

## **ANNEX**

### **PROJECT FICHE PROJECT SUPPORT**

Title	International Logistical Centres/Nodes for Western NIS, Caucasus and Central Asia		
Total cost	<b>€3.500.000</b>		
Aid Method	Centralised/decentralised management		
DAC-code	21010	Sector	Transport

#### **1. RATIONALE**

##### **1.1. Strategic framework**

The TACIS Regional Programme 2004-2006 indicates the development of modern efficient connections between Asia and the Pan European Transport Corridors and areas (PAN-TC), via the Caucasus, as an objective of the regional cooperation programme in the transport sector.

In order to facilitate trade and transport in the region and to integrate the CIS countries in world's economy, it is necessary to organise the movement of non-oil cargo from Asia via the Caucasus in a more efficient manner. The establishment of an intermodal nodes' network will serve as an important precondition for the optimisation of cargo flows (import, export, transit) and will contribute to the integration process of the local transport network and its connection to the Pan European Transport Corridors.

Integration of inter-modal nodes into an overall logistics transport network can be considered as a component of global (national, world) macro logistics system in the region, obtaining its own independent logistics infrastructure and division of labour at the national and international levels.

Thus, this project is in line with the Tacis Strategy Paper 2002-2006, TACIS Multi Annual Indicative Programme 2004-2006, the Indicative Programme 2004-2006 for Central Asia, the Strategy Paper of European Neighbourhood Policy, and is co-related with the White Paper (European Transport Policy for 2010: Time to decide) and the UN Millennium Declaration for the landlocked and transit developing countries, especially in the field of efficient inter-operability of different modes of transport, facilitation of the international trade and transport. Furthermore, the Project is promoting the attraction of private investments and the establishment of viable public private partnerships.

The project is also in full line with the Baku conference on Transport, held in Baku Azerbaijan on November 14, 2004.

##### **1.2. Lessons learnt**

Previous Tacis projects in the region justify the need for concentration on a limited number of priorities to achieve economies of scale and more efficient and cost-effective allocation of resources. This is particularly true to the logistics centres that are more efficient if brought about on the regional level and supported by focused simultaneous technical assistance. Logistics by definition is actively crossing national borders and it goes beyond the state boundaries. The integration into the world markets and regional cooperation objectively require the creation of logistic nodes systems and optimisation of transport routes that meet the requirements of and offer new opportunities for the global production and transport chains.

Therefore, the establishment of an optimised system is only possible if the issue is addressed at the regional level, so that cargo safety, efficient handling, low transport costs and efficient service are offered along the whole transportation route. Still, for the regional system to be efficient it is strongly recommended that all individual authorities involved in the logistic chain agree on the concept.

Experience shows that the principal agreement of customs authorities and their support is a cornerstone of the project success.

As there was already a substantial involvement of the EC via different budget lines into the regional trade and transport facilitation, this project will constitute a further important milestone towards regional integration and will strengthen the existing and previous efforts of Tacis projects and programmes. Furthermore, responses of the CIS countries towards Tacis regional transport and trade facilitation programmes have generally been quite positive which constitutes a useful basis on which to build and deepen cooperation between the countries and with the EU. The proposed regional approach of the project is in line with the priorities of all involved countries.

Last, but not least, attraction of investments and close coordination with IFIs and major donors is also an important lesson learnt and is an inherent component of the project.

### **1.3. Complementary actions**

The EU is the key actor in the transport sector in the region, thanks to its continuous support to the regional transport programme in the last years (€160 million since 1993). The technical assistance provided (mainly through TRACECA programme) has helped attract large investments from the IFIs, that include the European Bank for Reconstruction and Development (EBRD) which have made a number of commitments for capital projects on ports, railways and roads along the TRACECA corridor totalling over €700 million, the World Bank (WB) which have made commitments for new capital projects on roads in the Caucasus totalling over USD 40 million, and the Asian Development Bank (ADB) which have committed substantial funds to road and railway improvements. In addition, EU private investors are engaging in joint ventures with transport companies in the TRACECA region. The EU is supporting the programme with other EC projects to further enhance regional co-operation and economic sustainability in the region.

