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R2015-0115/1

June 12, 2015

**Closing Date: Wednesday, July 1, 2015
at 6 p.m.**

FROM: The Corporate Secretary

Georgia - Third Regional Development Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to Georgia for the Third Regional Development Project (R2015-0115), which is being processed on an absence-of-objection basis.

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Report No: PAD1263

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF 60.00 (US\$ MILLION)

TO

GEORGIA

FOR A

THIRD REGIONAL DEVELOPMENT PROJECT (P150696)

MARCH 13, 2015

SOCIAL URBAN RURAL AND RESILIENCE GLOBAL PRACTICE
EUROPE AND CENTRAL ASIA REGION

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CURRENCY EQUIVALENTS
(Exchange Rate Effective March 13, 2015)

Currency Unit = GEL
GEL 2.20 = US\$1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	ISP	Implementation Support Plan
AF	Additional Financing	KFW	Kreditanstalt für Wiederaufbau
CBA	Cost Benefit Analysis	LCS	Least-Cost Selection
CPS	Country Partnership Strategy	LSGs	Local Self-Governments
DA	Designated Account	MCC	Millenium Challenge Corporation
DCFTA	Deep and Comprehensive Free Trade Area	M&E	Monitoring and Evaluation
DMO	Destination Management Organization	MESD	Ministry of Economy and Sustainable Development
EBRD	European Bank for Reconstruction and Development	MRDI	Ministry of Regional Development and Infrastructure
ECA	Europe and Central Asia	MDF	Municipal Development Fund of Georgia
EIB	European Investment Bank	NACHP	National Agency for Cultural Heritage Preservation
EIRR	Economic Internal Rate of Return	NBG	National Bank of Georgia
EMPS	Environmental Management Plan	NCB	National Competitive Bidding
EPI	Economic Prosperity Initiative	NGO	Non-Governmental Organization
ERs	Environmental Reviews	NPV	Net Present Value
ESMF	Environmental and Social Management Framework	OM	Operations Manual
ESMP	Environmental and Social Management Plan	O&M	Operations and Maintenance
ESR	Environmental and Social Reviews	PDO	Project Development Objective
ESW	Economic and Sector Work	PRAMS	Procurement Risk Assessment and Management System
EU	European Union	QCBS	Quality and Cost-Based Selections
FBS	Fixed Budget Selection	RAPs	Resettlement Action Plans
FDI	Foreign Direct Investment	RDP	Regional Development Project
FI	Financial Intermediary	RMIDP	Regional and Municipal Infrastructure Development Project
FIDIC	International Federation of Consulting Engineers	RPF	Resettlement Policy Framework
FIRR	Financial Internal Rate of Return	SAR	Subproject Appraisal Report
FM	Financial Management	SECHSA	Strategic Environmental, Cultural Heritage and Social Assessment
FMM	Financial Management Manual	SIDA	Swedish International Development Agency
GDP	Gross Domestic Product	SME	Small and Medium Sized Enterprises
Ge-eGP	Georgian E-Government Procurement	SOE	Statement of Expenses

GiZ	System Gesellschaft für Internationale Zusammenarbeit	SPA	Special Program Account
GNTA	Georgian National Tourism Administration	SSR	Subproject Summary Reports
GPN	General Procurement Notice	SSS	Single Source Selection
GRM	Grievance Review Mechanism	TOR	Terms of Reference
IDPs	Internally Displaced Persons	UNESCO	United Nations Educational, Scientific and Cultural Organization
ICB	International Competitive Bidding	UNDP	United Nations Development Program
ICOR	Incremental Capital to Output Ratio	USAID	United States Agency for International Development
IFAC	International Federation of Accountants	WHC	World Heritage Center
IFRs	Interim Unaudited Financial Reports	VAT	Value Added Tax
ISA	International Standards on Auditing	WDR	World Development Report

Regional Vice President:	Laura Tuck
Country Director:	Henry G. R. Kerali
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager:	Bernice K. Van Bronkhorst
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Co-Task Team Leader:	Zaruhi Tokhmakhian

GEORGIA
Third Regional Development Project (P150696)

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PAD DATA SHEET

Georgia

Third Regional Development Project (P150696)

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

Report No.: PAD1263

Basic Information			
Project ID P150696	EA Category B - Partial Assessment	Team Leader Ahmed A. R. Eiweida	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [No]		
	Financial Intermediaries [No]		
	Series of Projects [No]		
Project Implementation Start Date 2-July-2015	Project Implementation End Date 30-June-2019		
Expected Effectiveness Date 30-September-2015	Expected Closing Date 31-Dec-2019		
Joint IFC No			
Practice Manager Bernice K. Van Bronkhorst	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Henry G. R. Kerali	Regional Vice President Laura Tuck
Borrower: Georgia			
Responsible Agency: Georgia Municipal Development Fund			
Contact: Telephone No.: (+995-32) 243-7001	Mr. George Amashukeli	Title: Email: gamashukeli@mdf.org.ge	Executive Director
Project Financing Data (in USD Million)			
[X] Loan	[] IDA Grant	[] Guarantee	
[] Credit	[] Grant	[] Other	
Total Project Cost:	75.00	Total Bank Financing:	60.00
Financing Gap:	0.00		

Financing Source				Amount		
Borrower				15.00		
International Bank for Reconstruction and Development				60.00		
Total				75.00		
Expected Disbursements (in USD Million)						
Fiscal Year	2016	2017	2018	2019	2020	
Annual	8.00	20.00	20.00	12.00	0.00	
Cumulative	8.00	28.00	48.00	60.00	0.00	
Institutional Data						
Practice Area (Lead)						
Social, Urban, Rural and Resilience Global Practice						
Contributing Practice Areas						
Cross Cutting Areas						
<input type="checkbox"/> Climate Change <input type="checkbox"/> Fragile, Conflict & Violence <input type="checkbox"/> Gender <input type="checkbox"/> Jobs <input type="checkbox"/> Public Private Partnership						
Sectors / Climate Change						
Sector (Maximum 5 and total % must equal 100)						
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %		
Water, sanitation and flood protection	General water, sanitation and flood protection sector	35				
Public Administration, Law, and Justice	Sub-national government administration	12				
Transportation	Rural and Inter-Urban Roads and Highways	35				
Industry and trade	Housing construction	18				
Total		100				
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.						
Themes						

Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Urban development	City-wide Infrastructure and Service Delivery	35
Urban development	Cultural Heritage	20
Urban development	Urban Economic Development	25
Financial and private sector development	Infrastructure services for private sector development	10
Financial and private sector development	Micro, Small and Medium Enterprise support	10
Total		100
Proposed Development Objective(s)		
The Project Development Objective is to improve infrastructure services and institutional capacity to support increased contribution of tourism in the local economy of the Samtskhe-Javakheti and Mtskheta-Mtianeti regions.		
Components		
Component Name	Cost (USD Millions)	
Infrastructure Investment	53.25	
Institutional Development	6.75	
Systematic Operations Risk- Rating Tool (SORT)		
Risk Category	Rating	
1. Political and Governance	Moderate	
2. Macroeconomic	Moderate	
3. Sector Strategies and Policies	Moderate	
4. Technical Design of Project	Moderate	
5. Institutional Capacity for Implementation and Sustainability	Moderate	
6. Fiduciary	Moderate	
7. Environment and Social	Moderate	
8. Stakeholders	Moderate	
9. Other		
OVERALL	Moderate	
Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]

