

GEORGIA'S TRANSPORT AND LOGISTICS STRATEGY

ACHIEVEMENTS TO DATE AND AREAS FOR IMPROVEMENTS

January 2015

Mustapha Benmaamar, Oceane Keou, Daniel Saslavsky

I. Introduction

1. The policy note describes the state of transport and logistics in Georgia, carries out a needs assessment and identifies the main areas for improvements. The purpose of this policy note is to develop a common understanding between the Government of Georgia (GoG) and its partners of the institutional and physical challenges which face the transport and logistics sector, and of a strategy for meeting these challenges in the medium-term. The policy note identifies the key strategic directions and actions which will enable the sector to grow and improve. This policy note will help the Bank and the development partners to engage with the GoG in dialogue on the critical bottlenecks and to provide the Government with advice based on the Bank's international experience. The strategic directions outlined in this policy note require institutional reforms. This is inevitably a long term process but one which will gradually improve Georgia's Logistics Performance Index (LPI) ranking and its trade and competitiveness.

II. Where Georgia stands: Achievements to date

2. **Along with major country reforms to improve the business climate and governance, Georgia has successfully implemented a series of fundamental reforms and interventions in the transportation and logistics sector over the last 10 years.** The country has radically improved its value proposition as a transit country, modernizing its transport infrastructure, improving border clearance procedures, and liberalizing the provision of services in many key sectors that ensure better international connectivity with global markets. The main achievements in this field can be summarized as follows:
3. **Creation of customs clearance zones.** Whereas many years ago transit through Georgia was a lengthy and expensive activity, border clearance procedures have been fundamentally streamlined, reducing border clearance times to a bare minimum. Border infrastructure was also substantially rehabilitated, along with the creation of customs clearance zones.
4. **Implementation of an integrated border management system** has reduced the number of intervening agencies at the border (for clearance) with a single point of contact between drivers and government authorities. And a profound reform has also improved the governance environment in which border management transactions occur.
5. **Regulations governing the road freight services industry in Georgia were gradually revamped** to converge towards the spirit of the EU *acquis*. Liberal cross-border permit regimes (usually bound by 'truck quotas') were negotiated with Turkey and Armenia.

6. **Road infrastructure has significantly improved**, facilitating trade and increasing Georgia's value proposition as a transit country. The GoG is committed to completing the East-West Highway project by 2020 and bring it to European expressway standards, with noticeable effects in transit times to and from its seaports in the Black Sea.
7. **Georgian Railways underwent a substantial restructuring of its business model.** The freight business unit operates at a profit and is entirely commercial-based. As a whole, Georgia Railways (GR) is in charge of much of the investment to maintain or replace the rail infrastructure. The country has adhered or plans to adhere to a number of corridor initiatives involving railway transport (i.e. Kars-Tbilisi-Baku, Silk Wind, and Viking Train).
8. **The port sector is opened for private sector participation.** The Georgian port system comprises two medium-size bulk, general cargo and container ports, Poti and Batumi, plus two dedicated oil terminals at Supsa and Kulevi. The two largest seaports of Poti and Batumi are managed by two globally reputed operators. The 2012 traffic in Poti was around 7.5 million tons, including 300,000 TEUs¹. Poti port operator is undertaking investments to expand its off-dock container storage capacity and started works to reconvert a berth to allow Panamax-type vessels with a draft of 12 meters. Batumi is predominantly a liquid bulk terminal. Depending on the year, crude oil and oil products can represent up to 80-90% of the total turnover. The port of Batumi offers a 12 m. draft and Batumi International Container Terminal (BICT) handled around 75,000 TEU in 2012. Both Poti and Batumi port are directly linked to the Georgian railway network.
9. **The commercial air transport sector was also fully liberalized** and passenger traffic has grown at healthy rates. Tbilisi, Kutaisi and Batumi airports are modernized. Tbilisi and Batumi airports are managed under concession by reputed global operators using a BOT scheme.
10. **Establishment of a Georgia Logistic Association (GLA) and a Supply Chain Council² (SCC) chapter to help close operational gaps in the supply chain management industry.** Georgia has taken promising steps including, (i) the establishment of a Supply Chain Council (SCC)³ chapter process (ii) the initiation and institutionalization of the Supply Chain Operations Reference (SCOR) model⁴ which is being promoted⁵ by the Georgian Logistics Association (GLA)⁶ and (iii) a first annual Supply Chain Benchmarking Survey was carried out in 2014 to have an overview of companies' current strengths and weaknesses in the implementation of business processes and performance management.

¹ TEU stands for Twenty-foot Equivalent Unit, a standard unit measure for containerized cargo. In 2013, total container throughput in Georgia was 405,000 TEU of which Poti handled 82%. The present capacity of Poti seaport is 600,000 TEU.

² Supply Chain Council merged with APICS and the official name of this organization today is APICS Supply Chain Council

³ The Supply Chain Council (SCC) is a global, non-profit organization whose framework, improvement methodology, training, certification and benchmarking tools help member organizations make dramatic, rapid, and sustainable improvements in supply chain performance.

