



TRACECA
TRANS-CASPIAN EUROPEAN COOPERATION AGREEMENT



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**THE SILK ROUTE
 FOR THE 21ST CENTURY**

Final Report

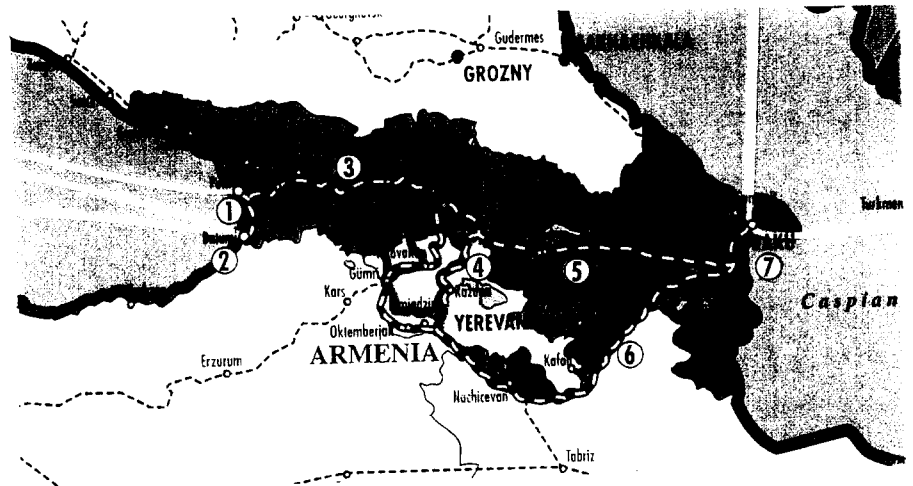
April 1997

VERSION 2

TRACECA Improvement of Road Transport Services

**Republics of:
 Armenia
 Azerbaijan
 Georgia**

**European Commission
 TACIS Fund**



DHV Consultants BV

Laan 1914, no. 35

P.O. Box 1399

3800 BJ Amersfoort

The Netherlands

Telephone +31 - 334682500

Telefax +31 - 334682601

fez@cons.dhv.nl

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Azerbaijan
Georgia*

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0. INTRODUCTORY NOTES TO THE REVISED FINAL REPORT

This report is the revision of the draft final report which was prepared within the frame of the project 'TRACECA Improvement of Road Transport Services' in the Caucasian Republics. The revisions made in the report reflect the comments and remarks which were made during the presentations in the Republics and the comments and instructions as laid down in the monitoring report.

In order to make it easier to find the relevant information and revisions in the report, we start with some explanatory notes indicating the relevant changes. Chapter 6 and 7 have undergone major editing. Chapter 3, 4 and 5 have been revised, taking into consideration the discussions in Azerbaijan and Georgia and the request for clarifications in the monitoring report. The recommended implementation of the institutional restructuring in Azerbaijan has been revised, it is now recommended to implement the separation between operations and policy making in two stages.

Following the recommendations made by the monitor, a new chapter has been inserted on future market requirements for road transportation in the Caucasus, elaborating on the strategic recommendations listed under V in the executive summary. This now chapter 8. Former chapter 8 has been deleted and a new chapter on maintenance has been written (now chapter 9).

The table hereafter presents a more detailed outline of revised paragraphs and chapters in the final report:

chapter/paragraph	contents of revised paragraph or remarks	revision upon request of:
introductory notes	notes on revisions in report to facilitate reading	initiative of consultants
Management Summary	No major revisions, except for VI on structure of report. Small revision in Recommendation no (12)	Tacis M&E
2.2	Although the figures do not indicate, possibly to a high extent because of a large informal economy and lack of data available to relevant ministries, both the Economist Intelligence Unit and the World Bank country report state that the economies are recovering from their economic crises	Tacis M&E
2.2 table 1	negative signs 1991-1993 have been inserted	Tacis M&E
table 2, table 3 and para 2.3 and 2.4	General comment: the Economist Intelligence Unit, IMF and World Bank all report different on the key economic figures. The text is based on World Bank and IMF economic reports, whereas the tables come from the Economist Intelligence Unit. Since no economic research has been done within this project, Consultants depend on these kind of reports. Which data are exactly correct cannot be verified at this moment.	Tacis M&E

ARMENIA		
3.3.2	Elaboration of task present Safety and Road Control Division - MOT Armenia (2 nd paragraph)	Tacis M&E
3.3.4	Elaboration of task present Economic Research Department - MOT Armenia (4 th paragraph)	Tacis M&E
3.4.1.1	Addition to text of section concening privatisation in Armenia (2 nd paragraph)	Tacis M&E
3.4.1.3	Correction text The second stage of organisational change - MOT Armenia (3 rd paragraph)	Tacis M&E
Org. Diagram	Add "Foreign Relations" to the list of Specialized Services in the Diagram for the Proposed New Organization (second stage)	Tacis M&E
AZERBAIJAN		
4.4.3	Explanatory note organisation diagrams (Azerbaijan)	Mr. Iqram Sadhykow, Ministry of Economy, of Azerbaijan and Tacis M&E
Org. Diagram	New Set of Organisation Diagrams	Mr. Iqram Sadhykow, Ministry of Economy, of Azerbaijan and Tacis M&E
GEORGIA		
5.3.2	Need to reformulate tasks staff Road Transport Department MOT Georgia	Tacis M&E
5.3.3.1	Addition to text concerning Division for Licensing: need for detailed design of licensing system (8 TH paragraph)	Tacis M&E
5.4.3	Addition to text concerning the Harmonization, Implementation and Evaluation of Safety Rules and Regulations (Section on Technology and Safety in association with Road Safety)	Tacis M&E
6		
7	Transport Supply side: completely re-edited and re-structured: previous paragraph 7.6 on carnet TIR has been removed : following the recommendations in the monitoring report (page 5 on para 7.6), new paragraphs have been added to CHAPTER 8 on: - the role and functions of road transport associations - CMR - TIR carnet system	
8	Market requirements: new chapter elaborating on the strategic recommendations made in the executive summary on market conditions and revitalisation of the road transport sector.	Tacis M&E
9	Maintenance services: new chapter, former chapter 8 on maintenance is deleted	Tacis M&E, National Traceca Co-ordinator on behalf of Georgia

EXECUTIVE SUMMARY

I Project Background

The three Caucasian Republics of Armenia, Azerbaijan and Georgia are, like most of the other republics of the former Soviet Union, faced with a whole range of frictions and tensions that are associated with the transition from a heavily centralised Soviet state to free market conditions. Since these countries gained their independence in the early 90s, they have faced drastically decreased economies, massive lay-offs from idled enterprises, civil conflicts and lack of regulatory and institutional frameworks. Although at present there are clear signs of stabilisation, reconciliation and economic growth, the past six to seven years have taken their toll on the economies, living standards, and hence, on the road transport sector. Political stability in the coming years is a prerequisite for a further strengthening and broadening of the still narrow socio-economic foundation on which all both formal and informal development initiatives in the region currently are based.

In 1993 a conference was held in Brussels bringing together trade and transport ministers of eight Caucasian and Central Asian Countries of the Newly Independent States. The conference led to the creation of the TRACECA route (Transport Corridor Europe Caucasus Asia) as a complementary and competitive route complementary to the existing routes from Europe into Central Asia. This report is the completion of a study of just over one year entitled 'TRACECA Improvement of Road Transport Services' in the Caucasus, funded through the European Commission's TACIS program, aimed at providing technical assistance to the transitional economies of the Former Soviet Union.

II Scope of the Project and Recipients

In this report we have to indicated how and under what conditions the road transport sector in the region should adjust to new political and socio-economic realities. The study limits to road freight haulage operations and does not deal with passenger operations. Attention has been focused on two groups of recipients each dealing with a variety of issues related to adjusting to the new socio-economic and political conditions for road transport:

- (1) **The Ministries involved in road transport.** Under the present circumstances a clear reformulation of their role in the further development of the sector is urgently needed. All Government officials, dealing with the organisation of the road transport sector in their respective countries eagerly requested more information concerning international accepted standards, rules and regulations.
- (2) **Road transport operators** in the three Caucasian republics. Management of road transport enterprises are dealing with adapting to new operating circumstances with varying results. Some truly private operators and forwarders founded new companies, but most transport operators are privatised/commercialised former state enterprises. Private activities have emerged within these firms by means of letting their vehicles to private drivers on a monthly or weekly basis. Management in the road haulage sector has shown that there is an abundance of knowledge of road transport operations under difficult circumstances. What needs to be developed is the commercial skill for which no basis of experience and no incentives were available under the rules of the past. Management is

eager to learn on commercial operations, cost price calculation, maintenance management and development of business plans.

Another important stimulus for private transport is to co-operate with Western European firms, it was not easy to tackle this problem. Initially, there was no interest from Western Europe for road transport operators from the Caucasus, but now a number of serious developments of Joint Ventures or other models for co-operation are under way.

III Operating Profile and Institutional Arrangements under the Former Soviet Union

In summary, road transport during the former Soviet era was characterised by a number of features:

- The socialist organisation of road transport created large enterprises, integrated across the republics and with a range of activities far more diverse than found in road haulage enterprises of market economies;
- Transport Ministries all had the task *to directly manage and supervise* strings of state owned business units. Management decisions taken were in accordance with detailed instructions, given by the concerned authorities at the centre;
- Beside the state enterprises of the transport ministries, each ministry created specialised road transport enterprises for the respective sector, leading to a high degree of specialisation. The distinction between general road transport operators and others specialised in haulage for individual industries with specific requirements is normal in road haulage, but this scale of specialisation is not seen in market economies;
- Ministries/departments were (are) responsible for both road haulage and for passenger transport by bus. This concerned both the actual economic activities and the policy making for the sector. A strong case is made here for *separating freight from passenger transport*. The managerial requirements of the two activities as well as the technical level, are very different. Besides, it is common for passenger transport to operate with subsidies, whereas under market conditions, this is not the case for road freight operations.

IV Future Institutional requirements for Road Haulage in the Caucasus

IV.A. New Mission Statement for the Institutions

The transition from socialist to market economy structures have led to new and different circumstances and, hence, to the necessity to adjust the structures and organisation of institutions to changed circumstances.

The proposed new tasks and policy of the Governments, in this case the Road Transport Departments of the Ministries of Transport, are completely different. Their task is now *to set the norms for standardisation and certification and to formalise these norms in new laws and regulations*. Transport companies are bound to operate within these limiting conditions. Only if the conditions are not fulfilled, the Government will take corrective actions.

Although substantial differences exist in initial conditions and the actual starting position in the three countries, the end result of the transition process will be the same for all countries, i.e. the presence of a strong Department of Road Transport as part of a separate Ministry of Transport. In the future these Departments will function as the only national institution, authorised to create a normative environment for the then independent road transport sector.

IV.B. In-service Staff Training

Recommendations for an improved organisational structure of Ministries and Governmental Departments will not, despite all good intentions, automatically result in the creation of sustainable conditions. New organisations will only be able to survive and grow when they get the full support of groups of motivated and properly trained staff within these organisations, who together are responsible for the creation of a clear identity and a good name of the involved institution.

Although not specifically mentioned in the Terms of Reference of the concerned project (TRACECA IRTS), the authors of this report have taken the initiative to add additional recommendations concerning an urgently required training program for the Road Transport Departments' professional staff. The Terms of References for the training program are enclosed to this report in appendix 2.

For practical reasons it is recommended to co-ordinate, and preferably, combine the proposed in-service training programs for Georgia, Armenia and Azerbaijan with the World Bank Project for in-service training activities of the Ministry of Transport in Georgia. The World bank sponsored Transport Reform and Rehabilitation centre of this Ministry has recently established a Training Unit. Special training courses for policy makers and professional staff of the Ministry will soon commence. Training courses are in principle open for participants from other countries, in particular from those in the region (Armenia and Azerbaijan).

IV.C. Summary of Recommendations per Country

Armenia

- (1) It is recommended to change the present organisational structure of the Ministry of Transport in such a way that ***more clarity is given about the position of the various Departments and Divisions within that structure.***
- (2) Taking into consideration that all transport related state enterprises are at present still included in the Ministry's organisational structure, it is recommended to give ***highest priority to the process of privatisation*** of these enterprises. The process will also include the formal and legal transfer of all assets of the transport related state enterprises (railways, bus companies and the metro) to these, after completion of the process, independent state enterprises.
- (3) A re-arrangement of the present Departments and Divisions of the Ministry of Transport in ***two stages*** has been recommended. The first stage will be considered completed after the conclusion of the privatisation process.
- (4) During the first stage it is recommended to create ***separate Departments*** for Road Transport, Road Construction and Maintenance, Railways and Civil Aviation. For the co-ordination of the transport related bilateral and multilateral development projects, it is recommended to establish an additional Department for Special Projects. Specialised functions within the Departments are to be concentrated in ***Divisions.***

At all times it must be prevented however, that this department will become 'A Ministry within the Ministry'. The department is temporary by its nature and must create task forces in which they closely co-operate with the departments of the Ministry (e.g. department for road transport) to optimise the effect of donor projects and to prevent that the effects of these projects will be limited to the department for special projects itself.

- (5) In line with what in some European countries has become common practice, it is recommended to establish, during the second stage, separate Departments for Passenger Transport, Cargo Transport and Civil Aviation and to maintain the Department for Special Projects. As in the previous organisational structure, specialised functions within the Departments are to be concentrated in Divisions.
- (6) In order to speed up and facilitate the transformation process, it is recommended to transfer, on a temporary basis, all matters, related to the privatisation of selected enterprises within the Ministry's organisation, to a *separate section dealing with privatisation matters* within the new Ministry of Transport, directly under the responsibility of the Minister of Transport and his First Deputy Minister.
- (7) It is recommended to clearly *separate the tasks* of the *Ministry of Transport* on the one hand and the *Road Police* on the other with regard to the formulation of traffic safety rules and regulations (task of the Ministry) and the control and enforcement of these rules and regulations (task of Road Police). Furthermore it is recommended to take proper measures to regularly evaluate and, if needed, update set traffic rules and regulations.
- (8) Recommendations concerning the *in-service training of the professional staff* of the future Road Transport Department: see above item IV.B.

Azerbaijan

- (1) It is recommended to give the highest priority to the establishment of a *separate Ministry of Transport* in which all modes of transport are integrated. This new Ministry will be exclusively occupied with the formulation of an integrated transport policy, with the co-ordination of multi-modal transport and with the establishment of a regulatory framework to supervise and control the transport sector according to international standards.
- (2) It is recommended to clearly separate all sections within the present *transport related state concerns* (for Road Transport: the state concern Azeravtonagliat) that are presently dealing with the regulation and control of the transport sector. These sections will then be grouped together and then, as a separate Department, brought into the organisation structure of the new Ministry of Transport.
- (3) It is recommended to create the following *Departments* within the new Ministry of Transport: Road Transport, Road Construction and Maintenance, Railways, Civil Aviation and Marine Establishments. For the co-ordination of the transport related bilateral and multilateral development projects in the country, it is recommended to establish an additional Department for Special Projects. Specialised functions within the Departments are to be concentrated in *Divisions*.

- (4) In order to speed up and facilitate the transformation process, it is recommended to transfer, on a temporary basis, all matters, related to the privatisation of selected enterprises within the Ministry's organisation, to a ***separate section for privatisation matters*** within the new Ministry of Transport, directly under the responsibility of the Minister of Transport and his First Deputy Minister.
- (5) It is recommended to clearly separate the tasks of the ***Ministry of Transport*** on the one hand and the ***Road Police*** on the other with regard to the formulation of traffic safety rules and regulations (task of the Ministry) and the control and enforcement of these rules and regulations (task of Road Police). Furthermore it is recommended to take proper measures to regularly evaluate and, if needed, update set traffic rules and regulations.
- (4) Recommendations concerning the ***in-service training of the professional staff*** of the future Road Transport Department: see above item IV.B.

Georgia

- (1) It is recommended to start with the ***active implementation of the proposed new organisational structure*** of the Department of Road Transport of the Ministry of Transport. In general this new structure follows the recommendations, provided by international experts under the TACIS-TIMOG Project (November 1994).
- (2) It is recommended to ***seek a solution for the present excessive number of staff members*** within the Road Transport Department. The over-staffing of the Department will be most apparent in the new Division for General Support and Administrative Affairs (nearly 50% of the total staff).
- (3) It is recommended to establish a ***documentation and reference centre***, containing the most basic and up-to-date information on international road transport legislation. Such documentation and reference centre could for practical reasons be incorporated in the recently established Training Unit of the Transport Reform and Rehabilitation Centre (TRRC) of the Ministry of Transport.
- (4) It is recommended to investigate the ***complaints*** concerning the current practice of charging excessive and, in some cases, unreasonable fees and/or fines to the private road transport sector by the road police and other official and semi-official authorities.
- (5) The Road Transport Department is recommended to take the initiative to start, in conjunction with the Training Unit of TRRC, with the organisation of ***short training courses for private road transport operators*** to upgrade their skills in specific subjects.
- (6) It is recommended to clearly separate the tasks of the ***Ministry of Transport*** on the one hand and the ***Road Police*** on the other with regard to the formulation of traffic safety rules and regulations (task of the Ministry) and the control and enforcement of these rules and regulations (task of Road Police). Furthermore it is recommended to take proper measures to regularly evaluate and, if needed, update set traffic rules and regulations.
- (7) Recommendations concerning the ***in-service training of the professional staff*** of the future Road Transport Department: see above item IV.B.

V. Market Requirements for Road Transport Operations

Aim of this paragraph is to make some general remarks and to give some general strategic recommendations for the entire road haulage sector. The recommendations aim at revitalisation and strengthening of road haulage and at bringing the sector in line with international market requirements. The recommendations are general in nature and relate to external and internal factors influencing the quality and efficiency of the road transport sector.

- (1) It is inevitable that further privatisation and commercialisation of road haulage will take place in the coming five years. If privatisation of road haulage is to be successful, it will have to be carried out with due regard to the market position of the candidate enterprises, the demands they are likely to meet and the competing resources of present and prospective supply. This means that a number of state-owned operators will disappear in the coming years. It is recommended to ministries not to focus on maintaining and subsidising state enterprises which are currently out of work, but to *focus on the privatisation of the most viable firms*.
- (2) At present, the capacity of the vehicle fleet exceeds the demand. It is likely that growing transport demand will absorb part of this capacity. However, a *substantial renewal of the fleet* will nevertheless be necessary when economy revives, not because the vehicles are technically obsolete, but because they do not meet the new transport demand (larger amounts transported by road instead of by rail) and for international transports. The existing fleet can be used to absorb the local and regional growth of transport demand the coming years and to generate income for the investment in (second hand) vehicles that meet international standards.
- (3) The market for road transport is expected to grow substantially, like it did in Western Europe in the fifties; it is expected that future demand will be more diverse and flexible. This means that road transport has the future, because rail transport cannot meet this flexible demand. The success of the Caucasian road transport sector will highly depend on *upgrading the service level*. Criteria for the quality of the service level are:
 - reliability (certainty that the load will arrive);
 - speed;
 - price offered to the client;
 - quality of additional services (e.g. logistics).

Road haulage operators in the Caucasus are advised to improve their service level in order to compete with operators from Iran and Turkey. Some of the criteria are beyond the influence of operators, like quality of road infrastructure which influences speed and vehicle operating cost. However, reliability, price and quality of additional services are fields of attention that operators should focus on.

- (4) It is recommended to allow a wide scope for the development of entrepreneurial activity, on a small scale as well as in larger ventures. Experience has shown that productivity and efficiency rise through competition. The *road transport policy should allow freight haulage to undergo structural change and modernisations under competitive market conditions*. Monopolistic positions of road haulage suppliers should be prevented.

- (5) For the development of international haulage the Governments are recommended to *negotiate in bilateral agreements* the number of entries and transit permits for international vehicles into the Caucasus and for Caucasian trucks to enter and transit other countries.
- (6) Although all transport operators are eager to operate international transport (to Western Europe), it is also worth considering working on the regional (Caucasian) market. Distribution and transport of freight in the Caucasian republics from the ports of Poti, Batumi and Baku into the hinterlands are viable options for the operators. In this respect *it is important that operators and forwarders in Armenia, Azerbaijan and Georgia will intensify their co-operation*. Reportedly, all transport consignments are single trips and vehicles return unloaded. More exchange of information on transport consignments between operators and forwarder and more attention for planning of transports will certainly improve the efficiency and profitability of road transport.
- (7) Although it is tempting to cannibalise vehicles, this practice must stop immediately, because it is harmful for the development of the industry. With growing transport demand and ongoing cannibalisation, it is likely that the demand cannot be met due to lack of vehicles suitable for operation. Chapter 8 of this report gives more detailed recommendations on maintenance and breakdown repair.
- (8) Private liquidity is low in the Caucasus and commercial banking is underdeveloped. Commercial banks cannot grant credit and if they do, interest rates are high. A strong case is made for exploring the sources of The European Bank for Reconstruction for obtaining credits for vehicles and warehousing facilities. It is recommended to focus on development of small- and medium sized enterprises. To large former state enterprises it is recommended to down-size their fleet and to reduce their staff to bring the organisation in line with transport demand.
- (10) It is recommended to Governments of the Caucasian republics to further regulate insurances and liabilities. In Western European economies it is prohibited to operate transport without liability insurance. Without proper insurance systems, Western European partners are hesitant to invest in Joint Ventures in the Caucasus.
- (11) Road carriers associations have a major role in the future development of road transport. Road Carriers Associations are recommended to improve their services to members:
 - Small and medium sized private firms are the future backbone for the road transport sector. It is recommended to create special departments to sustain small road enterprises with their license applications and entry to the (international) market;
 - It is recommended to differentiate in the membership fee according to number of vehicles;
 - Road Carriers Association must develop themselves to partners for the ministries on the one hand and representatives of the road haulage sector on the other hand; they must represent the interest of their members in negotiations with the government. An important aspect is market entry, regulations for driving and resting times, road funding, taxation, etc.

- (12) Road funding and taxation are major problems in the Caucasus. The practice of semi-legal fees levied by road police and customs must be stopped. The (future) ministries of transport have a crucial role in preventing these practices. Semi-legal fees hinder the development of the sector and do not contribute to funding for road network investments.

Road user taxes should be based on relative cost of damage to roads by different equipment - with heavy vehicles paying a higher tax than light vehicles.

- (13) A possibility to *finance the procurement of new vehicles* is to start *Joint Ventures* between Western European and Caucasian transport operators. Operators from Europe would bring in second-hand vehicles of around 5 years of age. Initially, it was not easy to bring Caucasian entrepreneurs into contact with Western European firms, due to lack of interest from Western European side. Finally, it succeeded to intermediate between Caucasian and Western European entrepreneurs and three Western European firms are currently undertaking (initial) actions to start Joint Ventures in Azerbaijan and Georgia.

- (14) In the near future, the share of Western European trucks operating in the Caucasus will grow. Nowadays, there are already transport operators from Western Europe, Turkey and Iran driving with Western European trucks in the Caucasus. If their trucks break down, there are not sufficient facilities for repair and service in the Caucasus. Fast and reliable deliveries are essential to transport operators - unexpected standstills have negative effects on the profitability and reputation. Volvo Action Services is the central breakdown co-ordination centre for Europe on which drivers on their way can rely; they contact the central emergency centre and the centre co-ordinates that truck, driver and load are brought into safety and that the truck is repaired. Volvo Action Services has started a servicing network throughout Eastern Europe and the company believes it is time develop service opportunities in the Caucasus. Within the frame of this project initial contacts have been developed and there certainly are opportunities for development of service stations for Western European trucks on so-called TIR parks in the Caucasus.

VI. Study Approach and Structure of Main Report

Chapter 1 introduces the study and describes the scope and objectives of the project. The chart on page 6 clarifies on the approach chosen in analysing the current situation in the road transport sector in the Caucasian republics. The analysis of the problems of the road transport sector is top-down; transport demand and supply cannot be seen separated from socio-economic and political processes and the institutional environment.

Chapter 2 provides an analysis of the socio-economic and political environment of the road transport sector since 1991. From this chapter it can be concluded that the Caucasian republics are beyond the deepest crises now and there is room for development of economic and political structures. With renewed economic activities, prospects for the road transport industry are better for the near future.

Chapters 3, 4 and 5 focus on the institutional requirements for strengthening the road transport sector. Separate country reports are produced for Armenia, Azerbaijan and Georgia. The layout of the country reports, and in a few cases also the text of the reports, is similar. After a short introduction, describing the background and the specific setting of the road transport sector in the concerned country, and a short update on international road transport market requirements in these countries, a description is given of the present organisational structure of the various

Government institutions, dealing with road transport . The following paragraphs provide some suggestions for further improvements of the concerned organisational structures. In the case of Armenia this will involve a complete reorganisation of the Ministry of Transport and in the case of Azerbaijan it is recommended to establish a new Ministry of Transport. The final paragraph provides details of a proposed combined in-service training programs for the professional staff of the Road Transport Departments in the three Caucasus countries.

Chapter 6 comments on the developments road transport demand over the past 6 to 7 years and gives some projections on trends in the development of transport demand in the coming years.

Chapter 7 provides a profile of the organisation and operations of road haulage in the Caucasus. After a short introduction on the operating profile under the Former Soviet Union, country reports are presented for Armenia, Georgia and Azerbaijan. The country reports analyse the current activities in road transport operations and forwarding in the Caucasus. In a previous stage of the project, 4 business plans were prepared together with the management of private/privatised road transport operators in Armenia and Georgia. An example of a business plan and the methodology for developing business plans was handed out to the Ministry of Transport in Armenia.

Chapter 8 discusses the market requirements for the revitalisation and restructuring of the road transport sector in the Caucasian republics. One of the prior conditions for the development of **international** road transport is the possibility to service international transport outside the states of the Former Soviet Union. The final paragraph of chapter 8 discusses two major international conventions in road transport: Carnet TIR and CMR.

Chapter 9 focuses on the improvement of maintenance management and breakdown repair in the road haulage sector. This chapter is completely revised in comparison to the former chapter 8 on improvement of maintenance which was presented in the draft final report.

1 INTRODUCTION

1.1 Introduction and background of the project

This final report completes a study of just over one year entitled 'TRACECA Improvement of Road Transport Services'. The study was concerned with the three Caucasian republics of Armenia, Azerbaijan and Georgia, and funded through the European Commission's TACIS program, aimed at providing technical assistance to the transitional economies of the Former Soviet Union (hereafter: FSU).

Under the TACIS interstate program a conference was held in Brussels in May 1993 bringing together trade and transport ministers from the eight recipient countries of the TRACECA program:

- Armenia
- Azerbaijan
- Georgia
- Kazakstan
- Kyrgystan
- Tadjikistan
- Turkmenistan
- Uzbekistan

At this conference TRACECA (Transport Corridor Europe Caucasus Asia) was created under the TACIS program. TACIS and the eight recipient countries aim at promoting the TRACECA route as an alternative, competitive transport route complementary to the existing routes from Europe into (Central) Asia (map of TRACECA routes and corridors on next page). The TRACECA program corresponds with the global EU strategy towards the newly independent states united in CIS and intends to achieve the following objectives:

- (1) to support the political and economic independence of the republics and to enhance their capacity to access the European and world markets via a multitude of alternative transport routes;
- (2) to enhance regional co-operation among the recipient countries;
- (3) to use the TACIS program as a catalyst to get the attention of other donors, Development Banks and private investors for the transport sector in the Caucasian and Central Asian region.

Since the start of TRACECA, a number of projects have started, among which the TRACECA Improvement of Road Transport Services (hereafter: TRACECA IRTS). The Improvement of Road Transport Services Project has been subdivided in two regions and subsequently in two separate projects:

TRACECA IRTS - Caucasus:

- Armenia,
- Azerbaijan,
- and Georgia,

and:

TRACECA IRTS - Central Asia:

- Kazakstan,
- Kyrgyzstan,
- Tadjikistan,
- Turkmenistan
- Uzbekistan

1.2 Objectives of the TRACECA IRTS Project - Caucasus

The main objectives of the project were the following:

- (1) To improve the operating environment for road transport enterprises in Armenia, Azerbaijan and Georgia in order to facilitate the development of the domestic and international road transport industries in the Caucasian Republics.
- (2) To provide viable private (or to be privatised) autonomous road transport operators with technical assistance in order to strengthen their market position, in order to help them obtain an equitable market share in the road transport sector, in the future.

Starting from these general objectives and based on the findings in the region, the more practical project targets were:

- to make an analysis of the political/economic environment in which the road transport sector is operating including an analysis of the road transport market in the Caucasus (demand and supply);
- to give advice on truck fleet management and maintenance;
- to promote adherence to all relevant international conventions on road transport and advise on how to come to grips with these, especially in the field of Carnet TIR;
- to strengthen the institutions in the field of road transport;
- to provide technical assistance to a number of selected viable private road hauliers in developing business plans.

1.3 Scope of Project and Target Groups

The TRACECA program is limited to the transport of goods only, and does not address the problems in the passenger transport sector. The TRACECA Improvement of Road Transport Services Project (TRACECA IRTS) aims at strengthening the road haulage transport sector in the Caucasian Republics. The project seeks to strengthen the republics' road transport sector by addressing both the **institutions** in the transport sector and the **transport operators**.

1.3.1 Institutions

In the Republics, the following ministries are involved in policy making for the road transport sector:

Armenia	-	Ministry of Transport
Azerbaijan	-	Department of Transport & Communications of the Ministry of Economy and the Concern Azeravtonaglijat (former Ministry of Road Transport)
Georgia	-	Road Transport Department of the Ministry of Transport

Beside these Ministries or Departments, evolving road carriers associations are concerned with the development of the road transport sector. In all three countries, such an association has been created.

It was found that the Ministries or Departments are still involved in both policy making (conditioning the transport sector) and in engaging economic activities themselves (operating transport) of both passenger transport and freight transport. Therefore, the distinction between (private sector) transport operators and Ministries (ensuring the enabling 'environment' for

transport services) is not always strict like in Western Europe. In Western-European economic and political systems, the division between operations, policy making, passenger transport and freight transport is as indicated in the following table:

	Passenger transport	Freight transport
Policy making	Ministry of Transport; Regional and Local Authorities	Ministry of Transport, Ministry of Economy (e.g. anti-monopoly laws etc) and Ministry of Environment (e.g. vehicle emissions control); European Union (Directives); Trade Unions and Interest Organisations of Employers
Economic activities	Urban public transport companies (often public-owned by municipalities, sometimes private operators) Regional public transport companies (mostly private, sometimes public-owned)	Private road hauliers, 'own-account' transport by private industries, and forwarders

It is the general expectation that in the future, this Western European model will become the institutional and economic framework for road transport in the Caucasian region as well.

The Institutional Strengthening in the IRTS project focused on the policy making Departments in the road transport sector and did not address the operating activities in the Ministries/ Departments of transport (the transport operators which are still belonging to the ministries), because the general policy in Armenia and Azerbaijan is to privatise the economic activities in the near future, whereas in Georgia privatisation of these firms has already been (nearly) completed.

1.3.2 Transport Operators

The second target group in this project are the independent transport operators in the road transport sector. Consultants have worked intensively with a number of private/privatised transport firms in Azerbaijan and Georgia. In Armenia the process of emerging private road transport operators is in the initial phase.

Technical assistance to the operators focused on preparing business plans, general advice on cost pricing for tariff setting and advice on truck fleet management and -maintenance. In Armenia technical assistance was given to the Armenian International Road Carriers Association; the main issue here was to set up the Carriers Association in line with the IRU regulation so that they will obtain IRU membership.

1.4 Main problems and issues identified in the road transport sector in the Caucasus

The problems faced by the Caucasian road transport sector in entering the international transport market are divided in:

- (1) Obtaining modern (European) standard vehicles and maintenance management of the existing vehicle fleet;
- (2) Joining international conventions and arranging bilateral transport (Quota) agreements, in particular with EU member countries which are generally very strict on various regulations;
- (3) The lack of transport demand. For development of the road haulage sector it is important to obtain cargo consignments **abroad**, as long as the import cargo flows (from West-to-East and from South-to-North) are very dominant with very few exports (back loads) available, probably for considerable time to come (next 3-5 years);
- (4) Arranging the required documentation (visa, etc.) for drivers to operate in- and transit the various foreign countries;
- (5) The lack of road transport regulations and institutional arrangements.

1.5 Structure of Report and Framework for Problem Analysis

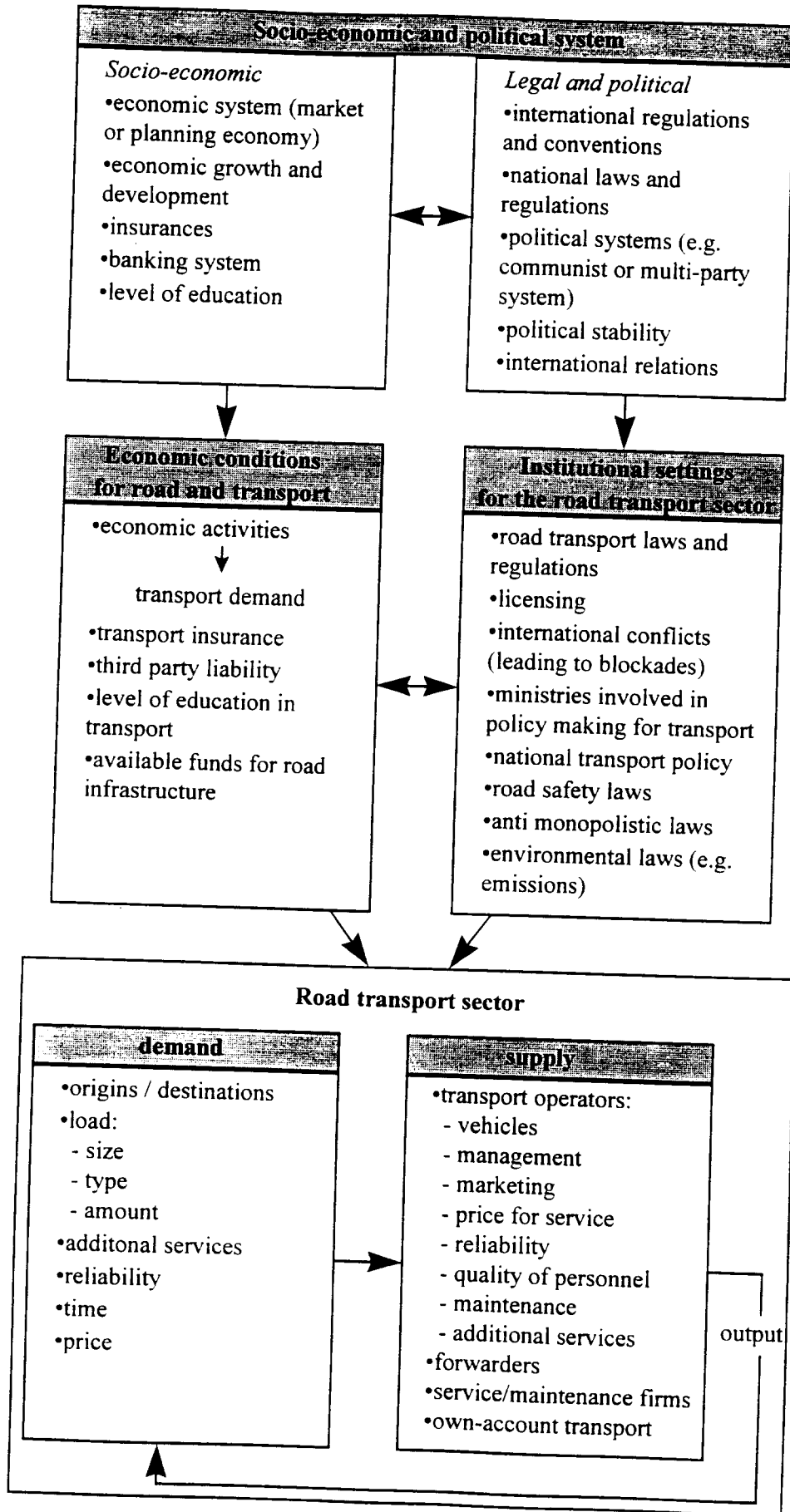
This project aims at giving a problem analysis and recommendations for the road transport sector. The performance of the road transport sector is influenced by factors and circumstances outside the sector as well as factors in the sector itself. The project focuses mainly on the environment for the sector, but has looked into the companies of the operators as well. Chart 1 on the next page outlines how the road transport sector is influenced by its environment:

If we look at the chart on the page hereafter, it is not surprising that the road transport sectors in Armenia, Azerbaijan and Georgia are operating under extremely difficult conditions: Both the economic and political systems are in major transition since 1991, which has led to political instability, international conflicts, lack of correct legal frameworks and economic crisis. These conditions have seriously hampered the road transport sector over the last five years. The process seems to have turned and the time is ripe to reorganise the road transport sector and its institutional environment.

The structure of this report follows the structure in this chart: Chapter 2 reports on the socio-political and economic conditions in the Caucasus over the last five years. Chapter 3-5 present an analysis of the institutional settings under which the transport sector is operating. Consultants will also give recommendations on improvements in this institutional setting.

Chapter 6 and 7 look into the road transport system itself: Chapter 6 analyses the decline in transport demand in the Caucasian regions, whereas chapter 7 analyses the road transport sector operators and the suppliers of transport-related services itself (supply side of the transport sector).

chart 1: The road transport sector and it's environment:



2 CAUCASIAN POLITICAL/ECONOMIC CONDITIONS FOR ROAD TRANSPORT

2.1 Introduction

From the framework in chart 1 it can be concluded that developments in the transport system cannot be seen as an isolated process. This is particularly the case if a system is in transition like in the Caucasus where since the breakdown of the Former Soviet Union (FSU) the Caucasian states became independent. The change from socialist states with a centrally planned economy to a market-oriented economy with multi-party political systems with elected government representatives has led to political and economic crises. However, the economic and political systems seem to be stabilising now (see paragraphs hereafter).

Transport demand and supply are in close interaction with the socio-economic and political systems. In the Caucasus, the transport demand has been effected by the economic crisis, leading to a downfall of economic activities, and hence to a decline in transport. On the transport supply side privatisation of the former state companies in these countries is emerging (Armenia, Azerbaijan) or almost completed (Georgia).

Therefore, this report summarises the transition process in the political and economic environment for the road haulage sector in the Caucasus before analysing the sector in-depth.

2.2 Geopolitical environment : The Caucasian Region

The Caucasian republics Armenia, Azerbaijan and Georgia are located between the Black Sea and Caspian Sea. In April 1991 Georgia was the first of the Caucasian republics to declare independence from the Soviet Union; Armenia and Azerbaijan followed this initiative in the fall of that year.

The disintegration has led to an economic and political unstable transitional period, but the transition process seems to have turned positively; all three republics have adopted new constitutions in 1995 and are adapting their legislative systems to the new political and economic system. A sense of optimism has grown in the region; Agricultural production is increasing, inflation remains low and there is a rapid economic recovery evolving in Armenia and Georgia, whereas the oil that is expected to start flowing from the Caspian Sea in middle 1997 is expected to have a major economic impact in Azerbaijan.

The three states' economies are increasingly integrated to the West. The Caucasus is a crucial Eurasian corridor for transport and communications and Georgia is set to become one of the routes for the supply of oil from the Caspian Sea. There are truces in Nagorny-Karabakh, South Ossetia, Chechnya and Abkhazia, giving the countries the necessary stability to develop their economies and political systems, and hence, to develop the (road) transport sector.

2.3 Economic Overview of The Caucasus 1989-1996

2.3.1 Armenia

Armenia is a landlocked country with a land area of 29,800 square kilometres, and a population of app. 3.6 to 3.8 million¹. GNP per capita was US\$570 in 1995.

In recent years, Armenia has been confronted by calamities. A devastating earthquake in 1988 gravely damaged the country's infrastructure. Exceptionally harsh winters over 1992-94 and the associated lack of heating fuel led to harsh conditions for the people and the economy. The prolonged conflict over Nagorny-Karabakh led to an economic blockade by Turkey and Azerbaijan, and the conflict in Georgia influenced the economy of Armenia negatively. The resulting scarcity of fuel and other inputs essential for production led to catastrophic economic conditions and harmed the industrial base. Armenia's development into a modern economy is constrained by the legacy of Soviet central planning. The country has inherited a structure of production and trade and is still experiencing severe economic difficulties arising from the breakdown of the trade, payments and financial system of the former Soviet Union (FSU).

Azerbaijan traditionally was Armenia's principal transit route for oil, gas and other products. Between 1991 and 1993, GDP dropped by approximately 60 percent. Positive political developments in the Caucasus region are critical for Armenia's future growth. There has been progress towards peace in the seven-year Karabakh conflict. There are signs of a rapprochement between Armenia and Turkey. Also, rapidly growing trade with Iran and greater stability in Georgia have given Armenia opportunities to the development of the transport sector and have eased Armenia's isolation.

The economic reform process started with the privatisation of 87 percent of agricultural land and more than 350 small-scale enterprises. Armenia's transition to a market economy has accelerated with an easing of the regional political situation, giving the government space to implement a comprehensive stabilisation and structural economic reform program. In 1994, GDP grew by 5.4 percent and 1995 indicated sustained growth of slightly above 7 percent. In 1996, according to IMF the monthly inflation averaged 2 percent per month and IMF estimated year-end inflation rate of 15-18 %.

The challenge facing Armenia is to achieve sustained economic growth and employment. This recovery will only be sustainable if it is accompanied by significant investment in productive capacity, infrastructure and human resource development.

Over the next few years, GDP growth is expected to result primarily from rapid private sector development and a rise in capacity utilisation. Armenia's output is expected to grow at around 6 to 7 percent a year as the reform program begins to have a deeper impact on the economy. Growth is expected to be led by export demand in the FSU markets as those economies recover, and by increasing penetration of non-traditional markets, such as Middle Eastern and European markets.

¹ Varying figures have been found, varying from 3,283,000 (1989 census) and 3 million (December 1995) estimate.

Table 1: Economic Indicators Armenia 1991-1995 (latest available figures)

Economic indicators	1991	1992	1993	1994	1995
GDP at market prices Dram bn	15.9 ^a	62.0 ^a	3.9	187.5	548.0 ^b
Real GDP growth (%)	-8.8	-52.4	-14.8	5.4	5.0
Consumer price inflation (%)	100	825	1,823	4,962	178
Population end-year (m)	3.6	3.7	3.7	3.8	3.8 ^b
Merchandise exports fob \$ m	n/a	335	165	216	248
Merchandise imports fob \$ m	n/a	405	392	401	661
Current account ^c \$ m	n/a	-50	-150	-231	-382
Exchange rate (av) Dram:\$	n/a	n/a	75.00	288.36	405.93

August 30, 1996 Dram418.8:\$1

(a) Rb bn. The dram was introduced in November 1993.

(b) EIU estimate.

(c) Excludes official transfers.

Source: Economist Intelligence Unit 3rd quarter 1996.

2.3.2 Azerbaijan

Azerbaijan covers an area of 86,600 square kilometres on the south-eastern flanks of the Caucasus Mountains, with its eastern portion bordering the Caspian Sea. About 40 percent of its population of 7.5 million lives in the capital, Baku. GDP per capita is estimated at US\$ 480 for 1995. Azerbaijan is one of the oldest oil exporters in the world. The country is also well endowed with fertile agricultural land and a well-educated labour force.

