

Will Georgia's North-South Corridor boost trade, or make it dependent on Russia?



Photo: CEE Bankwatch Network

The EBRD's mandate is to support democratic transformation and market development. The North-South Corridor project, whose aim is to promote trade with Russia, is difficult to align with the Bank's stated goals and policies. The ongoing war between Ukraine and Russia and the introduction of sanctions against Russia raise questions about the purpose of the Kvesheti-Kobi Road and the whole North-South Corridor of which this road is a part. In this context, international financial institutions bear responsibility for encouraging Georgia's government to increase trade and transit toward Russia, at the expense of the country's budget.

In light of Russia's invasion of Ukraine that started with Crimea in 2014 and has expanded to the country's entire territory in 2022, Georgia's Kvesheti-Kobi Road could be considered indirect support for Russia's future dominance in the region. In addition, the project's economic viability is an increasingly greater question, as

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it is expected that trade with Russia will drop significantly due to the war and sanctions.

The 23-kilometre Kvesheti-Kobi Road project was developed in 2018 and 2019 as a new section of the North-South Corridor. It aimed to improve access to road infrastructure and road safety, land transit for cargo and the region's tourism potential. The total cost of this section is an estimated USD 558 million; the EBRD is financing USD 60 million and the ADB USD 415 million. The project information claims that 'the main beneficiaries' will be 'the local population and road users, including entrepreneurs and commercial, trading, and industrial entities; drivers of public transport services; and tourists'. However, there are severe doubts that the project will support Georgia's sustainable development and concerns that it will instead harm the nine-kilometre, picturesque Khada Valley by posing threats to its unique cultural heritage, landscape and biodiversity, as well as to livelihoods of local communities.

Supporting the sustainable transport sector?

The government of Georgia [promotes](#) heavy road cargo traffic at below-market prices whilst also subsidising road construction by spending public funds without a cost benefit analysis or justification of tangible public benefit. According to the project, the new Kvesheti-Kobi road section is needed to meet the increased demand of the North-South Corridor, namely the transit of goods from Iran and Armenia, and to respond to traffic discontinuity due to problematic geographical and winter maintenance conditions.

Even though Georgia has no [sustainable transport sector strategy and policy](#), the EBRD supports the project. The transport sector in Georgia [emits](#) at least 24 per cent of greenhouse gases (2015), and under the baseline scenario of the country's [Nationally Determined Contribution Framework action plan](#), this will increase by at least 71 per cent by 2030,¹ with a planned reduction of only 15 per cent under Georgia's 2030 Climate Change Strategy and Action Plan. The situation is troubling, with a direct preference for numerous highway projects that facilitate increased road transportation. This approach often brings significant trouble to local communities, reducing their incomes and forcing involuntary resettlement, and heavily impacts the environment, including protected areas. According to [a NewClimate Institute assessment](#), 'The sector is at a crossroads: investments in transport entail a high degree of locking due to long infrastructure and technology lifetimes, so decisions on addressing these current issues will determine how the sector develops in the coming years and decades.' Thus, the EBRD's funding for this 23-kilometre section of the North-South Corridor should be seen as a boost for unsustainable transportation in Georgia.

Project transparency and stakeholder engagement

Project promoters claim that the project is aligned with the international lenders' transparency and stakeholder engagement standards and argue that all relevant studies are available to the public. However, in practice, the 'feasibility study of the North-South Corridor, Kvesheti-Kobi Road project', developed by the World Bank, has never been published, despite numerous requests to all of the international financial institutions involved. The document is essential for the public to understand the road from the perspective of the entire corridor. After Green Alternative requested information regarding technical-economic feasibility studies for the

¹ CSAP Georgia 2030, April 2021, English translation not available yet

Corridor's other sections, the Roads Department of Georgia issued a decree and made the studies confidential (Decree 230, 24.09.2020, the Roads Department, Ministry of Infrastructure and Rural Development of Georgia).

The EBRD and ADB claim the project ensures meaningful consultations with stakeholders, although these consultations have missed numerous major stakeholders, including stakeholders from the cultural heritage sector, or have not taken their opinions into account. Local residents highlight project risks such as a complete change in the landscape of the Khada Valley, increased pollution, intensification of seismic processes, increased threats to cultural heritage and the loss of sustainable development prospects for the valley. Locals believe that they will no longer be able to grow clean agricultural products or collect and process medicinal plants because of the project. Furthermore, they are worried it will reduce the number of tourists and vacationers who have recently discovered the cultural and recreational potential of Khada Valley.

Cultural heritage protection



Photo: CEE Bankwatch Network

The project will have an irreversible impact on the tangible and intangible cultural heritage of Khada Valley, called 'the valley of 60 towers', which dates from the Middle Ages. There are patterns of traditional dwellings and magnificent architectural monuments, including the church of Koroghlo (tenth century), Tsetskhlisvari (the Cross of Fire) Fortress (ninth-tenth century), the Iukho Tower and archaeological artefacts from rock caves, as well as numerous other fortified towers, churches and memorial sites, such as the Kaishauri Valley and old cemeteries. Inscribed stones and stone crosses also demonstrate some of the cultural and historical value of Khada Valley. Most architectural heritage sites date from the ninth to seventeenth centuries and were built

with the dry-stone technique, using slate stone, and their current condition requires urgent attention. The International Council on Monuments and Sites (ICOMOS) declared Khada Valley's cultural heritage at risk due to the Kvesheti-Kobi Road project in its [2020 Heritage at Risk report](#).