The support to this project will ensure the leading role of the EU in the development of the transport and logistic network in CIS region.

Particular attention will be paid to precise design of the present project in ensuring the best possible complementary with previous, on-going and approved new projects of the TRACECA programme such as:

- a. Harmonization of Border Crossing Procedures
- b. Unified Policy on Transit Fees and Tariffs
- c. Freight Forwarders Training Courses (incl. Introductory courses in modern logistic schemes)
- d. Improvement of Maritime Links between TRACECA corridors and TENs Corridors (incl. setting-up Black Sea ports as multi-modal nodes / logistic centres)
- e. Aktau Port Development, Master planning and Feasibility Study for the Port of Aktau, Kazakhstan
- f. Analysis and forecasting of traffic flows for the TRACECA countries and interregional transport integration
- g. Motorways of the Sea project foreseen in the AP 2006.

There are various other donors and initiatives active in the field of trade and transport facilitation in the region, which promote complementary projects and the coordination with them is further described in the next chapter.

The implementation of this project is to be coordinated through the Intergovernmental Commission TRACECA and its related institutional entities, which have proven to be a solid and reliable partner in the implementation of the EC cooperation programmes in the transport sector in the region. TRACECA projects are fully supported by the participating countries, which have taken over the ownership of its organisational structures.

The TRACECA programme has resulted in closer co-operation and dialogue among government authorities and has contributed to develop a regional dimension of transport issues in Central Asia, as well as in Caucasus and Eastern Europe. Based on the results of the Baku process and on previous positive results, this project is to be implemented at regional level, being its objectives in line with the priorities of all involved countries.

This project will benefit from EUR 2 million contribution from the Central Asia Action Programme 2006, bringing the total project volume up to EUR 5.5 million.

#### **1.4. Donor coordination**

Relevant donor involvement was not quite even throughout the regions of the Black Sea, Caucasus and Central Asia.

In the Central Asia region there are mainly the initiatives on trade facilitation, customs cooperation, transit development to be mentioned as a donor focus. In framework of the UN, within the Special Programme for the Economies of Central Asia (SPECA), a Working Group on Transport Infrastructure and Border Crossing Facilitation is established with participation of four Central Asian Countries. ADB created the Central Asian Regional Economic Cooperation (CAREC) with participation of the Central Asian States, including Azerbaijan and China. USAID implements regional projects on trade facilitation and Customs modernization in Central Asia. Shanghai Cooperation Organization (SCO), including Central Asia, China and Russia is involved as well in the trade and transport development. The UN elaborated the Global Action Programme for landlocked and Transit Developing countries ("Almaty Programme of Action").

The Western CIS Countries had undergone similar developments with major impact on integration of their transport systems westwards. For instance the Worldbank Trade And Transport Facilitation In Southeast Europe Project started in June 2003 and was approved today by the World Bank's Board. The total amount lent was USD 7.21 m on terms of 10 years of grace period for 40 years. The project's main objectives are: to reduce non-tariff costs to trade and transport; and to increase revenue and compliance, and reduce smuggling and corruption at border crossings. The project strives to achieve these objectives mainly by: strengthening Customs institutional capacity; modernising and integrating Customs information systems for border processing and clearance of shipments; developing a transit control system; upgrading the capacity and effectiveness of existing border points; improving mechanisms of interaction and cooperation between border control agencies and the trading community; disseminating information and providing training to the trading community (private sector); and implementing pilot sites.

The presented initiatives do not constitute a comprehensive list of activities but gives a better understanding on scope and focus of donor assistance in the CIS region related directly or indirectly to logistic systems. All the above-referred donors are relating their activities to transport and trade issues in terms of multilateral common approach, institution building, harmonisation of legal framework and preparation of bankable projects.