Azerbaijan was beset with political instability from independence in August 1991 until its October 1993 presidential elections. The political volatility was aggravated by a three year war with Armenia over Nagorny-Karabakh. A cease-fire has held since May 1994, and peace negotiations are being conducted and significant progress was made in the last round of peace talks in Moscow in January 1996.

The collapse of trade among the republics of the FSU and the conflict with Armenia have been the main sources of continuous economic decline and high inflation. The severing of transport links to Azerbaijan's traditional markets in September 1994 as a result of fighting in Chechnya compounded the deterioration in external trade and hence, the transport sector. As a result, GDP declined every year since 1988 and by 1994, stood at about 37 percent of its 1988 value. Particularly affected was the oil and gas sector, where production fell from 13.8 to 9.6 million metric tons between 1987 and 1994, as a result of growing problems with infrastructure, poor production practices and depletion of oil fields. To reverse the process, in September 1994, the state oil company, SOCAR, signed a 30-year production sharing agreement with an international consortium of oil companies (AIOC) to develop the oil fields of Chirag, Azeri and the deep water portion of Gunashli located in Azerbaijan's sector of the Caspian Sea.

In 1995, with the gradually stabilising political situation and the cease fire in the Armenian conflict, the government has begun to design and implement an economic reform program supported by the World Bank and the International Monetary Fund (IMF). Inflation was approximately 411.7 percent in 1995, down from 1,664 in 1994. In 1995, rapid progress was made in restoring financial stability through tight fiscal and monetary policies. Inflation fell to about 8.5 percent for all of 1995. Inflation fell further in the first half of 1996 to an average of 0.2 percent per month.

The government's development strategy focuses on maintaining and reinforcing economic stabilisation, implementing a comprehensive program of structural reforms, and creating the conditions for sustainable and equitable private sector-led-growth. The price of crude oil was raised to world levels, and a 25 percent tax was placed on the value of crude oil production. Gas prices are planned to be raised to world market levels in 1997. Domestic trade has also been liberalised.

A privatisation program endorsed by parliament in September 1995 provides for the sale of two-thirds of state assets in the productive sector during 1995-1997. Implementation of privatisation started with cash auctions of about 8,000 small enterprises accounting for 5 percent of total assets, which should be completed by the end of 1996. During the first half of 1996, at least 20 medium and large enterprises were corporatised into joint stock companies.

In the medium term, economic prospects are potentially good. Their full realisation, however, depends on political stability, a permanent resolution to the conflict with Armenia, and adequate pipeline and other transport links to international markets. The oil investments and expected increase in crude oil exports should arrest the decline in oil production and increase exports.

Table 2: Economic Indicators Azerbaijan 1991-1995 (latest available figures)

Economic indicators	1991	1992	1993	1994	1995
GDP at market prices Manat bn	26.7 ^a	241.0 ^a	157.1	2,130.8	9,029.9 ^b
GDP bn	-	-	1.7	1.9	2.0 ^b
Real GDP growth (%)	-0.7	-22.6	-23.1	-21.1	-17.2
Consumer price inflation (%)	106	616	1,130	1,664	412
Population Dec (m)	7.2	7.3	7.3	7.4	7.5
Merchandise exports fob \$ m	n/a	1,275	697	637	547
Merchandise imports cif \$ m	n/a	786	819	778	668
Current account \$ m	153	488	-160	-153	-201
Exchange rage (av) Manat:\$	54.60 ^c	268.70 ^c	92.60	1,149	4,414

August 30, 1996 Manat4,304:\$1

(a) Rb9 bn.

(b) EIU estimate.

(c) Roubles.

source: *Economist Intelligence Unit 3rd quarter 1996.*

2.4 Georgia

Georgia was among the first republics of the former Soviet Union to declare independence. It has a population of 5.4 million in a geographical area of 70,000 square kilometres. Its per capita income was estimated at US\$440 for 1995.

Georgia is a primary transit conduit for goods shipped elsewhere in the Caucasus. Private sector activities emerged in Georgia even before independence and this is reflected in the road transport sector; privatisation has been almost fully realised in this Caucasian republic. Georgia suffered intense civil conflict after its independence. The conflicts resulted in large movements of refugees (about 270,000) mostly from Abkhazia to other parts of Georgia, worsening the economic burden of the country. A cease-fire is now in effect.

The war has had a negative effect on the Georgian economy. In addition, the recession in the former Soviet Union, adverse terms of trade, the breakdown of marketing channels and trade, an earthquake, and a (temporary) cut-off of trade relations with Russia, following the declaration of independence has accelerated economic decline. Production has also been declining since 1989. The contraction has, however, been particularly sharp in recent years and has affected all sectors.

Between 1989 and 1994, net material product fell between 70 and 80 percent, one of the sharpest declines observed among former Soviet countries. As a result, employment has declined by almost 30 percent since 1990, and open unemployment rose to 8.4 percent in December 1993. Inflation was low in Georgia until 1991. Prices rose, on average, by 80 percent in 1991 and by more than 900 percent in 1992. By the end of 1993, annual inflation had reached 8,400 percent. Monthly inflation during the first three quarters of 1994 had reached 60 percent.

The cease-fire in Abkhazia changed the political and economic situation in 1994. With the benefit of greater law and order, the government began a program to stabilise and reform the economy, with support from the International Monetary Fund (IMF) and the World Bank, in September 1994. The cornerstone of the stabilisation program was a dramatic fiscal adjustment, which reduced the budget deficit from 26 percent of GDP in 1993 to about 6 percent in 1995 and aims at a deficit of less than 4 percent for 1996. Results have been impressive: the average monthly rate of inflation fell from 64 percent in the first three quarters of 1994 to an average of 3 percent since early in 1995. Successful stabilisation laid the groundwork for introduction of a new national currency, the lari, in September 1995.

There are signs that indicate that Georgia's economic growth resumed in 1995 with real GDP rising by 2.4 percent. Growth has been led by agriculture and the service sector, particularly (private) transport and retail trade. Industrial output is reported to have stabilised. In addition, the sharp reduction of the labour force in state enterprises (over 35 percent since 1991) is indicative that restructuring has begun.

Despite this initial success, the economic situation remains fragile. One of the main sources of fragility stem from a weak tax effort, with tax revenues in the first half of 1996 were only 4.2 percent of GDP. Moreover, many key reforms are still at an early stage. This problem has been observed in the road transport sector as well. Privatisation of medium and large enterprises has just begun and firms have yet to make the critical adjustment to market signals. The banking sector and insurance are still in development. Most urgently, the shortage of energy remains a critical constraint to output recovery.

The government has put in place an ambitious reform program for 1996. The program comprises several objectives. It aims to improve and consolidate Georgia's fiscal situation through measures to expand the tax base and improve tax administration. It is anticipated that significant foreign direct investment to rehabilitate the oil pipeline will provide an upward pull for other activities. Investment is estimated to gradually have risen to 5.1 percent of GDP in 1996, and is estimated to reach 11 percent by 1998. Public investment will be directed primarily at rehabilitating and rebuilding the physical infrastructure needed to support private sector development. A major World Bank Project is implemented aiming at the rehabilitation and reconstruction of the main roads, which will have a positive impact on the road transport sector.

Table 3: Economic Indicators Georgia 1991-1995 (latest available figures)

Economic indicators	1991	1992	1993	1994	1995
GDP at market prices ^a	21	186	16,397	1,363,636	3,954,581 ^b
Real GDP growth (%)	-20.1	-44.8	-25.4	-11.4	2.4 ^c
Consumer price inflation (%)	78.7	809.9	3,125.7	18,916.0	183.2
Population end-year (m)	5.42	5.41	5.38	5.36	5.36
Merchandise exports fob \$ m	n/a	267	457	381	356 ^d
Merchandise imports fob \$ m	n/a	645	905	744	683 ^d
Current account \$ m	n/a	-319	-485	-446	-410 ^d
Total external debt \$ m	n/a	79	568	984	1,100 ^b
Exchange rate (av) Lari/\$	30.00	22.00	12,280	1,102,300	1.25

(a) GDP in Rb bn in 1991-92, Coupons bn in 1993-95.

(b) EIU estimate.

(c) TACIS estimate.

(d) IMF estimate.

Source: Economist Intelligence Unit, 3rd quarter 1996.

3 INSTITUTIONAL STRENGTHENING OF ROAD TRANSPORT IN ARMENIA

3.1 Introduction

The development of the road transport sector in Armenia is still seriously hampered by adverse political and economic conditions. Being completely landlocked, Armenia depends on the willingness of surrounding countries to let their goods pass to the open sea. At present, because of tense political relations, the borders with neighbouring Turkey are still closed for transport of cargo by road. Because of the continuing hostilities with Azerbaijan, there are no trade relations with that country as well. A small trade corridor is open to Iran and presently about half of all imported goods are brought into the country through that corridor. The origin of most of the goods are the tax-free markets of Dubai. Most cargo, originating from the United States and Europe, is transported to the Black Sea port of Poti in Georgia and from there brought to Armenia through Georgian territory.

Unfortunately Armenian road carriers are in an unfair competitive position towards their Georgian and Iranian counterparts. In Georgia the main problem is excessive (semi-legal) fees, charged in particular to foreign road transport operators and in Iran the problem is the fact that foreign road carriers are charged fuel prices that are many times higher than the Iranian fuel prices.

The Armenian Ministry of Transport is still in the process of making proper arrangements for the regulation and co-ordination of an independent road transport sector. Overseeing the activities of the state owned transport related enterprises is still the major concern the Ministry. However, when compared to previous state controlled conditions, the situation has changed completely. All state subsidies have been discontinued and consequently the companies now have to rely, like any other private enterprise in the sector, on their own resources to run their business. Considering the present financial status of the enterprises, these resources are minimal.

Within the Ministry, responsibilities for regulation and co-ordination of the road transport sector are divided over different departments. The Department for the Co-ordination of Cargo Transportation and an Integrated Transport System has a co-ordinating function, whereas other departments cover various regulatory and service aspects: licenses, foreign relations and safety regulations.

A small professional staff in each department is faced with the challenge of adapting themselves to the new situation in which market conditions prevail. A new law regulating the transport sector has been presented to the Parliament for approval and a licensing system for road transport is in the process of being developed in conformity with this new law. The Ministry of Transport has prepared a first draft and this draft is now under discussion by the Ministries of Economy, Finance and Justice. As yet it is still unclear which Ministry shall be given the right to issue the licenses, Transport or Economy.

Despite the positive steps already taken by the Ministry to improve conditions with regard to the formulation of new transport policies and laws and the internal structuring of the Ministry, a lot of work still has to be done to further improve the organisational structure of the Ministry and to strengthen the capabilities of its professional staff.

Suggestions for further improvements are:

- To facilitate the development of the road transport sector, a detailed assessment should be made of the road transport market requirements and the related needs for specific services, to be delivered by the Ministry of Transport.
- Clear definition of the various functions and related activities of the Departments and Divisions, dealing with road transport (Cargo Transport, Economic Research, Technical Development, Traffic Safety and Foreign Relations).
- Clear definition of the tasks and required qualifications of the Department's professional staff in conjunction with the newly defined Service Division functions.
- Design of a training program to upgrade the skills and capabilities of the Department's professional staff.

In accordance with the current assignment under the TACIS-TRACECA Project (Improvement of Road Transport Services), this report will emphasise the measures that could be undertaken to strengthen the service capability of the Ministry of Transport, in particular to those enterprises dealing with international road transport movements.

3.2 Current Status of the Cargo Transport Sector in Armenia

Although the road transport system is described more in-depth in chapter 6 and 7, a few comments are made on the current status of the road haulage sector in this chapter in order to put the Ministry of Transport in Armenia in the right perspective.

The organisation of the cargo transport sector is in the current transitional period between state controlled centralism and a free market economy based on the emergence of a complex structure of informal arrangements. There are no official records of these operations, nor are there any reliable records of the movements of goods within the borders of Armenia.

In the national freight carriage business by road, most arrangements are currently made on an informal basis by private transport operators. For that purpose "free transport markets" have emerged spontaneously in several locations in Yerevan. Potential customers, who are looking for the cheapest way to transport their goods, are coming to these markets and are making direct deals with the selected operators. Quite often these operators are individual drivers, who lease a vehicle on a case by case basis from one of the state owned road carriers in the country.

The international road carriage business in Armenia is for various political and economic reasons in the hands of non-Armenian road transport operators. For cargo coming from Europe and the United States through the Black Sea port of Poti, freight forwarders prefer to hire Georgian trucks to transport road cargo to Yerevan. Cargo, originating from the tax-free markets of Dubai, is as a rule transported in Iranian trucks to Yerevan through the Iranian port of Bandar Abbas. Present conditions make it practically impossible for potential private Armenian international road carriers to operate on markets outside their home country (see section I. Introduction).

The only formal enterprises dealing with the carriage of goods by road in Armenia are a few state owned road carriers of which Armcargotrans is the biggest. Although the firms, and thus the state, are still the official owners of a large fleet of trucks and lorries, their performance is below all acceptable standards. The technical condition of a substantial part of their vehicles is extremely bad, market conditions are deplorable and competition with the above mentioned more efficient and more flexible informal private sector makes it practically impossible for these state owned firms to perform under normal business conditions. Since the downfall of the

Soviet system and the subsequent discontinuation of all subsidy payments, the companies became financially completely independent. There are plans to privatise these firms, but under the present circumstances this will not be an easy operation.

The only transport related sector that is doing quite well are in Armenia at the moment are a few successful private freight forwarding companies. On behalf of their customers in and outside Armenia they are specialised in making the cheapest and fastest possible inter-modal freight arrangements. The freight forwarders have built up their own networks of international contacts usually in conjunction with an international firm as joint venture partner (from Ireland, Iran and Georgia) or as provider of vehicles and drivers (from Georgia).

3.3 The Organisational Structure of the Ministry of Transport

Managerial responsibilities for all activities, undertaken by the Ministry of Transport, are shared between the Minister of Transport, his First Deputy Minister and three Deputy Ministers. Although some Department Heads and State Enterprise Chiefs of the Ministry report directly to the Minister, the supervision of the operational activities of most line and staff departments is delegated to the four Deputy Ministers (see present Organisation Diagram of the Armenian Ministry of Transport on page 24).

It was emphasised, however, that the division of supervision responsibilities over the Minister and the various Deputy Ministers should not be interpreted in a very strict way. Priority has been given to flexibility in management and guidance.

It is interesting to observe that, despite the Government's intention to privatise most state owned enterprises, all transport related state enterprises are still included in the Ministry's organisational structure. Plans have been developed, however, to change this structure and to develop an organisation that clearly divides the service and regulatory functions of the Ministry from the now independent state enterprises.

A total number of 60 persons are employed in the various departments and divisions of the Ministry of Transport. Thus the average number of staff members working in one of the Ministry's departments or divisions is 4 with the exception of the Internal Services section, dealing with administrative matters, where 10 staff member are employed.

The departments and divisions that are dealing with the co-ordination and supervision of road cargo transport are:

- (1) The Cargo Transport Co-ordination and Integrated Transport System Department,
- (2) The Traffic Safety and Road Control Division,
- (3) The Technical Development Department (also dealing with licenses),
- (4) The Economic Research Department (also dealing with general transport policy) and
- (5) The Foreign Relations Division.

3.3.1 The Cargo Transport Co-ordination and Integrated Transport System Department

The main functions of this department in the new organisational structure can be summarised as follows:

- the monitoring of the private and public enterprises involved in the transportation of cargo by road,
- the formulation of policies with regard to cargo transport and
- assistance in regulating the activities, undertaken by the road carrier enterprises in the country.

The Cargo Transport Co-ordination Department has a staff of 4 persons, including the head of the department. At present the head of the department is still spending most of his time (more than 80%) in co-ordinating the activities of the state owned road transport enterprise Armcargotrans, of which he is the Managing Director.

3.3.2 The Traffic Safety and Road Control Division

With regard to road transport, the traffic safety division is mainly dealing with the actual safety conditions of the roads (road signalling, control of the road surface, etc.) and to a lesser extent with safety matters related to the technical condition of the vehicles and the social conditions of the drivers.

One of the responsibilities of the traffic safety division during the Soviet period has been the supervision of training institute providing courses for the drivers of the state transport enterprises for training them and to upgrade their knowledge and skills concerning safety regulations, basic mechanics and first aid. After the downfall of the Soviet Union the training institute has been privatised and unfortunately the institute's activities are now beyond the control of the Government. Under the present conditions the Government should therefore take the initiative to formulate standard rules and regulations concerning the operations of driving schools and to specify the required qualifications for different categories of drivers. Such rules and regulations should include arrangements for the participation of Government officials when driving examinations are conducted (see also section 3.4.2.3 - Driving licenses).

The state owned road transport enterprises have developed their own system for checking the technical condition of their vehicles and the physical condition of their drivers on a regular basis. Formerly the Ministry of Transport, being part of the national transport system, shared the responsibility to supervise this control system. In the new situation, however, it will be necessary to formulate new safety rules and regulations for both the emerging private transport sector and the now independent public sector, and to develop new procedures for their efficient implementation and effective control.

Although the Ministry has made a good start with the formulation of these new rules and regulations, in conjunction with the drafting of licensing regulations for the road transport sector, nothing has been formalised as yet and, according to the concerned Government officials, unfortunately chaos thus still prevails.

3.3.3 The Technical Development Department

In the former system this department had the important function of providing all kinds of technical services to the state owned transport enterprises. The department was there to solve logistic and technical management problems whenever they would arise.

Under free market conditions things have changed completely and the department is struggling to get control over this new situation. The responsibility for the design of a regulatory system, including the preparation of a draft regulation concerning licenses, has been delegated to this department. Expert assistance is provided by the Ministry's chief lawyer and arbiter. Concerning road transport enterprises, operating exclusively within the boundaries of regions, the decision was taken to delegate the responsibility for the actual issuing licenses to the municipalities within those regions. The Ministry of Transport will provide guidelines and will be the responsible authority for issuing licenses to inter-regional and international road transport operators.

From the side of the emerging private road transport sector, which, as far as freight transport is concerned, still operates under a grey shadow of informality, there is still opposition against any type of regulation by the Government. However, these conditions will without any doubt change in the future and to a certain extent it will be a challenge for the Government to be prepared for this new situation by having the legal framework in place, which will regulate and formalise the sector.

Apart from the above mentioned concern for the preparation of a legal framework for licenses, the department has the task to provide guidance and supervision over the privatisation process, co-ordinate concern for environmental matters and supervise the technical assistance provided by the Ministry to the privatised transport sector.

3.3.4 The Economic Research Department

Presently the department is primarily involved in the monitoring of key parameters related to the state owned transport enterprises, which are to a large extent still part of the Ministry of Transport organisation, analysing these data and making forecasts concerning future transport flows.

Furthermore the department is responsible for the formulation of tax policies related to the transport sector and the fixing of equitable tariffs for public and private passenger transport. State enterprises providing these services (railways, metro and bus companies) are still subsidised by the Government, but most probably this subsidy payment will be discontinued in 1997 because of budget constraints. The department is involved in an effort to harmonise the tariff structure for passenger traffic, provided by both public and some private transport companies. The market for cargo transport has been freed of any price regulations by the Government.

In the current situation, whereby an increasing section of the in particular cargo transport sector is in the process of being privatised, the department is faced with new challenges. Their main task is to co-ordinate and monitor the activities of private and public transport companies and to analyse and evaluate their performance against the background of stated transport policies.

However under the present conditions, whereby at least 80% of the economic activities in the country are undertaken in on an informal ad-hoc basis, the co-ordination efforts of the department are seriously hampered by a lack of reliable data and economic parameters. Based

on the scarce information coming from the Bureau of Statistics and from the transport sections of the major municipalities, the department is only able to produce some "calculated guestimates" of current and future cargo flows that are taking place inside Armenia. As stated previously the private sector, dealing with the carriage of cargo within the borders of Armenia, is operating "underground", mostly to avoid Government control and the payment of taxes (in particular VAT). Neither the staff nor the funds are available to conduct national traffic counts on a regular basis. Somewhat more reliable data are available of cargo movements across the borders of Armenia, but also these figures are often distorted by inefficient recording practices of the customs authorities.

The department is working closely together with the transport section of the Ministry of Economy. Projects and programs related to the transport sector are usually identified, prepared and formulated by the department and submitted to the Ministry of Economy for their approval and follow-up action (final formulation and initiation of tender procedures)

Finally, the department provides support to Minister and his expert staff to formulate an appropriate transport policy for Armenia. The possible role to be played by the department with regard to the (future) implementation of license regulations, and how these tasks and responsibilities should be shared with the Technical Department, should be further clarified.

3.3.5 The Foreign Relations Division

Main task of this division is the establishment of contacts with relevant authorities in other countries and the subsequent preparation and conclusion of official transport agreements with these countries. In the meantime agreements have been reached and formalised with the following countries: Georgia, the Russian Federation, Iran, Syria, Lebanon, Greece, Bulgaria, Romania, Cyprus, Moldavia, Turkmenistan and Uzbekistan.

A major problem with regard to road transport is that quite often the actual situation "on the road" differs substantially from the good intentions as laid down and formulated in the official agreements. Obviously the agreements do not foresee acts of harassment and the practice of charging of illegal fees during transit cargo transport, nor the type of sanctions which will be charged, when these things occur.

Further bilateral contacts on a regular basis are needed with relevant countries (Georgia has been mentioned repeatedly in this respect) to review the actual implementation of the transport agreements and, even more important, to make firm mutual commitments concerning certain enforceable solutions in case irregularities occur that are in conflict with the spirit of the agreement.

3.4 Suggestions for Further Improvement of the Organisational Structure

3.4.1 Clear Division between Functional Departments and a General Support Division

The present organisational structure of the Ministry of Transport is still characterised by an uncoordinated and unsystematic fragmentation of responsibilities and tasks over different departments and divisions (see page 9). The Minister of Transport himself and his Deputy Ministers are given the task to supervise and control the activities of these departments and divisions in a more or less haphazard way. All concerned parties agree that in the light of the present reform taking place, further changes in the Ministry's organisational structure are urgently needed and that more clarity should be given about the position of the various departments and divisions within that structure.

As a first step, it is recommended to single out the more general support functions within the organisation (accounting, personnel, administration and internal security) and to group these under the heading 'Internal Services'. The group will be attached to the Minister and the First Deputy Minister as an administrative staff division.

The next step will be a re-arrangement of the present Departments and Divisions in two separate stages. The first stage will be considered completed and succeeded by the second stage after the conclusion of the privatisation process of the transport sector, in particular the sector dealing with cargo transport by road. The same process will also include the formal separation of all transport related state enterprises, like the railways and the metro, from the Ministry of Transport. During the transformation process a framework of rules and regulations, governing the day-to-day operations of these independent public and private enterprises will have to be established. Also a corresponding efficient and effective control mechanism to regularly check these rules and regulations will have to be put into place.

3.4.1.1 *The transition period of privatisation and separation*

As mentioned before, it is the Government's firm intention to privatise most state owned enterprises, including all state enterprises involved in cargo transport. At present last mentioned enterprises are still included in the Ministry's organisational structure and managed by the Cargo Co-ordination Department. The privatisation of these and other state owned enterprises, and thus their transformation into joint stock companies, is in progress and is planned to be completed by the end of 1997.

There are, however, complications which could perhaps delay the transformation process. Since the collapse of the centralised planning system, the Ministry of Transport is unable to allocate sufficient funds to finance their enterprises. All cargo transport companies, having inherited large fleets of obsolete vehicles and equipment, are thus unable to operate on a profitable basis. Unless a massive campaign is undertaken to restructure and, even more important, to resize these companies, it will be extremely difficult to identify suitable private investors, willing to take over the assets and liabilities of these firms.

In order to speed up and facilitate the transformation process, it is recommended to transfer, on a temporary basis, all matters, related to the privatisation of selected enterprises within the Ministry's organisation, to a separate section within the Ministry of Transport, directly under the responsibility of the Minister of Transport and his First Deputy Minister (see hereafter). The tasks of this temporary section can be described as follows:

Transformation of the selected enterprises to joint-stock companies (creation of a legal base and preparation of a balance sheet showing the value of the assets and liabilities of the concerned enterprise).

Assistance in the proper execution of the privatisation process.

Overall management of the selected enterprises until they have been privatised and officially removed from the Ministry's organisational structure.

The section will automatically lose its function and will thus be discontinued, once the privatisation process has been completed.

Another impeding factor is without any doubt the fact that it will take some time to create and establish the appropriate legislative framework, and control mechanism for a completely independent transport sector. An intensive in-service training program, to prepare the professional staff at the Ministry of Transport for their new tasks, will also be part of the process.

3.4.1.2 *The first stage*

The length of the first transformation stage will therefore depend on the speed with which the above mentioned processes can be completed. Considering the work already being done on the normative and legislative part of the job, it is estimated that at least one more year might be needed to finalise the whole process.

During this transition period it is recommended to restructure the Ministry of Transport's organisation in such a way that maximum support can be given to the transformation process, choosing the shortest possible lines of command to the most sensitive and crucial elements of that process.

Similar to the formation of a separate section for Internal Services, as recommended earlier, it is suggested to single out the most strategic specialised support functions within the Ministry's organisation (general transport policy, licensing preparation, legal matters and foreign relations and privatisation) and to group these under the heading "Specialised Services". This group will, like the section for Internal Services, also be placed under the direct management and control of the Minister and the First Deputy Minister.

It is furthermore recommended to create separate Departments for the already identified sections of the Ministry of Transport: Road Transport, Road Construction and Maintenance, Railways and Civil Aviation. The heads of these Departments could be given the rank of Deputy Minister. Considering the need to improve the co-ordination of the group of current and future transport related development projects, financed by various multilateral and bilateral donor agencies, it is suggested also to add an additional Department for Special Projects.

Finally, it is recommended to create Divisions for the various specialised functions within the Departments. In the case of Road Transport these will be a Division for Economic Research and Road Transport Policy (passengers and cargo) and a Division for Traffic Safety and Technical Support.

3.4.1.3 *The second stage*

Only after the completion of the transformation process and a subsequent stabilisation of firmly established normative and control functions within the organisation of the Ministry of Transport, the implementation of the second stage of the restructuring plan could be started. The main purpose of such reconstruction would be to bring the organisational structure of the Ministry more in line with what has become common practice in other, notably Western European, countries.

According to international standards a clear distinction is made between passenger and cargo transport over land, whether this is by road, rail or waterway, each group having its own defined characteristics and requirements for support, regulation and control. Air transport, with its own strict (international) regulations and control mechanisms, is usually treated as a separate unit in the transport organisation.

During the second round of restructuring it is therefore recommended to establish separate Departments for Passenger Transport and Cargo Transport, incorporating the former Road and Railways Departments, and to maintain the Departments for Civil Aviation and Special Projects. The Departments for Passenger Transport, Cargo Transport and Civil Aviation could be headed by Deputy Ministers.

Because of the increased complexity of some of the tasks and responsibilities, in particular those related to the newly created Passenger and Cargo Departments (notably licensing and foreign relations), it would be better to transfer these specialised functions at this second stage away from the centre and directly to their related Department organisations.

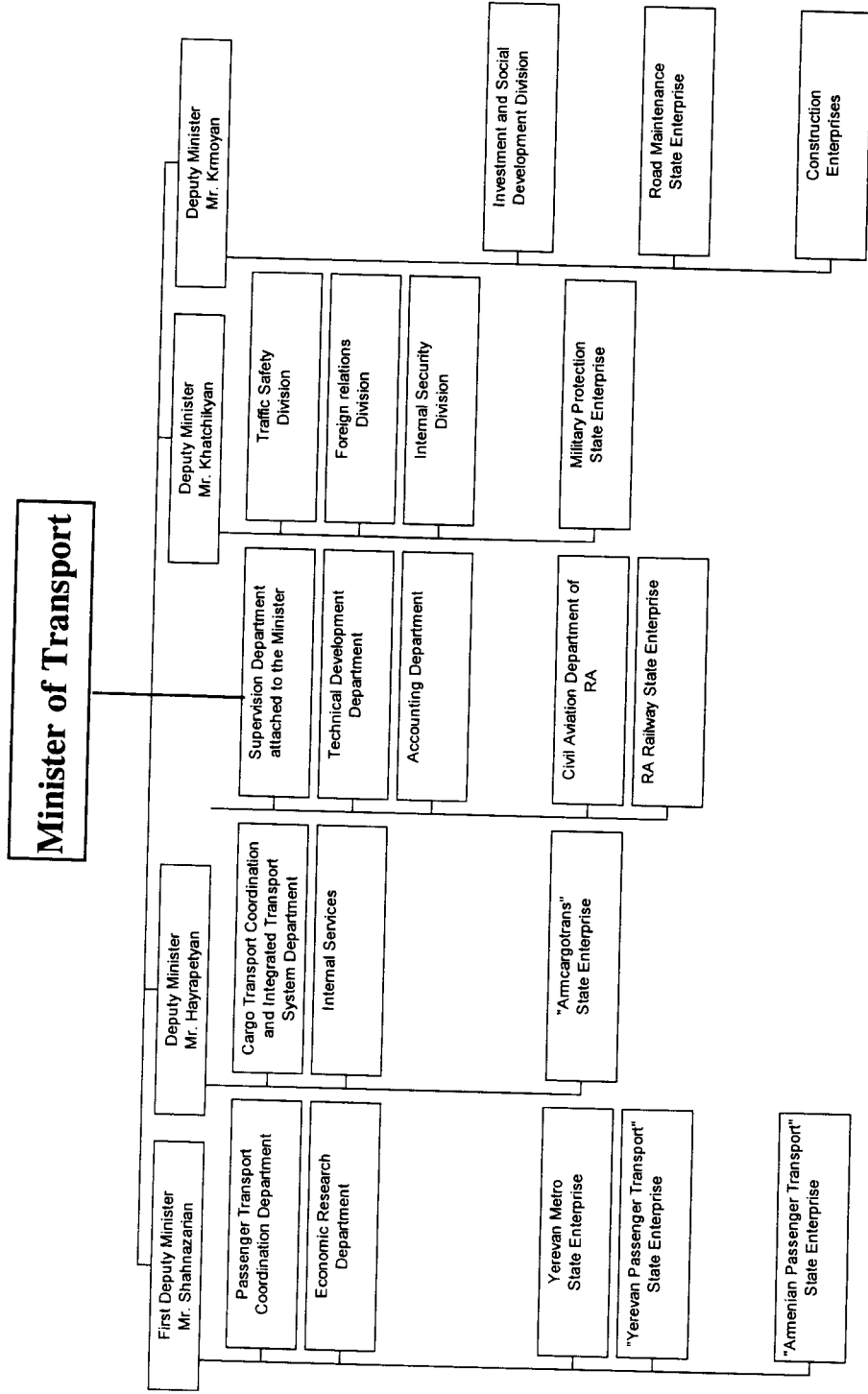
As in the previous organisational structure (first stage), it is recommended to create Divisions for the various specialised functions within the Departments (in the case of Cargo Transport: Economic Research and Cargo Transport Policy, Traffic Safety and Technical Support, Licenses and Foreign Relations).

3.4.1.4 *The Organisation Diagrams*

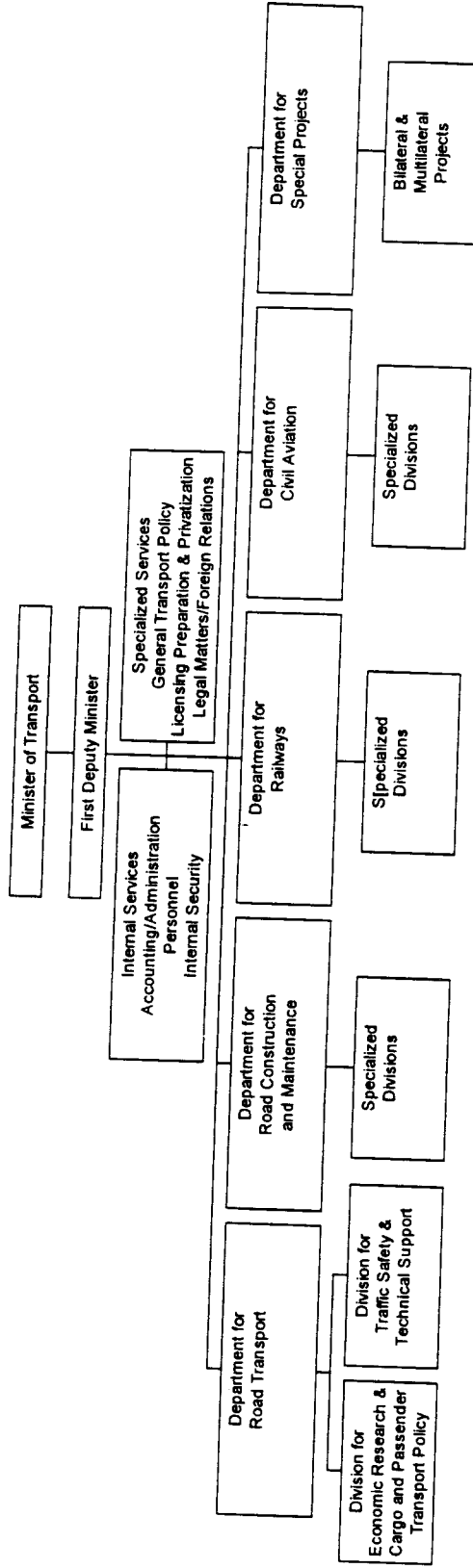
Reference is made to the next three pages for graphic illustrations (organisation diagrams) of the present and the proposed new organisational structures (first respectively second stage) of the Ministry of Transport of Armenia.

Ministry of Transport of Armenia

Present Organisation Chart



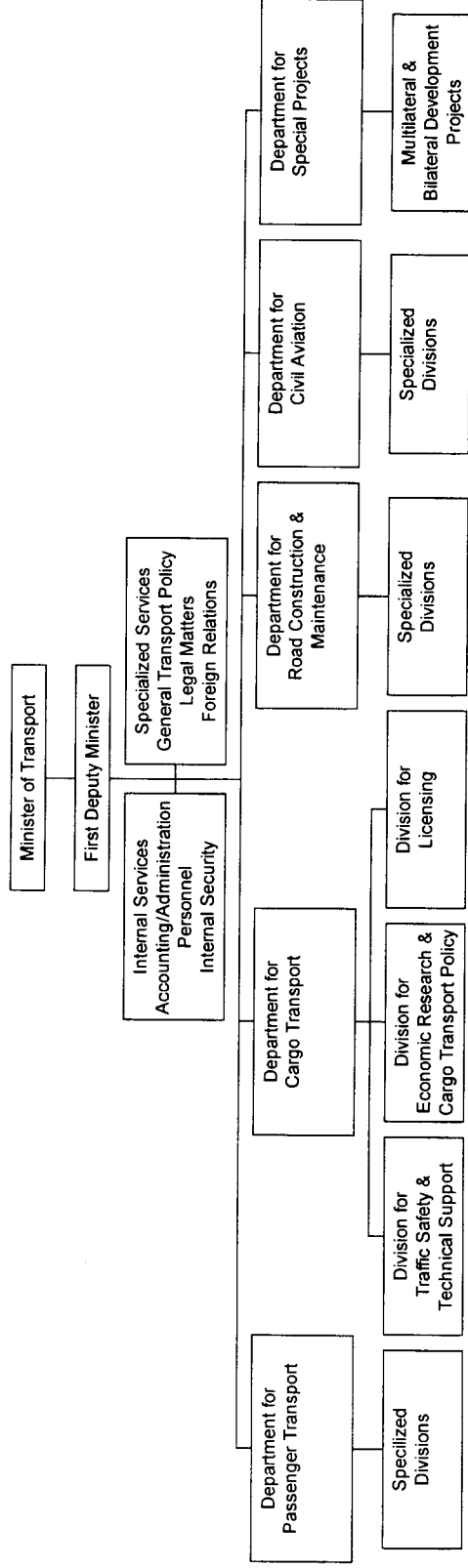
Ministry of Transport of Armenia Proposed New Organization (first stage)



Ministry of Transport of Armenia

Proposed New Organization

(second stage)



Tasks of the Divisions of the Proposed Road Transport/Cargo Transport Department

In the following sections of this Chapter attention is given to the various tasks and responsibilities of the before mentioned specialised Divisions of the Cargo Transport Department.

3.4.1.5 *Division for Economic Research and Road Transport/Cargo Transport Policy*

In general the Road/Cargo Transport Department of the Ministry of Transport has the task to formulate an appropriate policy for national and international road/cargo transport and to establish rules to be observed by the country's cargo transport operators concerning both national and international road transport in fields such as:

- access to the profession,
- access to the market,
- technical standards and control,
- social conditions,
- economic and fiscal matters,
- environmental protection,
- road safety,

The creation of these rules has to go hand in hand with the design of an effective system of implementation and control by the authorities called upon to implement the rules and to exercise a satisfactory level of control. Assuming that the legal framework of the internal transport market is in place, these rules have to be satisfactorily incorporated into the national legislation.

Furthermore, the Division for Economic Research and Road/Cargo Transport Policy will have the task to design and develop a monitoring system to record all relevant activities in the cargo transport sector at both central and regional level. As observed earlier such a system is lacking completely at present: no reliable statistical data are available on the movement of cargo (and passengers as well).

It is recommended to design the licensing system of the cargo transport sector in such a way that key data concerning all licensed road transport enterprises (vehicles in operation, personnel, cargo flows, forecasts, etc.) are always available and regularly updated.

The idea behind the levy of road taxes, user duties and tolls is the allocation of the costs of infrastructure (and external costs) to the real users of these infrastructures. For heavy goods vehicles (HGVs) a distinction is made between different categories for the levy of annual road tax according to the total permissible laden weight and the number and configuration of axles.

The administrative infrastructure, developed within the Division, to calculate and levy road taxes, user duties and tolls and to apply reduced rates and/or exemptions, needs to be upgraded and, where appropriate, supported by professional expertise coming from other involved Ministries (Ministry of Finance and Ministry of Economy).

3.4.1.6 Section/Division for Licenses

Access to the road transport market and admission to the occupation of road transport operator is in principle open to any entrepreneur in national and international transport operations, who satisfies the qualitative requirements, as laid down in the national regulatory system. A further basic principle of international road transport is to ensure freedom to provide transport services without discrimination on the grounds of nationality or place of establishment.

It is crucial to improve the selection procedure and training measures for those persons wishing to take up the occupation of road transport operator. As a rule these activities are organised and implemented by private institutions, representing or acting on behalf of the road transport sector. The Government, in this case the Ministry of Transport, has the task to stimulate the establishment of such institutions and, once established, to exercise control of their operation in accordance with set rules and regulations.

If, due to special circumstances, incentives to establish such specialised private training facilities are still lacking, the Ministry is advised to take the initiative to start with the organisation of short training courses for potential private road transport operators to upgrade their skills in specific subjects. Co-operation with specialised institutions like ABSC (Armenian Business Support Centre) and EDIPA (Enterprise Development and Investment Promotion Agency) is recommended. At a later stage these activities can then be taken over by the appropriate before mentioned private certification and training institutes.

Basically there are three requirements which persons, wishing to exercise the profession of road transport operator, should meet:

- good repute
- appropriate financial standing and
- professional competence or the possession of skills in certain subjects.

Distinction is made between road transport operators active in different types of cargo transport (urban, regional, inter-regional, charter and special cargoes) and passenger transport (urban, regional, inter-regional, charter, tourist and taxi's), training facilities for road transport personnel and road transport service facilities (petrol stations, parking stations, etc.).

It is the specific task of the present Technical Development Department, the responsible institution within the Ministry for issuing licenses to certified road transport operators, to both formulate and legalise the regulations concerning access to the road transport market and to control the use of authorisations and licenses to execute national and international road transport. In order to avoid any confusion about the precise function and status of the Department, it is recommended to change the name of the Department into the Section (and at a later stage Division) for Licenses.

3.4.1.7 Division for Traffic Safety (in association with Road Safety) and Technical Support

Road traffic safety (and a clean environment) not only requires that producers fit their vehicles with the necessary safety (and anti-pollution) features, but also that great care is taken to ensure that vehicles in circulation are kept in good operating condition and are equipped to regulation standards.

Various tools or parameters are used to check and control road traffic safety:

- Road worthiness tests
- Driving licenses
- Weights and dimensions of vehicles
- Tachograph

- Speed limitation devices
- Safety belts
- Tire tread depth
- Observance of social conditions
- Harmonisation of Safety Rules and Regulations

More details of these tools to check and control road traffic safety are given in the following paragraphs.

Road worthiness tests

Usually the task of carrying out road worthiness tests are delegated to approved bodies or experts. A choice will have to be made among different options for testing:

- a designated neutral organisation carrying out the tests on its own premises
- a designated neutral organisation carrying out the tests in garages
- testing by and in approved garages

Also clear and simple approval procedures will have to be established.

Tests are carried out on the basis of certain adopted standards concerning:

- the obligatory nature and frequency of inspection (usually priority is given to commercial vehicles, coaches and buses)
- the list of equipment or vehicle parts generally subject to inspection
- minimum standards for braking systems and exhaust emission and
- the mutual recognition of compliance testing

Driving licenses

Concerning the issue of driving licenses it should be clear which authority is responsible for conducting examinations (theory, practical and medical examinations for professional drivers), required for obtaining a driving license. Also it should be clear which authorities supervise the suspension, withdrawal, cancellation and reinstatement of driving licenses. The procedure for producing and issuing driving licenses has to be formulated, including a procedure for the recognition of foreign driving licenses.

Distinction is made between vehicle categories and usually a provision is made for the possibility of subdividing these categories so that drivers may progress from one category to the next in the interest of safety.

Weight and dimensions of vehicles (including vehicle compliance testing)

Apart from the regulations concerning maximum weight and maximum authorised dimensions for certain commercial road vehicles, issued by national authorities, international road transport is governed by other authorities:

- the Vienna Convention of 1986
- the Agreement on the adoption of uniform conditions of type approval and the reciprocal recognition of the type approval of motor vehicles and parts (Geneva, 20/03/58)
- the Agreement on the international carriage of perishable foodstuffs and on the special equipment to be used for such carriage (ATP) (Geneva, 01/09/70)
- the Convention on containers
- etc.

Tachograph

It is important to note that in the EU member states all commercial road vehicles must be fitted with a monitoring unit (tachograph), showing the actual driving and rest periods of the vehicle's driver. This device is of prime importance for a correct application and control of the social provisions relating to road transport.

Dangerous goods by road (including the vocational training of drivers)

Rules concerning the international carriage of dangerous goods by road are governed by the ADR of the UNECE in Geneva. These rules are necessary to guarantee a high level of safety during the national and international carriage of dangerous goods.

Speed limitation devices

For certain types of commercial vehicles, in particular lorries and buses, the installation by approved fitters of speed limitation devices is compulsory.

Safety belts

Drivers and passengers of a vehicle under 3.5 tons are obliged to wear safety belts. For children adapted restraint systems are compulsory on seats fitted with safety belts.

Tire tread depth

To increase road safety a minimum tread depth of 1.6 mm in the main grooves of the tires of passenger vehicles with a minimum of nine seats and of goods vehicles with a maximum weight of less than 3.5 tons is compulsory.

