Agency (REA) 3 Macedonia Blvd 1606 Sofia, Bulgaria Tel: 359-2-952-1768 Fax: 359-2-951-5422
Environment Category	[ ] A [X] B [ ] C [ ] FI [ ] TBD (to be determined)
Date PID Prepared	July 12, 2006
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1. Key development issues and rationale for Bank involvement

1. Bulgaria's main development goal is to rapidly align its economy with that of the rest of the EU by improving the country's competitiveness. Because of its geographic location, an efficient transport system is a necessary condition to achieve this goal. In addition to the critical importance of transport links with the rest of the EU, which is Bulgaria's main trade partner, internal road transport is especially important for Bulgaria because of the country's geographic and economic features. For example, only 30 percent of the country's population lives in large and medium size cities. The rest of the population lives mainly in small towns (40 percent) or in rural areas (30 percent), often separated by sparsely populated mountainous areas, and therefore depends very much on road transport for its livelihood. Economic activities are also widely spread over the territory with agriculture and tourism as potential sources of growth.

2. The required improvement in the efficiency of the transport sector is hampered by high road transport costs, which is mainly due to the poor condition of the road infrastructure. Only one third of Bulgaria's main road network of 19,000 km is in good condition compared to 45 percent in Croatia for instance. Road condition has substantially deteriorated over the past ten years mainly because of the historic pattern of underinvestment in the 1990s, resulting in a very large backlog of required rehabilitation. This pattern affects all classes of roads, but since most available funding has been focused on rehabilitation of main roads (i.e. motorways and Class I roads which total about 3,300 Km), road deterioration has mainly affected regional (Class II) (3,980 km) and district (Class III) (11,470 km) roads.

3. The main issues regarding the transport sector are identified in the Government's transport sector strategy for 2006-2013, and in the Sector Operational Program for Transport (SOPT). In these documents, investment plans include rehabilitation of existing infrastructure and the provision of selective new capacity where necessary. In the Treaty of Accession to the EU, Bulgaria has committed to completing the upgrade of its main road network to EU technical

and safety standards by 2014, with a number of upgrades to be completed as early as 2008. The Government has also proposed a motorway construction program that requires significant resources.

4. While upgrading of major roads on European corridors to EU standards has been the focus of "Transit Roads Projects", supported by EIB, there still is the issue of clearing the large maintenance backlog on Class II and III roads, and even on some Class I roads. The proposed project would address this particular issue. It is expected that funding for the road sector would increase after EU accession thanks to additional grants from the EU. However, EU Cohesion Fund provides financing to increase transport infrastructure capacity and, to a limited extent, network rehabilitation along the TEN-T only. The Government will still have to provide co-financing, potentially further delaying essential maintenance of the existing networks. The proposed project would thus target investment in maintenance and rehabilitation to create a balance between maintenance of existing assets and new construction.

5. Responsibility for class I, II and III roads (19,000 km) is entrusted with the Road Executive Agency (REA), until recently reporting to the Ministry of Regional Development and Public Works (MRDPW), and now to be restructured as a "semi-autonomous" Government agency – Road Investment Fund to be governed by a Board representing the Ministry of Finance, the Ministry of Transport and MRDPW. Despite a strong engineering tradition, REA has not strengthened as much as road agencies in other EU accession countries. In particular, modern road management systems and road works implementation methods have only partially been adopted, and as a result, public funds are not used efficiently, and there are concerns that this might affect the efficient absorption of EU grant funds available for the road sector. The Government is aware of this situation but needs support to design and implement an institutional development program for REA. Other IFIs finance construction and rehabilitation of Class I roads but do not assist with institutional development. Their projects, for efficiency reasons, are also implemented by "enclave" units, and can only have limited spillover effects on REA's capability.

6. The proposed project would be the Bank's first road sector project in Bulgaria. The Bank's support will be relevant only if the project is prepared, delivered, and implemented efficiently, and if the implementation will at the same time strengthen the institutional capacity of REA. Only one project in the transport sector (the railway project that closed in 2002) has been supported by the Bank in the recent past in Bulgaria. In 2004, the Government requested a Bank loan for the roads sector, but this was later dropped. Renewed interest in Bank support for the transport sector in the past year follows recent Bank studies on road financing issues and the Public Finance Policy Review. Three specific drivers are behind the Government's current interest in Bank support. First, the Government wants to improve the condition of Class II and III roads so as to enhance the access of the population and enterprises in small towns and rural areas to markets and enhance the opportunities to rural areas expected after EU accession. Second, REA wants to improve its road management system in order to be able to prepare multiyear road maintenance programs under a constrained budget environment. And third, the Government wants REA to strengthen its technical and managerial capacity to efficiently implement ongoing and future road projects, especially those to be partly financed with EU grants.

7. The proposed project is fully consistent with the Bank's new Country Partnership Strategy (CPS) for Bulgaria. The CPS puts much emphasis on supporting the strengthening of institutional capacity, strengthening the private sector, and promoting equity and economic

growth. The Bank will support investments in priority sectors determined by Bulgaria, one of which has been identified as the road sector, and thereby assist the country to achieve its objectives of successful EU accession, and efficient absorption of EU grants.