Besides the above mentioned initiatives, donor organisations active in the regions with relevant transport and trade facilitation projects are the European Bank for Reconstruction and Development (EBRD), the World Bank (WB), the Asian Development Bank (ADB), UN Economic Commission for Europe (UNECE) and for Asia (UNESCAP), the Kuwait Development Fund (KDF), Japan International Co-operation Agency (JICA) and US Agency for International Development (USAID). Other bilateral donors are only marginally relevant as they concentrate mainly on other sectors and on national approaches. Only the German bilateral assistance has financed some studies for logistic centres e.g. in Tashkent and in Tbilisi.

All those initiatives pull in the same direction and pave the way for the successful functioning of the logistic nodes network still to be established, which constitutes presently the missing link on the spot. Cooperation and coordination is required in order to mutually increase the effectiveness of trade facilitation and international transport projects and may be ensured by the Permanent Secretariat of the Intergovernmental Commission (PS IGC) TRACECA.

## **2. COUNTRY (OR REGIONAL) CONTEXT**

### **2.1. Cooperation related policy of beneficiary country**

The main strategic priorities in the region are: establishment of specific governmental transport policy coordinated at a regional level in order to better respond to market demands, modernization and rehabilitation of the transport infrastructure and improved framework conditions for international traffic and mitigation of environmental impacts.

As there is a firm commitment for the project by the responsible Ministries of Transport in the region and as the freight forwarder industry expressed on various seminars and conferences in the region the necessity of improved logistical services, most important pre-conditions for the successful implementation of the project are given. Nevertheless, the project requires a phased approach evaluating first the commitment of other involved stakeholders such as the Customs Authorities, the Foreign Ministries, the Ministries responsible for Economic Development of the Countries and local communities of possible sites. The findings shall be transferred into actions to be incorporated in the further implementation of the project.

Currently, the beneficiary countries pay special attention to the development of trade and transport at the regional level in close collaboration with the European Union and UN initiatives. All these countries declared their integration into European structures as a main priority and objective for the future via the signature of Partnership and Cooperation Agreements (PCA), main provisions of which are as follows:

1. to provide an appropriate framework for the political dialogue between the Parties allowing the development of political relations
2. to support efforts of the Parties to consolidate its democracy, to develop its economy and to complete the transition into a market economy
3. to promote trade and investment and harmonious economic relations between the Parties and so to foster their sustainable economic development
4. to provide a basis for legislative, economic, social, financial, civil scientific, technological and cultural cooperation

In this sense, each country has elaborated its own National Strategy, which is in line with the above-mentioned provisions of the PCAs.

Most of the beneficiaries of the Project are signatory of the Basic Multilateral Agreement (MLA) on International Transport for Development of Europe-Caucasus- Asia Transport Corridor (TRACECA), signed in Baku on September 8, 1998. One of the main priorities of the MLA is the integration of the region into the international market by improving and enhancing trade and transport through:

- assisting in the development of economic relations, trade and transport communications in Europe, Black Sea region and Asia
- ensuring access to the world market of road, rail transport and commercial navigation
- ensuring traffic security, cargo safety and environment protection
- harmonisation of transport policy and legal structure in the field of transport
- creation of equal conditions of competition for transport operations

## **2.2. Sector context**

Since the independence of the former Soviet countries, the growth of their national economies has declined affecting the budget allocated to the transport infrastructure in the said countries. Transport has and still is heavily depending on railway transportation, but road freight traffic is steadily increasing in all of those countries. However, there is a low level of cooperation among transport operators for strengthening multi-modal transportation to be observed. Private sector participation in the provision of transport services and infrastructure does almost not exist.

In order to facilitate trade and transport in the region, it is necessary to improve the movement of non-oil cargo in a more efficient manner. The freight transport market demands besides the improvement of the infrastructure efficient logistical services with sound framework conditions.