Provisions concerning Observance of Social Conditions

Rules on drivers' maximum driving and minimum break and rest periods (daily and weekly) aim to improve road safety, to harmonise the conditions of competition between road carriers and to contribute to the social progress of the drivers.

The pressure of international competition, the wish to earn the most money possible, pressure from just-in-time conditions, traffic hazards (congestion) and uneven checks mean that carriers are tempted to infringe the social rules. Only an adequate system of checks and sanctions can achieve a uniform and reasonable level of observation of the rules.

Harmonisation, Implementation and Evaluation of Safety Rules and Regulations

All EU member states have developed their own set of rules and regulations concerning traffic safety and anti-pollution measures in conformity with the directives provided by the European Commission. The above mentioned information is based on these directives. It has taken these countries several years to integrate and harmonise their systems and, although a common denominator exists under the auspices of the EU, there are still many differences in the institutional arrangements made by the various EU member states to implement these rules and regulations.

It is therefore hard to imagine how a country like Armenia, only recently risen out of the ashes of a, for Western European standards, incompatible institutional framework, will be able to quickly absorb a completely new system of safety rules and regulations, adapted to more international standards and involving the establishment of series of new, mostly private, institutions. However, the challenge is there and the blueprints of similar systems developed elsewhere in the world are available to facilitate the job.

For the future there should be a clear division of tasks between the Ministry of Transport on the one hand and the road police on the other with regard to both the formulation of traffic safety rules and regulations and their control and enforcement. In principal it is the task of the Traffic Safety Division of the Ministry of Transport to provide key data for the preparation of the proper legislation concerning traffic safety, road control and anti-pollution measures. The legislation creates the conditions under which the transport market operates. Once formalised, it is the task of the road police, as law enforcement institution, to regularly control the proper implementation of set traffic safety rules and regulations.

Finally it is recommended to take proper measures to regularly evaluate and, if necessary update, set traffic rules and regulations. Usually this is done by studying the police reports of major traffic accidents in the country. In order to be certain that the proper technical information concerning these accidents is obtained, the technical support section of the Traffic Safety Division should be asked to design a standard traffic accident report form, containing these basic technical data. It is further recommended to organise short training courses on a regular basis to inform road police officers on how to investigate major traffic accidents and how to complete the forms.

3.4.1.8 Section/Division for Foreign Relations

Reference is made to the observations made in the previous Chapter concerning the present Division for Foreign Relations. As the activities, presently undertaken by the Division, are focused on all modes of transport, the status of the Division will, at least during the first stage of the proposed restructuring process, remain unchanged.

3.5 Recommended In-service Staff Training Program

3.5.1 Background

The previous Chapters provided a general outline of the organisational structure of the new Department of Road Transport of the Ministry of Transport, functioning as the only Government institution that is officially authorised to set the rules and regulations for an independent road transport sector. At the same time an indication has been given of how and by whom these rules and regulations should be controlled and enforced.

In this respect it should once again be stressed that under the present, for FSU countries like Armenia, new free market conditions, the Government has to learn to refrain from any direct interference with the day-to-day management of the now independent business units within the transport sector. This is irrespective of the fact whether these units are privately owned or are still operated as a public utility services, like the railways or the national airline company. Key is that the Government makes the rules of the game and that the players, the independent transport companies, both public and private, have to stick to these rules. Trespassing the rules or foul play will be followed by sanctions.

The limiting conditions, within which transport companies are bound to operate, have in principle been designed to protect the interest of the public (through traffic safety regulations, environmental measures, an equitable tariff structure and the prevention of monopolistic trends within the sector). Usually the now independent transport sector will adapt to this new normative environment by establishing their own institutions, representing certain interest groups within the sector.

The professional staff of the various transport related state concerns and, for that matter, the future Departments at the Ministry of Transport will all have their difficulties in facing the new reality. Sets of transport rules and regulations, that have become common good in an international environment, were up till only a few years ago unfamiliar to the average civil servant in all countries in the former Soviet Union. Suddenly they not only had to be thoroughly known, but also procedures had to be developed to have them incorporated in the respective legal and organisational frameworks of the future Departments at the Ministry.

Being in many cases also the managers of the big state owned transport conglomerates, most senior officials of the future Ministry Departments will find it extremely difficult to clearly distinguish their (former) managerial duties from their new tasks as leaders of a Department that regulates and controls, but refrains from direct interference in the management of the now independent transport related business units. In the present transition period it still happens that future heads of the Departments and the Divisions within these Departments are still wearing “two hats” and will face difficulties to decide which hat should ultimately be handed over to somebody else.

The task which still lays ahead is immense and not only involves the design of new structures that reflect the new conditions. Even more important is the organisation and subsequent implementation of an intensive training program to prepare the professional staff of the various Departments for their new tasks. Without such a training effort, confusion among the staff will continue and remain to be a factor that will hinder further organisational development.

3.5.2 An In-service Training Program for the Road Transport Department

As a first step it is important to determine the current training needs of the professional staff of the various Divisions within the Road Transport Department. These needs are directly linked to their new tasks in the Department’s organisation. In the new structure these tasks can be defined as follows:

- to give direction to the process of regulation and control of the road transport sector,
- to design a proper legal framework, in accordance with international standards, that defines the boundaries within which the national road transport sector will have to operate.
- to establish proper procedures that lead to the enforcement of set rules and regulations (licensing systems, regulations related to road traffic safety and anti-pollution measures, regulations concerning tariff structures, tax regulations, etc.),
- to regularly evaluate the effectiveness of fixed rules and regulations and, if needed, to suggest changes of these rules and regulations,
- to monitor the road transport sector as a whole and to forecast and plan the developments within that sector,
- to formulate and to regularly update a national road transport policy; at central level this policy advise will be included in the formulation of a national transport policy.

A further detailed analysis of these tasks will provide first of all a list of all subject matters that will be included in the curricula of the in-service training program. The following subject matters are of direct relevance for Government officials, dealing with the road transport sector:

Professional staff of the Division for Economic Research and Road Transport/Cargo Transport Policy:

- Formulation of a Road Transport Policy (obstacles, potential solutions, priorities)
- Monitoring and Evaluation of the Road Transport Sector (information systems)
- Economic and Fiscal Issues related to Road Transport (tariffs, road taxes, etc.)
- Contracting and Tender Procedures
- Issues related to Multi-modal Transport

Professional staff of the Division for Licenses:

- Road Transport Legislation (national and international)
- Licensing Procedures (conditions for access to the road transport market)
- Transition to Market Economy (privatisation)
- Introduction to the Management of a Road Transport Company (passengers and cargo)
- Introduction to the Management of a Freight Forwarding Company

Professional staff of the Division for Traffic Safety and Technical Support:

- Road Traffic Safety and Anti-pollution Measures (international standards)
- Regulation and Control of Traffic Inspection Units

Professional staff of the Section/Division for Foreign Relations:

- Road Transport Legislation (national and international)
- International Road Transport Organisations (in particular IRU/TIR Carnet issues)
- Road Transport and Trade Facilitation (incl. Customs procedures at border crossings)
- Regional Integration of Road Transport

Division and Section Heads:

- Human Resources Management and Communication Techniques (contacts with clients)

A first draft of an in-service training schedule, showing the above mentioned subject matters, the amount of participants and the costs of training has been included in Annex 2. The schedule includes the estimated duration of the courses, the required input of technical assistance and the estimated training budget.

3.5.3 Additional Aspects of the Proposed In-service Training Program

- (1) The content of the training courses should be as practical as possible: theoretical concepts should at all times be placed against the background of “real life experiences and situations” in both national and international settings.
- (2) An intensive Training of Trainers program to properly train carefully selected local instructors should precede the actual implementation of the staff training courses.
- (3) The training program includes the preparation of curricula, training materials and trainer’s guides by international experts in conjunction with local consultants/instructors.
- (4) The training should be organised in such a way that an active involvement of participants will be guaranteed at all times: practice has learned that a workshop type of training with lots of group working sessions is the best guarantee for an active participation.

- (5) Courses should have clear objectives and should lead to defined outputs: clearly described sets of regulations, written manuals on procedures and internal communication systems and detailed recommendations on how to further improve these procedures and internal communication systems.

3.5.4 The Organisation of the In-service Training Program

For practical reasons it is highly recommended to co-ordinate, and preferably, combine the in-service training program of the professional staff of the Road Transport Department with the training program, to be organised by the World bank sponsored Transport Reform and Rehabilitation Centre (TRRC) of the Ministry of Transport of Georgia. Starting 1997, the newly established Training Unit of TRRC (TU-TRRC) will commence to provide training courses for policy makers and professional staff of the entire Ministry of Transport of Georgia and for managers and staff of transport companies and transport related branch organisations.

Discussions were held with both the management and the consultants of TU-TRRC on how to integrate the in this Chapter proposed in-service training program. The scheduled training activities of TU-TRRC already include series of training courses for the professional staff of the Road Transport Department. Although some details might differ, these planned training courses coincide to a large extent with the proposed schedule for in-service training activities as mentioned in the previous paragraphs.

Finally, it should be pointed out that, although there are at present still some distinct differences in the way the road transport sector is organised in the three Caucasian countries (see also the reports on Georgia and Azerbaijan), there are hardly any differences in the observed training needs of the Government officials, who are presently involved with the regulation and control of the road transport sector in these countries.

It is therefore recommended to combine, where possible, the planned in-service training courses for said officials. The Ministry of Transport of Georgia, having the advantage of having the required training facilities of TU-TRRC available at their premises in Tbilisi, could be the host for these combined in-service training sessions. Joint training sessions not only have the advantage of being more cost effective, but they will also provide an excellent opportunity to exchange common experiences and to discuss mutual road transport problems (and hopefully seek solutions to these problems) during the training sessions.

It is also recommended to consider utilising the services of the Public Administration School of Armenia in Yerevan. This TACIS financed institution organises short-term (3-10 days) seminars for officials from all Government institutions. Courses are rather general in nature and could be of interest for higher level staff and policy makers.

4 INSTITUTIONAL STRENGTHENING OF ROAD TRANSPORT IN AZERBAIJAN

4.1 Background

After the foundation of the Republic of Azerbaijan as an independent state in 1991, the organisation of the road transport sector remained to a large extent an affair of the Government. A leading role in the supervision and co-ordination of road transport in the country is still played by the state concern Azeravtonaglijat, the former Ministry of Road Transport. This state owned institution is now an umbrella organisation for a large variety of transport related companies, ranging from passenger transport, cargo transport, bus terminals, transfer terminals, vehicle construction and maintenance plants and storage facilities. Government policies with regard to the road transport sector are also to a large extent still dictated by Azeravtonaglijat.

Following the downfall of the former Soviet Union, several private freight transporting and freight forwarding companies have been established in Azerbaijan. Some of these companies are doing well and have facilities that are able to serve international markets. The process to privatise the present state owned companies is underway and is planned to be completed by the end of 1998.

Within the Government structure there is at present no separate Ministry of Transport, setting a general transport policy and co-ordinating, respectively regulating, all modes of transport in an integrated manner. Matters dealing with specific transport policy and co-ordination are still handled by the state concerns, dealing with those specific transport issues. As far as national and international road transport is concerned, Azeravtonaglijat is an example of such an institution. At central level some co-ordination takes place, as both the Cabinet of Ministers and the Ministry of Economy have a Transport and Communication Department included in their organisation. These Departments have the task to inform respectively their Prime Minister and their Minister of Economy on all transport matters.

For good co-ordination purposes, a restructuring of the Government organisation with transparent lines of command and defined tasks and responsibilities with regard to a joined transport policy is urgently required. In this respect it is recommended to give the highest priority to the establishment of a separate Ministry of Transport, in which all modes of transport are integrated. With a transport sector that is becoming more and more privatised and officially separated from the Government structure, there is an increasing need for an improvement of the Government's service capability and the establishment of a regulatory framework to supervise and control that sector according to international standards.

Within the framework of the planned restructuring, and in some cases subsequent (partial) privatisation of the various transport related state concerns, including Azeravtonaglijat, it will be necessary to clearly separate their present regulatory and control functions from their current dealings with operational matters. After the completion of the restructuring process the latter will become part of the normal day-to-day business of both public and private independent transport companies and organisations. The regulatory and control functions will have to be transferred to separate Departments within the future Ministry of Transport.

As mentioned before, the Department of Transport and Communication within the Cabinet of Ministers gathers at present information concerning all transport matters: road transport, road construction and maintenance, rail transport, shipping and matters dealing with civil aviation.

These data are used to regularly inform the Prime Minister on transport issues. In the future it is recommended to also transfer this Department, perhaps together with transport specialists from some of the Cabinet's staff divisions (e.g. the departments for legal affairs and for foreign relations), to the new Ministry of Transport.

Despite the positive steps already being taken, in particular by the state concern Azeravtonaglijat, to improve conditions with regard to the formulation of new road transport policies and new laws and regulations, a lot of work still has to be done to restructure the existing institutions and further improve the efficiency of these institutions. Also a start will have to be made with the establishment of new institutions, like the new Ministry of Transport. Simultaneously plans will have to be made to strengthen the capabilities of the professional staff of all Government organisations that are related to the road transport sector.

Suggestions for further improvements are:

- To facilitate the development of the road transport sector, a detailed assessment should be made of the road transport market requirements and the related needs for specific services, to be delivered by the Government (in the future the Ministry of Transport).
- Clear definition of the various functions and related activities of the to be created Operational Divisions of the Road Transport Department of the future Ministry of Transport (Economic Affairs, Licensing, Safety Regulations and Foreign Relations).
- Clear definition of the tasks and required qualifications of this Department's professional staff in conjunction with the newly defined Operational Division functions.
- Design of a training program to upgrade the skills and capabilities of the Department's professional staff.

In accordance with the current assignment under the TACIS-TRACECA Project (Improvement of Road Transport Services), this report will emphasise the measures that could be undertaken to strengthen the service capability of the to be established Road Transport Department of the future Ministry of Transport, in particular to those enterprises dealing with international road transport movements.

4.2 International Road Transport Market Requirements

Presently the international road transport system in Azerbaijan is characterised by the following features:

- With the sharp decline of economic activities since the collapse of the Soviet central planning system, the market for transport services, including a large segment of the international market for road transport, has also diminished drastically. Centrally planned mass movements of cargo between state owned companies over the borders of the republics of the former Soviet Union (FSU) came to an abrupt halt. The temporary closure of the borders between Azerbaijan and Russia has aggravated the situation. Currently the bulk of the commercial goods, crossing the borders of Azerbaijan by road, is now heading for different directions: Turkey, Greece, Iran, Georgia and the Central Asian countries.
- The situation has been aggravated by Russia's decision to close its border to Azerbaijan's road and rail traffic, citing unrest in Chechnya as the main reason. Russia still remains one of Azerbaijan's chief trading partners and the move had the effect of abolishing an important source for raw materials and spare parts as well as a major market for Azerbaijan's exports.

- Because of competitive advantages, Iranian and, to some extent, Turkish road transport operators still dominate the international road transport market in Azerbaijan, having some distinct advantages over their Azerbaijani counterparts: better equipment, more experience with international road transport and better facilities and opportunities to handle logistics and security problems. However, with the recent purchases of better equipment by some national, both public and private, cargo transport operators and a subsequent improvement in their operational efficiency, this situation might change in the near future. A huge stumbling block is still the position taken by the Iranian authorities with regard to transit transport between Azerbaijan and Turkey. A whole range of measures, exclusively favouring Iranian transport operators, like heavy fuel taxes to be paid only by foreign nationals, excessive and lengthy control procedures during transit travel and others, make it practically impossible for Azerbaijani road transport operators to carry goods to and from Turkey through Iran. Currently the Azerbaijani Government is trying to solve this acute problem, among others by opening an alternative road corridor to Turkey, through Tbilisi, Georgia.
- A positive development, stimulating international road carriage by Azerbaijani transport operators, will undoubtedly be the forthcoming possibility to obtain TIR Carnets in Azerbaijan. The Association of International Road Carriers in Azerbaijan (ABADA) and member of the International Transport Union (IRU) in Geneva, will soon be given the right to issue TIR Carnets on behalf of the IRU to their member international transport operators. At present about 20 road transport companies are a member of ABADA, 60% are of these companies state owned and 40% private. An IRU initiated training course for the ABADA staff and officials from other concerned institutions has recently been completed and within a few months ABADA will start to issue the first TIR Carnets to their members.
- Several Azerbaijani international road carriers are already in a good position to start playing a more active role in the lucrative trade between Central Asia and Europe, using the Caucasian road transport corridor. In this respect the names of the following companies can be mentioned: SovAvtoBaku (state owned, but planned to be privatised soon), VEF Azintrans and Intercity Transport (related to the state concern Azeravtonaglijat) and Gate East, Veka and Makro Trans (all private road transport operators).
- Prerequisite for the effective operation of the Caucasian road transport corridor, however, will be the proper enforcement of agreed bilateral arrangements concerning a smooth accessibility of mutual transport markets. In particular arrangements concerning transit fares, custom procedures and taxation matters should be clearly defined in Bilateral and/or Multilateral Transport Agreements and effectively implemented without any prejudice towards non-resident road carriers. Reference is made to the reports prepared by the TRACECA Legal and Regulatory Framework Project for more details on this issue.

Against this background, the needs of the Azerbaijani entrepreneurs, already involved in the international road carrier business and planning to enlarge their businesses, are quite obvious. Some of the companies have already acquired, or are planning to acquire, the necessary equipment to penetrate the international markets beyond the boundaries of the former Soviet Union. They need the full support of the Government to remove all possible bureaucratic barriers which stand in the way in realising their plans.

Furthermore, most entrepreneurs will need additional guidance and support to the increase their know how and experience for running their businesses more efficiently. The type of support that is needed can be summarised as follows: experience with the international freight forwarding and road carrier business

- Training to familiarise the management of the company with the most up to date rules and regulations concerning international road transport.
- The introduction of a more effective and easy to learn and practical accounting system.
- The introduction of some basic control mechanisms, in particular of rolling stock and inventories.
- The preparation of a clear business plan as a management tool and as a means to secure the required financial assistance for running the operations (in some cases this support has already been provided under the auspices of the present project).

The Government of Azerbaijan could play a leading role in both the initiation and the implementation of the rehabilitation program. Preferably this should be done in close co-operation with international road transportation experts and with a local institution, specialised in the private enterprise development. An institution like SMEDA (Small and Medium Enterprise Development Agency) could in this respect be the Government's right partner. Senior staff of selected Governmental institutions will be appointed to manage the rehabilitation program and to actively participate in the program as trainers and counterpart staff of the international experts.

A training program will be required to prepare the selected professional staff for their new task as managers and trainers of the rehabilitation program. To a large extent this program will, both in terms of content as well as timing, coincide with the still to be planned program of specialised upgrading courses for selected staff of the Government institutions that are involved in supervision and control of the road transport sector (see Chapter V for further details).

4.3 The Organisational Structure of the State Concern Azeravtonaglijat

4.3.1 Introduction

The state concern Azeravtonaglijat has been established in January 1992 to take over all responsibilities and activities of the former Ministry of Road Transport. To a large extent its present organisation that is still in place, but now in the process of being restructured, is still a reflection of the former era of centralised power and control.

The present organisational structure of Azeravtonaglijat clearly reflects the two main functions of the state concern:

1. The operation and management of a whole range of road transport companies, both dealing with passenger and cargo transport and
2. The formulation of a road transport policy, including the formulation of norms and regulations concerning road transport.

Managing and supervising the day-to-day operation of the separate business units of the state concern is still the main concern of the central management unit within the Azeravtonaglijat organisation. At present there are still about 250 of these units, ranging from passenger transport enterprises, inter-city and international cargo transport companies, bus terminals, transfer terminals, auto repair shops, construction companies and storage facilities. However, plans are in a far stage of development to privatise all these companies and to officially separate them from the Government structure. This privatisation process will not be easy task.

Because of depressed economic conditions, a severe lack of spare parts and a lack of motivation, most of the enterprises are in serious financial problems. The majority of the more than 40,000 people, who are officially employed in these state enterprises, are under these conditions either redundant or inactive. Reference is made to page for a review of all the business units, presently still belonging to the Azeravtonaglijat state concern.

The second function of Azeravtonaglijat, the formulation of road transport policies and the establishment of a complete set of norms and standards to regulate and control the road transport sector, is also part of the responsibility of the central management of Azeravtonaglijat. Different sections within the concern's central organisation are dealing with these issues. Their activities are co-ordinated and supervised by three Vice Presidents. The President of Azeravtonaglijat, Dr. Hussein A. Huseinov, is responsible for the overall operations management of the state concern.

Decisions concerning general road transport policy and decisions concerning major issues, like the privatisation of certain business units within the Azeravtonaglijat organisation, have to be sanctioned by the Management Board of Azeravtonaglijat. The Board is chaired by the President and consists of twelve more members: six from the central concern organisation (the three Vice Presidents and three Section Managers) and six members, representing the organisation's major business units.

In all the regions of Azerbaijan, Azeravtonaglijat has established Regional Offices to co-ordinate mostly the operational activities of the concern's business units, located in those regions. In the future also most of the functions of these offices will, in the course of the privatisation process, become separated from the state organisation and either be discontinued or incorporated in the privatised road transport sector in the respective regions as co-ordinating units. Only a small staff of two to three officials will remain in the Regional Offices to administer the licenses, issued to road transport enterprises in the region, and to act as an information channel to these enterprises.

Finally it should be noted that the section Transport Inspection of Azeravtonaglijat has recently employed a number of Transport Inspectors. These Inspectors will have the task to check the individual transport permits, that are to be issued to foreign cargo transport operators, who are transporting goods in and out of Azerbaijan. The decision to issue such licenses has been recently taken as a reaction to the existence of similar regulations in neighbouring Iran. The Transport Inspectors will be located at border crossings and will do their work in close co-operation with the Customs officials in these locations.

A total number of 63 persons are employed at the Head Office of Azeravtonaglijat in Baku. In addition to this staff the organisation will station 22 Transport Inspectors at the various border crossings in the country.

4.3.2 Further Details of the Organisational Structure of Azeravtonaglijat

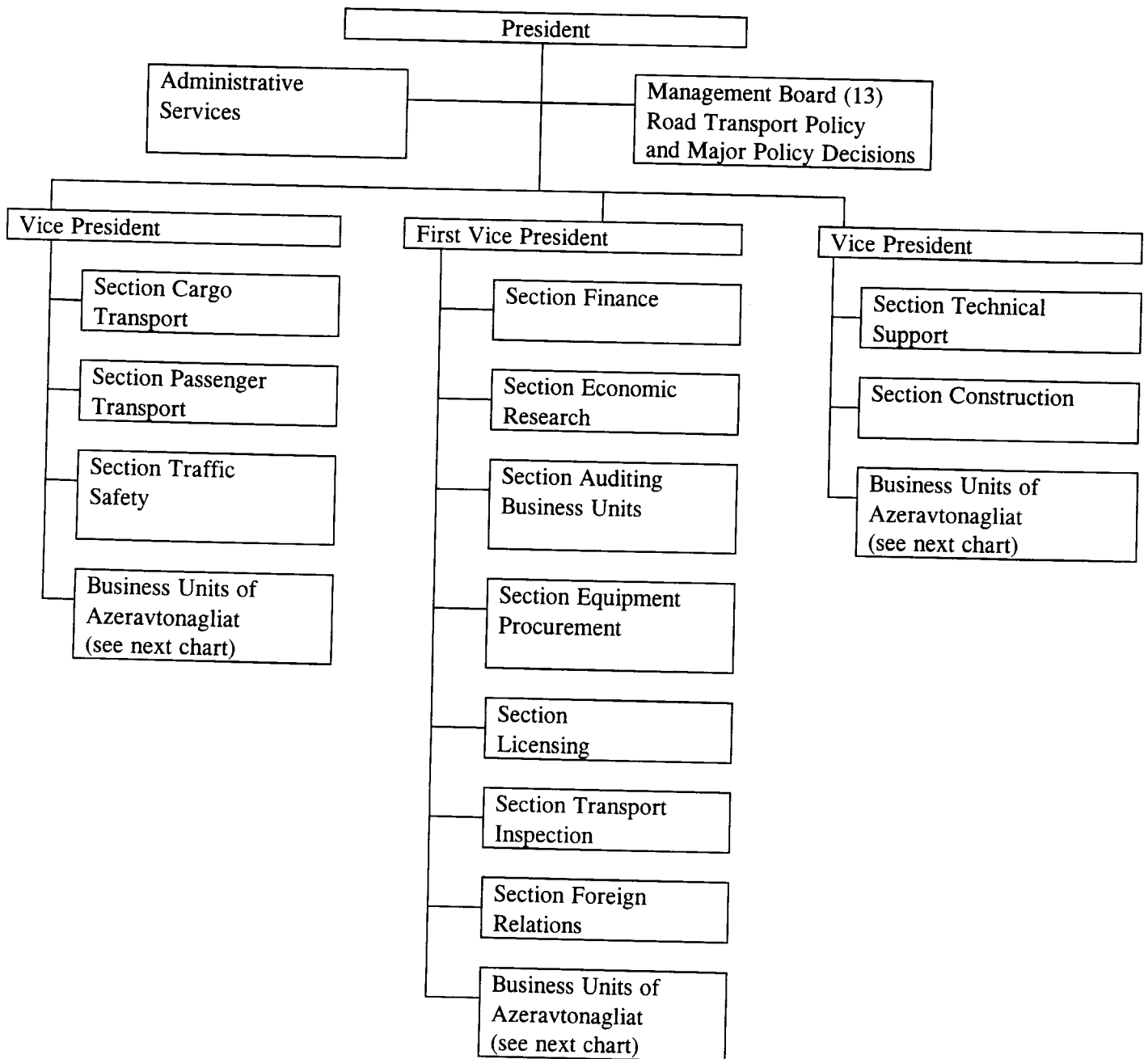
Reference is made to the following two pages of this report for a graphic illustration of the present organisational structure of the state concern Azeravtonaglijat (organisation diagram).

As explained earlier there are different sections within the concern's organisation that are dealing with the present operations of Azeravtonaglijat. Each group of sections is co-ordinated and managed by one of the three Vice Presidents.

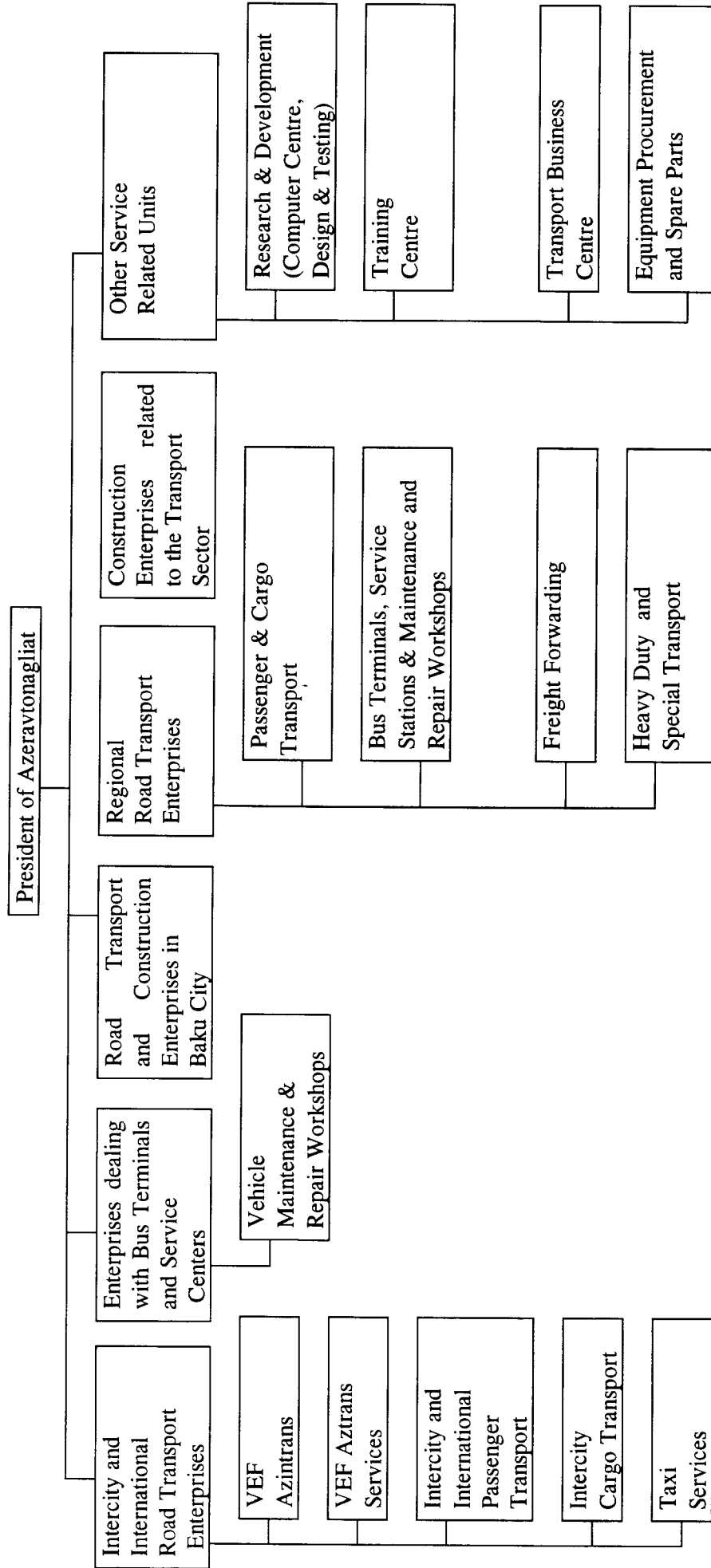
The First Vice President is primarily responsible for finance, a regular audit of the concern's business units, the procurement of equipment, economic research of the road transport sector, the (future) licensing of road transport enterprises, transport inspection and foreign relations. The other two Vice Presidents are responsible for respectively an activity cluster covering passenger transport, cargo transport and traffic safety and a cluster covering construction and technical support.

Obviously this organisation structure still reflects the mixture of different functions: regulation and control or the creation and implementation of a normative environment on the one hand and the direct management and supervision of a whole string of state owned road transport businesses on the other. The tasks and activities of the present sections, exclusively dealing with the regulation and control of the road transport sector, are briefly described in the following paragraph. Because of a similarity of functional groups within the Governmental organisational structure of the road transport sector in neighbouring Georgia, appropriate use will be made of acquired information pertaining to the Georgian situation.

State Concern Azeravtonagliat Organisation Diagram Present Situation



**Business Units of the
State Concern Azeravtonagliat
(about 250 national, urban and regional units)**



4.3.3 Tasks and Activities of the Regulatory and Control Sections of Azeravtonaglijat

4.3.3.1 Section for Economic Research

In general the main functions of this section can be defined as follows:

1. To monitor the road transport sector as a whole and to collect information for future changes.
2. To forecast and plan the development within the road transport sector.
3. To analyse cargo and passenger transport systems and routes.
4. To evaluate the existing licensing system in co-operation with the licensing section and to make proposals for further improvement of the system.

The need to pay full attention to the design and the development of a monitoring system to record all relevant activities in the road transport sector at both central and regional level is obvious. At present such a system is lacking and subsequently no reliable statistical data are available on in particular the national movement of cargo and passengers.

4.3.3.2 Section for Licensing and Section for Transport Inspection

In general the main functions of this section can be defined as follows:

1. To secure a proper administration of the issuance of licenses
2. To develop and monitor the licensing system

A licensing system for the future regulation and control of independent road transport companies is in the process of development. A first draft of such regulation has been prepared by the staff of Azeravtonaglijat. Further action is needed to formalise the arrangements and to attach a legal status to the proposed system. For the time being Azeravtonaglijat will be the agency issuing the licenses. At a later stage this function will be taken over by the Road Transport Department of the future Ministry of Transport. Regional offices will assist with the administration of the licenses issued to road transport companies in the region, including a regular updating of the data contained in these licenses.

The private sector is free to make their own institutional arrangements on how to adapt to the new regulatory and normative environment. The establishment of the Association of International Road Carriers Association in Azerbaijan (ABADA) is a good example of this new development. The designed structure should contain clear provisions for the prevention of monopolistic trends in the road transport sector, which could work against the interest of the public.

The Section for Transport Inspection has been established recently to co-ordinate the inspection activities at border crossings, mentioned previously. The precise status of this section will have to be reviewed in the future (see next paragraph).

A still pending issue is the fact that a sanction system, guaranteeing a proper implementation of the licensing system, has not yet been fully developed and put into place. And once developed, the system can only be enforced after the formal establishment of a legal support system. It will also take some time before this process can be completed.

4.3.3.3 Section for Traffic Safety

In general the main functions of this section can be defined as follows:

1. To ensure safety regulations of vehicles (technical standards, weight/measurement restrictions, cargo and passengers).
2. To ensure regulative and control procedures (training, driving/rest hours regulations).
3. To conduct safety research.

The road police, falling under the jurisdiction of the Ministry of Interior Affairs, has been given the task to enforce the regulations concerning the safety of vehicles and has developed methods to control these regulations. The safety regulations, developed and formulated in conjunction with the section for Traffic Safety of Azeravtonaglijat, are evaluated regularly.

4.3.3.4 Section for Foreign Relations

In general the main functions of this section can be defined as follows:

1. To ensure that Azerbaijan has a profound knowledge of international transport conventions.
2. To secure the best possible conditions for the passage of cargo and passengers across the borders for vehicles of Azerbaijan registration.
3. To negotiate and prepare bilateral and multilateral transport agreements.
4. To co-ordinate administration of national road transport laws and international transport conventions.
5. To prepare national road transport laws for approval by the Parliament.
6. To provide legal assistance and expertise in road transport.

Rather serious is the complete lack of proper documentation material concerning the current framework of international rules and regulations, related to the road transport sector. It is recommended to establish a documentation and reference centre within the Department, containing the most basic and up-to-date information on international transport legislation.

4.4 Suggestions for Improvement of the Organisational Structure of the Road Transport Sector

4.4.1 The Establishment of a Separate Ministry of Transport

The present organisational structure of the whole transport sector in Azerbaijan is fragmented and scattered over several state concerns, functional departments in both the Cabinet of Ministers and the Ministry of Economy and, last but not least, several newly established private companies, dealing with national and international transport.

As part of the transition process from state controlled centralism to the creation of a free market economy, a process of restructuring has to be initiated in order to adapt the organisation of transport related services to new requirements and new conditions. In a free market economy the Government has the exclusive task to regulate and control, not to manage and to supervise directly (the creation of a normative environment). The Government will set the norms for standardisation and certification and will have to formalise these norms in new laws and regulations. In principle the private sector is free to make their own institutional arrangements and decide on how to adapt to the new normative environment.

Within the Government structure there is at present no Ministry of Transport, setting a general transport policy and co-ordinating, respectively regulating, all modes of transport in an integrated manner. Matters dealing with specific transport policy and co-ordination are still handled by the state concerns, dealing with those specific transport issues. As far as national and international road transport is concerned, Azeravtonaglijat is a good example of such an institution

To clearly distinguish the normative and control functions of the Government from the actual day-today operations and management of both public and private transport services, which in the new situation will be clearly the domain of independent transport companies, it is recommended to establish a separate Ministry of Transport within the Government structure. This new Ministry will then be exclusively occupied with the formulation of an integrated transport policy, with the co-ordination of multi-modal transport and with the establishment of a regulatory framework to supervise and control the transport sector according to international standards.

In the following section of this chapter a proposal is made concerning the organisational structure of the new Ministry of Transport. The structure will include the formation of a Department for Road Transport, in which the present normative functions of the state concern Azeravtonaglijat will be incorporated.

4.4.2 The Proposed Organisational Structure of the New Ministry of Transport

As a first step, it is recommended to single out the more general support functions within the organisation (accounting, personnel and administration) and to group these under the heading "Internal Services". The group will be attached to the Minister of Transport and the First Deputy Minister as an administrative staff division.

Similarly, it is suggested to separate strategic specialised support functions within the Ministry's organisation (general transport policy, legal matters and foreign relations and, temporarily, privatisation) and to group these under the heading "Specialised Services". This group will, like the section for Internal Services, also be placed under the direct management and control of the Minister of Transport and the First Deputy Minister.

The next step in the process will be the formal separation, within the present transport related state concerns, of all sections that are exclusively dealing with the regulation and control of the transport sector. Each state concern will combine these sections in one group and subsequently transfer the whole group to the new Ministry of Transport. Within the Ministry's organisational structure the group will then be transformed into a separate Department.

In this way five Departments will be created within the Ministry of Transport: the Department for Road Transport (the regulatory and control sections of Azeravtonaglijat), the Department of Road Construction and Maintenance, the Department for Railways, the Department for Civil Aviation and the Department for Marine Establishments. The Heads of these Departments will be Deputy Ministers. For a better co-ordination of the large number of current and future transport development projects, related to the transport sector and financed by various multilateral and bilateral donor agencies, it is suggested to also create an additional department: the Department for Special Projects.

Finally, it is recommended to create Divisions for the various specialised functions within the various Departments. In the case of the Department for Road Transport these will be a Division for Economic Research and Road Transport Policy, a Division for Licensing (with separate sections for passengers transport and cargo transport) and a Division for Traffic Safety and Technical Support.

The present Section for Economic Research of Azeravtonaglijat will become the new Division for Economic Research and Road Transport Policy, the present Sections for Licensing, Cargo Transport, Passenger Transport and Transport Inspection will all be integrated in the new Division for Licensing and the Sections for Traffic Safety and Technical Support will become the new Division for Traffic Safety and Technical Support. Finally, the Section for Foreign Relations will become part of the group of specialised support services that are to be placed under the direct management and control of the Minister of Transport and the First Deputy Minister.

4.4.3 The Organisation Diagrams

Reference is made to the following four pages for graphic illustrations (organisation diagrams) of the process leading to the establishment of the proposed new Ministry of Transport of Azerbaijan.

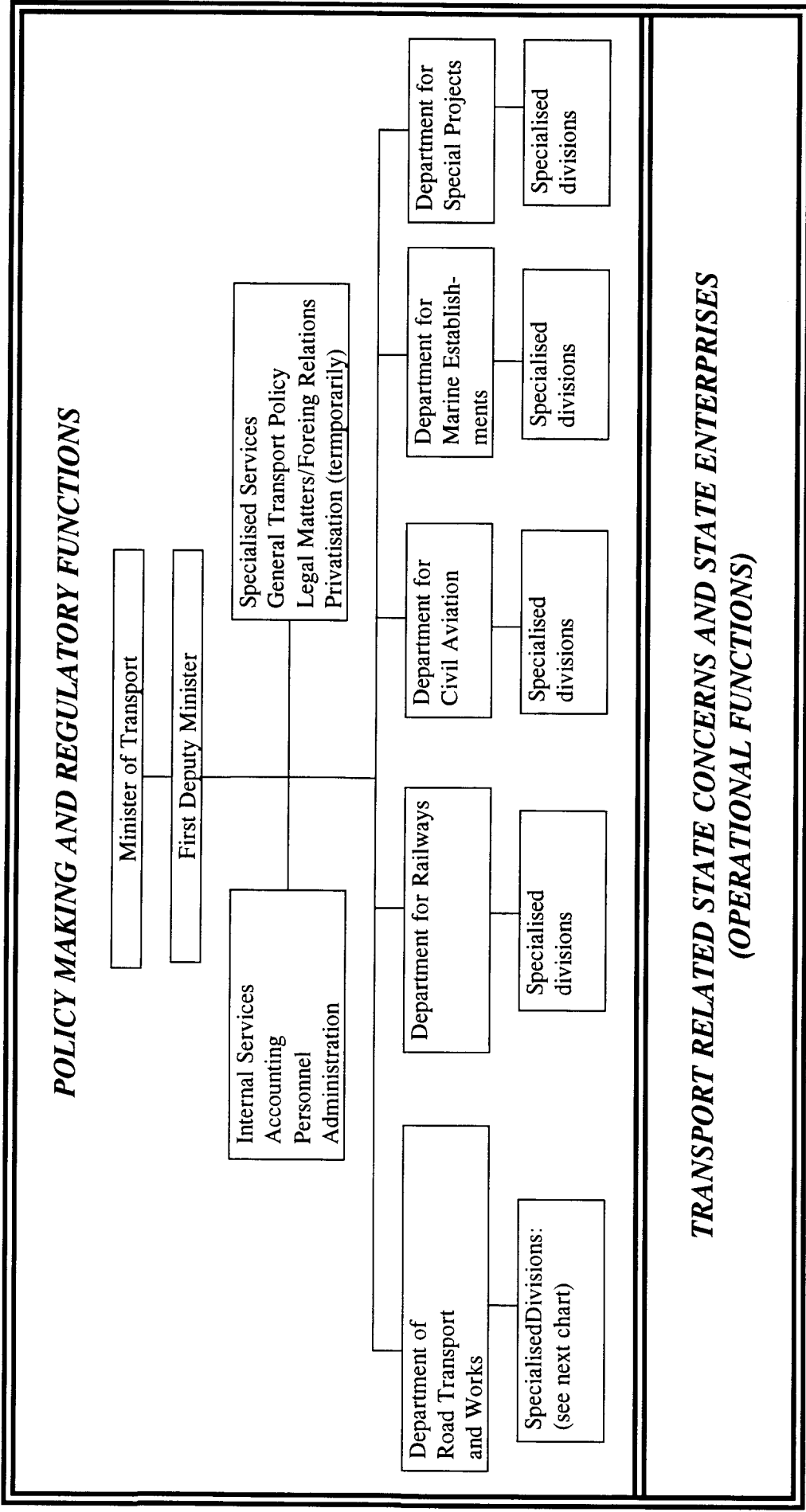
The transition process is suggested to take place in two stages. The first stage involves a formal separation *within* the present state concerns, including Azeravtonaglijat, of all sections that are dealing with the regulation and control of the transport sector. These sections will be combined in one group and subsequently, at a later stage, be transferred to the new Ministry of Transport.

The remaining sections of the state concerns will then exclusively deal with the supervision and management of the day-to-day operations of the enterprises that are still part of the concerns.

The separation of the policy making and regulatory functions and operational functions within the state concerns has been graphically shown in the first two diagrams. For clarity purposes, the first mentioned functions are already shown as being part of the future Ministry of Transport.

