

PROPOSAL FROM THE MANAGEMENT COMMITTEE TO THE BOARD OF DIRECTORS on the GAZELA BRIDGE Project (Republic of Serbia)

1. Public Sector Operation

2. The project

The project concerns the rehabilitation of the Gazela bridge on the E70/E75 Highway crossing Belgrade, including the rehabilitation and upgrading of its access roads with a total length of 24.2 km and of the R251 ring road between Bubanj Potok and Zeleznik neighbourhoods located in the South of the city with a total length of 17.3 km.

3. Financing Proposal

Borrower/Promoter/Final Beneficiary: JP "Putevi Srbije" (the Public Enterprise "Roads of Serbia" (RS))

Amount: Up to EUR 33 m

Term: Up to 20 years

Terms and conditions: EIB own resources

Interest rate(s): Rate applicable at date of contract signature or disbursement

Security: Sovereign operation, fully covered by the EU Budget Guarantee

Commission opinion: Favourable

Financing plan:

- Roads of Serbia EUR 4.79 m
 - City of Belgrade EUR 7.50 m
 - European Bank for Reconstruction and Development (EBRD) EUR 25.00 m
 - European Agency for Reconstruction (EAR) EUR 6.75 m
 - UK Department for International Development (DFID) EUR 0.03 m
 - EIB EUR 33.00 m
- Total Financing EUR 77.07 m

4. Value-added identification

- Consistency with the priority objectives of the EU (Pillar 1)

The transport sector is of critical importance to Serbia. The country's geographical position makes it a key transit country for passengers and goods, and good communication is an important aspect for allowing trade, industry and tourism to prosper. The project is located on the Pan-European Transport Corridor X (Salzburg-Ljubljana-Zagreb-Beograd-Nis-Skopje-Veles-Thessaloniki), as well as on the European "E" roads E70 and E75. Additionally, it is included in the South Eastern Axis identified among the five major axes to connect the EU with its neighbouring countries in the Report from the High Level Group, chaired by former Member of the Commission Loyola de Palacio in November 2005.

- Quality and soundness of the investment (Pillar 2)

The project will guarantee the use of the bridge under safe conditions and will improve traffic flows on the access roads. Additionally, it will allow a new alternative for transit traffic through Belgrade and will improve public transport within the city.

- Financial value-added (Pillar 3)

Due to country's still limited access to capital markets and high funding costs, especially for the long term financing, the realisation of Serbia's priority investments in transport depends fundamentally on the financial support of IFIs and bilateral donors. The Bank's loan long maturity

and cost effective terms constitute competitive source of funding allowing the Government of Serbia to carry out its investment programme in the road sector which is of critical importance for the country's long-term economic development. The operation will be co-financed with the European Commission (through the European Agency for Reconstruction), IFIs (namely EBRD) and other donors, resulting in high diversification of funding.

5. Key issues

Environment: The project comprises the rehabilitation of existing infrastructure on existing alignments and the upgrading to a uniform standard of the R251 ring road, so that the latter can cope with heavy goods vehicles, which have to be re-routed to this road during the repair works on the Gazela Bridge. The project would therefore neither fall under Annex I nor under Annex II of the EC Directive, thus not requiring an EIA. Taking into account the review of documentation concerning the project, no significant environmental problems are foreseen and the project should have a rather limited environmental impact, save for a potential temporary severance for the part of the population living along the R251 road due to some heavy traffic diversion during bridge reconstruction and for road users, who will be affected by traffic jams during the implementation of the repair works on the Gazela bridge.

To enable the implementation of the repair works, the project will require the relocation of Project Affected Persons (PAPs) currently living in informal settlements underneath and in the direct vicinity on both ends of the bridge. Some 120 settlements of this kind exist in Belgrade. The Gazela Bridge settlement is the largest one (about 200 families equivalent to some 1 000 persons in 2005). The Bank will work with the appropriate authorities, including the City of Belgrade, and with all the co-financers (namely EBRD and EAR) to ensure that such resettlement is undertaken using international good practice. EUR 2 m have been granted by EAR to assist the resettlement programme and help mitigate its effects. The Department for International Development (DFID) of the UK will provide Technical Assistance (TA) to the City of Belgrade and to the Republic of Serbia to assist in the production of a resettlement action plan specific to the Gazela bridge.

The PAPs consist of a variety of in-migrants – refugees from Kosovo, families from other parts of Serbia and other locations in Belgrade. They live in deplorable conditions in cardboard boxes, without electricity and water supply. The Gazela Bridge Rehabilitation project provides an opportunity to begin a wider process of social inclusion to deal with some 20 000 persons living in precarious conditions in Belgrade. Within the Gazela Bridge project the discrete activities have to ensure that the repair works can move forward in a timely manner and that the PAPs are treated as respectfully as possible in line with acceptable international practices.

The plan and methods for resettling and supporting the various components of this group of PAPs will have to be endorsed by the Bank prior to the first disbursement of funds related to the repair works of the bridge. The Bank will closely monitor the issue during project implementation in close coordination with the Commission (EAR) and the other project co-financers.

Procurement: Procurement procedures will be on the basis of open international competitive bidding in line with EBRD's procurement rules (E70/E75 highway and R251 road rehabilitation and upgrading) or with EIB's Guide to Procurement (Gazela bridge). Procurement for design studies will be on the basis of national competitive bidding. Supervision and Management consultants will be procured based on international competitive bidding according to EU regulations.

6. Previous relations with the borrower

This would be the Bank's 22nd operation in Serbia and the 5th with the Roads of Serbia. However, this would be the Bank's first operation with the Roads of Serbia as a direct Borrower.