Lack of modern transport and logistics infrastructure and common legal ground for their integration and development, as well as technological connection between them, directly affects the development of trade and international transport (import, export and transit) in the region.

Improvement of technical standards in line with the international standards and the establishment of an intermodal nodes network are some of the important preconditions for optimisation of cargo flows (import, export, transit) in order to ensure the integration process of the TRACECA corridor and transport network into the Pan European Transport Corridors (PAN-TC) in the future. The development of the relevant legislative framework additionally to the above-mentioned standards could facilitate the creation of an attractive and predictable environment for potential investors, especially on the basis of Public Private Partnership structures.

Logistic Centres can contribute to mitigate these obstacles. They are traffic and trade areas combining

- transporting enterprises,
- traffic-supplementing services (such as storage facilities for container, dry cargo and reefer facilities),
- different industrial and service branches,
- logistic operating.

They have in average an area of 15 - 100 ha and can provide between 400 - 2000 jobs. In Europe they are successfully established and take an important position concerning cargo transport, cargo handling, storage of goods and other logistic services.

They regular contain a transshipment/cargo handling facility for combined transport such as rail-road or vessel-road-rail, which is publicly available.

The main tasks of an international logistic centre are:

- Improvement of the supply of goods and the disposal of goods for the inhabitants of the ILC locations
- Multimodal transport chains can be formed by bundling of goods
- Creation of multi-functional transshipment and storage facilities
- Exploitation of the rationalization potential and increase of the competitive ability
- Stabilisation of the business locations and their development to centre of competences in logistics

Benefits to be expected are

- Integration of ILCs into the international flows of commodity and trade
- Creation of new high-quality jobs and equivalent living conditions in the region
- Integration of small and medium-sized enterprises into logistic process chains
- Improvement of the service degree and cost reduction
- Lowering the traffic volume in the city centres of ILC locations (town centre logistics)
- Better use of traffic infrastructure
- Reducing of transportation cost by combining small shipments into large ones

The beneficiary countries have recognised the advantages/benefits and are keen to follow this international trend from transport to logistics as integral part for the successful development of their economies.

### **3. DESCRIPTION**

#### **3.1. Objectives**

The overall objective of the project is to facilitate trade and transport through improving logistics capabilities, interoperability and multi-modal transport and thus developing modern efficient connections between CIS countries and Europe.

The specific objective of this project is to develop the financial and economic viable, technical feasible, environmental and institutional sound framework for the inter-modal nodes network with a focus on public private partnerships and efficient customs services.

#### **3.2. Expected results and main activities**

The expected results are the following:

1. Study for the establishment of a suitable inter-modal nodes network; e.g. in the dedicated range of:
  - Logistics site with customs clearance and bonded warehouse,
  - Inter-modal Terminal including cargo handling facilities
  - Storage facilities including reefer or temperatures controlled facilities
  - Logistics Centre.

2. Short and medium-term Action Programme for improvement of technical conditions of the selected infrastructure facilities;
3. Recommendations on necessary framework conditions to establish a regional nodes network and for the attraction of investments, e.g.
  - providing efficient customs services at the logistics site,
  - providing bonded warehousing facilities,
  - implementation “Free Economic Zones”

Main activities include the following list of actions:

- Survey of the current situation regarding the transport logistics sector and international transport routes;
- Specification of future demand and business opportunities for the transport logistics sector in the region, e.g.
  - § infrastructure,
  - § superstructure,
  - § range of provided services;
  - § commodities to be transported
- Identification of bottlenecks and missing links for the creation of the transport logistics network on TRACECA corridor;
- Evaluation and selection of suitable intermodal nodes for further integration into transport logistics network;
- Analysis and technical survey of the selected logistics sites;
- Development strategy with technical specifications, investment needs and implementation plan for the selected logistics sites;
- Strategic environmental impact assessment of the selected nodes network;
- Recommendations for the efficient operation and organisation of the selected logistics sites;
- Overview of the relevant donor activities in the CIS states;
- Identification of potential investors, including IFIs
- Overview of legal basis (national and international) on investment-related issues
- Recommendations for improvement of the relevant legal environment for private sector participation

### **3.3. Stakeholders**

The overall beneficiaries of the project and main stakeholders will be the Ministries of Transport and Cabinets of Ministries, who are responsible for the sustainable development of the transport policy and the transport infrastructure.