⁴ The SCOR® model, published and maintained by the Supply Chain Council (SCC), is the world standard for supply chain management, a model that provides a unique framework for defining and linking performance metrics, processes, best practices, and people into a unified structure.

⁵ Pilot SCOR trainings were provided in 2013 and 2014 to provide Georgian companies and transport and logistics providers an opportunity to be introduced to leading supply chain management practices.

⁶ The Georgian Logistics Association is a non-profit organization focusing on logistics and transportation sector, created to support companies and individuals from the private sector involved in the business of logistics, transportation and supply chain management.

III. Main challenges and areas for improvement

Despite these achievements, many challenges remain and key areas for improvements are highlighted and grouped under three main themes:

- A. Infrastructure and logistics services;
- B. Supply chain management; and
- C. Corridor development and cross-border management.

A. Infrastructure and logistics services

11. As a regional transport-transit hub, Georgia offers significant opportunities through its renovated and expanded transportation infrastructure, which includes an growing national highway system, newly expanded railway routes, three (Tbilisi, Kutaisi, Batumi) newly renovated international airports and seaports/terminals. The division of freight between roads and rail is not optimal and rail could carry more freight than it does. At present road transport within the Caucasus Transit Corridor (CTC) moves about twice the number of transit containers as railways. Road transport service prices are competitive due to the significant presence of Turkish truck companies that need to secure backhaul cargo. Establishing the right pricing for the use of road and rail infrastructure will be important to ensure that the CTC remains competitive vis-à-vis alternative corridors, and attracts more transit traffic.



12. The East-West Highway carries over 60 percent of the total foreign trade and is seen as a central piece in the Government's strategy of transforming Georgia into a transport and logistics hub. The government is committed to completing the East West

Highway Corridor project by 2020. The Government has in recent years accorded high priority to completing the upgrading of the East West Highway (392 km) to international motorway standards (2x2 lanes). The Government has deliberately opted to financing this important project using its own budget and a significant support of the International Financing Institutions (IFIs). The World Bank has financed four road improvement projects along the East-West Highway to complement the Government's initial investment from Tbilisi, and assistance is also being provided by other IFIs. Approximately 130 kilometers of the East-West highway corridor have already been upgraded and works are on-going to complete an additional 177 km by 2016.

13. **A clear financing strategy to complete the East-West Highway is needed.** The remaining road sections (85 km) of the East-West Highway corridor between Zemo-Osiauri and Argveta are located along a very difficult terrain and land slide prone areas which will require high level of expertise and innovation. The sections are likely to include 20 tunnels (9500 m) and 43 bridges (4460 m) which requires a total investment of around USD1.0 billion. A Value for Money Analysis and development of an optimal financing strategy for each of the sections between Zemo-Osiauri and Argveta is part of an on-going feasibility study. The findings will be presented and discussed at a donors' conference by spring 2015.
14. **Over the medium to long-term, it will be important to develop a sustainable financing mechanism to maintain the East-West Highway Corridor.** For the East-West Highway, which is critical for trade, there is a need to explore the option of bringing in private sector participation for operation and maintenance once the corridor is completed in 2020, which could be financed by tolling. This could create a fiscal space for maintenance of secondary and local roads, which are in poor condition, and are critical if Georgia is to reap the full benefits of the East-West Highway.
15. **Georgian Railways (GR)⁷ is expected to continue the restructuring process and at the same time modernize its asset base, systems and procedures and gain market shares.** From a corridor perspective, railways also represent a viable choice for access to and from Black Sea ports, connecting Georgian maritime gateways with neighboring countries and Central Asia. GR is expected to continue the restructuring process and at the same time modernize its asset base, systems and procedures, and staff skills to achieve four main objectives: (i) sustainability of the current performance by replacing life-expired and technologically obsolete assets and systems; (ii) enhanced profitability through introduction of new technology, computerization, and improved systems; (iii) safety and environment enhancement and (iv) put significant efforts to gain market shares and compete with roads. Crude oil continues to be the most important commodity in terms of volume and efforts should be made to attract local commodities and develop freight services.
16. **The most frequent impediment voiced by logistics agents seems to be the availability and inadequate quality of the railway rolling stock.** Whereas some of the closed wagons are seemingly in good condition, much of the platform cars are in obsolete state. Moreover, many of the locomotives in GR's fleet have past their service life. This contributes to lower the speeds in certain sections of the corridor, especially where terrain features require more tractive effort and put a strain on other systems (e.g. braking) that lead to suboptimal

⁷ GR has 1300 km of mainline track length including 293 km of double track. The main line and yards are fully electrified using 3,300 volts DC. More than 95% of branch lines are also electrified and the rest is operated using diesel traction. There are 22 Passenger stations, 114 freight stations, 1422 bridges and 32 tunnels.

operational practices. Efforts to rehabilitate rolling stock should be supported. Moreover, capacity bottlenecks in the rail network West of Tbilisi should not be neglected. Allegedly, this is being addressed partially or entirely by Georgian Railways itself.

