Council of Ministers

SUMMARY AND CONCLUSIONS OF MEETING OF MINISTERS OF THREE SOUTH-CAUCASUS STATES
(Tbilissi, 18-19 April 2002)

This document is submitted for information under item 8, "Items for Information" of the Draft Agenda of the Bucharest session of the Council of Ministers.
General

1. The Seminar, organised by ECMT and the World Bank together with the Ministry of Transport and Communication of Georgia, was attended by high-level delegations from all three countries, as well as International Financial Institutions, international organizations, and private interests.

2. It allowed a wide ranging discussion on all aspects of transport policy in the individual countries and also regionally. It was held in a positive spirit of exchange and co-operation.

3. It showed that much work and progress had taken place in liberalizing the transport market and in adjusting to the market economy but also that much remained to be done regionally and in the three Countries to bring transport infrastructure and services to the level of those in the rest of Europe.

4. The full programme and all presentations are being put on the ECMT and World Bank sites for consultation and information.

Policy Framework, Management and Financing

5. The participants identified the main difficulties and challenges facing the transport sector in the Region; these include:
   - a lack of confidence by shippers in using routes through the region as well as difficulties in defining a coherent infrastructure network for national and international transport;
   - the long time required to change laws and adjust to the new ways of functioning;
   - a severe shortage of funds, to maintain and improve infrastructure as well as a lack of long term budget planning;
   - the variety and variability of transport charges and taxes in the region resulting in confusion among shippers and increasing the risks of fraud and corruption;
   - the lack of human resources, especially in management;
   - the need for management training.

6. In order to provide a sound framework for transport development, Countries need to accelerate the formulation of transport policies and plans, based on market economy principles, with clear priorities, and, importantly, with identified indicative multiyear financing plans, agreed at government and parliament level, with due regard to international agreements and resolutions.

7. Significant progress has been made to clarify the roles of government and private sector, and there are several examples of effective private sector participation in transport operations. But there is still a clear need to improve institutional arrangements and structures for ownership, administration, management and service delivery in order to make the government more efficient and to increase the development and participation of the private sector in service delivery and, possibly, in management. This applies to all modes.
8. There is a pressing need to improve the investment climate to attract foreign investment in the sector. Equally important is domestic resource mobilization, which could be based more on the principle of user charges.

**Trade facilitation, ports, logistics and intermodal transport**

9. Bureaucratic border crossing and customs procedures are a major cause of delays and expenses (both formal and informal). These procedures need to be streamlined and improved so that border crossing target times agreed in UN ECE and ECMT are met, and that transit times for international traffic within the region and to Europe and Asia are reduced. It is encouraging that a public-private Committee for trade and transport facilitation will be created in each country to identify barriers and to define a specific set of projects to alleviate them. These Committees will present their projects to the TRACECA IGC and their respective national governments.

10. The ports serving the region have either bottlenecks or inadequate space and equipment for container traffic. There also is a need for rail gauge-change facility at Poti and Batumi, and improvements in the intermodal facilities. The Poti breakwater is in urgent need of improvement. Finally, bureaucratic processes cause significant delays at the borders, at the customs, and concentrated efforts by all involved actors needed to streamline administrative processes and increase transparency for users.

11. Initiatives, measures and ideas within each country were presented to resolve or reduce these problems; these include projects and studies financed by EU, IFIS and work in the TRACECA programme including the proposed TRACECA visa. Monitoring of these initiatives should be followed-up to ensure implementation.

**Road sector**

12. The most significant problems are (1) the backlog in maintenance, (2) very low budget financing combined with low direct user charges, and (3) poor traffic safety record. Resolving these problems requires improved human resources in road management, significantly higher and stable financing, introduction of new (EU harmonized) technical standards and technology, and the development of competent domestic consultant and construction industries, which is only feasible with stable domestic financing, initially supplemented by loans and credits.

**Railways**

13. The most significant problems are: (1) the old age and poor condition of track and rolling stock and lack of equipment for container traffic; (2) absence of management information systems to improve efficiency of train circulation, goods movement, tracking shipments, empty wagons, track maintenance, and ticketing and reservation; (3) difficulties to adjust to new demand patterns, both commodity and direction; (4) inexperienced and untrained management to evolve from the old monolithic State Railways to a modern, economically viable organization.
14. Resolving these problems is a complex task. The following is a useful checklist for guiding the railway restructuring process:

- Establish the railways as a state owned company under commercial law, and pursue the objective of making the consolidated railways commercially viable.
- Create a Board of Directors with broad representation. The MOT Board member represents the Government objectives.
- Require annual public audits and a balance sheet that values assets at replacement costs.
- Require annual business plans and a strategic medium term plan, supported by a financial management, information and costing systems.
- Price public service obligations both for freight and passenger service at full cost.
- Examine carefully if the railway PSOs could be replaced by commercially viable operations on alternative modes (trucks, buses).
- Privatize gradually, start by selling off all non-core interests.

**Urban transport**

15. Urban transport faces the twin problems of dealing with the rapid growth in car traffic and maintaining a viable public transport system. The key problem for financing urban public transport is resources, partly because of the significant difference between fare box revenue and operating costs, especially for the Metro, and also partly because of the decentralisation of responsibility without clear funding mechanisms. There are imaginative attempts in the region to introduce tendering and private sector operators in the public transport system and also to introduce new forms of clean transport to deal with the specific local situation.

16. Emerging traffic problems of pollution and congestion in urban areas deserve special attention, with the appropriate measures to include the promotion of public transport (metro, trams, trolley-buses, regular buses and minibuses) combined with traffic management measures like parking regulations and charges.

**Next steps**

17. The shared objective is to raise transport services and infrastructure to the level of the other European Countries. The individual Countries have the major responsibility here but international organisations and financial institutions can help. It will be useful if the there is improved co-ordination in the region of different international bodies (e.g. ECMT, UN ECE, EC, UIC, WB, EBRD, and others), so that synergy is created and consistent messages are given and applied.

18. Participants agreed that close co-operation between all three countries would benefit the region. ECMT, UN ECE, the World Bank and the EBRD agreed to arrange periodically fora for information exchange and for sharing experience and for monitoring the implementation of the above recommendations. This will also help to encourage domestic and regional approaches to resolve problems and increase understanding between the financial institutions and the borrowers.