Does the project require any waivers of Bank policies?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Have these been approved by Bank management?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Is approval for any policy waiver sought from the Board?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Does the project meet the Regional criteria for readiness for implementation?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11	X	
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50	X	
Projects in Disputed Areas OP/BP 7.60		X
Legal Covenants		
Name	Recurrent	Due Date
Effectiveness Conditions		
Description of Covenant		
(a) The Subsidiary Agreement has been executed by the Ministry of Finance and the Ministry for Regional Development and Infrastructure on behalf of the Borrower and the Project Implementing Entity. (b) The Project Implementing Entity has adopted the Operation Manual, in form and substance, satisfactory to the Bank. (Loan Agreement: Article V)		
Name	Recurrent	Due Date
Supervisory Board	X	
Description of Covenant		
The Borrower shall maintain the Supervisory Board of the Project Implementing Entity. (Loan Agreement: Schedule 2, Section I.A.1)		
Name	Recurrent	Due Date
Safeguards	X	
Description of Covenant		
The Borrower shall cause the Project Implementing Entity to implement the ESMF. (Loan Agreement: Schedule 2, Section I.D.1.a)		

Name	Recurrent	Due Date	Frequency
Resettlement Policy Framework	X		Quarterly
Description of Covenant The Borrower shall cause the Project Implementing Entity to implement the RPF (Loan Agreement: Schedule 2, Section I.D.2.a)			
Name	Recurrent	Due Date	Frequency
Grievance Redress Mechanism	X		Quarterly
Description of Covenant The Borrower shall cause the Project Implementing Entity to establish and implement, throughout the Project implementation, an easily accessible grievance redress mechanism, acceptable to the Bank, to address feedback and grievances relating to the Project as set forth in the Operation Manual. (Loan Agreement: Schedule 2, Section D.3)			
Name	Recurrent	Due Date	Frequency
International Waterways	X		Quarterly
Description of Covenant The Borrower shall cause the Project Implementing Entity to ensure, when any activity under an Investment Subproject involves any international waterways (as defined in the Bank’s OP 7.50), to comply with the requirements set out in Loan Agreement: Schedule 2, Section 1.D.4.			
Name	Recurrent	Due Date	Frequency
Selection Procedures for, and Terms and Conditions of, Investment Subproject Financing	X		Quarterly
Description of Covenant Investment Subprojects shall be selected in accordance with the selection criteria set forth in the Operations Manual and the Project Agreement (Project Agreement: Schedule, Section I.A.1.a)			
Conditions			
Source of Fund	Name		Type
NA			
Description of Condition NA			
Team Composition			
Name	Title	Specialization	Unit
Ahmed A. R. Eiweida	Program Leader	Task Team Leader	ECCU3
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Ivane Vashakmadze	Tourism and Cultural Heritage Consultant		Tbilisi
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Don Hawkins	Tourism Policy Expert, Solimar International		Washington

Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Georgia	Region				

I. STRATEGIC CONTEXT

A. Country Context

1. With a population of 4.5 million people, growth in Georgia averaged nearly 6 percent p.a. during 2004-2013. While Georgia remains one of the very few countries in Europe and Central Asia (ECA) that have not yet caught up to their 1990 real Gross Domestic Product (GDP) level, it has benefited from a noteworthy push on structural reforms and liberalization starting in 2004. Improvements in the business environment, infrastructure quality, public finance, and reduced trade barriers stimulated investments. GDP per capita increased from \$920 in 2003 to \$3,597 in 2013 although it is still among the lowest in ECA.

2. Georgia did not experience the structural transformation associated with pushing resources and productivity growth towards the export sectors. While it achieved global recognition as one of the top performers on the Doing Business rankings (ranked 15th out of 183 countries in the 2014 Doing Business Report), productivity gains were concentrated mainly in non-tradables, and Foreign Direct Investment (FDI) was mainly in this area.

3. After modest economic growth in 2013, output expanded by 5 percent year-on-year in the first eleven months of 2014. The signing of the Association Agreement with the European Union (EU) and greater policy certainty resulted in an uptick in business and consumer confidence and the pace of output expansion picked up. The first three quarters of 2014 saw robust growth supported by stable domestic conditions and buoyant external demand. The large Russian market which opened up for Georgian products in July 2013 helped increase exports, particularly of wine. However, tensions in the region have adversely impacted growth in the fourth quarter, primarily through lower external demand and spillover effects. For 2014 as a whole, growth is likely to be below 5 percent. Economic growth over the past decade, more generally, was fueled by large foreign capital inflows and significant policy reforms during the pre-crisis years, and by high public capital spending during the post-crisis recovery period. Overall, growth during 2004-13 was largely powered by services, construction and non-tradables.

4. Despite this growth, unemployment stayed high and it remains as one of the most significant public policy challenges. Georgia's robust growth performance was accompanied by high unemployment, which remained at the 12-13 percent range even during the pre-crisis boom. Unemployment peaked to 17 percent in 2010 and then fell to 15 percent in 2013. Georgia was able to create significant new employment in new growth sectors, especially in tourism and other service sectors, but this has been insufficient to bring about overall net job creation. This reflects, in part, challenges with (a) skills, largely because the existing educational curriculum is not in line with the demands of the private sector¹, (b) uneven development and regional disparities, and (c) poor tourism infrastructure outside the capital city Tbilisi.

5. Reducing poverty and promoting shared prosperity remain a challenge in Georgia. There has been a significant progress in poverty reduction and shared prosperity in recent years, but it has been driven by factors other than net job creation. The poverty rate, according to the absolute poverty line used by the World Bank, fell from 21 percent in 2010 to 14.8 percent in 2012, with

¹ World Bank, Skills Mismatch and Unemployment in Georgia: The Challenge of Creating Productive Jobs, 2012.

3.7 percent of the population living in extreme poverty². Between 2010 and 2012, the mean consumption of the bottom 40 grew at 5.3 percent annually, exceeding the growth enjoyed by the population overall³. This was mainly attributable to government transfers, food disinflation and increased earnings. Inequality in Georgia is higher than in the ECA region on average with a Gini coefficient of 40.7 in 2011⁴. Episodes of poverty reduction and increase in Georgia have not always been closely aligned with periods of GDP growth, underscoring the fact that growth has not been inclusive. This dichotomy can be explained by the low net job creation during growth episodes and the employment limitations imposed by the relatively lower educational attainment of the poor.

6. The Government aims to address two priorities—increasing employment and narrowing the current account deficit. These are to be achieved by promoting private investments in sectors such as tourism, energy and logistics, and by continuing public investment in infrastructure, regional development, agriculture and education. These efforts are seen as key catalysts for accelerating job creation. Consequently, Georgian authorities continue to support the private sector to lead economic growth and job creation efforts.

B. Sectoral and Institutional Context

7. Georgia has regions with high poverty rates and high concentration of the poor (such as Imereti, Kvemo Kartli, and Kakheti), low poverty rate and high concentration of poor (Tbilisi), high poverty and low concentration of the poor (Mtskheta-Mtianeti), and low poverty and low percentage of the poor (Samtskhe-Javakheti). A combination of geographically targeted policies can help promote shared prosperity and reduce poverty in Georgia – policies that aim to raise living standards through private-sector led (market-driven) growth leveraging local economic potential, and policies that seek to remove spatial disparities in living standards (World Development Report 2009). The Government of Georgia’s Regional Development Program focuses on select geographic regions with industry that have the highest potentials for driving economic development and job creation.