17. **Georgian Railways (GR) can improve transparency and efficiency by separating operations from infrastructure services.** The freight business unit operates at a profit and is entirely commercial-based. However, there is a lack of intermodal platforms (i.e. container terminals) and GR still operates in a monopolistic situation. Under the current institutional setting, however, operations are not separated from the ownership of the infrastructure. This will remain unchanged until 2022, based on the EU-DCFTA market and infrastructure access provisions for rail transport. This will require significant regulatory and business reform.
18. **Port of Poti limitations.** The Port of Poti has a limited draft of 8.5 m (9.4 m. in the access channel) which allows only for feeder vessels to call at the port. It is one of the most expensive ports to use in the Black sea. Reportedly, the port is often congested. Shipping lines report an average of 3-day waiting time for vessels, which may occasionally increase up to 7 days in case of bad weather. This has led some operators to divert their vessels to Batumi and other ports to implement a congestion surcharge⁸. The port of Poti is negatively impacted by (i) restricted draft and necessity to carry out maintenance dredging works and (ii) limited storage capacity within the port bonded area; and (iii) direct proximity of the city of Poti. In addition, there are hinterland constraints and no on-dock container terminal in the port which limits the development of container supply chain along the Corridor.
19. **The TRACECA international transport corridor requires numerous transshipments, ferry ports⁹ and high capital intensity to be competitive.** The development of the Anaklia deep sea port project should take into consideration a wider regional context. The major benefit of the project would allow Georgia to offer a port facility comparable to the port of Constantza (Romania) in term of navigation depth, thus improving de facto the capacity of the TRACECA corridor. Currently, Constantza is the only port in the Black sea to offer 19 meters depth which correspond to the “maximum” draft authorized by Turkey for the crossing of the Bosphorus straight¹⁰. The major potential difficulty of the project is its capacity to attract sufficient traffic to make it viable both in economic and financial terms. Whilst, both Poti and Batumi ports have operational limitations, their capacity is at par with current and foreseeable traffic for the coming years.
20. **Air cargo volumes are still modest and warehousing infrastructure will remain underutilized for the foreseeable future.** Georgia has implemented a fully liberal air transport policy. Passenger traffic almost tripled in the last 6 years, and seat capacity has expanded more than twofold. Nonetheless, air cargo volumes are still modest. While warehousing infrastructure will remain underutilized for the foreseeable future, apron capacity might constrain operations in the future. The new apron –completely rehabilitated

⁸ Source: European Union Draft LOGMOS Master Plan – Annex 3 Part I - Maritime Sector Overview - October 2013

⁹ Turkmenbashi and Baku on the Caspian / Poti, Batumi, Varna Constantza and Odessa on the Black Sea

¹⁰ L.O.A./DRAFT: There is no definite L.O.A. [*Length Over All*] and/or draft restriction determined by Administration, however, The vessels that are 150-200m.in length and/or whose draft is between 10-15m.,shall submit SP-1 reports to Traffic Control Center, at least 24 hours before to their entry to the Turkish straits, the vessels that are 200-300 m. in length and/or have more than 15 m. draft, shall submit SP-1 reports at least 48 hours prior to their entry into the Turkish straits.

together with the passenger terminal—has limited wide body space and the old apron adjacent to the cargo terminals cannot handle wide bodies, due to pavement specifications.

21. Only a segment of the cross border road freight market is subject to regulations.

Regulations governing the cross-border road freight services industry in Georgia have gradually converged to the spirit of the EU *acquis* in regards to professional competence, good repute and financial standing. Nonetheless, only a segment of the market is subject to such regulations (those applying for multiple permits). An industry modernization program that can position the industry to reap the benefits of transit would also entail targeted interventions addressing sustainability issues, capacity building (for operators and the regulator) and regulatory reforms.

22. Energy-efficient transport services would strengthen Georgia’s position as a regional trade hub and open up growth opportunities. The Government of Georgia should thus foster the development of efficient and clean freight transport and logistics services. Georgia faces a rapid rise in transport demand, resulting in an increase in fuel imports and air pollution. Petroleum fuel imports increased about ten-fold during 1999-2008, impacting the total import bill for petroleum and hydrocarbon fuels, which represented 16 percent of the total import bill in 2010. And the transport sector accounts for about 40 percent of Georgia’s CO2 emissions, which is expected to grow if no action is taken.

B. Supply chain management

Whereas the country presents one of the most liberal and friendliest environments for doing business in the World, the supply chain management industry is still in its infancy, not leveraging the full potential of a transit country. A few points were identified to address this challenge:

23. There is a need to enhance supply chain skillsets within Georgian companies by conducting a gap analysis of foundational and functional skillset requirements, and identify potential training solutions to address these gaps. There is also a need to conduct further SCOR pilot trainings to broaden the participant base to assess skill development requirements and seek the opportunity to develop a comprehensive SCOR training and certification program in Georgia, with SCOR-P certified trainer(s) and associated facilities.