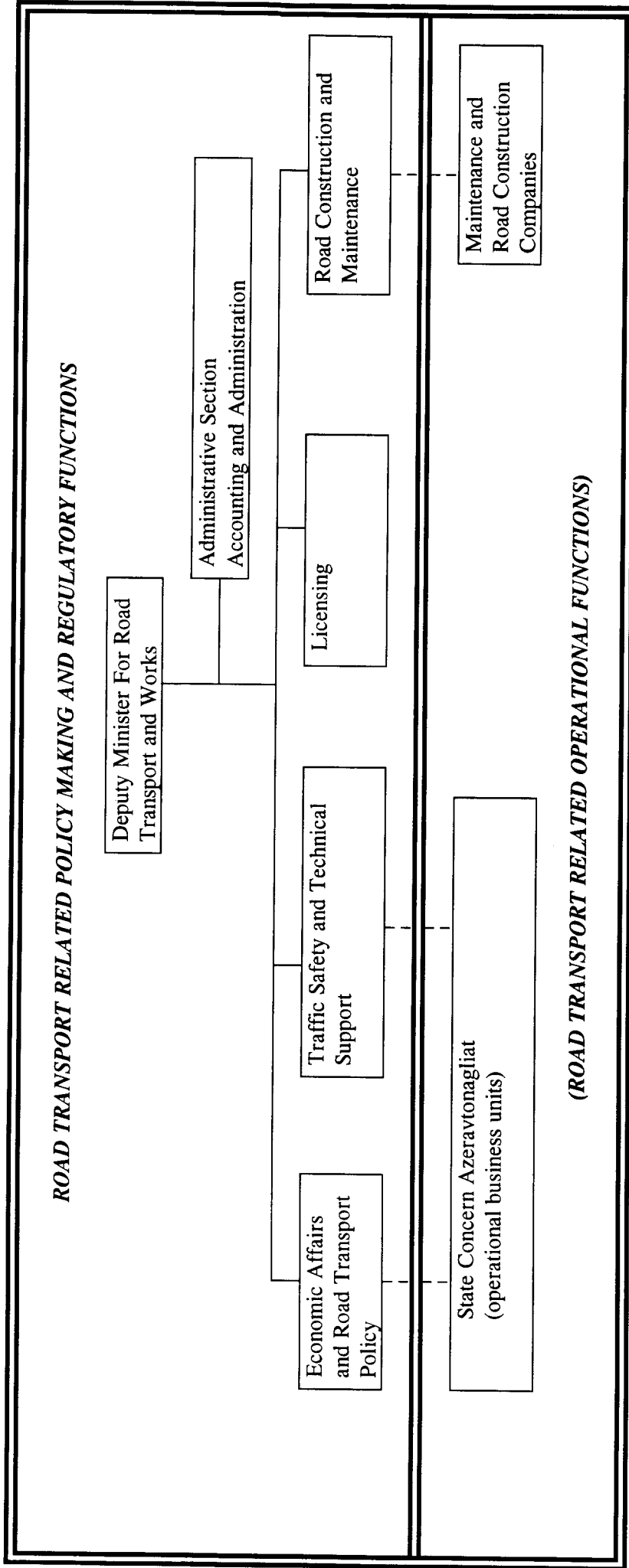
The second stage involves the actual transfer of the policy and regulatory group of activities from the state concerns to the new Ministry. Government related policy making and regulatory functions are now completely separated from the operational activities of the independent, commercially operated public and private transport enterprises (see the last two diagrams).

**Ministry of Transport of Azerbaijan
Proposed Organisation Structure
(First Stage)**

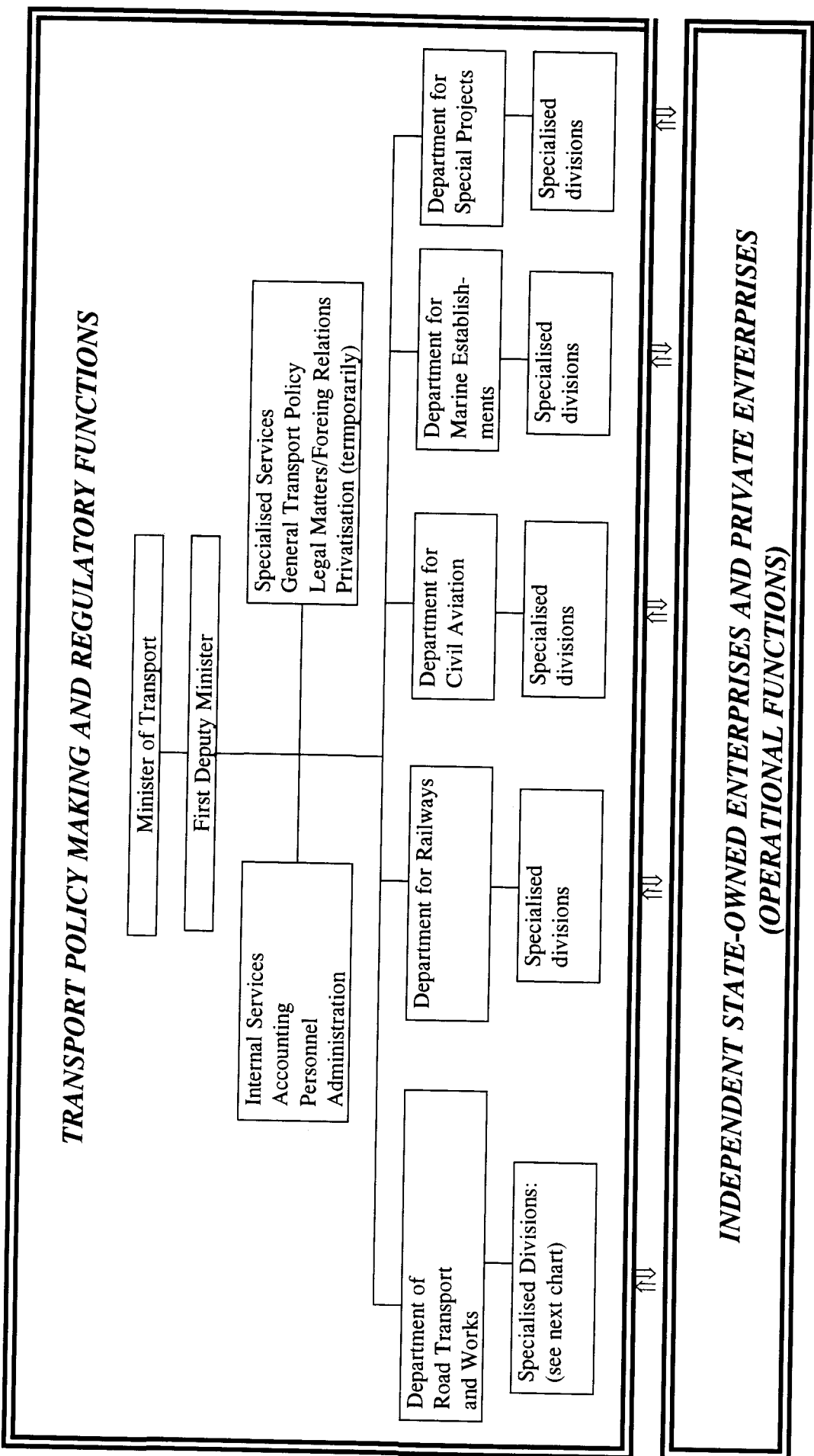


**TRANSPORT RELATED STATE CONCERNS AND STATE ENTERPRISES
(OPERATIONAL FUNCTIONS)**

DEPARTMENT FOR ROAD TRANSPORT AND WORKS IN THE
MINISTRY OF TRANSPORT OF AZERBAIJAN
(FIRST STAGE)

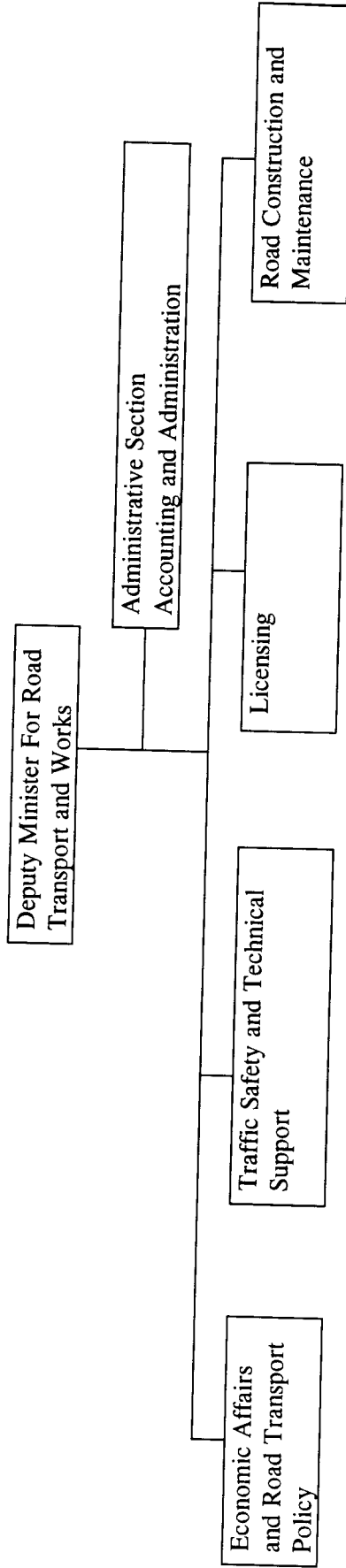


**Ministry of Transport of Azerbaijan
Proposed Organisation Structure
(Second Stage)**



**DEPARTMENT FOR ROAD TRANSPORT AND WORKS IN THE
MINISTRY OF TRANSPORT OF AZERBAIJAN
(SECOND STAGE)**

ROAD TRANSPORT RELATED POLICY MAKING AND REGULATORY FUNCTIONS



**INDEPENDENT STATE-OWNED ENTERPRISES AND PRIVATE ENTERPRISES
(OPERATIONAL FUNCTIONS)**

4.4.4 Special Attention for the Privatisation Process

The various transport related state concerns (including Azeravtonaglijat) will, after the completion of the before mentioned separation process, still be in charge of the management and supervision of the various state owned road transport business units for which they are responsible. However, these functions will automatically cease to exist after the conclusion of the privatisation process of the transport sector. The process will also include the formal and legal transfer of all assets of the transport related state enterprises, like the railways, bus companies and the metro, to these then independent state enterprises. After completion of the privatisation process, the transport related state concerns will have lost all their present functions and procedures can be started to formally dissolve their organisations.

In order to speed up and facilitate the transformation process, it is recommended to transfer, on a temporary basis, all matters, related to the privatisation of selected enterprises within the Ministry's organisation, to a separate section within the new Ministry of Transport, directly under the responsibility of the Minister of Transport and his First Deputy Minister.

The tasks of this temporary support section can be described as follows:

- Transformation of the selected enterprises to joint-stock companies (creation of a legal base and preparation of a balance sheet showing the value of the assets and liabilities of the concerned enterprise).
- Assistance in the proper execution of the privatisation process.
- Overall management of the selected enterprises until they have been privatised and officially removed from the Ministry's organisational structure.

The section will automatically loose its function and will thus be discontinued, once the privatisation process has been completed.

4.4.5 Tasks of the Divisions of the Proposed Road Transport Department

In the following sections of this Chapter attention is given to the various tasks and responsibilities of the before mentioned specialised Divisions of the Road Transport Department.

4.4.5.1 Division for Economic Research and Road Transport Policy

In general the Road Transport Department of the new Ministry of Transport will have the task to formulate an appropriate policy for national and international road transport and to establish rules to be observed by the country's road transport operators concerning both national and international road transport in fields such as:

- access to the profession,
- access to the market,
- technical standards and control,
- social conditions,
- economic and fiscal matters,
- environmental protection,
- road safety,

The creation of these rules has to go hand in hand with the design of an effective system of implementation and control by the authorities called upon to implement the rules and to exercise a satisfactory level of control. Assuming that the legal framework of the internal

transport market is in place, these rules have to be satisfactorily incorporated into the national legislation.

Furthermore, the Division for Economic Research and Road Transport Policy will have the task to design and develop a monitoring system to record all relevant activities in the road transport sector at both central and regional level. As observed earlier such a system is lacking completely at present: no reliable statistical data are available on the movement of cargo and passengers.

It is recommended to design the licensing system of the cargo transport sector in such a way that key data concerning all licensed road transport enterprises (vehicles in operation, personnel, cargo and passenger flows, forecasts, etc.) are always available and regularly updated.

The idea behind the levy of road taxes, user duties and tolls is the allocation of the costs of infrastructure (and external costs) to the real users of these infrastructures. For heavy goods vehicles (HGVs) a distinction is made between different categories for the levy of annual road tax according to the total permissible laden weight and the number and configuration of axles.

The administrative infrastructure, developed within the Division, to calculate and levy road taxes, user duties and tolls and to apply reduced rates and/or exemptions, needs to be upgraded and, where appropriate, supported by professional expertise coming from other involved Ministries (Ministry of Finance and Ministry of Economy).

4.4.5.2 *Division for Licensing*

Access to the road transport market and admission to the occupation of road transport operator is in principle open to any entrepreneur in national and international transport operations, who satisfies the qualitative requirements, as laid down in the national regulatory system. A further basic principle of international road transport is to ensure freedom to provide transport services without discrimination on the grounds of nationality or place of establishment.

It is crucial to improve the selection procedure and training measures for those persons wishing to take up the occupation of road transport operator. As a rule these activities are organised and implemented by private institutions, representing or acting on behalf of the road transport sector. The Government, in this case the Ministry of Transport, has the task to stimulate the establishment of such institutions and, once established, to exercise control of their operation in accordance with set rules and regulations.

If, due to special circumstances, incentives to establish such specialised private training facilities are still lacking, the Ministry is advised to take the initiative to start with the organisation of short training courses for potential private road transport operators to upgrade their skills in specific subjects. Co-operation with a specialised institution like SMEDA (Small and Medium Enterprise Development Agency) is recommended. At a later stage these activities can then be taken over by the appropriate before mentioned private certification and training institutes.

Basically there are three requirements which persons, wishing to exercise the profession of road transport operator, should meet:

- good repute
- appropriate financial standing and
- professional competence or the possession of skills in certain subjects.

Distinction is made between road transport operators active in different types of cargo transport (urban, regional, inter-regional, charter and special cargoes) and passenger transport (urban, regional, inter-regional, charter, tourist and taxi's), training facilities for road transport personnel and road transport service facilities (petrol stations, parking stations, etc.).

It will be the specific task of the Division for Licensing, the responsible institution within the Ministry for issuing licenses to certified road transport operators, to both formulate and legalise the regulations concerning access to the road transport market and to establish a control mechanism concerning the use of authorisations and licenses to execute national and international road transport.

In this respect a remark should be made concerning the Transport Inspection unit that has been recently established within the present organisation structure of Azeravtonaglijat. To clearly distinguish the regulatory function of the Ministry of Transport from the necessary control and enforcement functions, it would be advisable to review the present arrangements. It is recommended to discuss the control aspects of the special permits, that will soon be issued to road carriers at border crossings by Azeravtonaglijat (and later the Division of Licenses of the Department of Road Transport), with the customs officials and the road police and to see under what conditions these control functions can be taken over by them.

4.4.5.3 *Division for Traffic Safety and Technical Support*

Road traffic safety (and a clean environment) not only requires that producers fit their vehicles with the necessary safety (and anti-pollution) features, but also that great care is taken to ensure that vehicles in circulation are kept in good operating condition and are equipped to regulation standards.

Various tools or parameters are used to check and control road traffic safety:

- Road worthiness tests
- Driving licenses
- Weights and dimensions of vehicles
- Tachograph
- Speed limitation devices
- Safety belts
- Tire tread depth
- Observance of social conditions

More details of these tools to check and control road traffic safety are given in the following paragraphs.

Road worthiness tests

Usually the task of carrying out road worthiness tests are delegated to approved bodies or experts. A choice will have to be made among different options for testing:

- a designated neutral organisation carrying out the tests on its own premises
- a designated neutral organisation carrying out the tests in garages
- testing by and in approved garages

Also clear and simple approval procedures will have to be established.

Tests are carried out on the basis of certain adopted standards concerning:

- the obligatory nature and frequency of inspection (usually priority is given to commercial vehicles, coaches and buses)
- the list of equipment or vehicle parts generally subject to inspection
- minimum standards for braking systems and exhaust emission and
- the mutual recognition of compliance testing

Driving licenses

Concerning the issue of driving licenses it should be clear which authority is responsible for conducting examinations (theory, practical and medical examinations for professional drivers), required for obtaining a driving license. Also it should be clear which authorities supervise the suspension, withdrawal, cancellation and reinstatement of driving licenses. The procedure for producing and issuing driving licenses has to be formulated, including a procedure for the recognition of foreign driving licenses.

Distinction is made between vehicle categories and usually a provision is made for the possibility of subdividing these categories so that drivers may progress from one category to the next in the interest of safety.

Weight and dimensions of vehicles (including vehicle compliance testing)

Apart from the regulations concerning maximum weight and maximum authorised dimensions for certain commercial road vehicles, issued by national authorities, international road transport is governed by other authorities:

- the Vienna Convention of 1986
- the Agreement on the adoption of uniform conditions of type approval and the reciprocal recognition of the type approval of motor vehicles and parts (Geneva, 20/03/58)
- the Agreement on the international carriage of perishable foodstuffs and on the special equipment to be used for such carriage (ATP) (Geneva, 01/09/70)
- the Convention on containers
- etc.

Tachograph

It is important to note that in the EU member states all commercial road vehicles must be fitted with a monitoring unit (tachograph), showing the actual driving and rest periods of the vehicle's driver. This device is of prime importance for a correct application and control of the social provisions relating to road transport.

Dangerous goods by road (including the vocational training of drivers)

Rules concerning the international carriage of dangerous goods by road are governed by the ADR of the UNECE in Geneva. These rules are necessary to guarantee a high level of safety during the national and international carriage of dangerous goods.

Speed limitation devices

For certain types of commercial vehicles, in particular lorries and buses, the installation by approved fitters of speed limitation devices is compulsory.

Safety belts

Drivers and passengers of a vehicle under 3.5 tons are obliged to wear safety belts. For children adapted restraint systems are compulsory on seats fitted with safety belts.

Tire tread depth

To increase road safety a minimum tread depth of 1.6 mm in the main grooves of the tires of passenger vehicles with a minimum of nine seats and of goods vehicles with a maximum weight of less than 3.5 tons is compulsory.

Provisions concerning Observance of Social Conditions

Rules on drivers' maximum driving and minimum break and rest periods (daily and weekly) aim to improve road safety, to harmonise the conditions of competition between road carriers and to contribute to the social progress of the drivers.

The pressure of international competition, the wish to earn the most money possible, pressure from just-in-time conditions, traffic hazards (congestion) and uneven checks mean that carriers are tempted to infringe the social rules. Only an adequate system of checks and sanctions can achieve a uniform and reasonable level of observation of the rules.

Harmonisation, Implementation and Evaluation of Safety Rules and Regulations

All EU member states have developed their own set of rules and regulations concerning traffic safety and anti-pollution measures in conformity with the directives provided by the European Commission. The above mentioned information is based on these directives. It has taken these countries several years to integrate and harmonise their systems and, although a common denominator exists under the auspices of the EU, there are still many differences in the institutional arrangements made by the various EU member states to implement these rules and regulations.

It is therefore hard to imagine how a country like Azerbaijan, only recently risen out of the ashes of a, for Western European standards, incompatible institutional framework, will be able to quickly absorb a completely new system of safety rules and regulations, adapted to more international standards and involving the establishment of series of new, mostly private, institutions. However, the challenge is there and the blueprints of similar systems developed elsewhere in the world are available to facilitate the job.

For the future there should be a clear division of tasks between the new Ministry of Transport on the one hand and the road police on the other with regard to both the formulation of traffic safety rules and regulations and their control and enforcement. In principal it is the task of the Division for Traffic Safety and Technical Support of the Ministry of Transport to provide key data for the preparation of the proper legislation concerning traffic safety, road control and anti-pollution measures. The legislation creates the conditions under which the transport market operates. Once formalised, it is the task of the road police, as law enforcement institution, to regularly control the proper implementation of set traffic safety rules and regulations.

Finally it is recommended to take proper measures to regularly evaluate and, if necessary update, set traffic rules and regulations. Usually this is done by studying the police reports of major traffic accidents in the country. In order to be certain that the proper technical information concerning these accidents is obtained, the technical support section of the

Division for Safety Regulations should be asked to design a standard traffic accident report form, containing these basic technical data. It is further recommended to organise short training courses on a regular basis to inform traffic police officers on how to investigate major traffic accidents and how to complete the forms.

4.4.5.4 *International Affairs (Specialised Section for Legal Matters and Foreign Relations)*

Reference is made to the previous Chapter for a description of the tasks of the present Section for Foreign Relations of the state concern Azeravtonaglijat. In particular the remarks made on the need for up-to-date information on international transport legislation requires special attention.

4.5 Recommended In-service Staff Training Program

4.5.1 Background

The previous Chapters provided a general outline of the organisational structure of the new Department of Road Transport of the Ministry of Transport, functioning as the only Government institution that is officially authorised to set the rules and regulations for an independent road transport sector. At the same time an indication has been given of how and by whom these rules and regulations should be controlled and enforced.

In this respect it should once again be stressed that under the present, for FSU countries like Azerbaijan, new free market conditions, the Government has to learn to refrain from any direct interference with the day-to-day management of the now independent business units within the transport sector. This is irrespective of the fact whether these units are privately owned or are still operated as a public utility services, like the railways or the national airline company. Key is that the Government makes the rules of the game and that the players, the independent transport companies, both public and private, have to stick to these rules. Trespassing the rules or foul play will be followed by sanctions.

The limiting conditions, within which transport companies are bound to operate, have in principle been designed to protect the interest of the public (through traffic safety regulations, environmental measures, an equitable tariff structure and the prevention of monopolistic trends within the sector). Usually the now independent transport sector will adapt to this new normative environment by establishing their own institutions, representing certain interest groups within the sector.

The professional staff of the various transport related state concerns and, for that matter, the future Departments at the new Ministry of Transport will all have their difficulties in facing the new reality. Sets of transport rules and regulations, that have become common good in an international environment, were up till only a few years ago unfamiliar to the average civil servant in all countries in the former Soviet Union. Suddenly they not only had to be thoroughly known, but also procedures had to be developed to have them incorporated in the respective legal and organisational frameworks of the future Ministry Departments.

Being in many cases also the managers of the big state owned transport conglomerates, most senior officials of the future Ministry Departments will find it extremely difficult to clearly distinguish their (former) managerial duties from their new tasks as leaders of a Department that regulates and controls, but refrains from direct interference in the management of the now

independent transport related business units. In the present transition period it is likely to happen that future heads of the Departments and the Divisions within these Departments will still be wearing “two hats” and will face difficulties to decide which hat should ultimately be handed over to somebody else.

The task which still lays ahead is immense and not only involves the design of new structures that reflect the new conditions. Even more important is the organisation and subsequent implementation of an intensive training program to prepare the professional staff of the various Departments for their new tasks. Without such a training effort, confusion among the staff will continue and remain to be a factor that will hinder further organisational development.

4.5.2 An In-service Training Program for the Road Transport Department

As a first step it is important to determine the current training needs of the professional staff of the various Divisions within the Road Transport Department. These needs are directly linked to their new tasks in the Department’s organisation. In the new structure these tasks can be defined as follows:

- to give direction to the process of regulation and control of the road transport sector,
- to design a proper legal framework, in accordance with international standards, that defines the boundaries within which the national road transport sector will have to operate.
- to establish proper procedures that lead to the enforcement of set rules and regulations (licensing systems, regulations related to road traffic safety and anti-pollution measures, regulations concerning tariff structures, tax regulations, etc.),
- to regularly evaluate the effectiveness of fixed rules and regulations and, if needed, to suggest changes of these rules and regulations,
- to monitor the road transport sector as a whole and to forecast and plan the developments within that sector,
- to formulate and to regularly update a national road transport policy; at central level this policy advise will be included in the formulation of a national transport policy.

A further detailed analysis of these tasks will provide first of all a list of all subject matters that will be included in the curricula of the in-service training program. The following subject matters are of direct relevance for Government officials, dealing with the road transport sector:

Professional staff of the Division for Economic Research and Road Transport Policy:

- Formulation of a Road Transport Policy (obstacles, potential solutions, priorities)
- Monitoring and Evaluation of the Road Transport Sector (information systems)
- Economic and Fiscal Issues related to Road Transport (tariffs, road taxes, etc.)
- Contracting and Tender Procedures
- Issues related to Multi-modal Transport

Professional staff of the Division for Licensing:

- Road Transport Legislation (national and international)
- Licensing Procedures (conditions for access to the road transport market)
- Transition to Market Economy (privatisation)
- Introduction to the Management of a Road Transport Company (passengers and cargo)
- Introduction to the Management of a Freight Forwarding Company

Professional staff of the Division for Traffic Safety and Technical Support:

- Road Traffic Safety and Anti-pollution Measures (international standards)
- Regulation and Control of Traffic Inspection Units

Professional staff of the Section for Legal Matters and International Affairs:

- Road Transport Legislation (national and international)
- International Road Transport Organisations (in particular IRU/TIR Carnet issues)
- Road Transport and Trade Facilitation (incl. Customs procedures at border crossings)
- Regional Integration of Road Transport

Division and Section Heads:

- Human Resources Management and Communication Techniques (contacts with clients)

A first draft of an in-service training schedule, showing the above mentioned subject matters, the amount of participants and the costs of training has been included in Annex 2. The schedule includes the estimated duration of the courses, the required input of technical assistance and the estimated training budget.

4.5.3 Additional Aspects of the Proposed In-service Training Program

1. The content of the training courses should be as practical as possible: theoretical concepts should at all times be placed against the background of “real life experiences and situations” in both national and international settings.
2. An intensive Training of Trainers program to properly train carefully selected local instructors should precede the actual implementation of the staff training courses.
3. The training program includes the preparation of curricula, training materials and trainer’s guides by international experts in conjunction with local consultants/instructors.
4. The training should be organised in such a way that an active involvement of participants will be guaranteed at all times: practice has learned that a workshop type of training with lots of group working sessions is the best guarantee for an active participation.
5. Courses should have clear objectives and should lead to defined outputs: clearly described sets of regulations, written manuals on procedures and internal communication systems and detailed recommendations on how to further improve these procedures and internal communication systems.

4.5.4 The Organisation of the In-service Training Program

For practical reasons it is highly recommended to co-ordinate, and preferably, combine the in-service training program of the professional staff of the Road Transport Department with the training program, to be organised by the World bank sponsored Transport Reform and Rehabilitation Centre (TRRC) of the Ministry of Transport of Georgia. Starting 1997, the newly established Training Unit of TRRC (TU-TRRC) will commence to provide training courses for policy makers and professional staff of the entire Ministry of Transport of Georgia and for managers and staff of transport companies and transport related branch organisations.

Discussions were held with both the management and the consultants of TU-TRRC on how to integrate the in this Chapter proposed in-service training program. The scheduled training activities of TU-TRRC already include series of training courses for the professional staff of the Road Transport Department. Although some details might differ, these planned training courses coincide to a large extent with the proposed schedule for in-service training activities as mentioned in the previous paragraphs.

Finally, it should be pointed out that, although there are at present still some distinct differences in the way the road transport sector is organised in the three Caucasian countries (see also the reports on Georgia and Armenia), there are hardly any differences in the observed training needs of the Government officials, who are presently involved with the regulation and control of the road transport sector in these countries.

It is therefore recommended to combine, where possible, the planned in-service training courses for said officials. The Ministry of Transport of Georgia, having the advantage of having the required training facilities of TU-TRRC available at their premises in Tbilisi, could be the host for these combined in-service training sessions. Joint training sessions not only have the advantage of being more cost effective, but they will also provide an excellent opportunity to exchange common experiences and to discuss mutual road transport problems (and hopefully seek solutions to these problems) during the training sessions.

5 INSTITUTIONAL STRENGTHENING OF ROAD TRANSPORT IN GEORGIA

5.1 Background

The Department of Road Transport of the recently re-established Ministry of Transport of Georgia has gone through a process of organisational change, following the disintegration of the former Soviet Union and the foundation of the Republic of Georgia as an independent state. The privatisation of the road transport sector has by now been more or less completed and the time is ripe for the Department to focus all their attention on improving their service capabilities and their regulatory functions with regard to the road transport sector in Georgia.

Recently a new Department structure has been introduced, emphasising the service delivery and regulatory functions of the Department and to a large extent simplifying its internal Organisation. The activities of the former 15 directorates of the Department have been re-arranged and transferred to 1 administrative and 4 service divisions. Discussions are still being held within the Department on how to implement this new structure.

The role of the Department has been formulated in a draft Charter, ready for approval by the Minister of Transport. The activities, undertaken by the Department, refer to the provision of services to the road transport sector in accordance with the demand for such services and the development, implementation and control of legislative and other normative acts related to the road transport sector.

A law regulating the transport sector has been presented to the Parliament for approval and a licensing system for road transport has been developed in conformity with this new law. Main objective of the system is to increase the efficiency of the national road transport economy, to increase the responsibility of freight forwarders and to create fair and competitive conditions for freight forwarders, through a proper regulation of the road transport system and a reduction of their maintenance costs. The new licensing system has been recently approved by the President and currently the Department is preparing plans for its implementation.

Despite the positive steps already taken by the Department to improve conditions with regard to the formulation of transport policies and laws and the internal structuring of the various Department functions, a lot of work still has to be done to further improve the efficiency and effectiveness of the Department's organisation, to make a serious start with the implementation of newly defined policies and to strengthen the capabilities of its professional staff.

Suggestions for further improvements are:

- To facilitate the development of the road transport sector, a detailed assessment should be made of the road transport market requirements and the related needs for specific services, to be delivered by the Ministry of Transport.
- Clear definition of the various functions and related activities of the newly created Operational Divisions of the Department (Economic Affairs, Licensing, Safety Regulations and Foreign Relations).
- Clear definition of the tasks and required qualifications of the Department's professional staff in conjunction with the newly defined Operational Division functions.
- Design of a training program to upgrade the skills and capabilities of the Department's professional staff.

In accordance with the current assignment under the TACIS-TRACECA Project (Improvement of Road Transport Services), this report will emphasise the measures that could be undertaken to strengthen the service capability of the Department of Road Transport, in particular to those enterprises dealing with international road transport movements.

5.2 International Road Transport Market Requirements

Presently Georgia's international road transport system is characterised by the following features:

- With the sharp decline of economic activities since the collapse of the Soviet central planning system, the market for transport services, including the international market for road transport, has collapsed as well. Centrally planned mass movements of cargo between state owned companies over the borders of the republics of the former Soviet Union (FSU) came to an abrupt halt. Currently the remaining international transport by road of commercial goods is minimal. The bulk of goods transported over the borders of Georgia by road mainly consists of food aid, brought in by humanitarian organisations.
- Georgian international road carriers are relatively expensive. Turkish, and to some extent also Bulgarian, road transport operators dominate the market in Georgia, having some distinct advantages over their few Georgian counterparts: better equipment, more experience with Trans-European road transport and better facilities and opportunities to handle logistics and security problems.
- The few Georgian transport companies, involved in international road transport, are all member of GIRCA, the Georgian International Road Carriers Association. GIRCA has been accepted as official member of the International Transport Union (IRU) in Geneva and has been given the authority to sell Carnet TIR to their member transport operators. Having inherited practically all remaining assets and expertise from the former state owned road transport operators, these companies are at present the only enterprises that are capable of handling across the border transportation of goods by road in Georgia. More or less automatically a new monopolistic situation has thus been created, which under the present conditions is inevitable, but will have to be corrected, once improved economic conditions in the country allow the introduction of more competitive forces in the sector.

The most strategic and fastest road link between Georgia and Western Europe will without any doubt be the soon to be opened ferry connections between Georgia and Ukraine (Poti-Odessa) and from there through Poland into Germany. This connection will in the future also play a vital role in the transit road transport corridor between Central Asia and Europe. Georgian international road carriers should stay alert and do everything which is within their power to capture a bigger share of the increasing Eurasian transport market. Probably for the first time circumstances are slightly more favourable than they were in the past and under certain conditions some Georgian road carriers might be able to offer more competitive international freight rates than their, mostly Turkish, competitors.

The task will not be easy because the now independent Georgian road transport operators only possess a few heavy goods vehicles (HGVs) that can meet international standards. Practically all Georgia's say 100,000 trucks are more than 15 to 20 years old and ready for scrap. An estimated 100 trucks are in still driving condition for international transport, but only within the countries of the FSU. Only a handful of trucks, operated under joint venture agreements with road carriers from Belgium, Hungary and Germany, have in the past two years made some occasional trips to various Western European destinations. Conditions were extremely difficult.

Taking the route through Turkey, many country borders had to be crossed, each country having its own reputation of excessive bureaucracy, harassment and robbery.

Against this background, the needs of Georgian entrepreneurs, who are planning to set up an international road carrier business, are quite obvious. With the opening of the new ferry line between Poti and Odessa, it seems that now for the first time conditions of fair competition prevail. Under these circumstances it really is a matter for the more daring entrepreneurs to grab this opportunity and seriously start with the implementation of their international business plans.

Considering their lack of experience with the international freight forwarding and road carrier business, the entrepreneurs will need initial guidance and firm support to acquire the necessary know how and experience to run such business properly and efficiently. The type of support that is needed can be summarised as follows:

- Training to familiarise the management of the company with the most up to date rules and regulations concerning international road transport.
- The introduction of an easy to learn and practical accounting system.
- The introduction of some basic control mechanisms, in particular of rolling stock and inventories.
- The preparation of a clear business plan as a management tool and as a means to secure the required financial assistance for running the operations.

The Department of Road Transport could play a leading role in both the initiation and the implementation of the rehabilitation program. Preferably this should be done in close co-operation with international road transportation experts and with a local institution, specialised in the private enterprise development. An institution like SMEDA (Small and Medium Enterprise Development Agency) could in this respect be the Department's right partner. Selected senior staff of the Department will be appointed to manage the rehabilitation program and to actively participate in the program as trainers and counterpart staff of the international experts.

A training program will be required to prepare the Department's professional staff for their new task as managers and trainers of the rehabilitation program. To a large extent this program will, both in terms of content as well as timing, coincide with the forthcoming in-service training program, part of the World bank financed Transport Reform and Rehabilitation Project, and the still to be planned program of specialised upgrading courses for Department staff (see Chapter V for further details).

5.3 The Organisational Structure of the Department of Road Transport

5.3.1 Introduction

To a certain extent the present organisation of the Department of Road Transport, that is still in place, but is now in the process of being restructured, has inherited many elements of the former era of centralised power and control. Activities are divided over fourteen Directorates, each having developed their own set of internal bureaucratic rules and regulations. Co-ordination of the activities, undertaken by the Directorates, in the direction of reaching common goals and objectives, is sporadic and irregular. Co-operation between the Directorates is thus incidental and usually based on individual contacts. Directives are given directly from the top (the Chairman of the Department) to the heads of the Directorates and executed by the staff of the concerned Directorates.

The new organisational structure of the Department, planned to be implemented as from January 1, 1997, has been better designed and clearly reflects the two main functions of the Department: the provision of relevant information services to the road transport sector and the formulation and subsequent enforcement of norms and regulations concerning road transport. In general the new structure follows the recommendations, provided by international experts under the TACIS-TIMOG Project (November 1994).

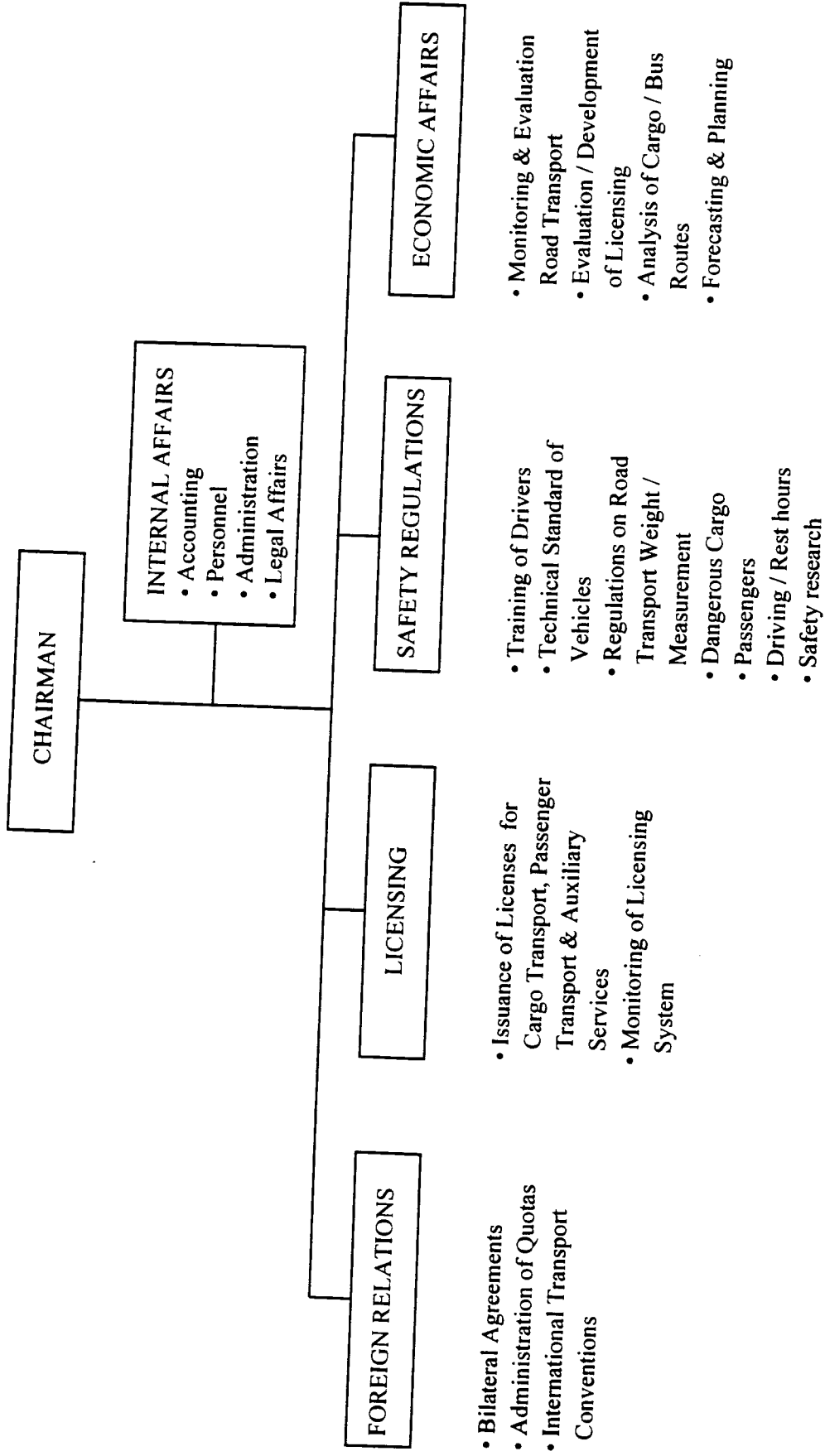
Most of the activities, that are presently undertaken within the Directorates, are in the new structure incorporated in four operational Divisions, Economic Affairs, Licensing, Safety Regulations and Foreign Relations, and one Division for General Support and Administrative Affairs.

At regional level the Department is in the process of establishing Regional Offices, acting as executive branches for the Department's regulatory and monitoring functions. Working through these Regional Offices, the Department feels that, being closer to their actual client group, the effectiveness of their operations can be increased considerably. Regional Offices will be opened in 11 regions and each office will have a staff of 5 to 10 persons, depending on the size of the region.

Reference is made to the following page for a graphic illustration of the proposed new organisational structure of the Department of Road Transport of the Ministry of Transport of Georgia (organisation diagram).

The new task of the Department is *to regulate and control, not to manage and to supervise directly* (the creation of a normative environment). It is the task of the Government to set the norms for standardisation and certification and to formalise these norms in new laws and regulations. In principle the private sector is free to make their own institutional arrangements on how to adapt to the new normative environment.

Ministry of Transport of Georgia, Department of Road Transport Organisation Plan (as per January 1997)



5.3.2 Details of the New Organisational Structure

The Department's Divisions will be divided into different sections or sub-departments. Staff is taken from the present Directorates, as much as possible in accordance with their present functions and tasks. The following divisions and sections have been planned:

Note: figures between brackets indicate the number of staff members, employed in the present Directorates.

1. *Division for General Support and Administrative Affairs*

<i>Name/Title</i>	<i>Number of staff</i>
Head of the Division and First Deputy Chairman	1
Office Management	3
Administration	10
Accounting	5
Personnel	3
Legal Affairs	2
Investments and Participation	4
Military Mobilisation	2
<i>Total Staff</i>	<i>30</i>

This Division is a combination of the present Directorates for Office Management (12), Staff Relations and Military Mobilisation (7), Bookkeeping (5) and Juridical and Legal Affairs (7).

2. *Division for Economic Affairs*

<i>Name/Title</i>	<i>Number of staff</i>
Head of the Division and Deputy Chairman	1
Monitoring, Analysis & Forecasting and Governmental Supervision & Co-ordination of Road Transport Sector	3
Tariff Regulation and Supervision of Cost Structures and Budgets of Road Transport Sector	3
<i>Total Staff</i>	<i>7</i>

This Division is a combination of the present Directorates for Economic Forecasting, Analysis and Employment Organisations (4), Financial Forecasts and Analysis (5) and Tariffs, Fees and Tax Income (4).

3. *Division for Licensing*

<i>Name/Title</i>	<i>Number of staff</i>
Head of the Division and Deputy Chairman	1
Cargo Transport Section	4
Passenger Transport Section	4
<i>Total Staff</i>	<i>9</i>

This Division is a combination of the present Directorates for Cargo Transport (8) and Passenger Transport (5).

4. *Division for Safety Regulations*

<i>Name/Title</i>	<i>Number of staff</i>
Head of the Division and Deputy Chairman	1
Traffic Safety	3
Technical Support	4
<i>Total Staff</i>	8

This Division is a combination of the present Directorates for Safety Regulations (4) and Engineering and Maintenance Services (4).

5. *Division for Foreign Relations*

<i>Name/Title</i>	<i>Number of staff</i>
Head of the Division and Deputy Chairman	1
Foreign Relations	3
TRACECA Project	3
<i>Total Staff</i>	7

In this Division the activities of the present Directorate for Foreign Relations (5) will be continued and a section will be added to co-ordinate the (temporary) activities under the TACIS-TRACECA project and other future bilateral and unilateral development projects. At a later stage integration of this section in the World bank initiated Transport Reform and Rehabilitation Centre of the Ministry of Transport should be considered seriously.

The activities of two more Directorates, for Privatisation (5) and Investments and Social Development (7), will in the future organisation structure be discontinued after the complete finalisation of the privatisation process. Temporarily these functions are included in the Division for Economic Affairs.

It has been observed that, although the functions of the former Directorates have now officially been transferred to the new Divisions, a lot of confusion still exists about the validity and relevancy of these functions in their present context. Some functions are still tied up with the former centralised command system or are still associated with the direct management and supervision of public transport enterprises. Therefore a re-formulation of tasks and responsibilities, in combination with the execution of an active in-service training programme (see Chapter 5.5), is urgently needed in the light of the Department's newly defined and exclusive function of policy formulation and regulation.

At the same time, being part of the above mentioned task formulation and training effort, new procedures should be developed to further streamline the Department organisation and to monitor essential road transport data.

Under the new Division structure, the total number of staff of the Road Transport Department of the Ministry of Transport in Tbilisi, will have to be reduced from the present 82 to 62. This will not be an easy operation, the more so because at a later stage a further reduction of staff will have to be considered in view of the apparent over-staffing of the General Support and Administrative Affairs Division: in the proposed new structure an excessive number of staff, nearly 50% of the total staff, is planned to be concentrated in only this one Division.