8. The Government has identified addressing regional disparity, poverty and unemployment as key priorities for intervention in its national development strategy "Socioeconomic Development Strategy of Georgia: 2020." The financing of regional development programs, decentralization and investment in municipal infrastructure and services, are emerging as key tools in this regard as articulated in the Strategy on Regional Development. The objective of this strategy is to address regional disparities, focusing on developing the potential sources of economic growth in each region. The potential development impact of this program depends on the extent to which income generating capacities grow allowing growth to be “shared” by the bottom 40 percent living in these regions.

² At the ECA regional poverty line of US\$2.50 per person per day, poverty was 45 percent in Georgia in 2011 and has not changed much over the past decade.

³ Consumption growth among the bottom 40 percent was 5.4 percent during 2010-12 compared with 3.6 percent for the population as a whole.

⁴ Gini coefficient based on regionally comparable harmonized consumption data.

9. The development of the tourism sector (often focused on cultural heritage and nature) emerges as a source of economic growth both nationally and also in key regions and cities. International tourist arrivals have grown rapidly (more than 4 million international visitors in 2014, with an average annual increase rate of over 20 percent). Tourism and travel sector is becoming a key generator of jobs, accounting for 14.2 percent of total employment in 2013, and 16 percent of GDP (directly and indirectly), with a forecast to continue growing by 4.8 percent per annum. The sector currently also provides nearly 20 percent of export earnings.

10. In line with this strategic importance, the Government invested about US\$500 million between 2005-2013 for revitalization of municipal infrastructure and restoration of historical buildings (most of which have a cultural heritage value) in the cities of Tbilisi, Signagi, Mtskheta, Batumi and Kutaisi. Nonetheless, the Government recognized that restoring buildings and municipal infrastructure per se is not sufficient to trigger and sustain local economic transformation. Thus, an integrated and demand-driven approach to regional development has been seen as critical to spurring growth in targeted cities and regions.

11. The Government has, therefore, launched a Regional Development Program with support of the World Bank, to attract private investors, especially in tourism and agribusiness in targeted regions. Ongoing projects are located in regions of high poverty-high percentage of the poor – Kakheti and Imereti. The Regional Development Project (RDP - P126033, US\$60 million), focusing on Kakheti region, was approved by the Board on March 20, 2012. This was followed in November 2012 by the Second Regional Development Project (RDPII - P130421, US\$30 million), focusing on Imereti region. Both projects are well under implementation, and achieving their results.

12. In Kakheti, achieved results by end of 2014 include an increase in the number of hotel beds in the targeted areas from 1,610 to 2,511 (exceeding the project's original target of 1,932); an increase in the number of tourism Small and Medium Enterprises (SME)/points of sales (souvenirs shops, restaurants, guest-houses and family houses) from 248 at baseline to 282 (project's target is 323); an increase in the hours of water supply from 8 hours per day to 24 hours. House owners have started transforming part of their properties into a productive or service asset (hand-crafts workshop, souvenir shop, café, restaurant or guest-house). In Imereti, implementation of an integrated approach of urban renewal of Tskaltubo city is almost completed. This includes (a) rehabilitation of municipal infrastructure and utilities in the central area; (b) upgrading of public spaces, parks, and construction of tourism amenities, and (c) restoration of public buildings with vernacular architecture. The number of hotel beds in Imereti circuit route areas increased from 2,661 to 3,943 by end of 2014 (exceeding the project's original target of 3,193). The socioeconomic baseline surveys were carried out. The follow-up surveys are underway, with most data to be gender disaggregated.

13. The Government requested the Bank to support this Third Regional Development Project (RDPIII) with US\$60 million. The Project will focus on Samtskhe-Javakheti, an economically growing region with substantial but underutilized cultural heritage endowments south of Imereti, and Mtskheta-Mtianeti, a lagging region, west of Kakheti close to the capital, with unique nature, ski resorts and the World Heritage city of Mtskheta (the old capital of Georgia). Investments in

both regions can add substantial tourism products and offerings to the national tourism circuit map of Georgia, thus increase over-night stay, tourism spending and job creation.

14. **Tourism growth potential.** The Samtskhe-Javakheti and Mtskheta-Mtianeti spatial economic analysis⁵ and Regional Development Strategies⁶ have identified tourism, agriculture and trade as the main drivers of economic growth in the regions. A Tourism Development Strategy was prepared in 2014 for each region with the help of an international consulting firm to define the long-term tourism development vision for each region and underpin this Project's design. A tourism circuit was identified in each region in participation with all stakeholders. Each region offers a variety of products with the potential to offer high-quality tourism through preserving and enhancing cultural heritage, ecosystems, wildlife, winter-ski resorts and summer-mountain adventure activities. Harnessing the tourism potential of both regions would help to provide job opportunities particularly in hotels and SME sectors.

15. Samtskhe-Javakheti is home to several cultural heritage sites and nature attractions. The most significant sites are: Akhaltsikhe and Borjomi historical cities, Abastumani wellness resort town with its vernacular wooden architecture houses, and observatory Vardzia cave monastery and Vanis Kvabebi, Akhaltsikhe Fortress Rabati, Romanov Palace in Likani, Sapara monastery, Zarzma monastery, Khertvisi fortress, Phoka monastery, and Atskuri temple ruins and fortress. The main nature attractions are: Bakuriani ski resort city, Borjomi-Kharagauli National Park (member of PanPark program) and protected areas of Javakheti, with lakes, wetlands, world known bird-watching sites and other wildlife.

16. The Mtskheta-Mtianeti Region is a major tourism destination with the United Nations Education Social and Cultural Organization (UNESCO) World Heritage Site of Mtskheta city and an exceptional portfolio of cultural heritage and natural products with a year round appeal for foreign and domestic visitors. The most significant sites are: Mtskheta, Dusheti and Stepantsminda historical cities with their vernacular architectural style, Svetitskhoveli church, Jvari temple, Shiomghvime monastery, archaeological sites of Bagineti-Armazi and Samtavro-Dzalisi; Zedazeni church, Bodorna church, Ananuri fortress, Gergeti Trinity church, Shatili and Mutso historic fortified cultural heritage villages, and Sno fortress. The main nature attractions are: Kazbegi national park, Gudauri ski resort city and Tbilisi National Park.

17. The Government's past investment (2006-2014) in both regions focused on house restoration and infrastructure rehabilitation in Mtskheta, Akhalsikhi, Borjomi, Gudauri and Bakuriani. This resulted in doubling international tourism arrivals and tourism accommodation units to 715,155 visitors and 107 accommodation units in Mtskheta-Mtianeti, and to 180,273 visitors and 199 accommodation units in Samtskhe-Javakheti. Obviously, most visitor and private sector investments in tourism accommodation and services followed public investments in renovated cities and sites, leaving other parts of the regions with equally significant assets and endowments underutilized with unequal development.

⁵ The spatial-economic analysis, using the World Development Report WDR 2009 analytical framework of economic geography, was prepared in the framework of project preparation to underpin its design (see Annex 5).

⁶ The Samtskhe-Javakheti and Mtskheta-Mtianeti Regional Development Strategies were completed in 2014 with technical and financial support from the EU and GiZ respectively.