24. Government support is required to develop a growing demand for freight forward and warehousing services. The Government of Georgia should support the current demand for complex logistics service providers. The main players on the Georgian transportation market are the freight forwarding companies. But the service portfolio of the freight forwarders is currently very limited (their core business being cargo import and export logistics). The Georgian logistics companies are not able to meet these market requirements due to the lack of know-how and experience. The warehousing business in Georgia is underdeveloped. Most of the existing warehouses are characterized by poor infrastructure conditions, outdated equipment, low levels of service and extremely high storage prices.

25. There is a need to develop intermodal facility/international logistics center (ILC). Georgia’s exports and imports that are considered Logistics Center-suitable (i.e. containerisable) amounted to 2.1Mt (2007). The Tbilisi region’s catchment area represents

half of the national demand. Tbilisi is not only a promising location for the logistics domestic market, but also as a regional hub and an important TRACECA node. Therefore, the development of the proposed International Logistics Center in Tbilisi, or the Logistics City Tbilisi¹¹, merits full consideration. The Logistics City Tbilisi is located right next to the Tbilisi International Airport and about 15km in the south-east of Tbilisi City Centre¹². The main objective of the ILC is to provide integrated logistics services, develop a logistics hub to cover the industrial center and catchment area of Tbilisi, and create a major railway hub for container block train operations between Turkey/Black Sea and the Caspian Sea/Central Asia, including the important link to Armenia. The development of ILC in Tbilisi around the airport is currently facing land acquisition issues and another alternative site is proposed in the West part of the city.

26. **Joint-ventures with other logistics service providers in different countries should be encouraged.** These might represent a bigger challenge for smaller traders and manufacturers, considering the needed investments. Supporting the development of third party supply chain management providers and logistics platforms may be desirable in Georgia. Initiatives undertaken by international donors and local stakeholders to further develop the country's human resources (undergraduate and graduate curricula in logistics) should be sustained in time. Currently, local universities and private industry groups are active in this field and in need of support.
27. **Capacity building to develop the forwarding and brokerage business should be supported.** Access to profession regulations for freight forwarding was eliminated in Georgia. Together with a phased transition to a system where the self-assessment principle in filing customs declarations is restored, capacity building to develop the forwarding and brokerage business should be supported.
28. **Private-public dialogue should be encouraged to devise a new regulatory framework for freight forwarding services.** Although many models exist (i.e. self-regulation), a quality-driven standard should prevail (as for instance, in most countries that require professional competence, financial standing and good repute qualification criteria for market entry) to eliminate fly-by-night intermediaries.

¹¹ Tbilisi Logistics Center (41 million euros) will cover 63 hectares and include (i) Logistics Services: transport, handling and storage facilities for logistics providers and Operators (ii) Container Terminal: combined transshipment module rail-road, container service center with container depot and empty container storage, container packing, container repair and cleaning and (iii) Logistics-Intensive Industries and Trade: manufacturing and commercial enterprises with high-level or specialized needs for logistics services.

¹² Located in the eastern outskirts of Tbilisi metropolitan area, the ILC will have adequate access to the existing railway line and to the major road network, including the road links to the Georgian Black Sea ports of Poti and Batumi, Turkey, Azerbaijan and Armenia.

C. Corridor development and cross border management

Georgia has made improvements in transport and logistics sector. However, all these transport and logistics gains are quite often lost due to delays and high cost incurred by the movements of goods at border crossings. For instance, international road transport traffic into and through Georgia faces several restrictions:

29. **Current inland transit control practices could open up space for malfeasance. The time allotted to transit for transport means (trucks) is too long, compared to international practices.** Unlike in the EU countries, where transit control has moved from the border to inland preventive actions and real-time monitoring, there is little if any mobile enforcement capacity to prevent and mitigate transit fraud inland. This is, as in many countries, a task entrusted to Customs, and not left to regular police forces. Penalties associated to transit fraud provide the right framework to deter fraudsters.
30. **The lack of a transit guarantee system raises concerns and hinders the level of enforcement of transit control.** Electronic applications of the TIR (transit system) that facilitate transit control are not operational and need to be restored. Furthermore, a mandatory transit guarantee system in Georgia will need to be reinstated when the country accedes to the EU's Common Transit system (known as the New Customs Transit System or NCTS for Europe) within 4 years of the Association Agreement comes into force.
31. **The self-assessment principle of a trader filing their own customs declaration has been lost.** Instead, Revenue Service officials enter manually most of Customs declarations in Georgia. This does not adjust to international best practices, and weakens customs controls. Besides, the fee for customs "clearance of goods" should be re-assessed to only reflect the recovery costs of service delivery, as stipulated in the context of the Georgia-EU Association Agreement and DCFTA, and WTO's Trade Facilitation Agreement. Furthermore, supporting documents could be further eliminated and replaced by electronic messaging, as is the case of the airway bill for air cargo.
32. **A revision of the entire control policy by Customs would bring many benefits.** This includes the overall use of intelligence and trade information to detect non-compliant operators, technical means like the pending activation of the Manifest module in ASYCUDA WORLD, use of post-clearance checks and the use of risk management. In particular, the latter needs urgent improvements, as detection rates hover around 1-3 percent, well below a 10-25 percent desirable target range.
33. **Supply chain security is not sufficiently incorporated in the overall border management vision in the country.** Currently, gold list membership requirements do not entail any security auditing; nonetheless they are given facilitation benefits. Providing expedited treatment to trusted operators is a recognized practice. However, trusted operators might unknowingly attract unlawful activity and take advantage of the expedited treatment granted to them.
34. **The process for consolidated cargo clearance is not aligned with the development of logistics services in Georgia.** Trucks cannot be released until all importers have filed a declaration and goods cleared. A new customs clearance zone (CCZ "Tbilisi 2") has been recently inaugurated to specifically handle consolidated shipments. Nonetheless, also

procedures should be compatible with modern requirements for logistics services. In other environments like the EU, Customs only interacts with the consolidator (that can perform all clearance operations on behalf of consignees or shippers), reducing drastically the number of intervening parties.

35. **There is a need to develop joint border operations with Turkey** (which entail infrastructure and procedural improvements) which are expected to relieve some of the congestion common in the access road leading to the border area of Sarpi BCP. In the meantime, cross-border cooperation can be also developed, including queue management schemes, to alleviate the congestion usually seen in the roads leading to the primary control area.
36. **The current road usage fee introduces a significant bias against transit air cargo development in Tbilisi Airport.** The road usage fee (GEL 200/vehicle) is charged irrespective of the type of vehicle used, payload and the distance traveled, which puts transit air cargo from Tbilisi Airport (much closer to the border) at a disadvantage. It also introduces perverse incentives for compliant operators that use less pollutant trucks.
37. **Road transit traffic of heavy-lift and out-of-gauge through Georgia incur high fees for escort services, with no choice of escort service providers.** Heavy lift and out of gauge transport represent a value added segment offered by logistics service providers in Georgia. However, Georgia needs to remain a cost-competitive option to attract this type of traffic, usually bound for oil producing regions in Central Asia and Azerbaijan.

From a corridor perspective, **railways** also represent a viable choice for access to and from Black Sea ports, connecting Georgian maritime gateways with neighboring countries and Central Asia. Nonetheless, some challenges also emerge in this respect:

38. **The harmonization of rail tariffs across the corridor is probably the most pressing need from the commercial side of operations.** Automation has improved and also GR's booking system use. Nonetheless, variations in pricing and the lack of a 'through' rate negotiated with Azerbaijan Railways (ADDY) are a common source of discouragement to use the corridor in the eastbound direction, even up to Baku. Volatility in handling prices at Baku rail station is also a common source of complaints among logistics operators. In addition to harmonization, there is a need to consider apportionment of through tariffs is using clear formulas.
39. **The operations at Gardabani-Boyuk Kessik Border Crossing Point (BCP) seem to offer opportunities for improvement from the perspective of procedures and automation.** Cross-border cooperation could also address informal practices at the border. Furthermore, more clarity will be needed in terms of the legal framework for the BCP in view of the future rail initiatives (i.e. Silk Wind). The operationalization of the Poti-Baku block train services by means of a bilateral agreement with Azerbaijan call for further efforts in cross-border cooperation that will enhance the value proposition of the entire corridor.