5.3.3 Tasks and Activities of the Department's proposed new Divisions

The tasks and activities of the planned operational Divisions of the Road Transport Department can be summarised as follows:

Division for Economic Affairs

In the TIMOG report the main functions of this division were defined as follows:

1. To monitor the road transport sector as a whole and to collect information for future changes.
2. To forecast and plan the development within the road transport sector.
3. To analyse cargo and passenger transport systems and routes.
4. To evaluate the existing licensing system in co-operation with the licensing division and to make proposals for improvement of the system.

The need to pay full attention to the design and the development of a monitoring system to record all relevant activities in the road transport sector at both central and regional level has been stressed by all members of the Department's management staff. At present such a system is lacking completely: no reliable statistical data are available on the movement of cargo and passengers. The main source of information is 'professional intuition'. Use of the future network of Regional Offices could facilitate the collection of relevant data.

5.3.3.1 *Division for Licensing*

In the TIMOG report the main functions of this division were defined as follows:

1. To secure a proper administration of the issuance of licenses
2. To develop and monitor the licensing system

A decentralisation of part of the administrative functions to the Department's Regional Offices has been suggested by the Chairman of the Department. A Statute, regulating the Regional Administration of the Road Transport Department, has in the mean time been drafted and approved. Further action has been planned to formalise the arrangements and to attach a legal status to the Statute.

At this point it should once more be stressed that the new task and policy of the Department is to regulate and control, not to manage and to supervise directly. It is the task of the Government to set the norms for standardisation and certification and to formalise these norms in new laws and regulations. Transport companies are bound to operate within these limiting conditions. Only if the conditions are not fulfilled, the Government will take corrective actions.

The new task of the Department will not be easy. In particular during the early stages of the transformation process the economic activities of the road transport sector will still be at a minimum level. Road transport operators will be struggling to keep alive and every infringement on the company's internal operations by the Government (including an excessive payment of license fees and other charges) will be felt as a direct attack on their survival. Under these circumstances it is recommended to exert some initial constraint in putting too much financial pressure on the new emerging private road transport sector. First priority should be given to the stimulation of economic growth and the renovation of industrial activities. The transport sector, including private road transport sector, will automatically grow with the rest of the economy and in the long term this growth will without any doubt also positively influence on financial status of the Department.

The private sector is free to make their own institutional arrangements on how to adapt to the new normative environment. The establishment of the Georgian International Road Carriers Association (GIRCA) is a good example of this new development. The designed structure should contain clear provisions for the prevention of monopolistic trends in the road transport sector, which could work against the interest of the public.

A new licensing system for road transport has been designed and recently approved by the President. Currently the Department is preparing plans for its implementation. Main objective of the system is to increase the efficiency of the national road transport economy, to increase the responsibility of freight forwarders and to create fair and competitive conditions for freight forwarders, through a proper regulation of the road transport system and a reduction of their maintenance costs.

Detailed instructions are included in the licensing regulation concerning the criteria for obtaining a license for a road transport operation. The criteria are:

1. Registration in Georgia of the rolling stock, owned by the concerned transport company.
2. Registration of the concerned company with the tax inspection in the region.
3. The availability of proper documentation, issued by the road police, stating that the condition of the company's rolling stock is in accordance with approved safety regulations.
4. The availability of proper qualifications and skills of the company's corps of drivers.
5. Proof that the company's rolling stock has been properly insured.

The proposed new regulations concerning licenses and safety, however, are still too general. More details are required to formalise the new norms and standards, to get them framed into existing and, if needed, new institutions and to design a proper system for their effective enforcement and control.

Upon request of the management of the Road Transport Department, the Consultants have prepared, for orientation purposes only, a brief document on road transport licensing systems in several Western European countries. The actual design of a detailed licensing system, adapted to local conditions, however, is a task that would be beyond the scope of the Consultant's current assignment. The Consultants therefore recommend to further develop the system in all its details at a later stage, preferably in conjunction with the the execution of the proposed in-service training programme (see also Chapter 5.5).

Most urgent issue is the fact that a sanction system, guaranteeing a proper implementation of the licensing system, has not yet been fully developed and put into place. And once developed, the system can only be enforced after the formal establishment of a legal support system. It will also take some time before this process can be completed.

5.3.3.2 *Division for Safety Regulations*

In the TIMOG report the main functions of this division were defined as follows:

1. To ensure safety regulations of vehicles (technical standards, weight/measurement restrictions, cargo and passengers).
2. To ensure regulative and control procedures (training, driving/rest hours regulations).
3. To conduct safety research.

The question still remains how to organise the control of the proper implementation of the various safety regulations: co-operation with the road police and the tax authorities, but also what should be done if authorities exceed or misuse their power to control. For instance what corrective measures will have to be taken if excessive and unreasonable fees and/or fines are being charged to the private road transport sector?

The road police, falling under the jurisdiction of the Ministry of Interior Affairs, has developed its own set of regulations concerning the safety of vehicles and the methods to enforce and control these regulations. Some form of co-operation with the Road Transport Department of the Ministry of Transport exists in this matter, but will in the future have to be better organised and formalised in a more systematic way.

5.3.3.3 *Division for Foreign Relations*

In the TIMOG report the main functions of this division were defined as follows:

1. To ensure that Georgia has a profound knowledge of international transport conventions.
2. To secure the best possible conditions for the passage of cargo and passengers across the borders for vehicles of Georgian registration.
3. To negotiate and prepare bilateral and multilateral transport agreements.
4. To co-ordinate administration of national road transport laws and international transport conventions.
5. To prepare national road transport laws for approval by the Parliament.
6. To provide legal assistance and expertise in road transport.

The last two mentioned functions have been delegated to the legal affairs section of the Division for General Support and Administrative Affairs.

Rather serious is the complete lack of proper documentation material concerning the current framework of international rules and regulations, related to the road transport sector. It is recommended to establish a documentation and reference centre within the Department, containing the most basic and up-to-date information on international transport legislation.

5.4 Suggestions for Further Improvement of the Organisational Structure

5.4.1 Road Transport General

In general the Road Transport Department has the task to establish rules to be observed by the country's transport operators concerning both national and international road transport in fields such as:

- access to the profession,
- access to the market,
- technical standards and control,
- social conditions,
- economic and fiscal matters,
- environmental protection,
- road safety,
- public service obligations, etc.

The creation of rules has to go hand in hand with the design of an effective system of implementation and control by the authorities called upon to implement the rules and to exercise a satisfactory level of control. Assuming that the legal framework of the internal transport market is in place, these rules have to be satisfactorily incorporated into the national legislation.

In this respect a subdivision is usually made between the carriage of passengers and the carriage of cargo.

5.4.2 Access to the Market and the Profession (Division for Licensing)

Access to the road transport market and admission to the occupation of road transport operator is in principle open to any entrepreneur in national and international transport operations, who satisfies the qualitative requirements, as laid down in the national regulatory system. A further basic principle of international road transport is to ensure freedom to provide transport services without discrimination on the grounds of nationality or place of establishment.

It is crucial to improve the selection procedure and training measures for those persons wishing to take up the occupation of road transport operator. As a rule these activities are organised and implemented by private institutions, representing or acting on behalf of the road transport sector. The Government, in this case the Road Transport Department, has the task to stimulate the establishment of such institutions and, once established, to exercise control of their operation in accordance with set rules and regulations.

If, due to special circumstances, incentives to establish such specialised private training facilities are still lacking, the Department is advised to take the initiative to start with the organisation of short training courses for private road transport operators to upgrade their skills in specific subjects (see also Chapter II - International Road Transport Market Requirements). At a later stage these activities can then be taken over by the appropriate before mentioned private certification and training institutes.

Basically there are three requirements which persons, wishing to exercise the profession of road transport operator, should meet:

- good repute
- appropriate financial standing and
- professional competence or the possession of skills in certain subjects.

Distinction is made between road transport operators active in different types of cargo transport (urban, regional, inter-regional, charter and special cargoes) and passenger transport (urban, regional, inter-regional, charter, tourist and taxi's), training facilities for road transport personnel and road transport service facilities (petrol stations, parking stations, etc.).

It is the specific task of the Division for Licensing of the Road Transport Department to both formulate and legalise the regulations concerning access to the road transport market and to control the use of authorisations and licenses to execute national and international road transport.

5.4.3 Technology and Safety in association with Road Safety (Division for Safety Regulations)

Road traffic safety (and a clean environment) not only requires that producers fit their vehicles with the necessary safety (and anti-pollution) features, but also that great care is taken to ensure that vehicles in circulation are kept in good operating condition and are equipped to regulation standards.

Various tools or parameters are used to check and control road traffic safety:

- Road worthiness tests
- Driving licenses
- Weights and dimensions of vehicles
- Tachograph
- Speed limitation devices
- Safety belts
- Tire tread depth
- Observance of social conditions

More details of these tools to check and control road traffic safety are given in the following paragraphs.

Road worthiness tests

Usually the task of carrying out road worthiness tests are delegated to approved bodies or experts. A choice will have to be made among different options for testing:

- a designated neutral organisation carrying out the tests on its own premises
- a designated neutral organisation carrying out the tests in garages
- testing by and in approved garages

Also clear and simple approval procedures will have to be established.

Tests are carried out on the basis of certain adopted standards concerning:

- the obligatory nature and frequency of inspection (usually priority is given to commercial vehicles, coaches and buses)
- the list of equipment or vehicle parts generally subject to inspection
- minimum standards for braking systems and exhaust emission and
- the mutual recognition of compliance testing

Driving licenses

Concerning the issue of driving licenses it should be clear which authority is responsible for conducting examinations (theory, practical and medical examinations for professional drivers), required for obtaining a driving license. Also it should be clear which authorities supervise the suspension, withdrawal, cancellation and reinstatement of driving licenses. The procedure for producing and issuing driving licenses has to be formulated, including a procedure for the recognition of foreign driving licenses.

Distinction is made between vehicle categories and usually a provision is made for the possibility of subdividing these categories so that drivers may progress from one category to the next in the interest of safety.

Weight and dimensions of vehicles (including vehicle compliance testing)

Apart from the regulations concerning maximum weight and maximum authorised dimensions for certain commercial road vehicles, issued by national authorities, international road transport is governed by other authorities:

- the Vienna Convention of 1986
- the Agreement on the adoption of uniform conditions of type approval and the reciprocal recognition of the type approval of motor vehicles and parts (Geneva, 20/03/58)
- the Agreement on the international carriage of perishable foodstuffs and on the special equipment to be used for such carriage (ATP) (Geneva, 01/09/70)
- the Convention on containers
- etc.

Tachograph

It is important to note that in the EU member states all commercial road vehicles must be fitted with a monitoring unit (tachograph), showing the actual driving and rest periods of the vehicle's driver. This device is of prime importance for a correct application and control of the social provisions relating to road transport.

Dangerous goods by road (including the vocational training of drivers)

Rules concerning the international carriage of dangerous goods by road are governed by the ADR of the UNECE in Geneva. These rules are necessary to guarantee a high level of safety during the national and international carriage of dangerous goods.

Speed limitation devices

For certain types of commercial vehicles, in particular lorries and buses, the installation by approved fitters of speed limitation devices is compulsory.

Safety belts

Drivers and passengers of a vehicle under 3.5 tons are obliged to wear safety belts. For children adapted restraint systems are compulsory on seats fitted with safety belts.

Tire tread depth

To increase road safety a minimum tread depth of 1.6 mm in the main grooves of the tires of passenger vehicles with a minimum of nine seats and of goods vehicles with a maximum weight of less than 3.5 tons is compulsory.

Provisions concerning Observance of Social Conditions

Rules on drivers' maximum driving and minimum break and rest periods (daily and weekly) aim to improve road safety, to harmonise the conditions of competition between road carriers and to contribute to the social progress of the drivers.

The pressure of international competition, the wish to earn the most money possible, pressure from just-in-time conditions, traffic hazards (congestion) and uneven checks mean that carriers are tempted to infringe the social rules. Only an adequate system of checks and sanctions can achieve a uniform and reasonable level of observation of the rules.

Harmonisation, Implementation and Evaluation of Safety Rules and Regulations

All EU member states have developed their own set of rules and regulations concerning traffic safety and anti-pollution measures in conformity with the directives provided by the European Commission. The above mentioned information is based on these directives. It has taken these countries several years to integrate and harmonise their systems and, although a common denominator exists under the auspices of the EU, there are still many differences in the institutional arrangements made by the various EU member states to implement these rules and regulations.

It is therefore hard to imagine how a country like Georgia, only recently risen out of the ashes of a, for Western European standards, incompatible institutional framework, will be able to quickly absorb a completely new system of safety rules and regulations, adapted to more international standards and involving the establishment of series of new, mostly private, institutions. However, the challenge is there and the blueprints of similar systems developed elsewhere in the world are available to facilitate the job.

The actual design of the new system of safety rules and regulations would be beyond the scope of the Consultant's current assignment. The Consultants have therefore recommend to further develop the system in all its details at a later stage, preferably in conjunction with the the execution of the proposed in-service training programme for the Road Transport Department's professional staff (see also Chapter 5.5).

As mentioned earlier, some confusion still exists concerning a clear division of tasks between the Road Transport Department on the one hand and the traffic police on the other with regard to both the formulation of traffic safety rules and regulations and their control and enforcement. In principal it is the task of the Division for Safety Regulations of the Road Transport Department to prepare the proper legislation concerning road safety (and anti-pollution). The legislation creates the conditions under which the transport market operates. Once formalised, it is the task of the road police as law enforcement institution to regularly control the proper implementation of set traffic safety rules and regulations.

Finally it is recommended to take proper measures to regularly evaluate and, if necessary update, set traffic rules and regulations. Usually this is done by studying the police reports of major traffic accidents in the country. In order to be certain that the proper technical information concerning these accidents is obtained, the technical support section of the Division for Safety Regulations should be asked to design a standard traffic accident report form, containing these basic technical data. It is further recommended to organise short training courses on a regular basis to inform traffic police officers on how to investigate major traffic accidents and how to complete the forms.

5.4.4 Economic and Fiscal considerations (Division for Economic Affairs)

The Division for Economic Affairs will have the task to design and develop a monitoring system to record all relevant activities in the road transport sector at both central and regional level. As observed earlier such a system is lacking completely at present: no reliable statistical data are available on the movement of cargo and passengers. The still to be developed network of Regional Offices could facilitate the future collection of relevant data.

It is recommended to design the licensing system of the road transport sector in such a way that key data concerning all licensed road transport enterprises (vehicles in operation, personnel, cargo flows, forecasts, etc.) are always available and regularly updated.

The idea behind the levy of road taxes, user duties and tolls is the allocation of the costs of infrastructure (and external costs) to the real users of these infrastructures. For heavy goods vehicles (HGVs) a distinction is made between different categories for the levy of annual road tax according to the total permissible laden weight and the number and configuration of axles.

The administrative infrastructure, developed within the Division, to calculate and levy road taxes, user duties and tolls and to apply reduced rates and/or exemptions, needs to be upgraded and, where appropriate, supported by professional expertise coming from other involved Ministries (Ministry of Finance and Ministry of Economy).

5.4.5 International Affairs (Division for Foreign Relations)

Reference is made to the previous Chapter for a description of the tasks of the Division for Foreign Relations. In particular the remarks made on the need for up-to-date information on international transport legislation requires special attention. Combination with the planned in-service training centre as part of the Transport Reform and Rehabilitation Centre is recommended.

5.5 Recommended In-service Staff Training Program

5.5.1 Background

The previous Chapters provided a general outline of the organisational structure of the Department of Road Transport of the Ministry of Transport, functioning as the only Government institution that is officially authorised to set the rules and regulations for an independent road transport sector. At the same time an indication has been given of how and by whom these rules and regulations should be controlled and enforced.

In this respect it should once again be stressed that under the present, for FSU countries like Georgia, new free market conditions, the Government has to learn to refrain from any direct interference with the day-to-day management of the now independent business units within the transport sector. This is irrespective of the fact whether these units are privately owned or are still operated as a public utility services, like the railways or the national airline company. Key is that the Government makes the rules of the game and that the players, the independent transport companies, both public and private, have to stick to these rules. Trespassing the rules or foul play will be followed by sanctions.

The limiting conditions, within which transport companies are bound to operate, have in principle been designed to protect the interest of the public (through traffic safety regulations, environmental measures, an equitable tariff structure and the prevention of monopolistic trends within the sector). Usually the now independent transport sector will adapt to this new normative environment by establishing their own institutions, representing certain interest groups within the sector.

The professional staff of the various Departments at the Ministry of Transport all have their difficulties in facing the new reality. Sets of transport rules and regulations, that have become common good in an international environment, were up till only a few years ago unfamiliar to the average civil servant in all countries in the former Soviet Union. Suddenly they not only had to be thoroughly known, but also procedures had to be developed to have them incorporated in the respective legal and organisational frameworks of the Departments.

Being in many cases the (former) managers of the big state owned transport conglomerates, most senior officials at the Ministry's Departments still find it difficult to clearly distinguish their (former) managerial duties from their new tasks as leaders of a Department that regulates and controls, but refrains from direct interference in the management of the now independent transport related business units. In the present transition period it often happens that the heads of the Departments and the Divisions within these Departments are still wearing "two hats" and are having difficulties in deciding which hat should ultimately be handed over to somebody else.

The task which still lays ahead is immense and not only involves the design of new structures that reflect the new conditions. Even more important is the organisation and subsequent implementation of an intensive training program to prepare the professional staff of the various Departments for their new tasks. Without such a training effort, confusion among the staff will continue and remain to be a factor that will hinder further organisational development.

5.5.2 An In-service Training Program for the Road Transport Department

As a first step it is important to determine the current training needs of the professional staff of the various Divisions within the Road Transport Department. These needs are directly linked to their new tasks in the Department's organisation. In the new structure these tasks can be defined as follows:

- to give direction to the process of regulation and control of the road transport sector,
- to design a proper legal framework, in accordance with international standards, that defines the boundaries within which the national road transport sector will have to operate.
- to establish proper procedures that lead to the enforcement of set rules and regulations (licensing systems, regulations related to road traffic safety and anti-pollution measures, regulations concerning tariff structures, tax regulations, etc.),
- to regularly evaluate the effectiveness of fixed rules and regulations and, if needed, to suggest changes of these rules and regulations,
- to monitor the road transport sector as a whole and to forecast and plan the developments within that sector,
- to formulate and to regularly update a national road transport policy; at central level this policy advise will be included in the formulation of a national transport policy.

A further detailed analysis of these tasks will provide first of all a list of all subject matters that will be included in the curricula of the in-service training program. The following subject matters are of direct relevance for Government officials, dealing with the road transport sector:

Professional staff of the Division for Economic Affairs (and Road Transport Policy):

- Formulation of a Road Transport Policy (obstacles, potential solutions, priorities)
- Monitoring and Evaluation of the Road Transport Sector (information systems)
- Economic and Fiscal Issues related to Road Transport (tariffs, road taxes, etc.)
- Contracting and Tender Procedures
- Issues related to Multi-modal Transport

Professional staff of the Division for Licensing:

- Road Transport Legislation (national and international)
- Licensing Procedures (conditions for access to the road transport market)
- Transition to Market Economy (privatisation)
- Introduction to the Management of a Road Transport Company (passengers and cargo)
- Introduction to the Management of a Freight Forwarding Company

Professional staff of the Division for Safety Regulations:

- Road Traffic Safety and Anti-pollution Measures (international standards)
- Regulation and Control of Traffic Inspection Units

Professional staff for the Division for Foreign Relations:

- Road Transport Legislation (national and international)
- International Road Transport Organisations (in particular IRU/TIR Carnet issues)
- Road Transport and Trade Facilitation (incl. Customs procedures at border crossings)
- Regional Integration of Road Transport

Division and Section Heads:

- Human Resources Management and Communication Techniques (contacts with clients)

A first draft of an in-service training schedule, showing the above mentioned subject matters, the amount of participants and the costs of training has been included in Annex 2. The schedule includes the estimated duration of the courses, the required input of technical assistance and the estimated training budget.

5.5.3 Additional Aspects of the Proposed In-service Training Program

- (1) The content of the training courses should be as practical as possible: theoretical concepts should at all times be placed against the background of “real life experiences and situations” in both national and international settings.
- (2) An intensive Training of Trainers program to properly train carefully selected local instructors should precede the actual implementation of the staff training courses.
- (3) The training program includes the preparation of curricula, training materials and trainer’s guides by international experts in conjunction with local consultants/instructors.
- (4) The training should be organised in such a way that an active involvement of participants will be guaranteed at all times: practice has learned that a workshop type of training with lots of group working sessions is the best guarantee for an active participation.
- (5) Courses should have clear objectives and should lead to defined outputs: clearly described sets of regulations, written manuals on procedures and internal communication systems and detailed recommendations on how to further improve these procedures and internal communication systems.

5.5.4 The Organisation of the In-service Training Program

For practical reasons it is highly recommended to co-ordinate, and preferably, combine the in-service training program of the professional staff of the Road Transport Department with the training program, to be organised by the World bank sponsored Transport Reform and Rehabilitation Centre (TRRC). Starting 1997, the newly established Training Unit of TRRC (TU-TRRC) will commence to provide training courses for policy makers and professional staff of the entire Ministry of Transport and for managers and staff of transport companies and transport related branch organisations.

Discussions were held with both the management and the consultants of TU-TRRC on how to integrate the in this Chapter proposed in-service training program. The scheduled training activities of TU-TRRC already include series of training courses for the professional staff of the Road Transport Department. Although some details might differ, these planned training courses coincide to a large extent with the proposed schedule for in-service training activities as mentioned in the previous paragraphs.

Finally, it should be pointed out that, although there are at present still some distinct differences in the way the road transport sector is organised in the three Caucasian countries (see also the reports on Azerbaijan and Armenia), there are hardly any differences in the observed training needs of the Government officials, who are presently involved with the regulation and control of the road transport sector in these countries.

It is therefore recommended to combine, where possible, the planned in-service training courses for said officials. The Ministry of Transport of Georgia, having the advantage of having the required training facilities of TU-TRRC available at their premises in Tbilisi, could be the host for these combined in-service training sessions. Joint training sessions not only have the advantage of being more cost effective, but they will also provide an excellent opportunity to exchange common experiences and to discuss mutual road transport problems (and hopefully seek solutions to these problems) during the training sessions.

6 ROAD TRANSPORT DEMAND

6.1 Introduction: From road transport environment to the road transport system

The framework used for this report uses a top-down approach. After the analysis of the socio-economic and political factors in chapter 2 and the institutional settings for each country the road transport sector in chapter 3-5, the report now focuses on the analysis of the *road transport system itself*. The project focuses on analysing road transport demand and transport supply (and not on the road infrastructure).

It goes without saying that the quality of the road infrastructure (roads, traffic lights, signposting, resting and parking facilities) is an important factor for the quality of the road transport sector: The quality of the infrastructure influences the speed, reliability and operating costs of transport services. There are other TRACECA projects which are focusing on this aspect. The problem of the road infrastructure is beyond the scope of this project, but a few remarks are made on road transport infrastructure are relevant.

It has been observed that the quality of the infrastructure is one of the major obstacles for the development of fast and reliable road transport in the Caucasus. However, under the present circumstances, it is extremely difficult for the ministries to obtain funds for major infrastructural investments: the tax system is evaded on a massive scale, and the road transport sector is no exception to this. Moreover, the semi-legal fees charged to road carriers by the road police and customs departments are a negative stimulus to the road transport sector and the revenues of these semi-legal fees do not build up an investment fund for infrastructure. The problem of road funding is discussed in chapter 7, in the paragraph on road conditions and road funding.

6.1.1 The transition from a transport planning system towards a demand-oriented system

Under the economic system of the Former Soviet Union (FSU) most economic activities and production were centrally planned, and so was transportation. Production of half-fabricates, capital goods and consumer goods was spread all over the Soviet Union and transported over long distances. This led to huge transport flows over long distances. The vast majority of this long distance transport of huge amounts of freight was carried out by the national railway of the Soviet Union. Most short-distance transport was done by (5-8 tons) trucks. The majority of commodities transported by road were agricultural products and local and regional distribution of food and consumer goods.

In line with this transport system, the economies in all three Caucasian republics were transport intensive. Especially in Azerbaijan and Georgia (being the connection between the Black and the Caspian Seas) transport demand originated for over 50 % for import and export traffic. It is expected that this feature of transport demand will not change in the future.

Since the disintegration of the Soviet Union, the railway is not one national system without border crossings anymore, although the system characteristics are still uniform. Many borders have to be crossed and the due to armed conflicts in Chechnya, Ossetia, Abkhazia the rail routes from the Caucasus to Russia are cut off. This means that road transport is a good alternative, since road transport networks are flexible, contrary to rail transport. From this, it can be concluded that the demand for road transport will grow in the near future.

Due to the economic crises, and hence, a down-fall in economic activities, transport demand has declined drastically over the past five years. Although it is difficult to collect accurate data on transport demand under the present circumstances, it has been observed in all the transport operating firms: up to 80 % of the vehicles are not in operation at the moment.

However, in the coming years the transport demand is likely to change substantially. The structure of the demand is changing considerably as customer requirements become more diversified, as transport operators become more flexible and responsible, and with changing relative costs. Consequently, interregional and containerised road transport is likely to grow as it has done in market economies.

6.1.2 Traffic demand in the Caucasian region

The Caucasus republics Armenia, Georgia and Azerbaijan with a little over 16 million inhabitants and a (1993) GDP of almost 10 billion US\$ "faces" the Central Asian region (Turkmenistan, Kazakhstan, Uzbekistan, Tajikistan and Kirghizstan) with about 53 million inhabitants and a (1993) GDP of more than 53 billion US\$ at both ends of Baku. Within these 8 countries, Azerbaijan, Turkmenistan and Kirghizstan are believed to have the better economic growth prospects in the next 20 years, while Armenia and Georgia rank lower.

The two most important sectors in all 8 TRACECA countries are agriculture and energy. Georgia grows tea, grapes and citrus products citrus. Armenia grows grain, potatoes, vegetables and grapes. Azerbaijan grows cotton, tobacco, fruits, grapes and vegetables. Georgia's main natural resources include manganese, coal and timber. Armenia has mainly agricultural land to offer, as has Azerbaijan, but this country is also endowed with large oil and gas reserves, and iron ore.

Commodities traded by the 3 Caucasus countries are indicated in the table hereafter (next page):

Overview of Import and Export Products in the Caucasian Region	
EXPORTS	IMPORTS
Georgia	
Grain	Oil
Aluminium	Gas
Ores	Oil products
Bauxite	Food
Coal	
Armenia	
Machinery	Oil and gas
Food	Iron and steel
Light industrial products	Chemicals
	Machinery
	Light industrial products
	Food
Azerbaijan	
Mineral products	Chemicals
Chemicals	Vegetable oil
Non-ferrous metals	Machinery
Fibres	Mineral products
Agricultural products	Beverages
Machinery	Tobacco
	Meat
	Construction materials
	Agricultural products

The collapse of the existing system has seriously hampered the search for traffic demand data in this project. Most reliable data go back to 1991, before independence.

Under the present circumstances transport flow projections, both for external goods flows to and from the Caucasian republics and for internal goods flows within each of the republics are difficult to make, because:

- historic economic activities and -relations are almost completely destroyed;
- new patterns of economic developments are emerging slowly and with shocks, but more importantly; most of the economic activities are informal by nature, and therefore not registered in official statistics.

Whereas it was anticipated (ref. Inception Report) that the transport demand analysis and future projections would be provided by the parallel Traceca project on Regional Traffic Forecasts, and while Consultants attempted to liaise right from the project start to obtain data from other projects, no such data could be retrieved before finalising the draft final report.

Meanwhile, but in fact too late for the present project, this Regional Traffic Forecasts project and other Traceca studies, notably: Pavement Management, Border Posts Report, Ferry Terminals Baku & Turkmenbashi, Pre-feasibility Study Railways Baku-Batumi and Pre-feasibility Study Road Baku-Astara, have gathered (and reported) more or less relevant transport flow (demand) data, which could be combined to improve future freight transport demand estimation for the (3) Caucasian countries.

As mentioned, this could not anymore be done within the time allowed for in this project, while another, originally proposed activity (i.e. a comparative assessment of various, alternative, transport corridors between (North-)Western Europe and Central-Asia), looking at corridor transport demand with another, specific perspective, was considered to have no priority.

Since 1990 the cargo flows in the Caucasian regions have drastically declined. The main reasons for the down fall in transport demand are:

- (1) The collapse of the undivided transport system of the Soviet Union;
- (2) Economic crisis and hence down fall in transport demand;
- (3) Closing of many production centres;
- (4) Political instability and wars in Chechnya, Nagorny Karabakh, South Ossetia and Abkhazia;
- (5) Worsening road conditions.

It was observed and reported that a large share of transport demand originated from humanitarian aid: in the report for the project entitled 'The reorganisation of the Georgian ports of Batumi and Poti' it was concluded that 70 % of the cargo flows in these ports are made up of humanitarian aid. The table on the next page gives an impression of the total humanitarian aid to the Caucasian countries in 1993-1996.

1993-1996 Humanitarian Aid Summary for the Caucasus:

(based on actual discharge and expected quantities and rounded off to 100 m/t)

1996 (includes both arrived and expected consignments)

Programme aid²	130.200	61.100	156.800	348.100
Targeted aid³	19.600	9.100	19.800	48.500
of which through WFP	8.700	6.000	2.800	17.500
Commercial Imports	32.400	122.400	196.200	351.000

² 'Programme' aid includes food for budgetary support and concessional sales

³ 'Targeted' aid includes food distributed directly to beneficiaries

1995

Programme aid	359 100	324 000	536 800	1 219 900
Targeted aid	23 600	31 200	50 800	105 600
of which through WFP	10 100	13 500	16 400	40 000
Commercial Imports	20 400	8 700	56 500	85 600

1994

Programme aid	413 900	142 200	715 300	1 271 400
Targeted aid	50 900	54 400	37 200	142 500
of which through WFP	9 300	9 900	8 600	27 800
Commercial Imports	1 200	0	7 600	8 800

1993

Programme aid	248 600	64 500	345 200	658 300
Targeted aid	0	1 000	2 900	3 900
of which through WFP	0	900	1 000	1 900
Commercial Imports	0	0	0	0

The border-crossing freight transport volumes (1996) have been estimated by the "Report on transport customs control points" as follows⁴:

⁴ Source: Scott Wilson Kirkpatrick, TRACECA Trade Facilitation Project,

Country (border)	Imports	Exports	Remarks
Armenia (- Georgia)	65,000 T (road)	40,000 T (road)	5,500 trucks/each way
	500,000 T (rail)	60,000 T (rail)	
Armenia (- Iran)	250,000 T (road)	100,000 T (road)	30,000 trucks/each way
Azerbaijan (-Iran)	930,000 T (road)	105,000 T (road)	60,000 trucks/each way
Azerbaijan (-Russia)	3,500 T (road, 350)	15,000 T (road, 1500)	6,000 T (transit, 600 tr)
	200,000 T (rail)	85,000 T (rail)	
Azerbaijan (- Turkey)	15,000 T (road)	2,000 T (road)	1,000 trucks/each way
Azerbaijan (- Georgia)	300,000 T (road)	10,000 T (road)	17,500 trucks/each way
	900,000 T (rail)	900,000 T (rail)	include. transit
Azerbaijan-Baku port	200,000 T (70% rail)	200,000 T (70 % rail)	6,500 trucks
Georgia (-Armenia)	40,000 T (road)	65,000 T (road)	5,500 trucks/each way
	60,000 T (rail)	500,000 T (rail)	include. high % transit
Georgia (-Azerbaijan)	10,000 T (road)	300,000 T (road)	17,500 trucks/each way
	900,000 T (rail)	900,000 T (rail)	include. high % transit
Georgia (-Russia)	N/A (road)	N/A (road)	35,000 trucks/each way
Georgia (-Turkey)	530,000 T (road)	73,000 T (road)	37,000 trucks/each way
Georgia-Batumi port	1,300,000 T (most rail)	40,000 T	225,000 T transit
Georgia-Poti port	1,360,000 T(rail&road)	350,000 T(rail&road)	high % transit

In summary, total “imports” of Georgia including transit from Armenia and Azerbaijan (and beyond), are estimated at 4.2 million T/annum (1996) and total “exports” of Georgia including transit to Armenia and Azerbaijan (and beyond) at 2.3 million T/annum (1996).

‘Guesstimating’ the total transit volume at 1.6 million T, the net import volume of Georgia would have been 2.6 million T and the net export volume 0.7 million T/annum (1996). Would all of this volume be carried by road transport --which is not the case at present-- then an annual total of roughly 400,000 loaded truck “international” trips (average truck load say 12-12.5 T) could be witnessed on Georgia’s main roads.

Armenia’s import volume (1996) is estimated at 815,000 T of which 500,000 T was carried by rail (from/to Georgia), whereas Armenia’s export volume amounted to 200,000 T only (excluding air transport, of course). Presumably, there was very little transit traffic (as regards Armenia).

Azerbaijan’s “imports” including transit, were about 2.55 million T (1996), and its “exports” including transit 1.32 million T/annum (1996).

Guesstimating the total transit volume at 300,000 T, the net import volume of Azerbaijan would have been 2.25 million T and the net export volume slightly more than 1 million T/annum (1996). Would all of this volume be carried by road transport --which is not the case at present-- then an annual total of roughly 300,000 loaded truck “international” trips (average truck load say 12 T) would appear on Azerbaijan’s main roads.

6.2 Armenia

In the statistics ⁵ provided by the Armenian Ministry of Transport, the following figures are presented for **professional road transport** (an estimated Lorries & Vans fleet of around 8,000, excluding the Own Account freight transport fleet) and for freight transported by rail:

transport mode	1995			1 st half of 1996		
	tons (million)	tonkilometres (million)	av. haulage distance	tons (million)	ton kms (million)	av. haulage distance
professional road transport (exc. own-account transport)	2.5	60	24 km	1.09	24.3	22.2 km
railways	2.14	409	191 km	0.83	169	203.6 km

The TRACECA Regional traffic data base and forecasting model project has estimated the (border crossing ? ⁶) transportation volumes and turnover as follows:

transport mode	1990	1991	1992	1993	1994	1995
railway	16	12	3	1	1	1
road transport total, including public transport	262	205	38	31	20	20
water transport						
air transport	0.018	0.017	0.021	0.059	0.034	0.02
TOTAL	278	217	41	32	21	21

transport mode	1990	1991	1992	1993	1994	1995
railway	4.9	4.2	1.3	0.5	0.3	0.4
road transport total, inc. transport of common use	4.5	3.7	0.7	0.6	0.3	0.3
water transport						
air transport	0.05	0.04	0.02	0.01	0.01	0.02
TOTAL	9.4	7.9	2	1.1	0.6	0.7

Although there are considerable differences between the figures presented by the Ministry of Transport and the traffic flows presented by the WS Atkins - probably partly caused by the differences in definition and especially the exclusion of own-account transport, which seems to have a large market share - it can be concluded that decline in transport demand has been tremendous. There seems to be a discrepancy in average trip distance for road haulage (15 kms for the Atkins study and 24 kms for the Ministry of Transport which also seems low for international transport). In any case it can be concluded that trip distance for road transport is relatively low, compared to international standards.

⁵ Source: Ministry of Transport of Armenia

⁶ It is not exactly clear from the annex whether this is border crossing traffic volumes only, or whether these are the data for ALL transport flows (the average trip distance for road transport would support the assumption that it would be all transport flows)

Armenia's trade balance has been increasingly negative (Exports value in 1995 US\$ 263.4 million, Imports value in 1995 US\$ 668.5 million).

Exports go (went in 1995) mainly to Russia (33%) and Turkmenistan (24%), and furthermore to Iran (13%) and Belgium (12%). Other EU countries are the destination of 7% of the (1995) exports, other CIS countries with 4% and other countries with 8%.

On the (dominating) imports side, the (1995) situation was as follows: Russia, origin of 18% of total imports value, Turkmenistan 16%, USA 15%, Iran 12%; then EU countries 24%, Georgia 8%, other CIS countries 1% and other countries 6%.

Armenia's international trade certainly generates a great deal of long distance transport, considering the limited share of the trade with its immediate neighbours (i.e. Georgia, Iran, etc.).

Most important import product groups are "prepared foodstuffs, animal and vegetable products", and "mineral products", while imports of "base metals and articles of base metals", "chemical and allied industries products", and "machinery and mechanical appliances" have recently increased significantly.

Main export products (groups) are: "base metals and articles of base metals", "machinery and mechanical appliances", "mineral products", and "textile and textile articles".

Armenia is located at the cross-roads between Europe and Central Asia, and between Russia and the Middle East (between Christian and Islamic peoples). It could play an important role in the integration process of the Transcaucasus within the wider region and the creation of the Eurasian economic space.

A direct (road) link between Armenia and the port of Batumi (Georgia) is believed to represent a major contribution of the transport sector to this integration process with promising opportunities for road (freight) transport, in particular.

6.3 Azerbaijan

For Azerbaijan, some more 1995 data are available from the EBRD Study on BIM-TRANS Distribution Centre in Baku. According to those data Azerbaijan imported in 1995 a total in the order of 600,000 ton of foodstuffs, and almost 1 million tons of crude and heavy oil.

In 1995 Azerbaijan exported in about 1.5 million tons of oil products (diesel oil, engine oils, petroleum coke, oil for heating and some fuel); 54,000 tons of chemicals and petrochemicals; 30,000 tons of metal products (AL brims and coils, iron ore, steel), cotton products (85,000 T) and cotton string (2 mln m'), some foodstuffs (caviar) and consumer goods (airco's and refrig's).

The WS TRACECA regional traffic forecasting model estimates the (international, border crossing ?) transport flows for Azerbaijan as follows:

Volume of transportation in millions tons						
transport mode	1990	1991	1992	1993	1994	1995
railway	80.5	73	39.6	25	13	9.1
road transport total, including public transport	380.8 97	346.7 137	243.2 50.4	170.2 24.5	104.9 19.4	74.5 12.5
water transport (river and sea)	17.8	15.6	7.9	6.5	6.6	5.7
air transport	0.03	0.02	0.02	0.02	.003	0.02
TOTAL	479.13	435.32	290.72	201.72	124.53	89.32

Freight Turnover, billions ton kms						
transport mode	1990	1991	1992	1993	1994	1995
railway	40.5	32	14.2	9.9	4.4	3.2
road transport total, inc. transport of common use	8.2 3.3	7.5 3	5.2 1.3	3.4 0.6	2.5 0.6	1.7 0.3
water transport	9.9	8.9	4.9	4.3	4.7	4.6
air transport	0.05	0.04	0.03	0.03	0.05	0.06
TOTAL	58.65	48.44	24.33	17.63	11.65	9.56

These figures indicate that the downfall in transport demand was not as dramatic as in Georgia and Armenia. A possibility may be that the oil industry (and the linked projects) has kept transport demand partly going (although the Port of Baku study of HPTI does not support that assumption, this study has revealed that salt is one the main commodities that is being transported at the moment. The average trip distance for road transport would be 22.8 kms.

Future traffic flow projections are (so far) found only in the Baku Port Master plan (Source: TRACECA Study by HPTI c.s.). The most likely scenario for the Port Baku future traffic flows (expressed in 1000 tons) is summarised in the following table .

COMMODITY (1000 TONS)	1995	2005 PROJECTION	2015 PROJECTION
Building materials	0	134	240
Salt	111	161	288
Grains	4	170	170
Timber /lumber imports	0	40	72
Timber /lumber transit	1	20	36
Metals transit	12	67	120
Metals import	0	67	120
Scrap metal exports	0	80	
Cotton exports	0	13	24
Fruit/Vegetable export	0	47	63
Misc. Food prod. import	0	67	144
Oil Industry. Project cargo	0	13	24
Misc. general cargo	9	27	48
Containerised cargoes	5	107	192
TOTAL DRY CARGOES	142	1013	1680
LIQUID BULK CARGOES	91	10000	10000
CONTAINERS (TEU- #)		42333	75917

The Port of Baku interconnects the hinterland of Armenia, Georgia and Azerbaijan as regards the goods flows with the East, i.e. Turkmenistan, Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan) and these "hinterlands" formed by the 5 countries (as regards the goods flows with the West, the 3 Caucasian countries but also Western Europe).

6.4 Georgia

The position of the railways as principal means of transportation of export/import freight is expected to be weakened, with the exception perhaps of a system of unit block trains (primarily containers⁷) between Poti and Baku (vice versa) and between Poti and other major destinations (e.g. Yerevan), if such traffic volumes will be able to sustain the up-keep of the concerned railways infrastructure.

Much less cargo comes now from Russia whose comparative significance as a trading partner is continuing to decline. A trading partner of increasing importance, Turkey has no direct railway link with Georgia so that trade relies on road transport.

The railways are capable of handling only 30% of their 1990 level, and there are large backlogs in infrastructure maintenance (calling for rehabilitation), and rolling stock renewal.

⁷ The introduction of a container block train Baku-Poti would have a major impact on road transport, of say 160 TEU (trucks) per day in both directions together, say 25,000 truck trips per year (vice versa) at a frequency of 3 block trains per week

The greater flexibility of road transport is better suited to market transformation and privatisation (compared with the huge and inert state-owned railway system). A current problem in monitoring road transport (developments) is that official figures reflect only a (probably small) part of total traffic, because commercial road vehicle transport easily eludes not only taxation but also state statistics.

Georgia's external trade position remains weak (although trade deficit is declining, this is due to contraction in both exports and imports). But production has begun to grow again, largely on the back of private production in the agricultural sector. Privatisation is making good progress, so that investors may soon be in a position to make informed decisions about where to put their money. Domestic finance resources are, however, small and further restructuring will require an open policy on foreign investment.

The share of trade with the FSU in total trade has declined although Russia remains the most important export partner (36% of total export value of US\$ 50.7 Mln in 1st Quarter of 1996). Next, there are Armenia (18%), Turkey (12%), Great Britain (10%), Bulgaria (8%), Azerbaijan and Turkmenistan (5% each); Germany (4%), Ukraine and Switzerland (1% each) make up for the rest.

Most imports originate from Turkey (25% of total import value of US\$ 132.7 Mln in 1st Quarter of 1996), followed by Romania (18%), Azerbaijan (14%), USA (10%), Great Britain and Russia (7% each), Ukraine (6%), Greece (5%), Italy and Austria (4% each).

“Regional “ trade (transport) focused on Turkey, Azerbaijan, Armenia, Russia, and across the Black Sea Romania and Bulgaria is rather dominant in Georgia's presently evolving trade patterns.

The TRACECA Regional traffic data base and forecasting model estimates the (international/border crossing ?) transport flows as follows:

Volume of transportation in millions tons						
transport mode	1990	1991	1992	1993	1994	1995
railway	28.288	20.074	7.695	5.321	2.851	3.283
road transport total, including public transport	167.07	115.13	26.547	10.416	8.168	8.69
water transport (river and sea)	9.127	10.267	5.921	4.603	3.276	1.638
air transport	0.017	0.012	0.007	0.005	0.004	0.002
TOTAL	204.50	145.49	40.17	20.35	14.30	13.61

Freight Turnover, billions ton kms ⁸						
transport mode	1990	1991	1992	1993	1994	1995
railway	12.354	9.916	3.677	1.75	1.216	1.029
road transport total, inc. transport of common use	2.3	1.65	0.3877	0.1214	0.083	0.13
water transport	61.855	52.188	37.018	32.901	25.637	14.138
air transport	0.028	0.026	0.092	0.004	0.0051	0.0058
TOTAL	76.55	63.78	41.09	34.78	26.94	15.30

6.5 Long-term growth perspective

Figures and data are at this moment somewhat varying, due to the difficult circumstances mentioned before in paragraph 6.3. Consultants expect that the TRACECA regional traffic forecasts model will provide better and more elaborate data on traffic flows and growth scenarios for road transport. Among the Caucasian transport forwarders, there is a confidence in a rapidly growing international transport market. Forwarders and transport operators interviewed all confirmed that since the second half of 1995 and even more so in 1996, the transport demand has been rising slowly, but steadily in all three republics⁹.