18. The tourism development strategies further identifies certain challenges that may hinder tourism development and require investment attention. This was enhanced by a survey of major incoming tour operators. The information provided by Georgian Incoming Tour Operators was important in order to understand the value chain since they interact directly with tourists as well as experience first-hand the quality of tourism services and attractions in the region. The main challenges facing the regions were grouped as:

- Lack of an integrated circuit development approach that can feature all significant tourism products and offering in the regions, resulting in increased overnight stay and spending.
- Decaying infrastructure, historical buildings in the regions' other potentially significant tourism hubs: Dusheti and Stepantsminda and Abastumani.
- Poor physical conditions and under-utilization of Borjomi, Stepantsminda, Dusheti and Mtskheta museums and their surrounding archaeological site.
- Lack of site management plans and tourism faculties at most cultural heritage sites along the circuits.
- Limited hotel capacity and concentration of hotels in renovated cities.
- Limited number of food & beverage facilities (57 in Samtskhe-Javakheti and 65 in Mtskheta-Mtianeti).
- Seasonality: most tourists visit the regions in summer and spring, with exception of the sky resort cities, which are also almost closed down in summer.
- Lack of Destination Management Organizations (DMOs) and activities to promote the regions as attractive and sustainable tourism destinations.
- Lack of information, communications and cooperation among investors to attract private investment.
- Inscription of Mtskheta on the List of World Heritage in Danger in 2009 due to lack of an urban land-use master plan and buildings standards, as requested by the World Heritage Committee.
- Inadequate skills for an integrated service-based economy, hospitality, site management plans, compliance with UNESCO's good practice, DMOs and limited proficiency in foreign languages.

19. The Government recognizes the need to improve tourism amenities and urban services in the regions within a full-fledged regional tourism circuit approach in order to attract private investment, promote public-private partnerships, and revitalize local business activity. The tourism development vision of Samtskhe-Javakheti 2020 is to "achieve recognition as an emerging international and growing regional destination linked to culture and nature roots", and the vision for Mtskheta-Mtianeti is to "achieve recognition as an emerging international destination with a UNESCO World Heritage Site and as a growing regional destination linked to culture & nature roots".

20. **Projected tourism growth.** With the implementation of the proposed integrated approach to tourism development in Samtskhe-Javakheti, the tourism strategy projects the following targets to be achieved by 2020: international arrivals to grow from 180,273 to 415,700; international receipts to grow from US\$175 million to US\$347 million in 2020; international tourist overnight receipts to increase from US\$52 million to US\$136 million; tourism employment to increase from 17,243 in 2014 to 34,080; accommodation bed supply to increase

from 7,726 to 14,152; and tourism related SMEs to grow from 70 to 138. The expected targets in Mtskheta-Mtianeti by 2020 are as follows: International arrivals to grow from 715,155 to 1,649,111; international receipts to grow from US\$474 million to US\$937 million; international tourist overnight receipts to increase from US\$37 million to US\$92 million; tourism employment to increase from 46,544 to 91,991, accommodation bed supply to increase from 3,213 to 6,351; and tourism related SMEs to grow from 119 to 235.

21. **Bank support.** The proposed Project is designed to contribute to the financing of the two tourism strategies action plans, and achieving of the above-listed expected targets. The design of the Project— a blend of institutional development, infrastructure, and targeted interventions—is supported by comprehensive diagnostic and international experience. The Project will aim to promote the local economy in both regions by carrying out an integrated approach to developing tourism, focusing on infrastructure, urban renewal, cultural heritage restoration, developing skills and making the environment attractive to private sector investments. The Project is expected to support better integration of the two regions with the country-wide tourism circuits, to better utilize the hitherto untapped yet potentially significant tourism and hospitality industry potential. The two regions will be reinvigorated to join Georgia’s key regions of growth and attraction in the broader tourism and economic growth context.

22. By focusing on promoting productive activities along with provision of complementary infrastructure and basic services, the proposed Project can offer income generating opportunities for these regions and thus create the conditions for increased non-agriculture employment and earnings. Employment opportunities can, in turn, help boost shared prosperity in the two regions. The extent to which prosperity can be shared depends on the available working age population and their ability to tap into earning opportunities using their human capital. Nearly 65 percent of the population in both regions is in the working age range (15-64) and most have completed secondary or secondary vocational education. As the unemployment rates indicate, among those economically active, not all are able to find jobs. In addition, in both regions nearly 10 percent of the employed also perform secondary jobs in a diverse range of sectors aside from agriculture, such as construction (mainly men), wholesale and retail trade (mainly women), education, and personal services (mainly women).

23. Although there are no Project components directly targeted to the poor, this Project has the scope to have positive poverty and social impacts on urban residents living in project areas. First, the Project will help improve living standards for all by investing in improved delivery of basic services such as water, sanitation, and improved connectivity and revitalized city centers (via investments in complementary public infrastructure). Second, the expected job creation in personal services and construction sectors will be combined with provision of skills development opportunities (in tourism sector) in the selected regions. Such strengthening of the local labor market via both demand- and supply-side can contribute to poverty reduction by reducing unemployment, an important correlate of vulnerability in Georgia. Finally, the Project will closely coordinate with the Ministry of Economy and Sustainable Development’s (MESD’s) Entrepreneurship Development Agency, which implements a program aiming at micro-entrepreneurship and SMEs support. Component 2 of the Project will provide advisory service for SMEs start-up or expansion so that owners can access micro-finance funds available at the Entrepreneurship Development Agency. A special attention will be given to vulnerable groups,

especially women, to develop new business activities and increase their household income, taking advantage from the expected increase in tourist arrival.

24. Employment generation is expected to benefit both women and men in Mtskheta-Mtianeti and Samtskhe-Javakheti. Construction jobs emerging from the project are expected to benefit men, given their generally greater participation in such jobs. While jobs in tourism sector are generally expected to create opportunities for both women and men, jobs in the hospitality industry are more likely to employ women. The project, through its skill-building activities, will consider the different needs and interests of men and women and ensure that skills are provided in areas that benefit both men and women, and will aim at including women as 50 percent of their skills training participants.

C. Higher Level Objectives to which the Project Contributes

Relationship to CAS

25. The proposed Project is aligned with the Country Partnership Strategy (CPS) for FY14-FY17 (Report Number: 85251-GE). The proposed Project supports Focus Area 1: Strengthening Public Service Delivery to Promote Inclusion and Equity, as it promotes Effective Public Administration and Decentralization. It also supports Focus Area 2: Enabling job creation by the private sector through improving competitiveness, as it improves Georgia's investment and business environment, including in the regions; supports innovations and development of technologies, including in the regions; and develops infrastructure and maximum realization of Georgia's transit potential. The Project is important in the general context of Georgia's regional development and spatial planning vision.

26. **Rationale for Bank involvement.** Georgia intends to fully tap its potential to promote sustainable tourism in attractive regions such as Ajara, Kakheti, Imereti, Samtskhe-Javakheti and Mtskheta-Mtianeti. Bank involvement under the proposed programmatic approach to regional development will ensure continued support to (a) growth in the tourism sector, (b) growth of under-developed areas, and (c) the leveraging of public and private investment.

27. The Bank is seen by the Government and stakeholders as a source of global knowledge on using tourism and cultural heritage for regional and local economic development. The Bank has been playing a catalyst role in leveraging additional funds from donor agencies, trust funds, the private sector and the state budget. Through effective coordination between the Bank and active donor agencies in Georgia, a large number of supplemental donor activities have been provided or planned.