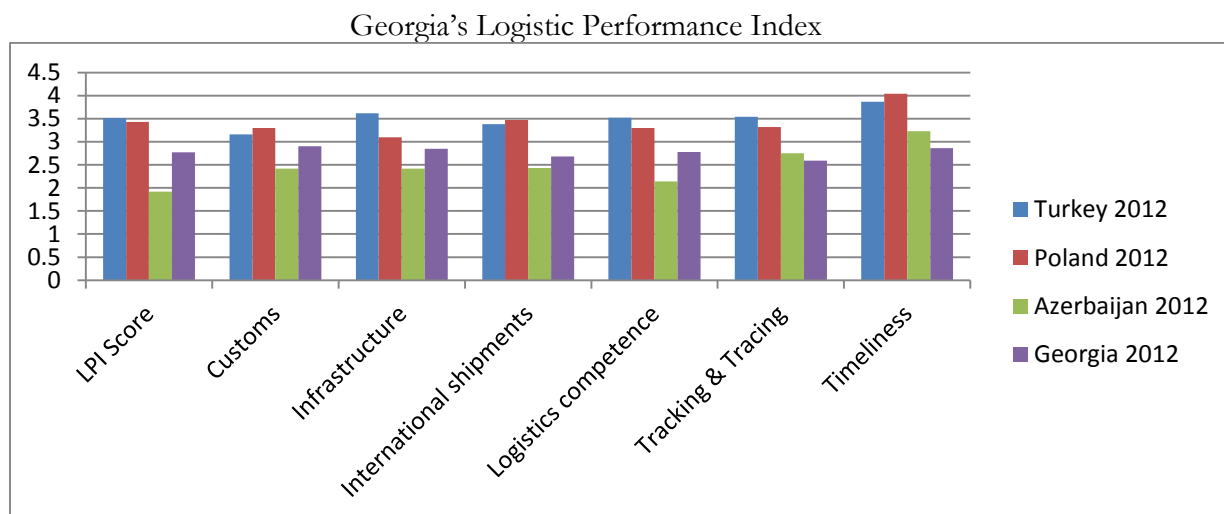
40. **Development of Block Train between Poti-Tbilisi and Baku¹³.** The proposed railway transport should improve the existing connection between the Poti sea port (a future Black Sea hub) and Baku sea port (a future Caspian Sea hub at Alyat) via TRACECA Central Axis. The proposed project should help to facilitate trade by improving transit procedures, but also increase the cruising speed of trains thereby reducing the transit time between the Black Sea and Caspian Sea regions and diverting a significant part of traffic from heavily-driven roads to rail. It is expected that in mid- and long-term perspectives this project can also help TRACECA landlocked countries in Central Asia and Caucasus to indirectly benefit from the intensified trade and transit on Central TRACECA Axis.
41. **More clarity is required to the multiple –and potentially competing– initiatives that the country has adhered or plans to adhere to related to corridor initiatives involving railway transport (Kars-Tbilisi-Baku, Silk Wind, Viking Train, etc.) and other transport infrastructure (e.g. existing and planned port and road infrastructure).** While improving conditions and flexibility in corridor operations is a desired outcome, it is not clear that all initiatives will contribute equally to the development of the Georgian logistics industry and Georgia as a transit country. A scenario planning methodology could help to translate the unlimited number of potential events and occurrences (geopolitical, demographical, related to performance and development of infrastructure and logistics services, etc.) that can affect Georgia's position as a transit country into a finite set of outcome types.
42. **The current bilateral permit system with Azerbaijan is restrictive and often insufficient for export, import and most importantly transit operations.** This opens room for informal practices and discretionary behavior at the border, especially once the negotiated permits have been used in full by Georgian operators. Whenever informal payments arise these may constitute a setback for the competitiveness of the corridor. Facilitation payments do not facilitate trade but rather make it more expensive.
43. **Transit to Central Asia is even longer, due to delays and constraints when crossing the Azerbaijan border,** but most importantly to cross the Caspian Sea towards Central Asia. Priority given to liquid transportation by CASPAR (the Azeri company with dominant position in cross-Caspian shipping services) hinders reliability in logistics services. Moreover, users of Baku port and CASPAR shipping services complain about usual volatility in rates with no apparent justifiable reason. Containers hauled by road up to Baku port face the same problems as those carried by rail when trying to cross the Caspian Sea on its way to Central Asia. Transport volumes to Central Asia are likely to increase substantially as Turkmenistan and Kazakhstan are enhancing the connectivity to Caspian Sea ports (by rail and road) increasing cargo with origin/destination EU through the Southern Caucasus.
44. **Consider the creation of a Caucasus Transit Corridor Management Group (CTCMG).** The competitiveness of the CTC will rely on fast, reliable and integrated transportation along domestic transit routes but also at across borders. For such an important and challenging effort to succeed there may be a merit to consider the creation of a CTC Corridor Management Group (CTC-CMG). The primary goal of the CTC-CMG is to facilitate the provision of transport services along the corridor, with clearly defined

¹³ It appears that GR has already started this project in collaboration with Azerbaijan. However the train is not operated on a regular basis.

performance targets. The CTC-CMG would have coordinating and management functions and an oversight capacity from stakeholder countries along the corridor with a strong representation from the private sector. The CMG could operate under a high level authority (i.e. a Council of Ministers responsible for transportation in the member countries). As a first step, officials from Georgia, Azerbaijan and Armenia could make up the first members of the CTC-CMG, with potential for bringing in members from other Central Asian nations.

IV. *Where Georgia could be and how it would be there*

45. **Georgia's logistics and transport infrastructure competitiveness will improve by implementing not only the identified priority actions within Georgia but also along the CTC, particularly actions to improve cross border management.** The Graph below indicates that Georgia infrastructure deficits are still a major component of the lower performance of its LPI. When breaking down the Georgia's infrastructure index in the 2014 Enabling Trade Index (ETI), the availability and quality of transport infrastructure is ranked much higher (56th out of 138 countries) than transport services (99th), with a particularly low ranking for ease and affordability of shipments and logistics. The Government is committed to developing the transport infrastructure (i.e. Complete the East-West Highway by 2020). This puts a particular onus on improving logistics and transport services within Georgia but also cross-borders along the CTC. Improving the CTC competitiveness will enable Georgia to fulfill its aspiration to become a regional transport and logistics hub and reach the LPIs of the neighboring Turkey (regional leader) and of Poland.