As already mentioned, there is the humanitarian aid flow which may continue for another three years; next there is the prospect of large development projects in both the Caucasus and Central Asia, calling for significant import flows -and presumably- many transports during the coming ten years. The oil industry in Azerbaijan will certainly create rising transport demand for this republic (e.g. equipment for drilling stations, etc.). Quantification of the transport flows for the coming years would be a useful contribution of the TRACECA Regional Traffic Forecast Project.

The long term growth perspective in the region, with Baku as a sort of 'pivoting' point seems certainly to exist. It would be worthwhile to supplement the (HTPI) work with a modal split allocation exercise, starting from the under laying country-to-country flow projections, in order to show the actual and potential road traffic volumes generated by/through Port of Baku.

For 2010 the (HPC Hamburg Port Consulting GmbH) study on the reorganisation of the Georgian Ports of Batumi and Poti has forecasted that the economic development in Georgia and Armenia will be on 1990 level in 2010, whereas Azerbaijan in Azerbaijan will achieve twice the level of 1990 by then. Based on these figures, a traffic forecast was made for the Georgian Ports in 2010:

⁸ The Atkins report states the billion ton kms still in thousands, e.g. road transport turnover 130 billion ton kms, this would mean that the average trip distance would be 14,959 kilometers ! Therefore consultants made the assumption that it was accidentally reported in million tonkms whereas the table says billion ton kms.

⁹ Consultants are aware that the transport demand reflections within the frame of this project have are fairly limited character. It is therefore recommended also to recipients of this project (especially Ministries of Transport) to request for traffic data from the TRACECA Project Regional traffic database and forecasting model at the TRACECA co-ordinating office in their respective republic. This would enable them to oversee the complete tables of data, since this report only deals with transport demand very generally and briefly.

Turnover forecast of Georgian Ports in mlns tons (medium variant)¹⁰

Cargoes/Year	1990	1994	2000	2005	2010	trade directions	2010 incoming	2010 outgoing
dry bulk cargoes	5.51	1.40	3.2	4.3	5.11		2.65	2.46
liquid bulk cargoes	4.50	0.62	2.10	2.70	3.30		0.00	3.30
general cargoes	0.14	0.35	1.31	2.29	3.60		2.16	1.44
TOTAL	10.15	2.37	6.61	9.29	12.01	via Georgian ports	4.81	7.20

According to this study, new markets for trade/exports are fruits, forest products (paper). Applying this forecast to maritime traffic, an average number of 1,380 vessels per year or four ships per day are expected to call the Georgian ports in the year 2010. Concerning the modal split of the hinterland traffic, 2.6 mn tons are expected to be transported by pipeline, 8 mn tons by rail and 1.4 mn by road. Calculating with an average truck load of 15 tons, above figure represents more than 90,000 truck loads per year or an average of 250 lorries per day in the ports. According to this study, 4.2 mn tons of the 12 mn tons in 2010 would be coming in via the TRACECA route.

6.6 General Conclusion on road transport demand

It can be concluded that -although figures are varying and sometimes even contradicting- a decline in traffic demand was observed between 1990 and 1995/6. However, it seems that the decline in demand has bottomed out by now (early 1996). With (sometimes modest, but still) economic growth expectations reported in various studies, the transport demand will start rising again. Although there are threats to the road sector, such as improvements in the rail way, there is still enough opportunity for the road transport sector to grow gradually, provided that certain market conditions are improved and that the Caucasian road transport sector meets the demand properly (improvement of service level) or else the rising demand will be met by operators from outside the Caucasus (Turkish and Iranian operators). Chapter 8 of this report focuses on recommendations to meet these market requirements.

6.6.1 Structural shift in transport demand from rail to road transport

Structural change and a move to a market economy will eliminate uneconomic, obsolete and ecologically harmful plants. The move from state-owned industrial giant complexes to smaller consumer-oriented firms is likely to alter transport patterns significantly. The other significant trend expected is an increasing shift from rail to road; the pace of this shift will depend on:

- (1) the speed at which the economy recovers and becomes strongly market-oriented;
- (2) the rate of new businesses development generating time- and service-sensitive traffic that never will be shipped by rail;
- (3) the speed at which road transport services are privatised and forced to provide flexible, fast and reliable service.

The oil industry is commonly expected to initiate the impacts in Azerbaijan, including the shift from rail to road, with a 'spreading out' effect over the Caucasus region.

¹⁰ Source: HPC (Hamburg Port Consulting GmbH) for GTZ, Hamburg, 4 April 1996

7 ORGANISATION AND OPERATIONS OF ROAD HAULAGE IN THE CAUCASUS

7.1 The Socialist Organisation and Operating Profile of Road Haulage

The socialist organisation of road transport created large enterprises, integrated across the entire area of the republics and with a range of activities far more diverse than found in road haulage enterprises of the market economies. There were several types of enterprises: the local divisions of the transport operator of the entire Soviet Union: the so-called "SovtransAvto's" (e.g. SovtransAvtoBaku, SovTransAvtoPoti), the state-owned road transport operators under the 'ministries of Auto Transport' and the Specialised transport operators. Different segments of the road haulage industry were sponsored ('founded') by different ministries for the specific branch of the economy in which the respective ministries were involved. This led to an extreme specialisation in road transport.

The distinction between general trucking firms and others that specialise in haulage for specific industries/products (e.g. transport of cattle, transport of chemicals, liquids, etc.) is normal in road haulage industries, but the relatively large size of the special industry-specific road haulage sector like in the old socialist system is not usual in market economies.

Outside professional haulage by state-owned companies and 'ministries of road transport' socialist enterprises used to perform their own-account transport. Alongside the public road transport sector, there co-existed some truly private haulage. This was a small percentage, but since the independence the trend is towards a growing private-owned transport. The process of privatisation is still on-going in the region; in Georgia the privatisation process is almost completed, in Armenia and Azerbaijan the first steps in the privatising road haulage were made since 1995 and further progress is foreseen for 1996/97.

Another characteristic feature of the socialist road transport system is the mix of passenger transport and road haulage in the 'ministries' of road transport. The process for restructuring the passenger transport sector is very different from restructuring the road haulage sector. Passenger transport is outside the scope of the project, but one of the first steps in the restructuring of the sector is to make a clear division between road haulage and passenger transport. In Georgia, this division is clearly made in the newly established Ministry of Transport. In Armenia and Azerbaijan, this is one of the first critical steps in the restructuring process. It is also of critical importance to make a clear division in the financing structures of both sectors. In market economies it is common practice that Ministries of Transport subsidise passenger transport, but for road haulage this is not usual. Also, in the Caucasus, the revitalisation process of the road haulage sector must be initiated through the market mechanism: the transport demand will determine the size of the fleet and of the operators.

7.2 Introduction: Road transport sector characteristics in the Caucasus

Before independence, the road transport sector in all 3 republics was closely integrated with the Soviet Union. The Caucasian road transport system did fit into the general description above, including overuse of transportation (because of high regional specialisation of production), large market share for rail, centralised control of investments and technical and administrative competence of management, but unfamiliarity of cost/benefit analyses or other market oriented management techniques.

So far, the road transport sector has hardly adapted to the changes that the region has experienced since 1991. The lack of restructuring of the sector and adaptation to the new circumstances has led to:

- unclear competencies (between management of state-owned operators and ministries);
- difficulties in finding investors and lack of investments necessary to reconstruct the sector, and hence, lack of resources;
- lack of incentives for both management and personnel;
- lack of technical innovation and upgrading;
- no replacement of vehicles and other equipment;
- destroyed data bases on the road transport sector (no. of vehicles, turnover, traffic, etc.) in ministries;
- low operational efficiency and quality.

Another major problem has been the lack of state control in the period since independence. Related to this is the lack of a regulatory framework, and more specifically, a licensing system, setting safety standards, etc. The institutional strengthening component in this project has focused on the restructuring of the institutional settings for road transport in the Caucasus. Unfortunately, licensing is still not addressed under the current project, but a follow-up project is recommended in the field of licensing systems for road transport in the Caucasus.

All these factors and circumstances together has led to a take-over of practically all international transports by Iranian and Turkish road transport operators.

The local road transport demand and (short distance) regional transport demand is predominantly met by private one-truck operators. To this end, employees of the state-owned firms lease the vehicles from their employer (on a weekly or monthly basis) and operate private transport with these state-owned (mostly 5-8 tons) vehicles. For this purpose, they assemble with their trucks on 'markets' outside the cities. Clients are usually farmers or small shop owners.

Altogether, this has left the (former) state-owned operators with hardly any work to do. This makes it difficult for these operators to break the circle; there is hardly any work to do, leading to lack of resources to invest in vehicle maintenance, repair and investment in new vehicles is even further away. Since the early nineties no vehicles were replaced for new ones.

In Georgia, commercialisation and privatisation is almost completed, in Armenia and Azerbaijan the process is emerging. There is no doubt that after privatisation some of the former state-owned operators will disappear in due time. Also, it is expected that private initiative will come up more strong and will start small and medium sized firms in road transport, not the 'informal' ones as they exist right now. After a transitional stage, these informal operators will either disappear or be formalised through the implementation of licensing system.

7.3 Some key figures and estimates

As stated before, data bases are almost completely destroyed, and therefore the overview of key figures does not claim to give a complete overview, but hopefully other projects will proceed with building up further and more detailed data bases, including for the road transport sector. Nevertheless, some of the available key figures are presented hereafter.

Truck fleet

The latest official statistics on the number of trucks in Azerbaijan that could be obtained are of 1994. In this year the division of trucks was:

- < 10 tonnes: 71,434 trucks
- > 10 tonnes: 9,938 trucks

Total size of fleet 81,372 trucks

The research in the transport operating companies revealed that hardly any trucks were procured since that year. It is expected that the number of trucks has not increased, but decreased, since most trucks are from before 1989 and a number of these trucks reported in 1994 will be technically obsolete in 1997.

For Armenia and Georgia, no such elaborate data on number of trucks are available for this study, although other studies may have come up with more data on vehicle fleet.

For Georgia it is reported that the road transport department controlled about 12,000 lorries, but this does not include the own-account transport, which traditionally had a large market share of road transport.

The same goes for Armenia: The ministry of transport has reported that the state concerns control around 8,000 lorries and vans, but again, own-account transport is not included.

The vehicle fleet in the Caucasus is made up of old Former Soviet Union cars. The following vehicles have been defined as most representative and most common in the study on the Baku-Astara Ring road:

vehicle class	vehicle type/brand	payload
light commercial vehicles < 3 tons	UZAZ 451	1.0 ton
	(now replaced by 31512) GAZ 52	2.5 tons
medium commercial vehicles 3-5 tons	GAZ 53 A	4.0 tons
heavy commercial vehicles 5-8 tons	ZIL 130 (now called 431410)	6.0 tons
very heavy comm vehicles > 8 tons	KAMAZ 53212	10.0 tons
	Supermaz	10.0 tons

The major disadvantage of the old vehicles -especially in the light and medium class - is that many of them are still using petrol for fuel instead of diesel. Besides, the capacity of these vehicles is very low. (Former) State enterprises are recommended to consider selling these vehicles to small private businesses (e.g. farmers, shop owners or drivers providing transport for this particular market) in order to generate income to repair and invest in the existing fleet and maintenance facilities, in order to improve the service level. The 'heavy' commercial vehicles and 'very heavy' commercial vehicles still seem to have a future in regional and national transport supply. As long as the transport regulations do not require Western European emission standards, it is of no use to start investing in Western European trucks for national transports.

Fuel prices in the Caucasus¹¹

country	automotive fuel prices (1996 average level)	
	petrol (US \$/litre)	diesel (US \$/litre)
Armenia	0.35	0.30
Azerbaijan	0.35	0.14
Georgia	0.28	0.21

Performance

World Road statistics 1990-1994 (IRF) recorded the following statistics for Azerbaijan on freight road transport fleet and its (declining) performance. Overall average vehicle-kilometrage decreased to 22,000 km per year, with a decreased (overall) average load of 1.42 ton. The number of lorries and vans (registered, licensed?) came down to around 11 per 1000 population. In 1994, there were 9,938 trucks (12% of total fleet) with a load capacity of more than 10 ton. (i.e. 1.33 heavy truck/1000 population¹²)

Year	Lorries & Vans	Mln Veh-Km	Mln T-Km	Population	Aver Load	Aver Km	L&V/Pop
1990	99507	3552	8189	7187	2,31	35696	13,8
1991	94775	3261	6894	7297	2,11	34408	13,0
1992	90466	2856	5181	7368	1,81	31570	12,3
1993	84289	2155	3348	7430	1,55	25567	11,3
1994	81372	1789	2544	7486	1,42	22020	10,9
1995							
1996							

Again, no such elaborate data could be obtained from the Georgian and Armenian side, but it can be assumed that the trends in performance rates are similar to those in Azerbaijan.

Vehicle Operating Costs

The Study on Implementation of Pavement Management Systems has also estimated the vehicle operating cost (financial cost):

¹¹ Source: Draft Final Report Implementation of pavement management systems, Kocks, December 1996.

¹² In Western Europe's (affluent) market economies the average number of trucks with more than 7 Ton load capacity ranges between 3 and 4 per 1000 population (Trucks > 5 T load capacity: 3.5 - 5.5 per 1000 population; an overall average of 9% (ranging between 5-21%, in various countries) of the total Lorries & Vans fleet has 5 T or more load capacity, and an overall average of 7% (range 4-18%) of the total Lorries & Vans fleet has 7 T or more load capacity)

vehicle operating cost per country	vehicle operating costs (US \$ per 1000 kilometres)		
	truck 2 axle	truck 3 axle	truck > 3 axle
Armenia	261.20	538.35	904.64
Azerbaijan	238.03	535.34	755.02
Georgia	237.78	484.22	692.41

The financial costs are made up of the components:

- automotive fuel consumption
- lubricants consumption
- tyre consumption
- crew time
- maintenance spare parts consumption
- maintenance labour time
- depreciation and interest
- overheads

It is remarkable that in the Caucasian republics only somewhere between 1.1 and 1.3 % of the vehicle operating cost is spent on labour on maintenance. This shows that maintenance is very low, which eventually will lead to decreasing performance and life time of the vehicles.

Trip prices

The average price in the Caucasus for a full loaded container (20 ft) is about 1 US \$ per loaded kilometre. For return trips of unloaded containers 50 % of the price is charged. This does not include the rate for escorts and (semi-legal) fees and official customs rates. The going rate of *escort* costs (in Georgia) are reported to be between US\$ 1,000-2,000 for a loaded truck and US\$ 500 for an empty truck. The price setting for urban/regional transport of goods is set for each trip and varying. The client and the operator negotiate the price and the client usually accompanies his load on the trip. The price may vary depending on the penalties paid, type of goods, destination, etc.

The paragraphs on the three republics hereafter each start with a description of the conditions for each republic respectively and after that introductory paragraph some operators and forwarders are discussed more in-depth. The general purpose of these paragraphs is NOT to give a full-fledged description of the entire road transport sector in each republic, but rather to give some examples of different types of operators and forwarders in each republic and the day-to-day problems they are facing. Of course, this doesn't mean that there aren't other actors in the field of equal importance, or that problem A discussed under enterprise A is not also a problem that company B and C are facing.

7.4 Armenia

7.4.1 Transport market characteristics and operating conditions

From a transport point of view, Armenia is under the most difficult geo-political circumstances of the three countries. It is completely land-locked and the blockades by Azerbaijan and Turkey hinder the east-west freight traffic flows. The blockades have led to a breakdown of the transport network of the Republic of Armenia. The nearest sea ports are Bander Abas in Iran and Poti in Georgia. However, transport through Georgia is expensive for Armenian operators, the (semi-official) penalties and the fees for escorting convoys (up to US \$ 2000 for a truck) make it

difficult to compete with Georgian operators. The market in Iran is protected for non-Iranian operators by means of high taxes on the fuel. Finally, the bureaucracy in the customs offices at the borders lead to long waiting times and high unofficial fees are charged to cross the borders.

However, a positive stimulus for the road transport sector in Armenia is the reopening of the borders with Turkey. One border was opened officially in 1996 (but reportedly hardly any truck can pass it), two (direct) routes seem to be under consideration; apart from some direct cargo transports through Georgia, there is transshipment at the Georgian-Turkish border from Turkish to Armenian trucks. If transport between Armenia and Turkey is fully operational, Yerevan can become the hub for transport activities between the Mediterranean, Black Sea, Caspian Sea and the Indian Ocean.

There are two other positive developments in Yerevan which may help promote Yerevan as a "transshipment hub". One is the creation of a modern multi-modal cargo terminal at Yerevan Airport, expected to become operational by the end of 1997. The other is the opening of a Midland Bank branch (on 1 March 1996), facilitating all required international banking operations/services. The dynamics of traffic flows will change, because Armenia will have direct rail connections with Muezzin in the Turkish Mediterranean.

The Armenian road haulage sector is not (yet) privatised, and the issue of privatisation is carefully considered. The Government has a Privatisation Plan incorporating some 250 companies (35 were privatised in 1995; about 21 are scheduled for privatisation in 1996, etc.), but the State has so far maintained a significant share in Transport companies.

Two fully state-owned transport operators are internationally active, mainly with the Ukraine and Russia: one is the former SOVTRANSVTO-equivalent (Armenian branch), and the other has been newly established. Another (big) Transport Company is 40% State and 60% Private, but is only operating domestically (i.a. petroleum products distribution).

Three international freight forwarders have been identified. The first is an Armenian-Irish JV International Shipping Company (50% State - 50% Irish private firm): Armenian International Shipping Company Ltd. The other firm is Apaven Ltd. This is a fully private-owned shipping company founded by a number of former university professors. The third forwarder is Armentransforwarder, a 40 % subsidiary of the Cautrex group from Georgia (see paragraph 7.4).

None of the international freight forwarders use Armenian transport operators for international transports: In Georgia they make use of Georgian operators and in Armenia they make use of Iranian transport operators. It is very difficult, i.e. expensive, for Armenian registered trucks to operate in or through Georgian territory. A trip to Kiev (empty) to pick up a full truck load for Yerevan may have total vehicle operating costs of about US\$ 2,000, but the current actual costs may be as high as US\$ 7,000 due to the *escort* costs and semi-legal fees to be paid, especially in Abkhazia.

The number of trucks crossing the Armenian-Iranian border is between 150 and 200 per day (two ways). Most international transport between Armenia and Iran is operated by Iranian operators because of the market protection in Iran. In Iran diesel is very cheap, but foreign operators have to make up the difference between local prices and international diesel prices, which makes it difficult to compete with Iranian operators. Another problem is the customs on the border between Iran and Armenia; the custom fees for entrance of Iran are high. Foreign transit traffic through Iran is due to deposit \$ 5000 at the borders, which is a high barrier for Armenian operators under the current financial circumstances.

7.4.2 State-owned operators in the Road Transport Sector

The vast majority of official road transport operators are still under the control of the Ministry of Transport as described in chapter 3 (see organisation chart). Two of the firms are involved in international transport:

7.4.2.1 *Inter-State Transporters (Ex-Soyuz Vnes Trans/Armenia)*

The remains of the Armenian branch equivalent of SovTransAvto is in fact the only company with significant experience in international (Inter-FSU State) transport. The most important commodities transported by inter-state transporters are canned foods, cognac, wines, metal alloys, scrap metals and minor bulk goods.

The economic depression and the blockade have decreased the company's level of activities. According to the management, an average of 80 trucks in operable condition (out of 122 owned) made some 800 trips (average load/trip 12.4 tons).

Lack of good tyres (sizes 900/Kamaz, 1000/Trailer, 1100/Supermaz) is a huge problem. Both new tyres and retreads are manufactured in Yerevan, but the quality is very low; the new ones seem to last not more than 25,000 km under the prevailing condition of bad roads and heavy loading. In the case of retreads, the tyre's carcass must of course be in a good condition in order to facilitate a quality rubber cover.

7.4.2.2 *International Road Transport Enterprise*

This is a newly established international transport company (Manager Mr. Felix S. Hovhannissian), founded on the remains of the main Yerevan area transport company of the former State Transport Ministry. In 1989 they were transporting/distributing some 225,000 tons/year, producing about 5.5 mln ton kms (average haulage distance 24.5 km) in the Yerevan region (predominantly meat and dairy products, also vegetables in the summer); their turnover in monetary terms was Rb 3.7 mln (when the Rouble still was valued higher than the US\$), and they operated a fleet of about 300, mostly small trucks (0.5 - 5 T payload).

In 1995, they carried 14,100 tons and produced 771,400 ton kilometres, of which 11,800 tons/year were carried locally (i.e. 221,000 tonkms, average haul almost 20 km) and 2,300 tons carried over longer distances (i.e. 550,000 tonkms, average distance almost 240 km). Most of the longer distance haulage was to Nagorny Karabakh, but there is and was also some transport to Russia and the Ukraine. Not more than about 30 vehicles are involved in today's transport activities: 5 Supermaz (the 'youngest' acquired in 1990), 1 second hand Czech (Mercedes) tractor, 22 trailers; and 6 Maz of 10T and 19 of 14-20T load capacity.

The past disciplined maintenance practice was in a cycle of turn out 1 by 1 mechanic/2 man hours, turn out 2 (every 10,000 km) by a brigade of 4-5 mechanics during one day/36 man hours. This maintenance practice has completely gone, due to the combination of infrequent, irregular haulage and lack of income; inspection before/after any long trip. Currently, turn out 1 treatment and major repairs are done ad hoc whenever needed, including, preparations for the *winter*, whereas there used to be a winter maintenance schedule. This company used to have 40-50 mechanics, now there are about 5 active.

7.4.3 Forwarding Services in Armenia

7.4.3.1 *Armenian International Shipping Company Ltd. (ARMIS)*

The Irish registered Cy. UNITRANS and the Ministry of Transport established this Joint Venture (50/50%) for Shipping and Forwarding. Whereas the Arab Emirates presently are a main trade partner of Armenia together with Iran there is a close co-operation with United Arab Shipping Company which is also represented in the five capital cities of the Central Asian Republics. There is a significant container flow from Bandar Abbas in Iran to Armenia.

ARMIS mostly makes use of the route between Armenia (*Yerevan*)-Turkmenistan (*Ashkabad*) through Iran by road, avoiding the Caspian Sea crossing which is time consuming and very expensive: The fare for a two way trip is US\$ 2,500 and avoids the Azeri road tax.

ARMIS looks forward to Transit-Armenia deals, e.g. Poti (Georgia) via Yerevan to the Central Asian states, via Iran; So far they have handled only Armenia-originated goods. Transshipment in Armenia of cargo brought by Western European transport operators would reduce their empty back haul distance.

7.4.3.2 *Apaven*

In 1993 this forwarding company has been founded by a group of professors in the university of Yerevan. At first, they combined their university activities with their private ones, but now they are full-time engaged in forwarding. Apaven ltd. does not make use of the state-owned Armenian transport firms for international consignments, due to problems mentioned above.

In a few years they built up quite a market; e.g. their current number of assignments to Batumi and Poti is 150 per month. Most of the cargo is transported by railway. The rest is transported by road carriers. Most of the road transport operators are private drivers. Apaven makes use of the services of small Georgian operators. The total transport capacity they currently need for their consignments is around 40 trucks and drivers. For the transport to Iran this firm uses Iranian companies.

The turnover of this forwarding company was in 1995 1 to 1,5 million US \$. The first months of 1996 the turnover was 600.000 US \$. In both periods they reached a net profit of 7%.

The tariff for a round trip Poti Yerevan is 1650 US \$ for the transport of a 20 feet container. The price for a 40 feet container is 2300 US \$. The price of a transport of a reefer container is 2500 US \$. For the return trip of an empty reefer 50% of the price.

7.4.3.3 *Armentransforwarder ltd*

Armentransforwarder ltd. is a private transport and forwarding company and is for 40 % owned by the Cautrex Group from Georgia. The transport division of this company operates 4 trucks and 5 container trailers. In the near future Sealand (this firm is the Armenian agent for Sealand) will supply Armentransforwarder with another 5 container trailers. In 1995 approximately 1000 containers from Poti to Yerevan were consigned, of which 50% was transported by rail.

The difference in the price-setting between the transport by truck or by rail is 5 to 10%. Transport to Georgia is expensive for Armenian truck companies (for the reasons mentioned earlier).

The containerised export traffic flow export traffic is for 40 % back loaded. If there is no back load, the client pays 50 % for the return trip.

7.5 Azerbaijan

7.5.1 Introduction: Transport Market Characteristics and Operating Conditions

From a road transport point of view, Azerbaijan is under better geo-political circumstances. The West-East (Europe-Black Sea-Caspian Sea-Central Asia) and South-North (Iran-Russia) corridors join near Baku. From the 600-700 HGV's on the road section Alyat-Baku, about 2/3 travelled in 1996 via Iran and about 1/3 via Georgia. With the reopening of the Dagestan-route to Russia in 1996 and depending on the time it will take until the (2) routes between Georgia and Russia (along the Black Sea and Rostov-Tbilisi) will be reopened, the (road) transport flow pattern will remain "in flux".

The Azerbaijani transport system was generally well adapted to the country's geography and was traditionally sufficient to satisfy transport demand. However, the sector has faced endogenous and exogenous problems. Endogenous problems include inefficiency, inadequate pricing and cost price systems and the regulatory and institutional framework (see also chapter 4). Exogenous impediments are connected with internal and external political unrest, particularly the conflict over Nagorny-Karabakh, and (in the past) the Gulf Crisis which blocked all freight transport to Irak and to other neighbouring Middle-Eastern countries and the unrest in Chechnya blocking the corridors to the North. Most freight with Russian destinations is now forwarded via Iran, Georgia, Turkey (Samsun port) on the Black Sea and Novorossisk (starting point for the consignment network for Russia, Belarus, Poland and Western Europe).

For the above reasons present road freight transport market in Azerbaijan mainly concerns internal transport and connections with neighbouring Iran, Turkey and Georgia through which all international traffic must necessarily pass for destinations in the Russian federation or in Western Europe. The re-opening and rehabilitation of the Tbilisi-Batumi road has given a major positive stimulus for the road traffic and so did the re-opening of the Dagestan route, together with the Chechnya route one of the backbones of road transport in Azerbaijan.

The oil from the drilling stations in the Caspian Sea is expected to start flowing mid 1997 and this will have a positive impact on the road transport market. The development of the port of Baku (one of the other TRACECA projects) will definitely give a major impact to (containerised) road transport in Azerbaijan.

Present truck traffic passing through Baku is up to 200 trucks/day (here say guesstimates), before the war it was around 500 trucks/day on peak days (nearly 100,000 trucks per year).

A number of new Azerbaijani firms and individual drivers operate either on the domestic market or within the former Soviet republics. No official statistics are available concerning the number and activities of these small enterprises. One of the first medium sized fully-private owned enterprises is the Makro Transport Group. This firm is active in forwarding, transport operations and TIR parks (secured parking lots with resting facilities, customs clearance etc.) Makro is an agent for P&O in Azerbaijan.

The private market (small one-truck operators leasing a vehicle from their employer, usually a state-owned firm) is mainly based on direct business between clients and hauliers. Private trucks in Baku park freely outside the town on the road to Rostov where they wait for an occasional client. Each truck has only one driver, but the client often travels in the passenger seat to accompany his goods. The cost of the services varies considerably depending on a number of uncertainties, such as: length of haul, itinerary, type of goods carried, and fines to be paid. The latter is the largest uncertainty and the cost of the haul is often very high, since traffic regulations

and road legislation are unclear. Neither is the role of policemen clear. For instance, when a truck is stopped several times during an assignment, the cost of accumulated unjustified fines can even amount to the entire value of the goods carried.

7.5.2 Road transport operators and forwarders

7.5.2.1 *Azeravtonaglijat*

In chapter 4 on the institutional strengthening of the road transport sector in Azerbaijan, the State Concern Azeravtonaglijat was discussed. The institutional strengthening is mainly focusing on the policy making activities in road transport, whereas this chapter describes the economic activities of the Concern. This Concern is the socialist type of Ministry of Road Transportation: One conglomerate of policy making, regulating and transport operating organisations (both freight and passenger transport). Azeravtonaglijat holds the remains of the Azeri State Ministry of Transport under the FSU, which used to be responsible for the domestic inter-city transport.

Reportedly, it still owns about 12,500 goods vehicles (of various sizes), whereas the other "budget" ministries (more than 25) owned altogether some 87,500 goods vehicles; the latter were, however, not allowed to undertake inter-city transports of any commercial nature, but were employed on "technological duties" by their own ministries, comparable to "own account" transport activities).

Some 70% of the Azeravtonaglijat truck fleet (8,800) are said to be still in a working condition, or repairable, but only some 300 belong to the largest 20 ton payload class. Since 1992, very few new vehicles were received, and only 50 (of the 8,800) are not older than 4 years (all 20 Tonners); none are suitable for long distance (international) haulage. The following table provides some statistics about this truck fleet.

Load capacity	Number	< 4 years old	4-10 years old	> 10 years old
< 5 ton	1,900			
5-10 ton	4,800			
10-15 ton	1,800			
> 15 ton (all 20 T)	300	50		
TOTAL	8,800	50	6,100	2,650

Their total load capacity is 61,500 ton (7 ton overall average).

The management of the Concern is not hopeful that it will be worthwhile to rehabilitate/recondition say some 5,000 off the younger trucks for in-country services. The Concern has the strong opinion that the remaining old Russian vehicle fleet is or will in the near future be "useless". Consultants tend to agree, certainly with regard to international road transport.

The general strategy pursued is that of the Russian vehicles being phased out, i.e. cannibalised (in as far as useful and to be replaced -in the first stage- by second hand Western European trucks, wherever these can be obtained at affordable prices.

There remain only two companies under Azeravtonaglijat involved in international transport, i.e. to States of the Former Soviet Union (Russia, Central Asia & Georgia): *Azintrans* and *Intercity Transporters*.

Azintrans owns 34 Supermaz (22 from year 1990, 11 from 1991 and 1 from 1992) and 13 Kamaz (8 from year 1993 and 5 from 1991) all of the 20 Ton Payload Semi-trailer type; total load capacity of this fleet 940 Ton.

Intercity Transporters' fleet is significantly larger (240 vehicles) and older (1976-1989), with various payload categories: 101 (super)Maz 5432 with 20 T semi-trailer (from year 1988), 60 Maz 504 B (14 T from year 1976) and 79 Kamaz (2 of 8T; 16 of 10T; 61 of 14T); total load capacity of this fleet 3,890 ton. The end of this century will almost certainly mark the end of this 'international' fleet.

7.5.2.2 *SovAvtoBaku*

Remaining from the former Soviet Union's Sovtransavto branch in Azerbaijan, SovAvtoTransAvto Baku (SovAvtoBaku) is presently the only firm with significant international road transport experience. Since the collapse of the Soviet Union Sovtransavto has become a forwarding company supported by the privatised peripheral Sovavtos (Brest, Brjansk, St. Petersburg, Moscow, Kishiniev, etc.).

The SAB truck fleet comprises 111 trucks of various makes (Mercedes, IVECO and MAZ) dating from 1990 to 1993, plus 140 tilt and frigo trailers dating from 1980 to 1994. The best part of the fleet meeting the standards required for operation on the European road network is located in the Brest STA facilities and operates with Poland and Central Europe.

Figures concerning SAB activities confirm the satisfactory operational standard of the company. The recent crisis has curtailed SAB activities, which in terms of turnover have dropped by virtually half between 1990 and 1995. The majority of its services are now carried out between Brest, CIS republics and western Europe, whereas transport from Baku generally has Iran and Turkey as its destinations.

SAB Activity	1990	1991	1992	1993	1994	1995
1. Average number of Vehicles	149	156	141	130	119	114
2. Haulages in 000 kms	7,550.3	7,574.2	5,345.3	4,235.4	2,662.7	36.5
3. Volume of load in 000 tons	34.5	26.4	20.6	17.1	19.4	5.8
4. Total activity in 000 ton kms (TKT)	74,175.9	97,420.7	72,741.3	68,018.8	34,085.7	8,787.5
5. 000 km hauls/vehicle	50.67	48.55	37.91	32.58	22.38	6.46
6. Average annual load/vehicle	231.54	169.23	146.1	131.54	163.03	50.88
7. TKT/vehcile	497.82	624.49	515.9	523.22	286.43	77.08

The yearly length of hauls (50,670 km/vehicle) shown by SAB in 1990 is in line with western standards, particularly considering the poor road conditions in CIS and in Eastern Europe. By upgrading vehicles and improving road conditions an average yearly haul of 60,000 km/vehicle can be easily reached by SAB and by other Western European truck companies. Greater haul figures are only achieved in certain western countries with an extensive highway network (USA and Italy, for instance).

SovAvtoBaku has developed plans for a Joint Venture Transport Company with the Istanbul-based Zihni Group, and for a **BIM-TRANS Distribution Centre in Baku, for which there seems to be financial support from the EBRD**, albeit under the condition that the firm (1) should be officially registered as a private firm, and (2) finds foreign investor(s) that is (are) prepared to take a majority share in a Joint Venture. The foreign investors have been found in the Zihni Group.

The Zihni Group is an Istanbul-based enterprise which has been working in the sea and land shipping business since 1930. As a former agent of Sovtransavto, the Zihni group has permanent connections with the FSU. The Zihni Group and SAB have signed a joint-venture agreement in September 1994 to build and manage the Baku parking facilities, and to reinforce forwarding activities using a new truck fleet. The Baku-Istanbul-Moscow-Trans Distribution Centre joint venture (JV BIM TRANS), will implement the original parking facilities project, converting it into a freight distribution centre. Azerbaijani in-kind financing of the venture will cover the best part of its fleet and the new half-built parking facilities.

7.5.2.3 *Gate East (TIR parks)*

An interesting new, private Azeri company is the Gate East Holding, founded in 1992. It runs two T.I.R. parks -and has just opened a third one- along the Baku South (Ring)road linking the Astara-with the Rostov-road. The core-business has been defined by the president, Dr. Alekhp Mamedov as: "Building up and maintain a network of protected parking places with facilities for customs clearance, trucks and drivers". At present, there are 9 of these parking places in Azerbaijan. The other activities of Gate East are:

- (international) transport (250 pulling units);
- forwarding;
- construction;
- trade;
- Warehousing/storage;
- Insurance of transport.

Practically all foreign HGV's delivering to- or transiting through Baku, park (or wait for the Caspian Sea ferry) in these T.I.R. parks. The latest site is meant primarily for empty (returning) HGV's waiting for back load. Customs declaration facilities are in the Northern G.E. Trans 1 and the Central T.I.R. parks and other services such as forwarding back haul brokerage, banking (money exchange) services, insurance and warehousing are gradually implemented.

These areas, now exclusively used by foreign HGV's (mainly from Iran and Turkey), are also suitable for **technical servicing** of HGV's. The areas are also optimally located for peripheral warehousing, keeping the HGV's out of Baku city. A designated route linking the areas with the port/ferry terminal via some main city roads has been defined, and concerned route permits are also issued at the T.I.R. parks. The Gate East (Holding) Company's business development concept or philosophy seems quite realistic, in as far as the Consultants can assess the 'Azeri situation'.

Gate East's phased implementation strategy takes the following steps:

Phase 1 Establishing TIR parks

Establish a network of TIR parks, logically distributed over the country: near the borders (Georgia, Iran, Russia), at the Baku Ring road and in-between where needed (e.g. along the main road to Georgia). With a limited investment, G.E. creates a rapidly increasing client group --the international truckers-- looking for dependable services: security & safe parking, services (some

comfort) for drivers, and administrative services (customs, etc.) where required. "Service Contracts" may be concluded with (large) transport operators whose trucks/drivers frequently call at the TIR park.

Attempt to co-operate with (selected) neighbour countries applying the same service concept, thus extending the network of TIR parks in the Caucasian (and Central Asian) Region. In the capital (Baku) provide sooner (step 1) or later (step 3) freight distribution services, including warehousing) for combined container transports with destinations in the Baku area.

Phase 2 Maintenance and repair facilities

Provide repair- and maintenance facilities tailor-made to the drivers' requirements; most drivers do their own (routine) maintenance, but may need occasionally a specialist mechanic's assistance (advice) or special tools. The service should facilitate in particular *emergency repairs* including supply of spare parts, enabling the driver to continue his journey (please refer to Appendix A for recommendations on how to elaborate and implement the establishment of this type of facilities/services). Once such facilities/services are operational, "Service Contracts" may be concluded with (large) transport operators whose trucks/drivers frequently call at the TIR park.

Phase 3 Forwarding services

Provide forwarding services, i.e. assisting in acquiring back haul shipments. This is started on a relatively small scale and/or 'informally' already in step 1. With a growing network of clients/international (TIR) transport operators and some "Service Contracts" with the largest operators resulting from steps 1 and 2, this may develop towards a professional forwarding business with the use of modern data base management and communications.

Phase 4 Joint Venture with Western European Forwarder/Transport Operator

One of the components in this project has been to start the creation of a Joint Venture with a foreign Western European transport operator/forwarder. The foreign Joint Venture partner is attracted primarily by the services that the TIR parks in the Caucasian & Central Asian regions (see step 1) will provide, and by the repair- and freight forwarding services provided in Azerbaijan (Baku particularly, see steps 2 and 3), and maybe elsewhere en-route. The foreign Western European partner is strongly interested in low-cost drivers, security of the cargo (insurance possible? at reasonable premium?), and back-haul cargo on the stretches Central Asia/Caucasus to Turkey/Black Sea

Consultants report that Joint Venture negotiations with a Dutch forwarding firm, specialised in transport, forwarding and leasing of containers with chemicals and liquids have started. The business plan developed for this Joint Venture is based on the following input of materials by the Dutch firm:

It is planned to start a Joint Venture for the transport of spare parts and equipment for the oil (drilling) industry and build the JV up from there.

Nouveau Transport and Leasing from The Netherlands will bring in capital goods (second hand trucks, containers, etc.) into the Joint Venture. Gate East will operate the local/regional transport. The business plan strategy is that Nouveau will arrange all transport to Poti (by Sea) and that from there off Gate East will handle transport from Poti onwards, preferably with the recently opened shuttle train to Baku. The truck that is brought into the Joint Venture can be used to operate smaller regional transport and more flexible services. Of course, the operation of the truck is not limited to this particular project. Because Nouveau will bring in 30 containers Gate East can also forward load coming in to Baku from Central Asia to Poti or CIS.

7.5.2.4 *Makro Transport Group*

In 1992 the owner of Makro Trans Group Mr. Rovshan Housseinov started transport, forwarding and trade activities after graduating the Automobile University in Moscow. Near the harbour of Baku Mr. Housseinov developed a TIR park for vehicles and drivers from Iran, Turkey the former Eastern Europe countries and incidentally for drivers from Western Europe. The firm could finance the terminal by the profit made in trade and transport of sugar from Ukraine to Central Asia.

In 1995 the terminal was built, later a restaurant was added and in 1996 a building was rented for setting up a hotel. At the same time the TIR park was completed with custom clearance services and forwarding activities, especially for the drivers with no back load.

In 1997 a container terminal will be constructed, with opportunities to expand and possibilities to start a warehouse and internal customs clearance. This new terminal will be constructed outside the city of Baku. The Makro Trans Terminal group is one ltd with several divisions. The CEO is the owner and president Mr. Rovshan Housseinov.

The different divisions (with a manager for each division) are:

- TIR Park
- terminal
- construction and minor maintenance for vehicles
- forwarding/transport/trade
- hotel, cafe and restaurants
- container activities

The operations of Makro Transport Group are mostly located in the so-called "Black City" of Baku. The parking capacity of the terminal is around 40 for the typical Turkish standard vehicles and for the other vehicles, from e.g. Iran, 150 places. The new terminal will be about the same size, but will have a warehouse for commercial activities and customer stock of about 1000 m².

The transport division operates two vehicles. The forwarding firm is located at the present terminal and has few employees. Trade activities are carried out by the president.

The terminal activities are operated by 20 people. Customs clearance is located at the same terminal with 27 customs employees. Furthermore, 5 people of the customs section also carry out declaration activities.

Construction and minor maintenance for vehicles is carried out by Makro's own personnel. Large repair of trucks is done by Sovtransavto Baku. This activity will be sufficient to make a small profit in the future.

The market for the TIR park is growing. Many drivers, companies and the police authority on the road direct drivers to the Makro Terminal. The minimum amount of lorries parked on the terminal is around 25. The normal average daily capacity is 100 lorries. The market is growing every month.

Forwarding and logistics of container loads for the directions to and from Dubai will start in 1997. During the first half year forwarding to Dubai is expected to be one container every two weeks. The second half year 4 full loaded containers will arrive every month. In the second year the activity will grow to 10 containers a month. The forwarding and logistic of containers will be expanded to other directions.

The firm is profitable and sound. Consultants have developed a business plan in consultation with the management of the Makro Group, but statements on turnover and profits are confidential, and hence, not for publication in the final report.

7.6 Georgia

7.6.1 Introduction: Transport Market and Operating Profile

From a transport point of view, Georgia has an advantageous geographical position. The ports of Poti and Batumi are the gateway to the 'new Silk Route' TRACECA and Georgia forms the axis through which trade routes link North and South and East and West. Much of the infrastructure to make Georgia a transit zone between East and West is already in place, but most of it is in various states of disrepair and will require substantial investments for repair. The Transport Rehabilitation Project by the World Bank will be a positive stimulus for the road transport sector. The total length of the Georgian road network consists of 21,600 km of roads, of which 9,720 are paved and 11,800 are gravel or earth. There are plans to construct a six-lane motorway linking the Black Sea ports via Tbilisi to the border with Azerbaijan, but, reportedly, these plans are considered wishful thinking.

The underdeveloped cargo facilities in Batumi and Poti ports, along with the lack of electricity have proved a bottleneck for the large quantities of humanitarian aid transported into Georgia. The TRACECA projects in to upgrade these ports will be another positive stimulus for transport in general in Georgia. The ports of Batumi and Poti are old Soviet type of ports, they are designed for further transport by rail and have relatively little storage capacity. Warehousing and distribution facilities in the ports of Poti and Batumi are important for the development of the road transport sector.

The transport sector was affected by the economic downturn since the independence of Georgia. Today, traffic flows in all modes, including road transport, are reduced when compared to 1990. Less than one fourth of 1990 levels were observed in 1996 of which a large share was humanitarian aid.

According to the Highway Concern responsible, traffic levels on the 'Magisterial' (the principal road through Georgia, connecting the Azeri border, Tbilisi, the Black Sea (Sukhumi) and the Russian border) are between 250-500 vehicles per day down from previous levels of up to 10,000 vehicles before independence. These figures are 'guesstimates' and could not be verified. Since 1996, a moderate increase of transport has been observed.