28. The Project will build on a series of World Bank interventions in the region. The ongoing East-West Highway and the Secondary and Local Road Projects significantly reduced travel time from Tbilisi to the region and within the regions. The Regional & Municipal Infrastructure Development Project and its Additional Financing, improved water services and urban roads in several cities and villages in the two regions. The South Caucasus Skills Development Study Economic and Sector Work (ESW), offered evidence of the labor demand and supply challenges related to education and skills development, and has informed the Project design. Also, the

ongoing South Caucasus Programmatic Regional Development Study (ESW) assists Georgia in preparing a national tourism development strategy 2025 and suggesting a longer South Caucasus tourism circuit linking tourism attractions in Azerbaijan, Armenia and Georgia.

29. The proposed Project is expected to result in higher economic growth and employment in the region and help raise the income of the bottom 40 percent. It intends to focus on improving the quality and reliability of municipal infrastructure; supporting the tourism and agribusiness development; and creating an enabling environment to attract private sector investments. The regional development program, as a whole, is expected to have spillover effects on communities neighboring those localities directly targeted by the program.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

30. The Project Development Objective is to improve infrastructure services and institutional capacity to support increased contribution of tourism in the local economy of the Samtskhe-Javakheti and Mtskheta-Mtianeti regions.

B. Project Beneficiaries

31. The Project activities are expected to benefit the residents, tourists and enterprises in Samtskhe-Javakheti and Mtskheta-Mtianeti regions. They are expected to receive improved access to, and quality of, public infrastructure; increased volume of private sector investment in the region; and increased small and micro enterprises in renovated cultural heritage sites and cities. The Government will benefit from increased overall tourism spending and satisfaction, job creation, improved institutional capacity of selected agencies, and improved capacity to operate and maintain assets.

C. PDO Level Results Indicators

32. The key results expected from the Project are:

Infrastructure Services:

- Increased hours per day of piped water delivery in Project areas.
- Number of people in urban areas provided with access to all season roads within a 500 meter range under the Project.

Tourism Economy:

- Increased volume of private sector investments in targeted areas.
- Number of jobs created by activities linked to support tourism industry (disaggregated by gender).

Institutional Capacity:

- Increased annual number of visitors at Project sites.

- Number of regional destination management offices established and operational to ensure sustainability.

III. PROJECT DESCRIPTION

33. The Project will finance investment priorities identified under the tourism development strategy of each region. Proposed investments will also be aligned with the regional development strategies; prepared with technical assistance from the EU (Mtskheta-Mtianeti) and GiZ (Samtskhe-Javakheti).

A. Project Components

34. The Project will have two components:

Component 1: Infrastructure Investment (US\$53.25 million)

Component 1.1: Urban Regeneration and Circuit Development (US\$46.00 million). This component will finance: urban regeneration of old towns and villages, including restoration of building facades and roofs, public spaces, museums, roads and water, and enhancement of cultural and natural heritage sites, including access and presentation.

Based on product development and marketing potential, infrastructure needs and employment levels, the Project will focus on sites along the circuit, connecting the selected heritage, nature and ski sites. The proposed sites/subprojects discussed with the Government for financing under the Project will supplement what the Government has already invested in. These can be grouped into two categories:

- Urban regeneration in three hub cities: Dusheti, Stepantsminda and Abastumani. The Project will also build on previous urban regeneration investments made by the Government, and may finance small-scale incremental investments needs, in Mtskheta, Gudauri, Bakuriani, Borjomi and Akhaltsikhe.
- Improved site management and construction of tourism facility and access road in the following cultural heritage sites: Saphara Monastery, Saro Darbazi houses, Zarzma Monastery, Vardzia caves, Vanis Qvabebi Caves, Khertvisi Fortress, Akhalkalaki Fortress, Tmogvi Fortress, Jvari monastery, Mtskheta archaeological sites, Ananuri Fortress, Gergeti Trinity Church, and Dariali monastery.

Component 1.2: Provision of Public Infrastructure to Attract Private Investments (US\$7.25 million). To encourage private sector investments in the region, this component will support a selected number of private sector entities in Project areas that demonstrate interest and capacity to invest in tourism or agribusiness through investing in complementary public infrastructure that is necessary to ensure the viability of their investments (e.g., public facilities within vicinity of the investments, road/sidewalk, water/sanitation, communications, etc.). The investment proposals would be subject to screening by a selection committee and there will be appropriate conditions tied to that.

Component 2: Institutional Development (US\$6.60 million)

The component will support institutional capacity and performance of the Georgia National Tourism Administration (GNTA), National Agency for Culture Heritage Preservation of Georgia (NACHP), National Museum, Project Implementing Entity (Municipal Development Fund of Georgia, MDF), and other local and regional entities in order for them to carry out the following activities: setting up of destination management office in each region; marketing and promotion; preparation of sustainable site management plans for all of the Project's cultural heritage sites; training for skilled workforce development and capacity building; cultural heritage advisory service to the NACHP to improve their capacity on protection and management of the World Heritage property Historical Monuments of Mtskheta to help with its removal from the List of World Heritage in Danger; business start-up/expansion advisory service to tourism SMEs; performance monitoring & evaluation activities; and preparation of feasibility studies of potential investment subprojects, design and construction supervision.

B. Project Financing

35. The lending instrument is an Investment Project Financing. The Borrower selected an IBRD flexible loan denominated in US dollars, commitment-linked with a variable spread and a 25 year maturity, including a grace period of 14 years and level repayments of principal.

C. Project Cost and Financing

36. The Project cost and financing is shown in the table below.

Project Components	Project cost US\$ million	IBRD Financing	% Financing
1. Infrastructure Investment	66.75	53.25	80%
2. Institutional Development	8.25	6.60	80%
Total Costs	75.00	59.85	80%
Total Project Costs	75.00	59.85	80%
Front-End Fees		00.15	100%
Total Financing Required		60.00	

37. Retroactive Financing. The Project is part of the Government's continued emphasis on public investments to support the economic recovery and implement fiscally-responsible stimulus measures. The Government has allocated substantial resources from its own budget to prepare some subprojects in advance of Board approval. The Government asked for 20 percent of the loan amount as retroactive financing to allow the MDF to start implementation, meet payment obligations, avoid possible delays to the activities and accelerate disbursements under

the loan. As per the OP/BP 10.00 procedures, withdrawals up to US\$12.0 million under the loan may be arranged for payments made prior to the signing date of the legal agreements, but on or after April 11, 2015, for eligible expenditures under the Project (see Annex 3). As per OP/BP 10.00 procedures, (a) activities to be financed by the retroactive financing are included in the Project description; (b) the payments are for items procured in accordance with applicable Bank procurement procedures; and (c) the payments will be made by the borrower not more than 12 months before the expected date of Loan Agreement signing.

38. The retroactive financing amount from the loan will cover first interim payment certificates for civil works and consultant services in the first year of the procurement plan. Under the retroactive financing, the MDF will begin the procurement process for first year contracts. The Bank team will review the technical, safeguards and procurement processes for these contracts and ensure that they are consistent with Bank guidelines and operational policies.