46. **A matrix of recommendations to improve transport and logistics, the on-going activities and suggested priority actions to fill the remaining gaps is presented in Annex 1.** It is recommended that this matrix be discussed in a stakeholder's workshop to agree on the priority actions, assign implementation responsibilities to each stakeholder, including the private sector. And, agree on a time line, and on a mechanism to assess implementation progress and evaluation of results.

Annex 1: Detailed assessment of gaps

GAPS & RECOMMENDATIONS	ONGOING WORK IN TRANSPORT AND LOGISTICS	REMAINING GAPS/ACTIONS
BORDER MANAGEMENT		
TRANSIT <ul style="list-style-type: none"> Align time allotted to transit for transport means (currently: 1 day/100km) with international practices Enhance mobile enforcement capacity to prevent and mitigate transit fraud inland. Revise penalties associated to transit fraud to provide the right framework to deter fraudsters Align transit guarantee system with international practices (currently no mandatory guarantee in place) and EU's NCTS (EU Transit System) in view of Georgia's AA-DCFTA commitments. Reinstate interface between ASYCUDA WORLD system and TIR electronic applications (EPD and SAFeTIR) Revise transit fee structure of GEL 200 	<ul style="list-style-type: none"> T&C Global Practice is providing technical assistance to GRS to upgrade ICT systems to ASYCUDA World ver.2.2. including Transit and Transit/TIR functions UNECE-TIR transit EDI cross-border Customs information 	<ul style="list-style-type: none"> Further upgrading needed of ASYCUDA World has been flagged by GRS. Activation of TIR-EPD and SafeTIR Consider mentioned changes to transit times, mobile capacity, penalties Revise transit fee
RISK MANAGEMENT <ul style="list-style-type: none"> Improve risk management engine Improve feedback mechanism between central unit and field officers Overhaul control policy to complement risk management 	<ul style="list-style-type: none"> T&C Global Practice is providing technical assistance to GRS in risk management 	<ul style="list-style-type: none"> Consider other elements for a comprehensive control policy, including but not limited to risk management
CLEARANCE <ul style="list-style-type: none"> Re-introduce self-assessment principle Post-audit strengthening (Blue Channel) Revise fee structure of cargo clearance services provided at CCZs Provide training for brokers and forwarders and foster electronic filling Work on regulation of brokerage and forwarding sectors to avoid governance issues and increase quality in service delivery 	<ul style="list-style-type: none"> Diagnostic work on Post-Audit by USAID. Follow up work TBC GoG is redrafting its Customs Code 	<ul style="list-style-type: none"> Re-instate self-assessment principle Revise Yellow channel control effectiveness and process Strengthening Post-Audit Define regulatory model for freight forwarding industry and possibly capacity training program Revise fee structure of clearance services in the context of AA-DCFTA

BORDER CROSSING INFRASTRUCTURE <ul style="list-style-type: none"> • Continue cooperation efforts with Turkey for joint border operations and explore traffic management schemes for Sarpi BCP. 	<ul style="list-style-type: none"> • Protocol was signed with Turkey for joint BCP operations • Working group has been established composed of Heads and/or Deputy Heads of IT, Customs and International Departments and other technical experts of both sides. 	<ul style="list-style-type: none"> • Possible traffic management scheme to avoid congestion until joint BCP enters into operations
INSTITUTIONAL <ul style="list-style-type: none"> • Enhance institutional capacity and strategic planning of Georgian Revenue Service to re-balance revenue generation objectives. 	<ul style="list-style-type: none"> • T&C GP providing TA to GRS including KPI framework 	<ul style="list-style-type: none"> • Re-balance revenue generation and facilitation objectives with protection of general public and state
INFRASTRUCTURE AND LOGISTICS SERVICES		
ROAD INFRASTRUCTURE AND LOGISTICS SERVICES <ul style="list-style-type: none"> • Complete remaining sections of the East-West Highway Corridor (already under way). • Explore different financing mechanisms and future private sector participation for operation and maintenance after completion of the E-W Highway (e.g. tolling). • Improve secondary and local roads network to help reap full benefits of investments in the East-West Highway. • Explore role of North-South road links to enhance Georgia's transit role. • Devise a strategy for the road freight services sector that would address, including market access issues, access to profession regulations • Generally improve energy efficiency in freight transport services and logistics by supporting the development of innovative initiatives in the private sector and investing in efficient and clean transport infrastructure 	<ul style="list-style-type: none"> • WB and IFI support to the development of East-West Highway Corridor • Value for Money Analysis is being carried out to advise on financing strategy to complete E-W Corridor • TA – WBG support to create the basis for Georgia's Green Growth in the freight transport and logistics sector (Green Freight Transport and Logistics Project/GFTL project) 	<ul style="list-style-type: none"> • GoG to pursue the Value for Money Analysis and help structure the financing of the next E-W Highway Corridor. • Consider recommendations from the GFTL project in the interest of promoting efficient and clean freight transport services
RAILWAY TRANSPORT <ul style="list-style-type: none"> • Support Georgian Railways' efforts to separate operations from the ownership of the infrastructure by 2022. • Upgrade and expand rolling stock • Solve track capacity bottlenecks West of Tbilisi (e.g. Poti–Samtredia and Zestaponi– Khashuri) within ongoing rail network modernization efforts. • Increase efficiency of rail operation by improving services and intermodal infrastructure. 	<ul style="list-style-type: none"> • GR published planned investment in rolling stock • Georgian Railway Modernization Project (Tbilisi-Batumi) funded by GR 	<ul style="list-style-type: none"> • Support GR to separate operations from ownership of infrastructure as per AA-DCFTA • Solve remaining capacity issues and rolling stock