In Georgia, the privatisation process in road freight transportation is almost completed and transport operators which are not yet privatised have commercialised their operations. This privatisation does not always imply that the companies are indeed in private ownership in the Western European sense. Many firms are 'joint stock' companies with a 100 % ownership of the shares by the State of Georgia. The vast majority of the privatised firms are still between 60 and 70 % owned by the State. The management of these firms intend to take over these shares in the future. The TRACECA IRTS project has focused on a number of operators and forwarders, which are not under the control of the Ministry of Transport (Technical Assistance to the Ministry of Transport has focused on institutional strengthening and not on economic activities):

- Georgian International Transporters;
- Tbilautoservice;
- Tbiltransexpedition/Karavan.

Besides these three firms, there are other privatised operators/forwarders active, e.g. Transservice and the Cautrex group. These firms are discussed briefly as well.

7.6.2 Georgian International Transporters (GIT)

GIT was founded by the Ministry of Transport in 1974 for national and international transports. It's former name is Gruz Magistral Auto Trans. In the seventies about 13 subsidiaries were started throughout Georgia. Before independence, it was one of the major transport operators in Georgia. Being an associated member of ASMAP, the FSU road carriers association, GIT obtained TIR Carnets for operating international transport in 1990.

GIT operates 33 trucks for transports in the CIS countries. According to the management operating transport to these countries is presently more profitable than operating to countries like Bulgaria, Romania etc. In the past GIT was an associated member of ASMAP and many transports were carried out to Eastern European countries. Nowadays, GIT is a member of GIRCA (Georgian International Carriers Association), but they no longer use the TIR Carnets. For the CIS countries no Carnets are necessary and international transports outside the FSU are impossible with the present vehicle fleet of Supermaz trucks.

Ownership structure of GIT has changed from a state-owned firm to a stock holding company. The state still owns 43% of the shares. The state offered to sell their shares to the present management for about US\$ 325,000. The present share holders are not willing and cannot afford to pay such a high amount and it was agreed that the ownership structure will remain the same for a maximum of 10 years.

The firm has 9 premises over the whole country. The terrain is more than 100.000 m² in total. The head office in Tbilisi alone is 50.000 m². On these premises there is some capacity for warehousing. Most of the branches have no work. Only three are actually operating: Tbilisi, Kutaisi and Khashuri. The branch office in Poti is under construction and will be an important subsidiary because in the near future larger transport flows are expected from the port of Poti. GIT has the permission of the Poti authorities to expand the terrain in Poti. Furthermore, the management intends to build an extra warehouse in Poti. The investment will be financed by selling small vehicles.

The size of the vehicle fleet is 160 vehicles. Most of them are technically too old for daily operation, only 55 are operated regularly. 30 small trucks are hired by the drivers to conduct private services. 15 heavy cargo vehicles are also hired by the drivers. The monthly rent is 100 Laris for the small trucks and 350 Laris for the heavy cargo vehicles. Drivers are responsible for maintenance and repair of the trucks, including provision of new tyres. The expenditures for licences and technical inspections are covered by GIT.

In the second half of 1996, the transport market for GIT has grown, especially container transport, which has increased from 4 containers a month early 1996 to 10 containers/month in October 1996 and it is expected to grow slightly in 1997. The market to hire out vehicles to drivers will grow and the present 45 leased vehicles will provide the company with a steady cash flow for the coming two years. The management of the company estimates that there is a transport market for about 5 vehicles to operate transport to Europe. Therefore, the company is searching for partners from Europe willing to invest in second-hand trucks which GIT will operate.

Another market opportunity is to provide customs clearance services from the warehouse in Tbilisi. The general idea is to clear in the load in the warehouse and to dispatch it by GIT in the city and region. GIT is in discussion with Georgian customs to obtain a license for customs clearance.

7.6.3 Tbilautoservice

Tbilautoservice is a well-established former state-owned company in Tbilisi. It was specialised in transporting grain and flour products in and around Tbilisi. Nowadays, also industrial and general bulk cargo are transported in Georgia and the former Soviet Union. Under the Former Soviet Union (FSU) the size of the vehicle park was over 1,200 vehicles. Nowadays, the size of the vehicle park is around 600 vehicles. One of the core activities of Tbilautoservice is the inspection of drivers and vehicles, for which a large workshop is at disposal; 20 large trucks can be inspected simultaneously. Because of the excellent equipment for inspection of vehicles, the Ministry authorised Tbilautoservice to carry out yearly (obligatory) inspections of vehicles of other registered trucks.

The large premises opened perspectives for a TIR park, which has indeed been established. On the TIR park of Tbilautoservice there are a hotel, restaurant and communication facilities. The customs offices for customs clearance are situated about 200 metres from the park.

In 1995 management of this firm bought 59% of the shares. The management buy-out was financed by buying privatisation vouchers for the market price of 6-7 laris. The nominal value of the vouchers, however was about US\$ 30. This has given the management the opportunity to buy the shares at a relatively low price.

Nowadays, Tbilautoservice operates more than 300 vehicles. Practically all of them are hired out to private drivers. The firm still has the leading market position in transport of grains.

7.6.4 Tbiltransexpedition/Karavan Transport

7.6.4.1 Tbiltransexpedition

Tbiltransexpedition is an independent company with a private judicial status; the managing director owns 51% of the shares, and 49 % of the shares are owned by the managing director of Karavan transporters. It owns about 5 ha of terrain with some 4,000 square meters covered technical service- and repair facilities and some 1,500 square meters offices close to the Tbilisi ring road at the north-western side of the city; it also has an office near the city centre (1,200 sq.m in two-storey building).

The company has 20 Maz tractor/semi-trailer combinations and has cargo transporting experience within Georgia and the former Soviet Union (FSU). It now seeks any opportunity to obtain and operate some 20 second-hand European-manufactured tractor/semi-trailer combinations in order to enter the international road transport market.

An international Joint Venture, for example co-operation with both a European transport operator and/or forwarder using one particular truck-make might be an option worth considering. The management prefers to create a joint venture with 20 vehicles, but if the number of 20 vehicles for a start is considered too ambitious, a smaller number might be considered.

A market opportunity for transport operators in Georgia may be to obtain a contract for the transport in the Development Projects (road) transports. The international financiers are in a position to assist the Caucasian international transport operators in this respect, e.g. by incorporating such arrangements in the contracts with the concerned contractors of projects. TRRC could play a mediating role in this respect.

7.6.4.2 Karavan Transporters

Karavan Transport is a private joint-stock company and works in close co-operation with Tbiltransexpedition, the manager of Tbiltransexpedition owns 49 % of the shares of Karavan, whereas the manager of Karavan owns 49 % of Tbiltransexpedition.

The company intends to start the operation of services for foreign HGV-drivers in combination with a "T.I.R. park" in Tbilisi. A network of facilities in Batumi/Sarphi (customs office at border of Turkey & Georgia), Poti (the main container port) and Tbilisi shall be operated in a co-ordinated way.

The following services will be provided on the TIR park:

- route information (to destinations, to TIR parks, to forwarders, etc.)
- information on latest (road transport) regulations in Republic
- documentation verification assistance
- provision of safe parking in protected area;
- vehicle washing facilities;
- HGV technical service- and repair facilities;
- provision of fuel (diesel), oil and other materials;
- lodging/bathing facilities for drivers;
- restaurant/canteen facilities for drivers;
- cloth-washing facilities for drivers;
- telecommunication services (telephone, fax, photocopying);
- medical service arrangement;
- foreign currency/money exchange;
- despatch- & warehousing (local distribution) services;
- customs clearance of import/destination Georgia/Tbilisi goods.

Contracts with interested foreign firms involved in regular transport to/through the Caucasus, may be concluded on a quarterly or annual basis.

7.6.5 Other private transport operators/forwarders

Two other successful private firms active on the Georgian road transport market are the Cautrex Group and Transservice ltd.

7.6.5.1 Cautrex Group

The Cautrex Group is a successful holding with forwarding and transport operating activities. Cautrex has an agent in Baku and owns 40 % of Armentransforwarder in Armenia. This provides Cautrex with an extensive Caucasian network.

Caucastransforwarder is the forwarding agency with a 70 % market share of the 700 TEU arriving in Poti every month. The firm is a Sealand agent and is growing fast.

Cautrextrans is a transport operator and member of the Cautrex Holding. The firm is located on the premises of another stock holding company called Vashlijvari. Cautrextrans transports every week around 200 containers from Poti to Tbilisi, Yerevan and Baku. The management reports that

the customs departments on the Azeri-Georgian border are an obstacle for the reliability and speed of road transport. The size of the vehicle fleet is 35 trailers (10 from Germany) and 15 pulling units with a capacity of 28 tons. Moreover they own 90 Kamaz for 14 tons payload.

The average price for a transport of a full loaded container is 1 US \$/km (single trip) . The price for the return trip if the container has no back load is 50 dollar cents. On the average, 5 % of the return trips are back loaded.

7.6.5.2 *Transservice ltd.*

Transservice ltd. is a private transport and forwarding company and was established in 1990. The firm is an associated member of GIRCA.

Transservice operates 15 second-hand Renault trucks. The core activity of Transservice is transport and forwarding of 20 and 40 feet containers. They have two 20 ft trailers and one 40 ft trailer. The 15 drivers have full employment Trucks make 45.000 km each year. Vehicle operating costs in Georgia are relatively high, because of road conditions.

Transservice also owns a small 1.500 tons ship. This ship sails regular lines from Poti to different harbours of the Black Sea. The maximum loading capacity of the ship is 32 containers. The firm has excellent contacts with the Railways, which is according to the general manager, the best transport mode for cargo in all FSU republics.

7.7 **Road Carriers Associations and TIR Carnet**

The TIR Carnet system facilitates border crossing of goods transported by road and is indeed one of the most successful Conventions in its kind. If operators intend to operate international road transport one of the prerequisites is that they can procure Carnets. In chapter 8 it is explained how the TIR Carnet system is (should be) operated. In addition a section in chapter 8 is devoted to the roles, functions, financing and structuring of a national road carriers association (based on the official policy document 'Roles and Functions of a National Road Carriers Association', published by the International Road Transport Union) This section in chapter 7 limits to a summary of the current situation with respect to road carriers associations in the Caucasian republics.

7.7.1 **Armenia**

To obtain the permission of the IRU to sell TIR Carnets, two conditions must be fulfilled:

- (1) The nation must have signed the TIR convention; which was done in 1994;
- (2) The country must have a so-called guaranteed road carriers organisation in line with IRU regulations (see chapter 8).

During the course of the project, Consultants have worked with the Armenian Road Carriers Association. In the initial stage Consultants investigated the structure of the Association. To this end the Armenian authorities had founded a ltd. firm with the following share holders:

- Ministry of Transport (35 %)
- Customs Department (25 %)
- Ministry of Trade (3 %)
- Ministry of Internal Affairs (3 %)
- Ministry of Food (3 %)

The rest of the 25 % was to be tendered to private enterprises. The construction chosen reflects the political and policy making culture in Armenia; ministries still intend to have a direct involvement in economic activities.

After mediation between Consultants and IRU it turned out that this structure was contradictory to IRU directives on the role of a national road carriers association and it was recommended to start over with the creation of a Road Carriers Association, and this recommendation was followed up.

Armenia has now started a new association, of which all transport operators can become member. The organisation is entitled : Armenian International Road Carriers Association. An expert from IRU has visited Armenia January 1997 to provide technical assistance with further institutional arrangements for the association, so this issue has been settled.

As soon as Armenia will raise the necessary capital for a guarantee fund, the IRU will provide the free TIR Carnet training.

7.7.2 Azerbaijan

The Geneva Convention on TIR was discussed and approved by the Parliament and the Government has decided medio 1996 to join the Convention. On 7 June 1996, the president of Azerbaijan has signed the TIR convention. The Azeri road carriers association ABADA, with 22 active members, is one step further than Armenia with regard to the establishment of a Road Carriers Association , the organisation fulfils the IRU conditions for road associations, but the necessary capital has not yet been raised. As soon as the capital is raised, the organisation will receive IRU training on Carnet TIR.

Consultants reported to ABADA that it usually takes over a year after joining the Convention until Carnet TIR will actually be available for sale in the new member country, in spite of official statements that this period is six months. A prior condition to selling Carnets is that the organisation has deposited the necessary guaranteed capital.

7.7.3 Georgia

Georgia has accomplished the most in the field of TIR Carnets and establishment of a road carriers association. TIR Carnet operation from Georgia can be officially established via the Georgian Road Carriers Association GIRCA. GIRCA has over 80 members, of which 15 are considered active in (international) operations.

Georgia signed the TIR convention on 24 September 1994 and received 200 TIR Carnets in February 1996. They sold over ¼ of the carnets, of which a substantial number to SovAvtoBaku in Azerbaijan¹³. For GIRCA (and all other road carriers associations) it will be of vital importance to carefully operate the TIR Carnet system and to monitor that all Carnets are returned in time.

¹³ Officially the Carnet must be obtained in the country of residence of the transport operator, but because of the current legal relation between the SovAvto's it is probably possible to obtain Carnets for SovAvtoBaku in Georgia as well (e.g. through SovAvtoPoti, for the time being, until Azerbaijan sells its own Carnets).

8 MARKET REQUIREMENTS FOR ROAD TRANSPORT OPERATORS

8.1 Privatisation

The special attention for privatisation has been discussed before in the chapters on institutional restructuring. In this chapter, privatisation is discussed from the point of view of strengthening of the road transport market. Privatisation of road haulage, in conformity with the Caucasian countries' respective stated intentions for systematic reform, is aimed at raising the productivity of resources employed in transport. Thus, it will contribute to both recovery of the economy and of employment.

It is inevitable that further privatisation and commercialisation will take place in the coming five years. If privatisation is to be successful, it will have to be carried out with due regard to the market position of the candidate enterprises, the demands they are likely to meet and the competing resources of present and prospective supply. This means that a number of state-owned enterprises will disappear in the coming years. It is recommended to ministries not to focus on maintaining and subsidising state enterprises which are currently out of work, but to focus on the privatisation of most viable firms.

The outcome must be a competitive haulage market place on the one hand (progress in productivity requires freedom to compete), and viable business enterprises on the other hand, with management by -or under the control of- owners who have the right to determine independently how the net income of the business is to be best utilised (re-invested).

The privatisation process calls firstly for an adequate analysis of the market position of the candidate enterprises (what demands are they likely to meet, what are the competing sources of present and prospective supply), generally covered in a Business plan. But, the scope and form of feasible privatisation depend also on how road haulage will be regulated and on financing possibilities of private buyers, investors or tenants (leasing).

Efficiency of the freight transport sector maybe expressed -on a highly aggregated level- by the (annual, nation-wide) ton-kilometres production per dollar of GDP. Most former socialist economies show a transport-intensiveness which is 2 to 6 times as high (inefficient) as the same performance indicator in European market economies. Thus, there is little doubt that there is ample scope for reaching significant improvements in efficiency. This will not happen overnight, and requires a Government creating an "enabling" transport-economic environment.

Basic trucking is not subject to significant economies of scale (of the firm). Small-scale haulage business is therefore present in all market economies, in large numbers. The privatisation program should then encourage primarily the progress of small-scale haulage enterprise (considering that the average number of trucks per firm in market economy countries ranges between 3 and 10). Relatively free entry into the profession should be socially desirable, as it promotes growth of middle-class entrepreneurship, proprietorship and employment in the countries concerned.

The great majority of haulage undertakings in market economies are controlled directly by their owners, and the form of organisation chosen in Western Europe is typically the Limited Liability Company (LLC) and not Joint-stock companies which exist rather as umbrella organisations which contract for the services with smaller haulage companies organised as LLC's. The LLC appears also as an appropriate form of organisation of (other) free-standing facilities like workshops, so far also (mostly) still integrated in haulage enterprises.

Road haulage in each of the three Caucasian countries separately may not be sufficiently large as an industry and an occupation to justify a separate (TACIS assistance) program of privatisation of state owned road haulage. There may, however, be a case for a regional -Caucasian- approach of providing (contracting) private sector specialists assisting in the privatisation and commercialisation process of selected (small-scale) transport entrepreneurs. Active assistance is likely to be required primarily in the form of guidance on the valuation of second-hand trucks, and by formulation of standard forms of contract for sub-contracting and vehicle leasing.

8.2 Fleet renewal

The natural field of activity for small firms is (primarily) operating vehicles of modest capacity, perhaps mainly in shorter distance haulage and possibly in contract work for larger enterprises. This implies a focusing on the domestic transport market, including re-distribution (feeder transport) of larger scale international haulage.

Private operators have been or are buying or leasing their trucks from the former State transport enterprises or from the own-account ('production' enterprise) operators. More than enough vehicles seem to be on offer, in view of the depressed (domestic) transport demand and of a 'cannibalisation' strategy that allows to sustain the supply of old vehicles (maybe for considerable time). It would, however, be better to organise a (nation-wide) inventory of the present truck fleet (in as far as the available data are of doubtful reliability and/or outdated), with the aim the value the vehicles (in operable condition) according to make, type and age. Technical expertise in assessing the state of vehicles and equipment should be amply available in all three countries; it is a matter of properly mobilising and managing this expertise in order to get the desired quality of results.

The present excess capacity (declining anyway with time) should be absorbed (in a not so distant future) by a growth of the recovering economy. A substantial renewal of the fleet will nevertheless be needed when the economy revives, because much of this fleet is technologically obsolete and adapted to a pattern of demand that is unlikely to persist (other products, other shipment sizes, other packaging, etc.).

For international haulage, standards of vehicle construction and vehicle use, and the assurance that specified safety and environmental controls can and will be observed by the operator (and his equipment), are higher than for domestic operations. This calls for stricter licensing of operators for international haulage, (close to) conforming to Western European or European Community standards. A minimum fleet size (perhaps 8 to 10 –sufficiently modern-- trucks) may be made a condition for the issue of a license. Beyond such conditions of scale (a "proxy" for a feasible level of sustainable international, long distance operations), licenses should be available to any operator who satisfies tests of technical competence, financial standing and good repute. Clearly, joint venture operations with Western European transport companies offer opportunities for accelerated fleet renewal.

8.3 Improvement of level of service

The market for road transport is expected to grow substantially, like it did in Western Europe in the fifties; it is expected that future demand will be more diverse and flexible. This means that road transport has the future, because rail transport cannot meet this flexible demand.

The success of the Caucasian road transport sector will highly depend on *upgrading the service level*. Criteria for the quality of the service level are:

- reliability (certainty that the load will arrive);
- speed;
- price offered to the client;
- quality of additional services (e.g. logistics).

Road haulage operators in the Caucasus are advised to improve their service level in order to compete with operators from Iran and Turkey. Some of the criteria are beyond the influence of operators, like quality of road infrastructure which influences speed and vehicle operating cost. However, reliability, price and quality of additional services are fields of attention that operators should focus on.

Many managers in the Caucasian countries' professional transport have shown qualities in resilience and determination in adverse circumstances. What has to be developed further is commercial skills for which no basis of experience and no incentives for learning were available under the rules of the past. Particularly in freight forwarding, the level of service offered to shippers (customers), should be given major emphasis. Freight forwarders are, due to the nature of their intermediary contracting activities, in a good position to enhance competition among transport operators and thus 'educate' them towards optimally customer-oriented attitudes.

Other related measures that could raise the present level of service, i.e. in international and regional transport on the short term are:

- (1) Streamline border inspections (facilitate bonded transit to inland destinations, lengthen the service hours for border procedures),
- (2) Adopt simplified documents (ensure broader use of uniform shipping/trade documents), and,
- (3) Provide electronic data interchange (introduce and refine EDI-related standards).

8.4 Enabling road transport policy of the Government

It is recommended to allow a wide scope for the development of entrepreneurial activity, on a small scale as well in larger ventures. Experience has shown that productivity and efficiency rise through competition. The road transport policy should allow freight haulage to undergo structural change and modernisations under competitive market conditions. Monopolistic positions of road haulage suppliers should be prevented.

However, if in domestic road haulage sector in the Caucasus:

- (1) no special licenses are required for operating as a hauler,
- (2) freight rates are de-controlled completely, and if
- (3) there is freedom of contracting (any shipper being free to contract with any operator)

An hence the road haulage is free of any restrictive regulations for market entry. If this would be the case for road haulage in the Caucasus, the question then arises whether this leads to :

- (I) cut-throat competition, leaving the operator hardly any margin to survive, let alone save for replacement or new investment, or
- (II) illegal activities by other parties (establishing their own "rules" in the absence of capable and disciplined Government agencies, enforcing the two most basic requirements, i.e. traffic safety on the roads, and payment of the legally prescribed taxes and user charges by the transport entrepreneurs).

It can be concluded that licensing systems should clearly find a balance between a non-regulated sector with the danger of unsafe operations, cut-throat competition and illegal operations and the situation of strong monopolies preventing entry of new entrepreneurs.

Regulation should ensure potential carrier fitness for the business and technical capability. The European Community has developed and is implementing standard requirements on these aspects, as well as socially oriented requirements relating to vehicle design and driver working conditions (although the latter may seem a "luxury" affordable only in a later stage of development if not prosperity). Enforcement of whatever regulation is introduced, remains however a key requirement.

This is also true with regard to fiscal instruments. There is no obvious reason for taxing the net revenue or the sales of professional haulage at rates different from those that apply to other production (i.e. turnover tax, now replaced by VAT). Another matter, not to be taken easy, is the difficulty to collect such taxes, particularly from a great many of small-scale operators, in a new business environment without any gradually acquired (tax-paying/collection) behaviour (tradition).

Another new and significant element in formerly socialist economies is that all road users should be made aware of the cost that they cause to the road (through the wear and tear, or damage caused by their vehicles, and the consequent road maintenance and/or road rehabilitation requirements). Market economy's experience has learnt that different actors will change their operations when confronted with the true costs of their activities. A wise and (politically) courageous government is required to put (enforce) this principle in practice. The Caucasian countries should, therefore, review, rationalise and possibly diversify their system of road user charges (moreover, in conjunction with user charging systems of alternative land transport modes, i.e. railways).

Road user charges are essentially prices, rather than taxes in the usual sense. To determine the level as well as the schedule of the prices appropriate to different types of traffic, one has -as a first task- to determine the road damage relationship of different types of traffic on the country's roads (as well as the "social" cost of congestion, whenever congestion becomes an issue anywhere).

Unless tolls are levied on the (main) roads, the economic user charges has to rely on a limited set of (standard) instruments such as taxes on fuel, tires and spare parts, and vehicle license fees. The selection of instruments and the distribution over them of the amount of tax adequate to cover the road use cost, forms a second task for designing a scheme of user charges. Substantial experience in other countries is available to assist the Caucasian countries in this respect.

8.5 Increased participation in international haulage (bilateral agreements)

International haulage is commonly restricted by the entry or transit permits issued by foreign countries in regular bilateral negotiations (e.g. members of the Conference of European Ministers of Transport have access to the multi-lateral permits issued under the authority of the Conference). Permits for different countries of destination (and, where relevant, countries of transit) are normally distributed to national carriers by the Ministry of Transport. This causes problems familiar from any system of quotas or quantitative restrictions. Command over the permits could be used (by the Ministry) to control competition in the haulage industry (e.g. how

to provide for the entry of newcomers without, simultaneously, inconveniencing established enterprises that need to have a more or less assured allocation of permits for their forward planning). A possible criterion in allocating permits maybe the size of the vehicle, preference being given to large carrying capacity vehicles so as to maximise the use of permits in terms of tons or volume (which is not necessarily maximising the value of the transport, which would be the determining factor if permits were auctioned for money).

Allowing the entry of newcomers may be arranged by requiring applicants first to (sub)contract with permit holders, or by haulage to destinations for which permits are not scarce, or by proving that they successfully performed international piggyback (rail) transport, or by specific Co-operation Agreement (e.g. in relation with Joint Venture promotion).

Unused permits (e.g. when operators may create artificial scarcity) need to be returned to a 'pool' for spot allocation to licensed operators (the right to use a permit should have a shorter time duration than the validity of the permit itself).

Auctioning of permits -among national hauliers meeting the international (e.g. European Community) standards- seems the optimal (market economy's) method, while a second best method would reserve part of the available permits for spot allocation to applicants upon proof of a genuine order for (international) transport. Freight forwarders, representing the shippers, should not be excluded from the distribution of permits.

8.6 Regional co-operation among transporters and forwarders

Access to (potential) transport demand information is a most powerful tool. "Everyone for himself" is certainly not the most effective marketing strategy in the Caucasian region. The ports of Poti, Baku and Batumi are increasingly becoming important "hubs" in the regional transport network and the "spooks" spreading out into their hinterlands should be maximally exploited by the three countries' transport forwarders and operators. Regional co-operation of freight forwarders needs to be given priority and there are already good examples of regional (agency) networks of some forwarders. Modern (tele)communications facilities and adoption of simplified and standardised documentation may have a 'multiplier' effect on the growth of the forwarders' networks. Intensified information exchange between (more widely dispersed) forwarding agencies and both shippers and transport operators within the forwarders' *influence* areas will certainly improve load factors and thereby efficiency and profitability of road transport.

8.7 Financing

The low liquidity of the population in all Caucasian countries greatly restricts the possibilities of the outright sale of (transport) entities or assets selected for privatisation. The countries' new (commercial) banks are not as yet capable of assisting with credit on any wide scale.

Uncertainty surrounding the ownership of an enterprise, and uncertainty about the assets and liabilities of the enterprise -essentially its Balance Sheet- prove to be strong barriers against new inputs, from outside, whether in the form of domestic or foreign capital or physical assets. Given a willingness to overcome these barriers, a separation in self-contained subsidiaries, possibly organised as Limited Liability Companies, seems a logical step towards commercialisation. The international haulage activity of an enterprise may be separated out in this way, or a single workshop or a group of workshops, or storage units capable of undertaking

warehousing, or freight forwarding (or vehicle leasing, as is happening already). Particularly where third parties show an interest in entering into a Joint Venture or partnership with any activities of the old state enterprise, an immediate case for the creation of a subsidiary arises.

In Western market economies (Europe, USA), bank finance for haulage firms is provided (or supplemented), to a large extent, by leasing companies. "Operating" leases are also common: In that case the capital cost is paid off by consecutive, different lessees, instead of under one single operating lease contract; the lessor may also provide maintenance and insurance. This seems certainly an approach to be considered here (e.g. in a combination of an umbrella Joint-stock company with a number of LLC's).

Privatisation entails a fundamental change in the financial or fiscal link between state and enterprises. This change must be reflected (also) in the taxation of road haulage (see section 8.4 on the role of the Government in this respect).

8.8 Liabilities and insurances

A freight forwarder or transport operator's reputation is based upon --among other things-- the way of dealing with security and safety of transport, and --in cases of loss or damage of cargoes-- with proper compensation. of the shipper, normally arranged through insurance. Particularly in an 'environment' of questionable law and order on the (main) highways, which may be a temporary situation in some countries, these issues may become of overriding importance in choosing the operator(s), or even the (alternative) mode of transport. It is clearly the Government's task to ensure or enforce law and order on the public roads, so that generally (internationally) accepted practices of settlement of liabilities (insurance) can be expected to function. In the case of inter-modal (e.g. container) transport, by definition long distance transport, a single document (e.g. Bill of Load), and one party within the transport chain assuming responsibility for liability (e.g. the freight forwarder), greatly enhances efficiency and, thus, level of (door-to-door) transport service.

8.9 Road carrier Associations

8.9.1 International Road Transport Union

Since its foundation in 1948, the main objective of the International Road Transport Union (IRU) -a Geneva based world wide organisation with some one hundred and fifty national member associations uniting road transporters in more than fifty countries- has been to contribute to the promotion and prosperity of national and international road transport and to safeguard the interests of the road transport industry thus to help the development of national economies and international trade.

The IRU has been entrusted with the management of the Customs Convention on the international Transport of Goods under Cover of TIR Carnets (TIR Convention) since it was established in 1959. This convention is one of the corner-stones of international goods transport by road in Europe.

The member associations are active in three IRU sections, each representing one of the main sectors constituted by professional passenger, professional goods and own account transport. Furthermore, the IRU renders services on a non-profit basis to its member associations, such as information exchange, documentary service and advisory activities.

The IRU supports the development of strong and independent road transport associations in the former member states of the Soviet Union. In order to facilitate the development of road carriers associations in the Newly Independent States, the IRU has published a document on the roles and functions of a road transport associations. The paragraphs hereafter summarise the role and functions of road transport associations as seen by the IRU¹⁴.

8.9.2 The case for strong and independent national road carriers associations

8.9.2.1 *Developments in National Associations*

Although the road transport mode is a relatively youthful one, as compared with shipping and railways, national road transport associations emerged in the major Western European countries before the Second World War. At the time of their foundation, these bodies served rather limited industries, since railways ruled transport those days, at least for long distance haulage.

Associations with very limited powers were also created in planned economies after the Second World War, often they were just departments of ministries and huge state-owned transport or forwarding companies with the sole function of issuing the vitally important TIR carnets. During four decades of planned economy, it was not possible, and under the circumstances also not necessary, to exercise the real functions of defending the interests of the industry.

Since the end of the 1980s, road transport associations were founded in the Newly Independent States and Eastern and Central Europe, or if already existing they have undergone far-reaching changes in their membership structure and the functions they should carry out as lobbying organisations in the difficult period of transition to a market economy in the years to come.

8.9.2.2 *Mission statement for a road transport association*

The prime 'raison d'être' of a national association is certainly the need to defend and promote the interests of the profession vis-à-vis the authorities, central and local, their own, unionised employees, and the public at large.

Governments

The national haulage association represents the interests of its members in all negotiations that go on with the central government, and particularly the Ministries of Transport, Economy and of the Interior, as well as with the administrative, parliamentary and local authorities. It hence succeeds in influencing transport policy and takes part in the elaboration of regulations.

Other Lobby Groups and Trade Unions

The association also represents the profession in such bodies as the national association of employers, the assembly of chambers of commerce and industry, etc. both in order to add its voice to those of other industrial sectors in their contacts with the authorities and to make known its own specific needs vis-à-vis partners in trade and industry.

On another level, the association constitutes the employers' organisation in dealings with the trade unions, representing the organised work force.

¹⁴ International Road Transport Union, 'The Role and Functions of a National Road Transport Association, Geneva 1993.

Public opinion

The national association also acts as the haulage profession's spokesman vis-à-vis public opinion. In Western Europe, the public opinion does not favour road transport too much. The public is ready to criticise the inconvenience of large vehicles, the noise they make and the exhaust they emit. The public seems to forget the essential role played by road haulage in their everyday standard of living. Therefore, the associations in Western Europe publish brochures and leaflets to improve the image of the industry and they remain in contact with the press.

International relations

Another level on which the association acts as the spokesman for the profession is the international one, which is broken down in two elements.

On the one hand, exercising one of its classical functions, the association works together with the government on bilateral relations with other states, in particular when negotiations take place to decide how many authorisations will be allotted to hauliers from each country. In this way, the association acts as an expert advisor and is also able to defend its particular interests, while accepting that a good deal of give-and-take is essential if international trade is to be carried out satisfactorily.

Members

An association is only as strong as its members and in national terms it is those with an active input from members which are the most successful. Of course, associations need professional staffing to be effective, but without input, guidance and advice from members working in the industry, they can quickly lose touch with the needs and feelings of members.

8.9.2.3 *Communication*

Communication with members is important. For individual members, it is important to be kept in touch with what is going on in their association, and informed of any new or amended services the association is providing. Whatever sophisticated methods of telecommunications there may be, two of the most effective means of communication are quite traditional: first a regular bulletin -and this does not have to be sophisticated- and second the calling of special meetings for members when there is some specific information which needs passing on.

8.9.2.4 *Services*

The offer of services to individual hauliers is a means of financing the overall activities of the association, but it is, above all, a means of providing concrete assistance to the haulier in his everyday operations.

Amongst such services, one category is that of advice to individual hauliers on legal, fiscal, labour relations or economic matters. Other services include the provision of the practical documents required in the operations of a road haulage undertaking: receipts, consignment notes, etc. They also provide the customs documents required for international haulage, and notably the TIR carnets, which are centrally issued by the IRU in Geneva to its members. The issue of this particular category of document can constitute a not inconsiderable additional source of income to associations whose members are engaged in international operations.

Yet another service which can be provided by associations is in the obtaining of credits for investments, they are in a position to assist hauliers to obtain credits at preferential rates for the purchases of vehicles and fixed installations.

Some associations have their own vehicle insurance companies or special arrangements with individual companies, providing third-party and other cover for hauliers. The association can negotiate collective policies with established companies.

Several associations are directly involved in training programs for drivers, operators and other categories of personnel, others are indirectly concerned.

A service which has recently gained in importance is the provision of freight exchanges or other means of inter-company co-operation facilitating the obtention of return loads and thus reducing empty journeys. The proper functioning of this usually fully computerised system has largely been facilitated by the impressive development in communications (e-mail etc.).

In Western Europe, electronic exchange of information is gradually replacing or at least completing the written form of disseminating information to member companies on road conditions, extraordinary events (strikes, blockades, etc.) changing tax and customs regulations, etc.

Some associations provide for breakdown and recovery services, essential to the transport operator in case of breakdown or accident. They may also provide advice on vehicle and trailer security devices and depot security, as well as in relation to guarantee claims, overcharging by garages, etc.

8.9.3 Association structure

In a market economy the road transport sector is largely made up of thousands of small, one or two-man operators, and in order to maintain contact with all of their members, associations are often obliged to constitute regional or local groups supported by branch offices, wherever possible, providing the same services and channelling the work of the national associations to the local level, as well as making local requirements known to the central body. Local groupings of operators have much in common and should be organised on a sensible geographical division.

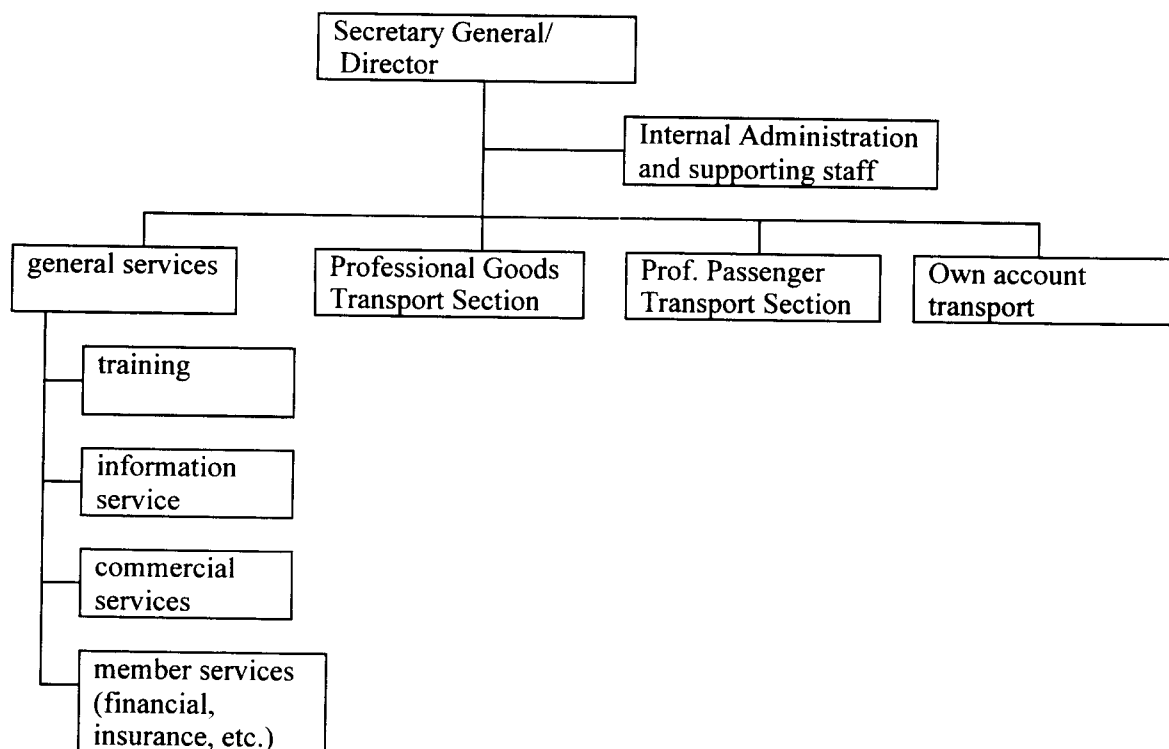
Next up to the scale is the regional organisation of the national association. It is often here that one first finds the formal structure of the national body with formally elected committees and sometimes paid staff, even if on a part-time basis. The region will certainly be involved in responding to national associations on policy matters etc.

At the top of the structure is the national association and its professional officers. Many associations are large enough, and have the resources to be able to specialise at this level. The larger national associations have a number of specialised groups of experts and committees delegated by the member companies to draw up policy. An association might also have a number of functional groups dealing with such specialities as agricultural haulage, air freight carriage, heavy haulage, international transports, etc.

8.9.4 Secretariat

The central and local officers of an association are usually under the day-to-day responsibility of a salaried secretary general or director general. Depending on the size of the association, the head quarters administration is divided into as many departments as needed, relating, for instance to economics, finance and credit, legal issues, fiscal matters, information and press, international, etc.

As far as the possible organisational structure of a secretariat is concerned, much depends on the activities themselves, the statutes and the membership structure of the association. A simplified set-up of a secretariat might be as follows:



How an association is staffed will largely control how effective it is both in helping its members and in its dealings with the outside world. Much attention should be paid to equipping the office with modern communications and computer facilities. They can be of great use for keeping reliable records of thousands of members, to produce basic statistics on the members (and the industry), to closely follow the routing of valuable documents, such as the TIR carnet and facilitate internal finance and administration.

8.9.5 Financial Resources

Road transport associations exist to serve their members and not to make profit. Indeed they are -in legal terms- non profit organisations. However, they do need adequate financial resources in order to be able to function properly. Such resources may be divided in three categories:

- (a) membership dues;
- (b) services;
- (c) grants, subsidies, awards.

Membership dues

The level at which membership dues are fixed are principally be related to the benefit which the individual associations obtain; generally, they are fixed rather low, and it is the huge size of membership which creates the cash flow.

Services

Rather than on membership dues, the more successful associations have developed services which they offer to their members on a pro-rata basis. The cost of each of these must be based on comparison with similar services provided by commercial bodies, which costs incurred, and ultimately, on something of a trial-and-error basis.

Subsidies, Grants, Awards

Finally, associations benefit from grants from the supplying industries; such grants do, however, have their drawbacks, in that, on the one hand, vehicle manufacturers or other suppliers may attempt to unduly influence the policy of the association, and, on the other hand, that in the event of the sponsor encountering financial difficulties, the grants may be withdrawn at short notice, leaving the association without resources. Such support is therefore recommended for specific project of limited duration.

Some associations receive practically all their funding from members' subscription, whereas others sell particular services so well that over half of their revenue stems from this source. Neither method is right or wrong. Much depends on what an association wants to do for their members and what the prevailing circumstances are in a country.

8.9.6 Statutes

The basic document of an association is its statutes or constitution which governs all its activities. The statutes are a legal document which should be in conformity with the relevant national laws and regulations on associations.

They usually contain provisions concerning the main goals of the association, its most important functions, questions related to membership, the structural set-up, and, maybe, the functions of the main entities, voting procedures, etc.

8.10 Joining international Conventions

Consultants promote the adherence to international regulations and conventions. The subject of international regulations is on the 'cross roads' of the Legal and regulatory framework project, Trade facilitation project and the Improvement of road transport services project in the TRACECA Program. However, some short remarks on the two most relevant conventions are made. Two major international conventions which are important for the development of international road transport operations are discussed here: The CMR convention and the Carnet TIR convention.

8.10.1 Convention on international carriage of goods by road (CMR convention)

The unification of law applicable to the international carriage of goods has long existed in rail, sea and air transport. The need to submit international carriage by road to uniform rules emerged when road transport in Europe absorbed about 2/3 of the increase of goods transport since the late thirties. In 1956 the Convention on the international carriage of goods by road (CMR Convention, dated 19/05/1956 , E/ECE/253) was established. Today, the CMR convention is applied in all European Community countries, Bulgaria, Croatia, Hungary, Poland, Romania, Russian Federation, Slovakia, Slovenia, Tunisia and Yugoslavia.

Indeed, with growing market share for road transport, the unification of rules will be necessary for the Caucasian republics as well and it is recommended to apply the CMR Convention in the three Caucasian Republics as well. Besides, the ratification of the CMR will facilitate the entry to the international road transport market (especially Western Europe).

The CMR convention governs the contractual relations between the sender on the one hand and the carrier on the other hand. This private law convention is mainly aimed at the liability of the carrier, but a legal framework is imposed by Governments; the sender and the carrier are free to contract, subject to imperative limits.

For the CMR convention to be able to apply, the transport operation must:

- (1) be carried out for hire or reward for the account of a third party;
- (2) be carried out by vehicles by road (multi-modal transport is excluded from CMR);
- (3) cross the territory of two different States, of which at least one must be a contracting party to the Convention (Although Austria has made the convention applicable for internal transport as well).

The CMR convention is mainly concerned with the liability of carriers. In principle, the carrier is liable in respect of total or partial loss and average occurring between the time of the goods were taken in charge and the time of their delivery as well as the delay in the implementation of the operation of carriage. Causes for exoneration are specified in the CMR convention (e.g. fault by the claimant, special risks, 'force majeure', etc.).

Given the far-fetching implications of the CMR convention, it is recommended to combine the implementation of the CMR convention with the restructuring of the insurance system and third party liability regulations.

The recommended follow-up project entitled 'In-service training program of professional staff of road transport departments in the Caucasus' (see Terms of Reference in annex 2 to this report) will also deal with the CMR convention and other international regulations in the specialised course IIC entitled 'Transport legislation and regulations'.

8.10.2 Carnet TIR convention

8.10.2.1 Background

The TIR conventions (Customs Convention on the international transport of goods under cover of TIR Carnets) was established in 1959 under the auspices of the United Nations Economic Commission for Europe. In 1975 the TIR system was renewed and the new convention came into force in 1978. Since the introduction it has continued to prove that is one of the most successful international transport conventions. The TIR convention and its transit regime has formed the basis for many regional transit systems and has thus, directly, and indirectly, contributed to the facilitation of international (road) transport.

To date, the TIR system has 56 contracting parties, including the European Union. It covers whole Europe and reaches out to North Africa and the Near and Middle East. The USA and Canada are contracting parties as well, and so are Chile and Uruguay.

The number of number of TIR carnets issued grows rapidly each year. Whilst in 1952 only a little over 3,000 carnets were issued, nowadays the yearly demand exceeds 2 million.

8.10.2.2 *Objective*

Custom transit systems are devised to facilitate to the greatest possible extent the movement of goods under customs seals in international trade and to provide the required customs security and guarantees to the transit countries. For the success of such a system it is essential that any formalities involved are neither too burdensome for the customs officials, nor too complex for the transporters and their agents.

Traditionally, when goods crossed the territories of states, the customs authorities in each state applied national controls and procedures. This often involved inspection of load at each frontier and the imposition of national security requirements (guarantee, bond, deposit, etc.) to cover potential duties and taxes. These measures led to unacceptable expenses, delays and interferences with international transport.