D. Lessons Learned and Reflected in the Project Design

39. **Investing in livability and service delivery enhances the competitiveness of a location to attract businesses.** The benefits of investing in urban livability, especially in historic areas, has been increasingly studied and debated over the last few decades, with the economic theory underpinning investments becoming substantially more robust. The recent “Economics of Uniqueness” published by the World Bank provides evidence in this regard. A city’s conserved core can differentiate it from competing locations—nationally and internationally—thus helping a location to be more competitive in attracting investment. Locations that successfully attract investment and business to meet the citizens’ aspirations, while alleviating poverty and promoting social inclusion, are those that harness all their resources, including their heritage. For example, the Lebanon Cultural Heritage and Urban Development Project created the conditions for Local Economic Development in the historic downtowns of five secondary cities, which have resulted in a growth of employment and businesses. In Baalbeck, Lebanon, there has been a 105 percent increase in employment in cultural and tourism businesses and 90 percent increase in businesses around the historic core. To replicate and scale up these good examples, the Project will support investments in carefully selected urban areas of historic significance, with the objective of enhancing their livability and attractiveness for businesses.

40. **Regenerating historic areas minimizes the need of new development.** Restoring built assets and reusing under-utilized land in central locations is very much linked with the World Bank Group’s inclusive green growth agenda. This process requires a complex, well-integrated mix of uses, all within walking distance. Successful renewal implies that existing buildings are properly preserved and adaptively reused to accommodate new functions. Moreover, since historic areas are usually densely built, upgrading them can reduce the need of greenfield/new development, motorized transport and help conserve energy embodied in existing buildings. Despite the investments required to renew the building stock (most of which features heritage values), these areas have the potential to stimulate a cities’ economy, revitalizing the built environment and its vitality and attractiveness, which helps create permanent jobs.

41. **Tourism connectivity.** Investing in restoring historical buildings and the public space and connecting them to national tourism circuits/itineraries can encourage owners to improve their homes and open small businesses on the lower floors (higher floors can accommodate housing at various income levels). Experience from a number of countries shows that a critical mass of these pedestrian-scale activities requires an initial investment in public assets before the renewal becomes self-sustaining. However, at that point, an upward spiral begins, involving the private sector. More developers invest in real estate, more businesses open, and more investments are made. As a result, people locate in the area which causes rents, land and property values to increase, and the renewal process becomes self-sustaining. As Georgia's experience showed after redeveloping old Tbilisi, Signagi, Mtskheta, Batumi, Kutaisi, as well as Telavi, Kvareli and Tskaltubo with World Bank support under the regional development program (RDP and RDPII), the government is able to recoup the cost of investments from increased tax revenues from properties, personal income, corporate income, Value Added Tax (VAT) and property sales' transaction fees. Acknowledging these results, the Project will finance the beginning of this process in a number of cities and towns in the participating cities.

42. **Integrating tourism in wider local economic development makes the sector more resilient.** Tourism is an economically significant industry, contributing 9 percent of global GDP, 6 percent of world trade, and 5 percent of total investment. Nearly a half billion international tourist arrivals are in developing countries. In addition to international tourism, domestic tourism is increasingly playing a significant role in developing countries, as their middle class emerge. Tourism can significantly reduce poverty among marginalized populations, where an estimated 25 percent of tourist spending is captured by those living on less than US\$1.25 a day. Tourism is labor-intensive, generating a wide range of jobs. The sector is responsible for one in 11 jobs globally. In 2013, tourism generated 4.7 million new jobs and now accounts for 266 million jobs. It is estimated that 1 direct tourism job creates a further 1.5 indirect jobs. In terms of output, US\$1 million in tourism sales generates twice as many jobs as the same amount of dollars in financial services, communications or automotive manufacturing.

43. **Location-based weakness.** If not well thought through, tourism can suffer from an intrinsic location-based weakness, as it is exposed to a number of exogenous factors and economic shocks. Thus, to contribute to resilient economies, it should always be carefully blended in wider tourism and regional/local economic development strategies as applied in the design of this Project. For this reason, the Project integrates physical investments with SME support not only in tourism, but also in agribusiness and handicraft, aiming at developing a broader economic basis in the targeted regions.

44. **Citizen engagement.** Full citizen engagement and consulting wider stakeholders is of a paramount importance to achieve sustainable results. The success of the Project will require strong consultations with all stakeholders that started during Project identification and preparation. Based on lessons learned from the RDP and RDPII, participatory City Development Strategies were prepared under RMIDP-AF for the three major cities of the two regions- namely, Stepantsminda, Dusheti and Abastumani. These revealed the benefits of involving stakeholders in all decision-making and will continue paying a positive role during implementation.

45. **Improving citizen-state relations.** Sub-project level grievance redress mechanisms have been put in place in RDPI and RDPII to address grievances from those people directly impacted by the project. However, the impact of grievance redress mechanisms can be greater, helping to improve the relationship between citizens and the state. For these mechanisms to have a greater impact, citizens need to be encouraged to ask questions and provide feedback on a broader range of concerns, and to provide this feedback even if they are not directly affected by the project. Government institutions, at the same time, need to be encouraged to systematically collect and respond to feedback. Because of this, this project includes a project-wide grievance redress mechanism that will respond to all types of citizen concerns and feedback about the project, whether or not these concerns are or are not related to direct project impacts on individuals or households. Data on citizen concerns and the resolution of grievances will be collected, helping to promote greater government accountability and responsiveness.

46. **Restoring livelihoods for people affected by the project.** World Bank operational policies require that individuals and households whose livelihoods are affected by a project receive assistance in restoring these livelihoods. However, livelihood restoration approaches cannot be standardized, but require considering individual needs, skills, and priorities, as well as the potential for specific activities to lead to sustainable livelihoods in a particular project area. Because of this, the project incorporates a deeper emphasis on restoring the livelihoods of project affected people that consider gender, vulnerability, and skills, as well as the needs of the market. This emphasis is expected to lead to broader, positive impacts on those whose livelihoods are directly affected by the project.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

47. The Project will be implemented by the Municipal Development Fund (MDF) and builds on its successful project management of other Bank financed operations. The MDF will be responsible for all project implementation, procurement, safeguards, financial management and disbursements. Established by Presidential Decree # 294 on June 7, 1997, it has since developed into a solid non-bank financial intermediary (FI) that plays a central role in funding and developing regional and municipal infrastructure. Funds have been provided by the Government of Georgia, several international financial institutions and donors (including ADB, EBRD, MCC, SIDA, KfW, etc.) and its own revenue.⁷ Its solid implementation capacity and performance are reflected by the growing interest from the Government and donors to channel their grants and credits through MDF to municipalities.

48. The MDF is governed by a Supervisory Board that is comprised of the Prime Minister, key Ministers, parliamentarians and civil society (Transparency International Georgia). The Board's functions include: (a) overall supervision of Project implementation; (b) inter-agency coordination; and (c) review and approval of the annual work program, budget and reports. The Supervisory Board met during Project preparation and endorsed its design, cost, implementation

⁷ Asian Development Bank, European Development Bank, Millenium Challenge Corporation, Swedish International Development Agency, Kreditanstalt für Wiederaufbau, etc.)

arrangements and procurement plan. Meetings have been held regularly with the Prime Minister and the Minister of Finance, who also lead donor coordination.

49. The Project will also benefit from the recent reorganization of the MDF, which addressed key weaknesses of the organization. The reorganization aimed at ensuring that the MDF is financially sustainable and that it is strategic in the activities it undertakes. To support the latter, a new unit was created to develop stronger partnership with municipalities.