Transport operators in the region, e.g. the railways, truckers etc. of beneficiary countries will obtain “know-how” transfer in the area of modernized transport operation in the logistics sector, as well as good performance outputs derived from the upgrading infrastructure. A further important stakeholder will be the intermediary institutions between state and private sector such as forwarder associations. They can profit through know-how transfer and act as multipliers among their members.

The Customs Authorities of beneficiary countries would also benefit from the project by increasing the efficiency of the services and the revenues from bonded warehouses.

Finally, the indirect target groups are the business community and the consumers of transported goods profiting of cheaper and faster production to market relations in the relevant areas. In addition directly at the logistic nodes locations additional employment opportunities will exist.

### **3.4. Risks and assumptions**

#### **3.4.1 Assumptions**

Main assumptions for a successful regional logistic network approach are:

- Political continuity in the countries;
- Governments continue to pursue policy of regional integration and establishing viable links with the Pan European Transport Corridors;

- Commitment from the beneficiaries and project partners to collaborate in all related activities envisaged within the ad hoc scope of the project;
- Free access to necessary information and data;
- Staff availability and continuity;
- Adequate supply of expertise.

### **3.4.2 Risks**

- Capacity to attract investment;
- Political instability in some countries of the region
- Contradicting interests between the transport legal entities of the countries
- Lack of common goals and priorities in the transport sector of the countries
- Inappropriate legal framework

These risks are to be minimised by the use of already functioning mechanisms for cooperation between the transport key stakeholders of the neighbouring states and with the EU.

### **3.5. Conditionality**

Launch of the project is subject to the willingness of the countries to develop national transport policy plans and coordinate their transport policies on the regional and cross-regional level. The statement of endorsement of all beneficiaries of the project can be taken as the expression of this willingness.

### **3.6. Crosscutting issues**

The project is designed to pave the way towards increased private sector participation and thus reshaping the role of the involved governments towards policy and regulatory functions in the provision of logistic services. Environmental impacts will be evaluated during the implementation of the project. However, efficient logistic nodes are expected to have overall positive environmental impact through bundling of transport operations and enabling viable inter-modal transportation.

Furthermore, it is to be expected, that there will be positive social impacts especially with regard to increased employment opportunities. However, no distinct gender impacts are to be expected, neither during project execution nor in the aftermath.

## **4. IMPLEMENTATION ISSUES**

### **4.1. Implementation method**

Centralised management

### **4.2. Budget and calendar**

The foreseen budget for the project is 5.5 Million Euro to be granted in the form of service contracts.

The project is in compliance with the TACIS Multi Annual Indicative Programme 2004-2006, and will be funded out of the budget of the action programme for 2006. The EC Contribution foreseen will be allocated in the amount of €3.500.000 from the Regional AP and the funds in the amount of 2.000.000 are committed in the framework of the CA Action Plan.

The contribution of the beneficiaries will be mainly in kind in the form of provision of counterpart staff, data and information.

The project duration is expected to be 24 months.

### **4.3. Procurement and award of grants procedures**

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

#### **4.4. Performance monitoring**

The project will be monitored by the Tacis monitoring office and closely followed-up by the EU Delegations in the region.

#### **4.5. Evaluation and audit**

A final evaluation should be foreseen and, if necessary, an audit as per Tacis Regulation and contract's terms may be carried out.