2. Proposed objective(s)

8. The development objective of the proposed project would be to assist Bulgaria to reduce transport costs by improving the overall quality of its roads network during the first years of EU accession. The proposed project objectives will be achieved by:

(i) improving the condition of Class II and III roads, and selected Class I roads;
(ii) enabling REA to establish well-articulated multi-year maintenance and rehabilitation programs through the development and use of an improved road management information system; and
(iii) improving REA's capacity to manage effectively road maintenance, rehabilitation, and road safety improvement programs.

3. Preliminary description

9. The proposed project would include two main components:

(i) Support to the Government's program for rehabilitation and maintenance of Class II, III, and selected Class I roads. Initial estimates, based on visual observation and past financing patterns, show that the needs of the Class II and III roads are very large, although not presently quantifiable (probably more than US$100 million per year over the next ten years) to bring the secondary road network to maintainable condition. The Government has prepared a rehabilitation and maintenance program for the period 2007-2009 to be supported by the Bank. The program includes road sections selected using engineering, economic and social criteria. It covers 440 km of mainly Class II and III roads, and selected Class I roads and has an indicative cost estimate of EUR 107 million. The program includes rehabilitation and periodic maintenance required to reduce the backlog of maintenance to prevent further deterioration, as well as the improvement of selected road sections known to be "accident black-spots."

(ii) Institutional development of REA. This component would assist REA in strengthening its managerial and technical capacity to develop and implement road maintenance, rehabilitation and construction programs. This will allow the Government to adopt a programmatic approach in achieving its road infrastructure goals where different sources of funding such as EU grants, IFIs, REA's own revenues, and the State budget could be combined. The component is targeted at both the planning and implementation of programs. On the planning side, the component would provide training, and consultant services for the development of a modern road management system incorporating road and traffic databases covering all public roads, and the supply of necessary equipment. On the implementation side, the component would provide training, and consultant services to assist REA during implementation of projects and programs to make these more efficient and less fragmented. During project preparation, other services, such as training, study tours, and policy development workshops may also be included. It is envisaged that training in the use of the road management system will be used to develop the first, budget constrained, multiyear road maintenance and rehabilitation program. Indicative cost estimates of this component are EUR 5.5 million.

10. The project would cover the period 2007-2009, the total project cost would be EUR 112.5 million, and the Bank loan amount would be around EUR 90 million. The proposed project would be structured as a specific investment loan (SIL) operation.

4. Safeguard policies that might apply

11. The project includes institutional reforms to strengthen the capacity of REA to manage and finance the road network rehabilitation and maintenance program in Bulgaria, and civil works related to the rehabilitation and maintenance of mainly Class II and III roads, and selected Class I roads totaling about 440 km. The project location for these roads is spread all over the country and covers road network sections proposed by the Government in a rehabilitation and maintenance program for 2007-2009.

12. The safeguards policies triggered by the project are as follows:

Safeguard Policies Triggered	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	X		
Natural Habitats (OP/BP 4.04)			X
Forests (OP/BP 4.36)		X	
Pest Management (OP 4.09)		X	
Cultural Property (OPN 11.03)			X
Indigenous Peoples (OP/BP 4.10)		X	
Involuntary Resettlement (OP/BP 4.12)	X		
Safety of Dams (OP/BP 4.37)		X	
Projects on International Waterways (OP/BP 7.50)		X	
Projects in Disputed Areas (OP/BP 7.60)		X	

13. While initially considered a possible "country system pilot" for safeguard policy issues under OP 4.00, the extent of gap-filling required to ensure equivalence and acceptability is expected to be too significant to align with the project preparation schedule and rather limited life of the Bank's probable assistance strategy with Bulgaria. Therefore the project will be processed conventionally with respect to environmental safeguards.

14. The project is classified as environmental category B since it will provide investments mainly for rehabilitation and maintenance activities of existing Class II and III roads, and selected Class I roads.

15. A solid Environmental Management Plan (EMP) will be prepared before appraisal to ensure that maintenance and rehabilitation protect the population and environment from key risks related to road rehabilitation works such as noise, soil erosion on steep slopes, protection of waterways, passage of animals through any protected areas (if relevant), etc.. The EMP will also

include a check on potential impacts on Physical Cultural Resources (PCR). No major impacts on PCR may be expected during the project implementation, yet attention should be paid to the possibility of built PCR being affected by dust and vibration during construction, and roadside PCR being affected by road widening or realignments.

16. Furthermore, a Policy Framework for Land Acquisition will be prepared by the Government as a condition for project appraisal; although the project does not expect any land take and the scope of civil works will by limited to rehabilitation and maintenance, some minor land acquisition may be likely particularly for remediation works related to improving "accident black spots".

5. Tentative financing

Source:	($m.)
BORROWER	29
IBRD	116
Total	145

6. Contact point

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