50. To ensure the viability of subprojects, as per standard practice under the RDP and RDPII, the MDF will prepare Subproject Appraisal Reports (SARs) for investments costing US\$2.00 million or more, or Subproject Summary Reports (SSRs) for investments costing less than US\$2.00 million. The SARs/SSRs would include subprojects feasibility and safeguards issues, and analyze the availability of funds for Operation and Maintenance of the restored assets to ensure sustainability. All SARs/SSRs are to be approved by the Bank prior to the start of the tender process.

51. Project funds will be disbursed in a manner similar to the RDP and RDPII. The World Bank funds will flow either through the designated account to be maintained in the Treasury, which will be replenished on the basis of Statements of Expenditures (SOEs) or full documentation, or on the basis of direct payment withdrawal applications and/or special commitment, received from the MDF. The government counterpart funding will be disbursed, via the Treasury, through normal budget allocation procedures initiated by the MDF, according to standard Georgian Treasury and Budget execution regulations. The funds will be used to finance eligible expenditures under the Project.

B. Results Monitoring and Evaluation

52. The MDF will be responsible for monitoring and evaluating (M&E) the Project outcomes against agreed indicators as presented in the Results Framework. The MDF will contract with international consulting firms to (a) assist in collection and analysis of data and (b) assist in construction supervision. The cost of these services, as well as raising the institutional capacity to sustain Project interventions, is built into the Project design under Component 2. The MDF will produce quarterly progress reports to assess implementation and suggest any need for adjustments. This arrangement has been successfully implemented under RDP and RDPII. The terms of reference for M&E and construction supervision are under preparation.

53. In addition, as part of the Project's Results Assessment, a baseline household survey is currently being conducted. The survey covers the main beneficiary settlements⁸ in the Samtskhe-Javakheti and Mtskheta-Mtianeti regions and is very similar in nature to the one implemented in the Kakheti region under RDP and in the Imereti region under RDPII. The pilot baseline survey is being conducted by the Youth Voice Group Georgia with support from the Bank team and is expected to be finalized in spring 2015. The MDF will also conduct a baseline household survey (building on lessons learnt from the pilot survey) to capture key socioeconomic and poverty data (using the methodology of survey to survey imputations) for the project areas. A follow up survey will be conducted at the Project's closing time.

⁸ Abastumani, Akhaltshikhe, Borjomi, Stepantsminda, Mtskheta and Dusheti.

C. Sustainability

54. The Project emphasizes sustainability of development impact and (O&M) of rehabilitated assets in the following ways:

- National, regional and local agencies have all been engaged in the design of the Project. They will continue to be part of implementation and supervision. This will ensure that local knowledge is incorporated and that there is full acceptance;
- All investment proposals will be screened against sustainability criteria outlined in the Project's Operations Manual (OM). As with RDP and RDPII, MDF will sign subproject investment agreements with Local Self-Governments (LSGs), clearly assigning LSGs responsibility for O&M of assets; and
- Under the Second Regional and Municipal Infrastructure Development Project (RMIDPII: US\$35 million, World Bank and Swiss Development Cooperation co-financing 2014-2019), asset management software will be purchased and training provided at all LSGs in Georgia to ensure proper maintenance planning of all municipal assets. Technical assistance will also be provided under RMIDPII to LSGs to develop systems and related skills to perform infrastructure project cycle management, adhere to fiscal discipline, and ensure proper accounting.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

55. The technical design of the Project, which is multi-sectoral in nature with several subprojects identified but will only be fully prepared and appraised during Project implementation, represents a moderate risk. Multiple activities with local and central level agencies may hinder timely and quality implementation of the Project. To mitigate this risk, a thorough system of screening, prioritizing and evaluating proposed subprojects was established and applied during Project preparation. Only critical minimum activities with the highest impact that can directly contribute to achievement of the Project development objective and desired results will be selected. Subprojects will be selected based on economic and cost-benefits analysis. The SARs/SSRs for all proposed investments will discuss technical and economic feasibility, and analyze responsibility and the availability of funds for operations and maintenance of the restored assets to ensure sustainability

56. Another design risk relates to the geographic spread of project activities in two regions. Some outputs delivered under the Project may be of low quality. To mitigate this risk, the Bank team agreed with the MDF to hire an international construction supervision firm that would provide quarterly supervision reports. The MDF will submit quarterly progress reports to the Bank. It is also worth noting that MDF has experience in supervising subprojects being implemented throughout the country under the RMIDP and RMIDPII.

57. There is also an institutional capacity for implementation risk. Lack of coordination could adversely affect efficiency of Project implementation and, consequently, the achievement of the development objectives. However, this risk is mitigated by the fact that the MDF, which has a successful record with the World Bank in coordinating and implementing multi-sectoral projects (including RDP and RDPII), will lead Project implementation and the coordination efforts among the various stakeholders. The MDF will consult with the same entities with whom it has been working under the RDP and RDPII, in addition to the regional and local governments. The establishment of a multi-agency working group is stipulated in the OM. Stakeholder's consultation workshops will be held bi-annually to present Project implementation progress and future plans. To further ensure proper coordination within the Government, the Supervisory Board of the MDF, chaired by the Prime Minister, and including in its membership all Ministries concerned, will ensure multi-agency coordination and approval of the MDF work and business plans.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

58. For the Project's economic and financial analyses, a cost-benefit assessment was carried out.⁹ Benefit streams were calculated based on the following available data and assumptions:

Increase in tourist arrivals, overnight stays and spending

- As a result of the integrated development approach;
- Both domestic and international tourist arrivals are expected to increase by 5 percent per annum during the life of the project and 2 percent thereafter;
- Overnight stays are expected to increase from 1.8 days to 2.5 days on average by 2020; and
- Expenditures on food, lodging, new activities (e.g., guided tours), and purchase of local products and handcrafts are expected to increase by 5 percent per annum during the first 6 years of the project and 2 percent thereafter.

Increase in number and profitability of economic enterprises

59. The development of tourism circuits and geotourism maps, destination management and marketing/promotion of Samtskhe-Javakheti and Mtskheta-Mtianeti as a new tourist destinations, and improvement of infrastructure will attract private investors to establish new economic enterprises or expand existing ones:

- The leverage factor for the private investments attracted by the public expenditures will equal 1 to 1;

⁹ The Project economic and financial analyses are complemented by a spatial economic analysis and ICOR (investment to capital output ratio) analysis looking at the relationship between public and private investment trends, in general. Full analysis is available in Annex 5.

- By the end of the Project, the number of hotel beds is expected to increase from 7,726 to 10,545 beds¹⁰ in Samtskhe-Javakheti and from 3,213 to 4,732¹¹ in Mtskheta-Mtianeti, in order to serve the expected increased number of tourists at additional destinations;
- Secondary sales multiplier will equal 1.5; and
- New economic enterprises and increased profitability will increase amounts of collected corporate tax (15 percent), VAT (18 percent), and personal income tax (20 percent).

Property value appreciation

60. Tourism development and improvement of infrastructure will create more opportunities for businesses to invest and will increase demand for real estate, and therefore real estate value appreciation. Based on evidence-data collected from other cities in Georgia which underwent similar urban regeneration activities, i.e., old Tbilisi, old Mtskheta, Signagi and Batumi, the following assumptions are made for Samtskhe-Javakheti and Mtskheta Mtianeti:

- Property tax (1 percent) collection will increase because of new buildings and housing created by the Project itself and leveraged private investments.