MARITIME TRANSPORT <ul style="list-style-type: none"> Concentrate efforts to upgrade existing port infrastructure. 	<ul style="list-style-type: none"> GoG commissioned feasibility study of deep sea Port 	
AIR CARGO <ul style="list-style-type: none"> Concentrate efforts to promote Tbilisi International Airport as sole cargo gateway. Assess apron space needs for cargo operations, and feasibility of enlargement/upgrading of the new and old apron. Assess charges for essential services and infrastructure use (e.g. cargo security) in relation to its recovery cost. 	<ul style="list-style-type: none"> Not known 	
LOGISTICS CENTERS: The Tbilisi region's catchment area represents half of the national demand for containerisable goods. Tbilisi is not only a promising location for the logistics domestic market, but also as a regional hub and an important TRACECA node. Therefore, the development of the proposed International Logistics Center in Tbilisi, or the Logistics City Tbilisi should be considered.	<ul style="list-style-type: none"> TRACECA Feasibility study Feasibility Study TLC Property Management LLC and TransCare GmbH 	Address the legal issue related to the proposed site for the development of the Tbilisi Logistics Center
SUPPLY CHAIN MANAGEMENT		
<ul style="list-style-type: none"> Support training and skills upgrading in the logistic and supply chain management sector, directly or indirectly, with other international donors. Continue support of advocacy groups and efforts to build a supply chain management curricula with local universities and/or partnerships with foreign technical institutions 	<ul style="list-style-type: none"> USAID support program with Georgian Logistics Association WBG support to Georgian Technical University to develop new curricula on Logistics (capacity building activity of the GFTL project) 	<ul style="list-style-type: none"> WBG support to Georgian Technical University to create curricula on Logistics WBG support Georgian Logistics Association to create curricula for vocational trainings for logistics and supply chain industry Need to enhance supply chain skillsets within Georgian companies (developing official training programs and advanced curricula in technical universities) Need to implement best practices and support local logistics companies to establish partnerships with international companies
INFRASTRUCTURE <ul style="list-style-type: none"> Support the current demand for complex logistics service providers. 	<ul style="list-style-type: none"> Cooperation through TRACECA 	<ul style="list-style-type: none"> Support the development of third party supply chain management providers and logistics platforms

<ul style="list-style-type: none"> • Develop intermodal logistics platforms based on the results from the LOGMOS project • Improve and facilitate coordination between the relevant stakeholders to ensure greater impact. 	<ul style="list-style-type: none"> • Ongoing discussions about the planned ILC project near Tbilisi • WBG support to identify priorities/investments regarding the development of green and efficient logistics services 	
CORRIDOR DEVELOPMENT		
<ul style="list-style-type: none"> • Strengthen cooperation and institutional framework with Azerbaijan to address governance issues at BCPs • Offer a transparent single negotiated rail tariff (GR/ADDY) for Poti-Baku services • Deepen cooperation with CASPAR to address charges transparency and schedule reliability for ferry services. • Allow competition in the escort services fee for out of gauge transit cargo, or set fee on a recovery cost basis (plus margin). • Promote pilots of joint-ventures between shippers, forwarders and (alternative) companies providing shipping services in the Caspian. • Promote establishment of logistics centers with dry port functionality operating on commercial basis. • Boost strategic planning at the corridor level; consider using scenario planning methodologies. • Assess existing rail border crossing agreements vis-à-vis current practices, and implications of new service initiatives (e.g. Silk Wind). • Incorporate future railway initiatives in the context of corridor planning and its impact on other logistics and transport infrastructure assets in the country. 	<ul style="list-style-type: none"> • Cooperation through TRACECA • Poti-Baku block train agreed with Azerbaijan since July 2014 	<ul style="list-style-type: none"> • Need for bilateral corridor working group with Azerbaijan • Creation of CTC-Corridor Management Group