The project's environmental and social impact assessment (ESIA) fails to align with the EBRD's performance requirement eight on cultural heritage, as field experts were not involved in the baseline studies or impact assessment process. Still, [Bank management stubbornly claimed](#) that '[the environmental impact assessment (EIA)] includes a cultural heritage baseline review that identifies 34 cultural heritage (CH) sites and objects (see pages 281 – 292 of the EIA)'. However, in July 2021, Georgia's National Agency for Cultural Heritage Preservation identified 213 monuments/objects in the Khada gorge and Kobi area, revealing that the project physically interferes with several important archaeological and cultural heritage sites. However, local communities are not even sure that many of the sites in the closest vicinity of the project – such as the cemeteries of the villages of Benian-Begoni and Tskere, towers and churches and their ruins, and underground tunnels in the meadow of the village of Beniani – have been included on the Agency's list. According to the ICOMOS, 'the risk is very high for the small valley and its unique cultural heritage sites situated along the project corridor within 50 metres of the roads, as there is no special inventory and no recording and study of the sites. This raises serious suspicion towards the project'.

Failure to conduct comprehensive archaeological and cultural heritage studies in the early stages of the project and delegating the design of cultural heritage protection measures to subcontractors raises questions about the ability of the project sponsor and EBRD to ensure proper due diligence. The absence of any assessment of intangible cultural heritage in the area has somehow not raised any alarm for the EBRD.

Impact on biodiversity

The Khada Valley and the area around the village of Kobi are rich in biodiversity, especially the habitats along the rivers; in forests, meadows and pastures; and in subalpine and alpine areas. The project area is close to the Kazbegi National Park and Emerald site and partially within an Important Bird Area and Key Biodiversity Area. The Bern Convention on the Conservation of European Wildlife and Natural Habitats suggested expanding the park during its 2017 and 2019 biogeographical seminars. Still, the project has slowed down or perhaps stopped this procedure. The most crucial biodiversity features of the project-affected area are: a large population of corncrake (*Crex crex*), nesting vultures, otters, large carnivores and flora. These are not well-studied by the project ESIA. Therefore, adequate mitigation actions are missing, while other measures that were proposed to address negative impacts (for example, on meadows or protected species) have already been violated during construction.

Green Alternative's monitoring revealed that the new road, which will pass through well-preserved wet meadows, would significantly negatively impact the corncrake's large and healthy population. Last summer, we demonstrated that the construction would have a significant impact on the river ecosystems, which provide a habitat for fish and otters: the river Tergi and its tributaries (Baidara and Narvani) in Kobi have become seriously polluted from muddy water coming out of the main road's tunnel, the daily passing of [heavy machinery over the Narvani River without any bridge](#), and the [cleaning of heavy machinery](#) in the rivers.

Problematic land compensation and involuntary resettlement



Photo: CEE Bankwatch Network

Land compensation has been one of the project's most serious issues from the beginning, including low proposed prices for land acquisition, the absence of local auxiliary roads in the schemes, and problems with the country's land registration system. Some issues were solved through extensive communication with EBRD and ADB management, including that of land prices, but some problems remain.

One of these is the issue of traditional land ownership that is not recognised by Georgia's legislation. The ADB facilitated some processes to ensure that people in Khada and other villages in the vicinity can register their traditional land rights. Twenty residents of Arkhveti who registered their ancestral lands under that scheme [are under criminal investigation](#). Two of them who openly spoke about the problem were arrested after a few days [on charges of fraudulent appropriation of land](#). One of those under arrest is an Arkhveti resident that registered their land after a legal dispute with the municipality. Considering that the use of police forces against local communities has recently become widely popular in Georgia, there is serious concern that the government is using this method to force people not to speak out against the problems the project is causing.

The villagers of Rostiani-Kari asked the EBRD and ADB for support after they found out that the road will be constructed on the slope above them, which will intensify the rolling of stones over their houses. Villagers fear that landslides will intensify after construction and may completely destroy the village. The village of Rostiani, located in the middle of the project's direct impact area, is a landslide-prone area (which is not even mentioned

in the EIA). After a letter sent by locals to the EBRD and ADB, the Roads Department of Georgia assessed the situation and proposed that the company provide social compensation.

Although the project claims that it will ensure the new road in the valley benefits locals, thus far the road has only increased locals' problems, including air pollution and disrupted access to their lands.

Conclusion

In light of the above, it is essential that EBRD does not simply accept the Georgian government's biased assessments, lack of cost-benefit analysis and strategic approach to sustainable transport sector development. It should conduct proper due diligence and evaluate the Kvesheti-Kobi Road project according to its own standards, including on assessment of alternatives, cultural heritage, biodiversity, transparency and public participation.

Moreover, in line with its economic and political mandates, the EBRD must ensure the financial sustainability of the project and at the same time justify how the project fits into its overall democratisation agenda. The EBRD should carefully consider that the promotion of the North-South Corridor increases the risks of Georgia and South Caucasus countries' economic overdependence on Russia. Coupled with security risks, trade can become a weapon in Russia's hybrid war for influence over its neighbours and a barrier to Georgia's integration with the European Union.

Therefore, it is essential that the EBRD suspends the project until it has done the following:

- Assess the external risks of the project, also from the wider geopolitical perspective and its impact on Georgia's economy.
- Review the project needs and goals and adjust these to ongoing situation.
- Disclose the project's feasibility study and a full assessment of alternatives for the North-South Corridor and ensure public scrutiny of these documents.
- Conduct and present a complete calculation of the environmental, economic and social impacts of the proposed alternatives, including regulatory measures and the development of other transport means.
- Ensure genuine public participation in the process.
- Re-examine the project's impact on the local communities and mitigate any hazardous risks that appear.
- Assess options for decreasing heavy freight cargo traffic through the Georgian military road used to provide access to the construction sites.