In an attempt to reduce these difficulties for operators on the one hand, but to offer customs administrations sufficient securities on the other hand, the TIR system was devised.

8.10.2.3 *Basic principles*

A short description of the TIR transit regime as stipulated by the TIR convention of 1975 is given below. In order to ensure that goods may travel with a minimum interference en route and yet offer maximum safeguard to customs authorities in transit countries the TIR system contains four basic elements (the four main pillars of the TIR system):

- (a) Goods should travel in secure vehicles or containers;
- (b) Duties and taxes at risk should throughout the journey be covered by an internationally valid guarantee;
- (c) The goods should be accompanied by an internationally accepted carnet taken into use in the country of departure and serving as a control document in the countries of departure, transit and destination, and;
- (d) Customs control measures taken in the country of departure should be accepted by the countries of transit and destination;

(a) approval of road vehicles and containers

The TIR convention stipulates that all goods shall be carried in containers or road vehicles of which the load compartments cannot be accessed to the interior after the customs seal. To this purpose every year new constructions proposed by manufacturers are discussed by one of the working parties of the UN.

(b) International guarantee system

The second pillar is its international guarantee system. This system was devised to ensure that customs duties and taxes at risk during transit operations are covered at any moment by a national guaranteeing association, if the TIR transport operator cannot be held responsible.

Every association representing carriers in a particular country and recognised by the customs administration of that country, guarantees payment within that country of any duties and taxes which may become due in the event of any irregularity occurring in the course of the TIR transport operation.

All the international guaranteeing associations constitute a guarantee chain linking all TIR countries. Today the only existing guaranteeing chain is administered and backed by the International Road Transport Union (IRU) in Geneva. In the event of any irregularity, before approaching the guaranteeing association, the customs authorities should seek payment from the person directly liable. If the guarantee has to be applied (e.g. in case of bankruptcy) it is

always the guaranteeing association of the country where the irregularity has been found which is called upon by the customs authorities of that country. This guaranteeing association will, however, apply through the IRU, for reimbursement through an international insurer pool.

Since no guarantee can be unlimited the monetary limit to the guarantee are determined for each country separately. The maximum insured by the IRU, however, is for the moment US \$ 50,000 per carnet. In case of alcohol or tobacco a special high-guarantee TIR Carnet (the so-called Tobacco/alcohol TIR Carnet), provides for a guarantee of \$ US 200,000 as a maximum.

(c) TIR Carnet

The third and most visible element of the whole system (apart from the TIR plate on the vehicle itself), are the TIR carnets which also constitute the administrative backbone of the TIR system.

TIR carnets are issued by the IRU to the national guaranteeing associations under conditions set out in the contractual commitment signed with the IRU. Each guaranteeing association in turn issues the carnets to carriers in its country in accordance with the conditions set out in the declaration of commitment signed by the carrier with the association. The IRU has designed a standard for such an agreement.

The presentation of a valid TIR carnet bearing the names, stamps and signatures of the IRU and the issuing association and duly filled in by the carrier is in itself proof of the existence and validity of the guarantee. The TIR carnet remains valid until completion of the TIR operation at the customs office of destination, provided it has been brought into operation at the customs office of departure within the time allowed by the issuing association.

C.1. Multi-modal TIR Carnet

In 1987 a new TIR carnet was introduced, especially for multi-modal transport. The new multi-modal TIR carnet, contains an additional sheet, clearly separated from the usual sheets, exclusively designed for multi-modal transport. This additional sheet for multi-modal transport is not part of the customs document and is, therefore, of an entirely private nature. Since 1 September 1989, an international guarantee for this type of carnet has been available.

C.2. Tobacco/alcohol TIR Carnet

In 1994 a new TIR Carnet, called the Tobacco/alcohol TIR Carnet became an integral part of the TIR Convention. While the TIR convention did not exclude the right of customs authorities to claim more than the recommended US \$ 50,000 per carnet from national guaranteeing associations (this can be stipulated in the agreement, concluded under national law, between national customs authorities and the respective national guaranteeing association), it was however felt that it was nevertheless useful to recommend at the international level a maximum amount per TIR carnet. Since the recommended limit of \$ 50,000 has been fixed in 1975 and has been reduced by inflation, it was decided to issue a special TIR Carnet for alcohol/tobacco in 1993 guaranteeing a maximum of \$ 200,000.

(d) International recognition of customs control measures

The fourth pillar on which the TIR Carnet system rests is the principle that customs control measures taken in the country of departure should be accepted by the countries of transit and destination. As a consequence of this principle, goods carried under the TIR procedure in sealed road vehicles or containers will not, as a general rule, be examined at customs offices en

route, and that is where the main advantages of the TIR system for the transport operator come in to play (this does not exclude the right of customs officials to carry out spot checks in cases where they suspect irregularities).

This procedure is very attractive for the transport operator means that the checking undertaken by the customs office of departure is acceptable to all other customs offices during the TIR transit operation. It is therefore essential that the customs inspection at the office of departure should be stringent and complete, since the proper functioning of the whole system depends upon it .

8.10.3 Functioning

At the customs office of departure, customs check the load on the basis of information supplied in the TIR Carnet completed by the haulier. Customs seal the vehicle, report it on the carnet, keep one sheet and authenticate the corresponding voucher. The carnet is handed back to the driver, who starts the operation. When crossing the outgoing border of that country, customs check the seals, detach a second sheet from the carnet and authenticate the corresponding voucher.

Customs authorities will make checks according to the following procedure. The outgoing customs office send the detached sheet to the office of departure and the sheets are controlled. If everything is in order, the TIR operation is completed for that country.

The incoming customs office in a country of transit checks seals and withdraws one sheet from the TIR carnet, and the outgoing office likewise. In the country of destination, if the incoming border office also is the office of destination, it authenticates the TIR carnet, retains two sheets and becomes responsible for the goods to be transferred to another customs scheme (warehousing or import clearance etc.).

8.10.4 Advantages

(a) Advantages for customs administrations

The TIR system has advantages for customs administrations as it reduces normal requirements of national transit procedures. At the same time the system avoids the need for physical inspection in countries of transit other than checking seals and external conditions of the vehicle/container. In addition advantages arise from the fact that the international transit operation is covered by a single transit document.

(b) Advantages for the transport industry

The advantages for the industry are also clear. Goods may travel across frontiers with a minimum of interference by customs administrations. By easing impediments on movement of goods, the TIR system encourages international trade. By reducing delays in transit, it enables significant economies to be made in transport costs. Moreover, the revised provisions of the TIR convention in 1975, enable its advantages to be widely applied to the transport of goods in containers. Finally, in reducing the impediments to international traffic by road caused by customs controls, it enables exports to select more easily the form of transport most suitable for their needs.

To facilitate multi-modal transport the TIR regime was extended to multi-modal transport in 1987.

8.10.5 Administration of the TIR Convention

The TIR convention is working very efficiently with only a few incidences of litigation as a result of unclear and vague provisions and different interpretation. It is in the interest of both transport operators and customs to keep the system working smoothly and therefore administration is disciplined. Another reason is that the explanatory notes to the TIR Convention of 1975 have provided some interpretation of the legal text.

Technological changes occur very rapidly and what was the state of the art in 1975 when the convention was created is not necessarily valid today. This affects not only customs techniques, but also vehicle and container manufacturing and smuggling practice and -techniques.

In addition, as the smuggled goods become more and more expensive, smugglers become more and more creative. In view of these developments the TIR system has to be kept up-to-date. This is the task of the Administrative Committee of Convention under auspices of the UN/ECE in Geneva.

8.10.6 Conclusion

The TIR system, created more than 40 years ago, and the TIR convention, 1975, have proved to be a very effective international transit regime and have played an important role in facilitating international transport and trade, primarily within Europe, but more recently also between Europe and neighbouring countries. With the rapid increase of East-West European traffic and with the emergence of many newly independent countries in Central and Eastern Europe, the TIR transit system is facing new challenges. Customs authorities are faced it an unparalleled amount of Customs fraud and smuggling as a result of changing political, economic and social situations in many countries in the region and due to often heavily increasing customs duties and taxes.

At present, the TIR carnet system is in effect in Georgia, whereas Armenia and Azerbaijan are preparing the implementation of the TIR carnet system. Introduction of the TIR system in Armenia and Azerbaijan will facilitate the entry to the international road transport market for Armenia and Azerbaijan. It can be concluded, that once in operation, the TIR system must be operated with great prudence and disciplined administrative systems. It is also important to set up a proper insurance system for the carriers of the TIR carnets, because the holder of the carnet is liable for customs rights in each country of transit. Most guaranteeing associations offer the possibility to re-insure the guarantee.

8.10.7 Finance

The minimum deposit that the guaranteeing association should make at the IRU is US \$ 50,000 (the guaranteed amount for one TIR Carnet). The size of the fund is set each year by the IRU and depends of the number of carnets issued by the association. In the price for each TIR carnet that the association purchases from IRU, the association pays to IRU for the IRU-insurance of liability for customs rights (because the guaranteeing association is liable for rights is the operator does not fulfil his obligations).

9 MAINTENANCE AND REPAIR

9.1 Introduction

Without proper maintenance systems the number of vehicles out of operation will increase. Under the FSU the maintenance practice was disciplined. A standard maintenance management programme for transport operators was prescribed by the ministries and the truck manufacturers. Maintenance was carried out in conformity with that system.

At this moment maintenance is rare and has been adapted to the low mileage of the trucks. The workshops visited, although some of them well equipped, had hardly any work to do. The shortage of spare parts was obvious.

9.2 Enterprises visited

Azerbaijan

Zigh maintenance workshop Baku
 Bus workshop Aljat
 SOE maintenance workshop Baku
 TIR-park "gate East"

Georgia

ATEKA workshop Tbilisi
 Tbilautoservice (Possible future TIR-park Tbilisi)

Armenia

Yerevan milk and meat transport company
 Ex Soyuznes Trans Yerevan

9.2.1 Zigh maintenance workshop Baku

A big workshop built in 1985 to repair buses as well as trucks. Productivity in former days : 65 vehicles a day; at present no more than 3 or 4 a day! The number of mechanics employed now is 140; in the past there were 400. The workshop is well equipped. All kinds of maintenance as well as repairs can be carried out. The main workshop is surrounded by smaller workshops where specialised activities, mainly revision-oriented, can be carried out, on e.g. electrical systems, springs, carburettors, engines, injection pumps, crankshafts.

The high quality of this workshop cannot be called into question: all kinds of maintenance, repair and overhaul of engines are accommodated for.

9.2.2 Bus workshop Aljat

A large bus workshop, mainly aimed at construction and repair of bus bodies. This workshop has not been used for nearly one year and is empty at the moment. This regardless of the fact that bodies of the buses driving on the road were in a very bad condition and certainly needed a lot of repair. The workshop is situated on the main road from Baku to the Iranian border. The idea of the management to create a service centre for through-traffic of foreign trucks is worth examining. However, a lot of work has to be done to make this building suitable for this purpose. Pits, bridges, repair facilities, offices, facilities for drivers, etc. will all have to be created and a large sum of money will have to be invested.

9.2.3 SOE maintenance workshop Baku

During our visit the workshop of this state-owned enterprise was far from clean, to say the least, and very dark. Certainly not a situation in which you might expect mechanics to deliver quality work. On the premises many non-running trucks were parked, waiting for spare parts. In the workshop itself dismantled trucks were scattered.

All gave the impression of disorder. Neither maintenance administration nor maintenance planning was kept, as far as we could see!

The management informed us of their plans to buy approximately 150 second-hand trucks, tractors and buses in Germany.

9.2.4 TIR-park Gate East

This park is operated by the private enterprise which operates 9 TIR-parks from the head office in Baku, Gate East. Four TIR-parks are located on the circular road around Baku, three at the borders with Georgia, Iran and Dagestan and two along the main road from Baku to Tbilisi.

The services provided by the TIR-parks range from goods handling and warehousing to custom-clearance facilities. But the most highly estimated by the users is the safety of these guarded parking and service areas. Another provider of these services in Baku is Sovavtobaku. A separate chapter deals with this interesting phenomenon.

9.2.5 ATEKA workshop Tbilisi

A large workshop with a capacity of 80 trucks a day where mechanics used to work in two shifts a day. Nowadays there is hardly any activity. The equipment of this workshop is excellent: long drive-through pits, equipped with pit lifts, many lift bridges, specialised equipment for brake testing, etc. Beside the main workshop there are smaller ones where special tasks can be carried out such as repair of wheels and tires, springs, electrical equipment, fuel pumps, etc. On the premises, outside, there are car wash facilities and a fuel service station. Although the problem of supervising the work in the various smaller workshops does exist, the enterprise as a whole has a lot of potential.

The management is trying to set up a dealership/joint venture with a Western European truck manufacturer, but has not found interested partners yet.

9.2.6 Tbilautoservice (Projected TIR-park Tbilisi)

On a large 5-hectare site near the circular road, used in former days for the maintenance of Kraz trucks, private enterprises such as ATEKA wish to establish a TIR-park, with the full support of the local authorities. The city of Tbilisi, as a main junction of traffic flows, wants to reorganise the actual situation in which passing international trucks have to come into town for all kinds of services, custom clearings, etc. On the site there are workshops with repair and maintenance facilities on eight pits for trucks and ten pits for tractors and trailers, as well as offices.

There certainly is enough potential in existing buildings (approximately 4,000 m²) as well as in the market to create a TIR-park on this spot. Each month some 4,000 Turkish units pass Tbilisi. In order to realise this project, with all the facilities needed for a TIR-park, investors will have to be found.

9.2.7 Yerevan milk and meat transport company

The workshop of this road haulier is modern and neatly arranged. Although there were hardly any activities going on, the impression is that the standard of the work of the mechanics in this workshop is high. All necessary equipment and tools are available and well stored. The basic problem here is the lack of transport activities. As a result, 80% of the vehicles are stored.

9.2.8 Ex Soyuznes Trans Yerevan

The workshop visited was well organised and clean but it only one of the workshop of Ex Soyunes was surveyed, due to the fact that the activities take place in various smaller workshops. In this workshop they maintain nearly 100 units of the makes Kamaz and Maz. All necessary equipment, including diesel fuel pump test facilities, is available.

9.3 Maintenance and repair

As stated in the introduction, maintenance of trucks in the Caucasus is actually rare. Under the FSU maintenance was carried out in conformity with the prescribed standard procedures. The programme included day-to-day management and a turnout schedule. This schedule is divided into two parts, TO 1 and TO 2.

The cycle for TO 1 and TO 2 is determined by a number of factors: vehicle type, mileage, use of the truck, road conditions, etc.

In general a TO 1 service will take about two hours and is foreseen after approximately 3,000 km. The TO 2 service is normally carried out after approximately 12,000 km and takes about 24 hours. The sequence of these services is: 3x TO 1, followed by 1x TO 2.

This maintenance system made for and based on FSU trucks, tractors as well as trailers, is well documented and the number of mechanics that are still familiar with it is abundant. It is still a very workable system.

Due to the decrease in transport activities and consequent financial problems the amount of maintenance has decreased tremendously.

The actual situation is diverse. In many cases it is the driver's task to maintain his truck or bus, although he is not trained to do so, lacks experience and knowledge and is constantly feeling the pressure of having to produce. Standstill of his vehicle in many cases implies no payment. Some companies make the mistake of storing part of their fleet and forgetting to maintain them. In other cases the trucks that are stored are used to provide the running ones with spare parts. Cannibalism.

The supply of spare parts and components is difficult. The main reasons are: a lack of financial means, a smaller dealer network and the problem that the majority of the parts have to come from abroad. Irregular and insufficient maintenance practice leads to an unacceptable rate of breakdown of vehicles and an attempt at road safety.

It is recommended to give the highest priority to re-introduction of the old maintenance system. The idea to use the hands and knowledge of the driver in this process is fairly good. It is the driver who can, and has to signal problems or malfunctions. He can certainly carry out a

large part of the TO 1 maintenance. However, he is not the one to repair the truck.

Very important too is a good administration and quality control. It is essential to have an administration which will enable the collecting of the data regarding malfunctions, repairs and replacement of every vehicle. On the basis of a good administration it will be possible to carry out preventive maintenance, adapt certain parts, develop maintenance-free constructions or make the correct decision as to whether to replace vehicles.

By improving the maintenance and implementing a maintenance management system, efficiency will improve. The use of computers and adequate software is recommended.

Assuming that the FSU trucks must and will be used for many years to come, the existing over capacity of trucks and consequently the very low price for second-hand trucks and the situation on the spare-part market, in certain cases the disassembly of vehicles might be an option. However, also in that situation, a good management system and good stock-taking are essential.

As regards the mechanics and their working environment and circumstances, it is clear that changes have to take place. Clean and "comfortable" workplaces do improve efficiency, and therefore productivity.

As soon as Western European trucks are introduced, many mechanics have to be retrained to be able to handle the different techniques and electronic equipment used in these vehicles.

Most of the workshops visited are sufficiently equipped to carry out any kind of repair and/or maintenance activity. Many of them have a large over capacity in space, buildings, machinery, equipment, etc.

It might be wise to develop other activities with this potential, i.e. the production of spare parts, body panels, etc. .

9.4 Spare parts and commodities

9.4.1 Spare parts

The supply of spare parts and commodities, such as oil, grease, tires, lamp bulbs, etc., is essential for the day-to-day running of the fleet. Their delivery depends on availability and payment. The problem of availability has to do with the fact that the majority originates from abroad, either Russia or Western Europe, as well as the fact that the dealer network hardly exists any longer. Spare parts are still available but sometimes rare and nearly always very costly.

The spare-part market can be divided into two parts: specific and general parts. Specific parts are those parts that are irreplaceable, difficult to make oneself and hardly available on the replacement market, i.e. that of motor parts. General parts are more or less easy to replace. It is often also possible to construct them oneself, i.e. chassis parts.

The disassembly of vehicles is an opportunity to obtain spare parts. If the management decides to do so it is wise to carefully select the vehicle to be dismantled. Preferably it should be a truck with non-reparable accident damage. The problem is that most of the time it is the same parts that break down. Therefore, cannibalism is not always the right answer. Nothing is more frustrating than a number of vehicles that are out of order because just one specific spare part has been dismantled.

The equipment of many workshops is of such a standard that it might be possible to turn the repairing or producing of certain types of spare parts into a profession, not only for the own company but also for third parties.

9.4.2 Commodities

Engine oil in the Caucasus is of low quality. This is one of the reasons why the changing of engine oil takes place at an interval lower than 10,000 km. In Georgia much engine oil was imported from Greece and/or Turkey. To stretch the intervals of maintenance it is absolutely necessary to raise the quality of this product. In Western Europe for example, oil change intervals usually are at 50,000 kms.

Tyres have to stand heavy wear in this region, seeing its extreme temperatures and bad road conditions. The quality of (Russian) tires is under discussion; they do not last more than 100,000 kms.

In Armenia tyre recovering exists. The proposed mileage of such a recovered tire is 65,000 kms, but in daily practice most of them do not last more than 25,000 kms.

The Goodyear tyre company has started a rethreading factory in Turkey and one in Uzbekistan. A similar rethreading company for the Caucasus is recommended.

9.4.3 TIR-parks

The phenomenon of TIR-parks is a good example of entrepreneurship. In these parks long-distance (international) drivers find a secured parking area situated along the main route where they can find all kinds of services that are essential for them: custom clearance, guarding and safety, truck repair, forwarding services, loading and unloading facilities, conveniences such as restaurants, showers, shops, means of communication, etc. In Azerbaijan the TIR-park system is well developed, while in Armenia it is underdeveloped.

These TIR-parks are not only an asset to the transport industry but also to the community. They tend to grow fairly rapidly into central distribution points outside the cities. The creation of a TIR-park requires not only a large area where many (in some cases 200 or more) trucks can be handled safely but also the investment in buildings and equipment. In the near future these parks cannot do without Western European truck dealers and garages, a group that is probably willing to invest as well.

9.4.4 Trucks

Transport in the Caucasian republics is mainly carried out by Russian made trucks like Graz, Kraz, Maz, Kamaz and Super Maz. The Graz is the lightest one and is mainly used for distribution purposes. The Kamaz, Maz and Super Maz trucks, with more capacity, are used for longer distances and heavier loads. The Kraz trucks are mainly used for heavy loads on long distances and across-border transport to Russia. The concept of the trucks is old-fashioned, sturdy and without comfort.

The engine power of these trucks is low, hardly 300 h.p. which has a direct influence on the transport capacity and speed. Especially in mountainous areas this is a tremendous disadvantage compared to the Western European makes. The wish to operate Western European trucks for the long haul is obvious and heard all over.

The introduction of Western European trucks, whether new or second-hand, will require many changes. Drivers have to be trained to handle the newer techniques, mechanics have to be retrained, workshops have to invest in new tools and machines, stocks of spare parts have to be created. In the meantime maintenance of the old fleet has to continue.

If the earlier mentioned maintenance scheme is not followed, the TO 1 and TO 2 services are not carried out, the old fleet will lose its value very rapidly and a severe problem will present itself.

9.5 General remarks

With the exception of the management of TIR-park Gate East, nearly every enterprise visited lacked true business plans or realistic ideas about their future! The idea that a money lender can solve their problems is widespread. They do not realise that money alone does not create the need for transport.

Research on the Western European market showed that partners can be found for joint ventures as soon as the Caucasian partners are able and willing to participate with a fair share (50%) in new activities. The management of most of the companies visited hardly had any knowledge of how to run a business on a free market. The majority believes that some day the market will change for the better.

The existing maintenance and repair facilities were in many cases totally out of balance as regards the real transport activities or the still existing fleet. Waiting for better times and thus retaining these facilities cannot be justified.

In some cases it is probably better to stop maintaining the vehicles oneself, and start contracting out. The old FSU trucks are unfit for international road haulage. The introduction of Western European trucks for that purpose is only advisable when a good business plan and capable, well trained management, drivers and mechanics are available.

9.6 Recommendations

9.6.1 Maintenance

- Try to stretch the maintenance intervals, i.e. through engine oil analyses, thorough maintenance administration and accurate inspection.
- Search for the weakest spot in the maintenance system and the part with the highest fault rate. Try to improve or modify this spot or part.
- Train the drivers and make them aware of the necessity of good maintenance. Give them responsibility for the day-to-day care of their vehicle and involve them in the TO 1 maintenance.
- Keep records of all maintenance and repairs.
- Make sure all executive personnel is informed about the latest technical developments and innovations.
- Use computers and adequate software to record all maintenance data.
- Let the public authorities set standards for good maintenance practice and have them controlled each year.

9.6.2 Spare parts and commodities

- A well functioning and accurate administration of the spare-part stock is essential. Use computers as well as adequate software.
- Control incoming spare parts on quality and numbers. Do not accept inferior parts.
- Standardise, as far as possible, your stock. Limit the number of spare parts that are hardly used.
- Try to find a laboratory that is capable of regularly checking the quality of the engine oil.
- Co-operate with colleagues and exchange knowledge about the availability of spare parts and prices. If possible, set up a central purchasing organisation.
- In case Western European trucks are purchased, try to get a stock of spare parts in consignment.
- Always clean and, if necessary, repair parts belonging to stripped down trucks before they are stored. Do not forget to store the information in the administration.

9.6.3 TIR-parks

- To set up a TIR-park the right location is vital.
- Only those TIR-parks that provide the services needed by the users, will survive.
- A TIR-park should, among many other things, provide the driver with the opportunity to maintain his truck and (when necessary with the help of an experienced mechanic) carry out some minor repairs.
- A breakdown and/or towing vehicle is essential to bring stranded trucks to the park.
- If possible, offer maintenance contracts to fleet owners and private drivers.
- Co-operate with other parks, enthuse local authorities, be as creative as possible.
- Investigate the needs of foreign drivers, especially regarding spare parts, etc.
- Try to get spare parts in consignment or set up a joint venture with a Western European truck manufacturer.

9.6.4 Truck fleet

- Continue maintaining the existing fleet.
- In the case of new trucks, organise a good introduction and follow-up.
- Truck-driver manuals should not be kept in the office but handed out to the drivers.
- The whole organisation has to be adapted when new trucks are purchased. So training of the mechanics, adaptation of the maintenance procedures and extension of the spare stock are essential.
- In case second-hand trucks are purchased, enter into business with a dealer who has a good reputation, so as to avoid a bad bargain.

10 COLOPHON

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Contributions	:
Project Manager	:
Project Director	:
Date	: 8 April 1997
Authorization	:

APPENDIX 1 SOCIO-ECONOMIC DATA

1.1 STATISTICAL ECONOMIC DATA PER REPUBLIC

1.1.1 ECONOMIC STRUCTURE: ARMENIA

Latest available figures: source *The Economist Country Report 3rd quarter 1996*

Economic indicators	1991	1992	1993	1994	1995
GDP at market prices Dram bn	15.9 ^a	62.0 ^a	3.9	187.5	548.0 ^b
Real GDP growth (%)	8.8	52.4	14.8	5.4	5.0
Consumer price inflation (%)	100	825	1,823	4,962	178
Population end-year (m)	3.6	3.7	3.7	3.8	3.8 ^b
Merchandise exports fob \$ m	n/a	335	165	216	248
Merchandise imports fob \$ m	n/a	405	392	401	661
Current account ^c \$ m	n/a	-50	-150	-231	-382
Exchange rate (av) Dram:\$	n/a	n/a	75.00	288.36	405.93

August 30, 1996 Dram418.8:\$1

Origins of net material product 1994	% of total	Components of net material product 1994	% of total
Agriculture & forestry	48.6	Private consumption	87.1
Industry	36.4	Public consumption	4.0
Construction	5.8	Net fixed investment	29.1
Transport & communications	1.0	Net exports	-22.3
Total incl. others	100.0	Losses	2.1
		NMP	100.0

Principal exports 1992 ^d	Rb m	Principal imports 1991 ^d	Rb m
Machinery & metalworking	19,109	Light industry	1,753
Chemicals & petroleum	10,688	Machinery & metalworking	1,292
Non-ferrous metallurgy	5,920	Chemical products	595
Food industry	4,286	Ferrous metallurgy	585
Total incl. others	43,197	Food industry products	443
		Total incl. others	7,286

Main destinations of exports 1995	% of total	Main origins of imports 1995	% of total
Russia	30.7	Russia	19.7
Turkey	14.5	Turkey	19.0
Iran	12.4	Iran	15.2

^a Rb bn. The dram was introduced in November 1993. ^b EIU estimate. ^c Excludes official transfers. ^d Valued at domestic prices which represent internal prices originally set under the centrally planned economic system and thus substantially different from world market prices; trade among Soviet republics.

Forecast summary

(\$ m unless otherwise indicated)

	1994 ^a	1995 ^a	1996 ^b	1997 ^b
Real GDP growth (%)	5.4	5.0	6.0	7.0
Consumer price inflation (year-end; %)	1,761.5	33.4	23.4	18.6
Merchandise exports fob	216	248	277	310
Merchandise imports fob	401	661	727	800
Current-account balance ^c	-231	-382	-451	-495
Exchange rate (year-end; :\$)	405.51	402.00	417.00	423.00

^a Actual. ^b EIU forecasts. ^c Excludes official transfers.

ECONOMIC STRUCTURE: AZERBAIJAN

Latest available figures. Source: *The Economist Country report 3rd quarter 1996*

Economic indicators	1991	1992	1993	1994	1995
GDP at market prices Manat bn	26.7 ^a	241.0 ^a	157.1	2,130.8	9,029.9 ^b
GDP bn	-	-	1.7	1.9	2.0 ^b
Real GDP growth (%)	-0.7	-22.6	-23.1	-21.1	-17.2
Consumer price inflation (%)	106	616	1,130	1,664	412
Population Dec (m)	7.2	7.3	7.3	7.4	7.5
Merchandise exports fob \$ m	n/a	1,275	697	637	547
Merchandise imports cif \$ m	n/a	786	819	778	668
Current account \$ m	153	488	-160	-153	-201
Exchange rate (av) Manat:\$	54.60 ^c	268.70 ^c	92.60	1,149	4,414

August 30, 1996 Manat4,304:\$1

Origins of net material product 1992	% of total	Components of net material product 1992	% of total
Agriculture & forestry	31.1	Public consumption	40.5
Industry	51.2	Private consumption	3.5
Construction	8.6	Net fixed investment	11.0
Transport & communications	5.2	Increase in stocks	7.8
Trade & catering	2.4	Net exports	36.8
Total incl. others	100.0	Losses	0.4
		NMP	100.0

Principal exports 1992 ^d		Principal imports 1992 ^d	
	Rb m		Rb m
Chemicals & petroleum	93,847	Food industry products	30,905
Machinery & metalworking	35,209	Machinery & metalworking	29,884
Food industry	31,721	Ferrous metallurgy	24,166
Oil & gas	15,072	Chemicals & petroleum	15,964
Light industry	11,929	Light industry	7,461
Total incl. others	207,756	Total incl. others	131,580

Main destinations of exports 1992 ^e	% of total	Main origins of imports 1992 ^e	% of total
UK	19.2	Turkey	26.2
Turkey	16.7	UK	12.4
USA	5.2	France	8.1
Other EU	10.0	Other EU	7.2
Former CMEA	4.3	Former CMEA	11.6

a Rb bn. b EIU estimate. c Roubles. d Valued at domestic prices which represent internal prices originally set under the centrally planned economic system and thus substantially different from world market prices trade

Forecast summary

(\$ m unless otherwise indicated)

	1994 ^a	1995 ^a	1996 ^b	1997 ^b
Real GDP growth (%)	-21.1	-17.2	-4.0	4.0
Consumer price inflation (%)	1,664	412	24	26
Merchandise exports fob	637	547	712	900
Merchandise imports cif	778	668	900	1,100
Current-account balance	-153	-201	-238	-270
Exchange rate (year-end; Manat:\$)	4,182	4,440	4,280	4,700

a Actual. b EIU forecasts.

Imports (\$ m)

	1994	1995	1996 ^a
Total	814	668	960
of which: from non-CIS	292	439	694

a US Embassy projection based on January-June statistics.

ECONOMIC STRUCTURE GEORGIA

Latest available figures: source *The Economist Country report 3rd quarter 1996*

Economic indicators	1991	1992	1993	1994	1995
GDP at market prices ^a	21	186	16,397	1,363,636	3,954,581 ^b
Real GDP growth (%)	-20.1	-44.8	-25.4	-11.4	2.4 ^c
Consumer price inflation (%)	78.7	809.9	3,125.7	18,916.0	183.2
Population end-year (m)	5.42	5.41	5.38	5.36	5.36
Merchandise exports fob \$ m	n/a	267	457	381	356 ^d
Merchandise imports fob \$ m	n/a	645	905	744	683 ^d
Current account \$ m	n/a	-319	-485	-446	-410 ^d
Total external debt \$ m	n/a	79	568	984	1,100 ^b
Exchange rate (av) Lari ^e :\$	30.00	22.00	12,280	1,102,300	1.25

September 4, 1996 Lari1.27:\$1

Origins of net material product 1993	% of total	Components of net material product 1993	% of total
Agriculture & forestry	68.0	Private & public consumption	87.3
Industry	24.9	Net fixed investment	6.2
Construction	0.6	Increase in stocks	4.9
Transport & communications	3.2	Net exports	-0.6
Total incl. others	100.0	Losses	2.3
		NMP	100.0

Principal exports 1991 ^f	Rb m	Principal imports 1991 ^f	Rb m
Marchinery & metalworking	1,489	Light industry	1,038
Light industry	1,218	Machinery & metalworking	792
Food industry products	1,146	Food industry products	750
Total incl. others	5,337	Power	596
		Chemicals & petroleum	522
		Total incl. others	5,372

Main destinations of exports 1991^g	% of total	Main origins of imports 1991^g	% of total
China	21.5	Turkey	42.7
Poland	11.1	Germany	9.8
Germany	10.7	USA	6.2
Other EU	3.7	Other EU	8.8
Former CMEA	21.5	Former CMEA	11.0

^a GDP in Rb bn in 1991-92, Coupons bn in 1993-95. ^b EIU estimate. ^c TACIS estimate. ^d IMF estimate. ^e 1991-92, roubles; 1993-94, coupons. ^f Valued at domestic prices set under the centrally planned economic system and thus substantially different from world market prices; trade among Soviet republics. ^g Trade outside the Soviet Union.

1.2 MAIN DESTINATIONS OF IMPORT AND EXPORT

	Georgia ^b		Armenia		Azerbaijan	
	Jan-Dec 1994	Jan-Dec 1995	Jan-Dec 1994	Jan-Dec 1995	Jan-Dec 1994	Jan-Dec 1995
Imports cif						
Austria	2	3	n/a	2	1	4
Belgium-Luxembourg	10	15	1	16	9	9
Denmark	5	8	n/1	5	n/a	4
France	22	7	11	16	6	6
Germany	19	39	7	11	32	44
Greece	6	10	n/a	6	n/a	1
Italy	27	16	9	22	4	2
Netherlands	6	14	8	6	1	3
Switzerland	1	1	2	6	2	3
UK	8	5	n/a	2	7	9
USA	87	105	96	114	10	13
Armenia	n/a	3	-	-	n/a	n/a
Azerbaijan	18	45	n/a	n/a	-	-
Georgia	n/a	n/a	18	62	8	19
Kazakistan	n/a	n/a	n/a	n/a	52	18
Russia	62	54	112	135	118	88
Turkey	74	51	1	3	76	141
Turkmenistan	n/a	n/a	70	129	196	51
Ukraine	9	17	5	5	86	34
Iran	n/a	n/a	43	90	67	80
UAE	n/a	n/a	1	14	9	69
Total incl. others	398	510	394	674	778	666
Exports fob						
Belgium-Luxembourg	1	1	26	31	1	1
France	n/a	5	n/a	n/a	1	n/a
Germany	4	6	7	10	4	4
Greece	6	11	N/A	N/A	1	10
Italy	4	7	n/a	n/a	n/a	26
Netherlands	n/a	2	1	5	n/a	n/a
Switzerland	n/a	n/a	3	n/a	4	28
UK	n/a	2	n/a	1	62	49
USA	1	11	n/a	n/a	1	1
Armenia	n/a	56	-	-	n/a	n/a
Azerbaijan	7	17	n/a	n/a	-	-
Georgia	n/a	n/a	3	3	17	41
Kazakistan	n/a	n/a	1	2	17	17
Russia	47	53	84	88	140	99
Turkey	23	17	n/a	n/a	16	26
Turkmenistan	n/a	n/a	66	69	17	11
Ukraine	3	5	4	4	58	33
Iran	n/a	n/a	15	n/a	242	163
Total incl. others	104	203	216	271	637	544

^a Source, DOTs. ^b Estimate.

1.3 GDP AND GDP PER HEAD
(purchasing power parities)

	1989	1990	1991	1992	1993	1994	1995
Armenia							
GDP							
\$ m	14,943	14,457	13,713	6,721	5,875	6,068	6,530
per head (\$)	4,294	4,084	3,798	1,821	1,550	1,709	1,866
Azerbaijan							
GDP							
\$ m	21,777	20,049	20,705	16,466	12,992	10,376	8,806
per head (\$)	3,076	2,804	2,872	2,228	1,760	1,389	1,223
Georgia							
GDP							
\$ m	23,429	21,398	19,183	11,767	7,352	5,263	5,125
per head (\$)	4,299	3,919	3,533	2,163	1,349	966	940

APPENDIX 2 IN-SERVICE TRAINING PROGRAM OF PROFESSIONAL STAFF OF ROAD TRANSPORT DEPARTMENTS IN THE CAUCASUS

2.1 Introduction

Within the framework of a planned reorganisation of the Ministry of Transport of Georgia, initiated by the World bank, a number of specific recommendations were made with regard to the development of human resources and the training of the Ministry's professional staff and other professionals, active in the transport sector.

The recommendations made in this project are fully supported by the TRACECA IRTS team. Besides, the TRACECA team recommends the Ministries for Transport in Armenia and the (new to be established) Ministry of Transport in Azerbaijan to apply for a similar program with the World Bank.

2.2 Recommendations made by the World Bank Team

- (1) A comprehensive training program should be organised to meet identified needs of the Ministry of Transport and Georgian transport enterprises (...). A Training Unit should be established as part of the Transport Reform and rehabilitation Centre, which in the long run should become an autonomous unit of the Ministry.
- (2) Instructors and training organisations should be required to produce and leave the relevant training and reference materials for further use.
- (3) Training and reference material left by the instructors and training organisations should be translated into Georgian. As a part of the translation activities, technical terms should be identified and their translations and interpretations left with the Training Unit as a form of a growing specialised dictionary.

2.3 The Training Unit in Georgia

The Training Unit will soon (spring 1997) commence their activities by organising a one week Seminar for higher officials and policy makers at the Ministry of Transport of Georgia and managers of Georgian transport enterprises to introduce some of the basic concepts of transport in a free market environment. The Seminar will be followed by a two months intensive training period of the future core staff of trainers and instructors of the Training Unit (Training of Trainers). The actual in-service staff training of the officials of the Ministry and the training of managers of transport enterprises will start immediately thereafter. Three series of courses are planned, each having a duration of about two weeks. Each series of courses will cover a cluster of training subjects, all related to one of the following main training themes:

1. *Transport Management for Transport Operators* (with an emphasis on road transport).

Short introduction courses on the same subject, to be prepared especially for officials of the Ministry of Transport, will be a part of the Course.

2. ***Management Information systems for the Transport Sector***
Separate courses will be designed for Government officials (information needs of Government departments) and for transport operators (information needs of transport enterprises).
3. ***Transport Legislation and Regulations***
The training course will highlight all aspects of the formulation, implementation and enforcement of laws, rules and regulations, related to the transport sector.

All listed subject matters that are included in the curricula of the planned in-service training program of the Department of Road Transport of the Ministry of Transport of Georgia (see Chapter V of the report) are included in the above mentioned training program of the Ministry's TRRC Training Unit.

For the other two Caucasian countries Armenia and Azerbaijan the consultants suggest the following strategy:

Stage I (first half of 1998)

Organisation of series of training sessions, using the previous training experiences for Georgian officials, gathered during the second half of 1997, as a reference. For this first round of training sessions it is suggested to utilise the then fully equipped facilities of the TRRC Training Unit of the Ministry of Transport of Georgia. The cycle of training activities will follow the same pattern as described before:

- (1) Introduction of basic transport concepts in a free market environment during a one week Seminar for higher officials of the Ministry of Transport of Armenia and the future Ministry of Transport of Azerbaijan (the present leaders of the transport related state concerns, including Azeravtonagliat) and managers of Armenian respectively Azerbaijani transport enterprises.
- (2) Organisation of the actual in-service staff training of the transport officials and the training of managers of transport enterprises. The three series of courses, each having a duration of about two weeks, will cover clusters of training subjects, all related to one of the before mentioned main training themes.
- (3) During the same period it is recommended to start making preparations for the establishment of Training Units at the Transport Ministries of Armenia and Azerbaijan, similar to the Training Unit, established at the Ministry in Georgia. The selection and training of a core group of trainers and instructors in Armenia and Azerbaijan of these Training Units will be part of the preparatory activities and should be given the highest priority.

Stage II (second half of 1998)

Establishment of Training Units at the Ministries of Transport in Armenia and Azerbaijan. The Georgian experience can be used as a model. Important is the identification of appropriate counterpart institutions in the two countries that have the ability to provide permanent support to the Training Units.

Organisation of a second round of training activities (three series of courses). Partly this will be the training of new staff and transport managers and partly short upgrading sessions for already trained personnel.

Evaluation of past training activities and formulation of concrete proposals for the sustainable continuation of the established Training Units at the Ministries of Transport in Armenia and Azerbaijan.

2.4 Summary of Training Courses and Required Budgets

I. Seminar

<i>Seminar Title:</i>	<i>Introduction of Basic Transport Concepts in a Free Market Environment</i>
Target Group:	Policy makers and high level staff at the Ministry of Transport Managers/owners of (road) transport enterprises
Subject matters for Government officials:	Formulation of a Road Transport Policy Transition to a Market Economy (privatisation) Issues related to Multi-modal Transport
Number of Participants:	15 - 20 persons per Seminar
Duration:	One week (five days)
No. of Seminars:	3 (one Seminar for each country)
Location:	TU-TRRC, Tbilisi, Georgia
Budget (estimate):	US\$ 100,000

II. Specialised Courses

<i>Iia. Course Title:</i>	<i>Introduction to Road Transport Management</i>
Target Group:	Managers of Road Transport Enterprises & Government officials dealing with the licensing of Road Transport
Number of Participants:	15 - 20 persons per Training Course
Duration:	Two weeks (10 days) for Company Managers Two days for Government officials
No. of Courses:	One for Company Managers and two for Government officials

(per country)

Location(s): Georgia - TU-TRRC, Tbilisi
Armenia - TU-TRRC, Tbilisi (1st half 1998)
MOT, Yerevan (2nd half 1998)
Azerbaijan - TU-TRRC, Tbilisi (1st half 1998)
Future MOT, Baku (2nd half 1998)

Budget (estimate): **US\$ 230,000**

IIB Course Title: *Management Information Systems and Economic Issues related to the Road Transport Sector*

Target Group: Managers/MIS Specialists of Road Transport Enterprises & Government officials at Road Transport Departments, dealing with Economic Affairs/Research

Subject matters for Government officials: Assistance to the Formulation of a Road Transport Policy Monitoring and Evaluation of the Road Transport Sector
Economic and Fiscal Issues related to Road Transport
Contracting and Tender Procedures

Number of Participants: 15 - 20 persons per Training Course

Duration: Two weeks (10 days) per Training Course

No. of Courses: One for Company Managers and one for Government officials (per country)

Location(s): Georgia - TU-TRRC, Tbilisi
Armenia - TU-TRRC, Tbilisi (1st half 1998)
MOT, Yerevan (2nd half 1998)
Azerbaijan - TU-TRRC, Tbilisi (1st half 1998)
Future MOT, Baku (2nd half 1998)

Budget (estimate): **US\$ 230,000**

IIC Course Title: *Transport Legislation and Regulations*

Target Group: Government officials at Road Transport Departments, dealing with Licensing, Traffic Safety Regulations and Foreign Relations

Subject matters: Road Transport Legislation (national and international) Licensing Procedure
Road Traffic Safety and Anti-pollution Measures
Regulation and Control of traffic inspection Units
International Road Transport Organisations Road Transport and Trade Facilitation
Regional Integration of road Transport

Number of Participants: 15 - 20 persons per Training Course

Duration: Two weeks (10 days) per Training Course

No. of Courses: One for Company Managers and one for Government officials
(per country)

Location(s): Georgia - TU-TRRC, Tbilisi
Armenia - TU-TRRC, Tbilisi (1st half 1998)
MOT, Yerevan (2nd half 1998)
Azerbaijan - TU-TRRC, Tbilisi (1st half 1998)
Future MOT, Baku (2nd half 1998)

Budget (estimate): US\$ 230,000

Total Budget Training Courses:	US\$ 790,000
Estimated Capital Expenditure (Reconstruction works, Hard- and Software, Furniture, etc.)	US\$ 80,000
Documentation & Training Materials	US\$ 145,000
Training of Trainers (TOT)	<u>US\$ 65,000</u>
Total Estimated Budget	US\$ 1,080,000