Temporary job creation

61. During implementation of various project activities, temporary jobs will be created. Temporary jobs also will be created during the construction of assets by investing Leveraged Capital. Based on analysis of the infrastructure projects conducted by the MDF during the last 5 years which showed that on average infrastructure works have a 25 percent labor component (including production and transportation), with around a 20 percent labor component for general infrastructure and around 30 percent in the case of building construction, the following assumptions are made:

- Due to the specific nature of conservation/restoration works (large proportion of labor intensive facade restoration) the labor component for the project activities could be more than 30 percent of the expenditures;
- The proportion of labor component during construction activities funded by Leveraged Private Capital will be 25 percent - it is assumed that most of the assets created will be buildings and recreational areas; and
- Personal Income taxes from labor expenditures (20 percent) will be flowing to the government.

Cost Benefit Analysis

62. Cost-Benefit analysis was prepared for the Project in Samtskhe-Javakheti and Mtskheta-Mtianeti regions, rather than for each component or subproject. The NPV, FIRR and EIRR were calculated for the next 20 years from 2015 up to 2034, including 4 years of project

¹⁰ Samtskhe- Javakheti Regional Tourism Development Strategy 2015-2020.

¹¹ Mtskheta-Mtianeti Regional Tourism Development Strategy 2015-2020.

implementation period.¹² For the economic analysis, financial costs were corrected and conversion factors were applied. Analysis considered a 7 percent discount rate.

63. Secondary data was collected from various government entities, including Tourism Agency, Ministry of Finance, Public Register, Geostat, as well as from real estate brokers and completed studies from similar projects, e.g. the United States Agency for Development (USAID) funded Georgia Economic Prosperity Initiative (EPI). The primary data was derived from small-scale surveys using structure questionnaires and administered to selected groups of stakeholders (restaurants, cafes, hotels, guest-houses, and domestic and foreign visitors). Primary data collection also used qualitative in-depth interviews.

64. Fiscal impact and economic analysis shows that NPV at 7 percent for the Project for Samtskhe-Javakheti is positive and equals US\$8,938,619. FIRR equals 13.5 percent. EIRR equals 21.84 percent.

65. Fiscal impact and economic analysis shows that NPV at 7 percent for the Project for Mtskheta-Mtianeti is positive and equals US\$32,369,832. FIRR equals 21.52 percent. EIRR equals 33.12 percent.

66. Overall, the implementation of the Project will yield net economic benefits over and above the Project costs, as well as the cost of complimentary investments in additional tourism enterprises to be financed by private investors.

67. Both the Cost Benefit Analysis (CBA) and ICOR analysis demonstrates that capital investments in both regions are profitable and the marginal amount of investment capital necessary for an entity to generate the next unit of production is positive. The larger base of assets, economic activities and skilled labor in Mtskheta-Mtianeti gives higher returns estimates than in Samtskhe-Javakheti. The proposed investment in both regions is justified and is expected to (a) reduce regional disparities that currently exist in both regions, (b) leverage private sector investments, and (c) create jobs.

B. Technical

68. Building on the successful experience of the RDP and RDPII, the Project consists of the same two components. This will help improve the local economy and create jobs through tourism development. All the investment subprojects respond to the two Regional Tourism Development Strategies (2015-2020). The investment subprojects were carefully selected and appraised to boost the region's economic development and promote private sector investments.

69. The Project will help increase tourism in the regions through introducing an integrated approach. Rather than focusing only on infrastructure, urban renewal or cultural heritage conservation/restoration, the Project will use an integrated geo-tourism development approach that aims at the following:

¹² Net present value, Financial Internal Rate of Return, and Economic Internal Rate of Return.

- Improving and sustaining the geographical character of the two regions —their heritage, aesthetics, culture, and the well-being of its residents;
- Identifying the most promising tourism products (cultural heritage, ski and eco-tourism/adventure), and producing circuit maps showing the most attractive sites, which can provide tourists with rich experiences;
- Carrying out integrated urban regeneration of the old quarters of Stepantsminda, Dusheti and Abastumani cities, including rehabilitating the central parks, water supply and drainage systems, road network and public space, street lighting posts, and old public buildings with important architecture. The Project also aims at rehabilitating museums in Mtskheta, Dusheti, Stepantsminda and Borjomi;
- Integrating redevelopment and management of selected cultural heritage sites with significant monuments, such as monasteries, churches or unique vernacular architecture (involving construction of a tourism facility at each site, that includes public parking and toilets, souvenir shops and information kiosks);
- Managing and promoting tourist destinations, developing a skilled workforce, preparing visitor management plans, and monitoring/evaluating performance; and
- Establishing a destination management office at each region for sustainability.

70. To date, the MDF has proposed four (4) subprojects, all within Component 1.1 (Urban Regeneration and Circuit Development). The subprojects were appraised by the Bank team and their summary is provided below. The MDF will continue to submit additional sub-project proposals in the normal course of project development activities, including also for Component 1.2 (Provision of Public Infrastructure to Attract Private Investments).

- Rehabilitation of Road Armazistsikhe-Bagineti: The aim of this subproject is to improve transportation infrastructure in Mtskheta municipality. The project includes improvement of 0.7 km of paved roadway at a cost estimated at GEL363,520 (US\$191,327). The local government administration and the MDF both support the subproject, which is considered of strategic, touristic and cultural importance in the municipality. As context, Mtskheta is a significant cultural heritage and archeological site in Georgia and the "Historical Monuments of Mtskheta" were declared a UNESCO World Heritage Site in 1994.
- Rehabilitation of Road from Village Greli to Sapara Monastery: The aim of this subproject is to improve transportation infrastructure in Akhaltsikhe municipality of the Samtskhe-Javakheti Region. The subproject includes improvement of 7.2 km of unpaved roadway providing access to the Sapara Monastery, a cultural heritage site dating from the 9th century, at a cost estimated at GEL3,503,050 (US\$1,824,505). The local government administration and the MDF both support the subproject, which is considered of strategic, touristic and cultural importance in the municipality.
- Arrangement of Tourism Infrastructure at Ananuri Castle: The aim of this subproject is to improve tourism infrastructure in Dusheti Municipality. The subproject includes improvements to the support facilities located in front of the Ananuri Castle, a cultural heritage site about 72 kilometers from Tbilisi, at a cost estimated at GEL577,992 (US\$290,448). The improved infrastructure includes paved parking areas, pedestrian footpaths, lighting, and public toilets– all of which will support increasing domestic and

international tourism at the castle. As context, in 2007 the castle complex was placed on the tentative list for inclusion into the UNESCO World Heritage Sites.

- Restoration of Stepantsminda Museum: The aim of this subproject is to improve and preserve tourism assets in Khazbegi municipality. The project includes improvements to the home, birthplace and final resting place of the famous 19th century novelist, Aleksander Kazbegi, which functions as a museum, at a cost estimated at GEL1,073,245 (US\$539,319). The improved infrastructure includes restoration of the building interior and exterior, full rehabilitation of the building's engineering/ utility systems, plus improvements to the building grounds (public restrooms, pedestrian footpaths, lighting and fencing) – all of which support tourism at the museum and cultural heritage site.

71. Overall, the technical measures will establish and/or upgrade all essential facilities and services upon which the increased tourism can materialize and benefit the entire population of the two regions. A key consideration of the Project is to improve infrastructure without negatively affecting the environment. Thus, stringent protection and mitigation measures are in place to avoid potential drawbacks. For example, following the recommendations of the Strategic Environmental, Cultural Heritage and Social Assessment (SECHSA), a plan will be prepared for each cultural heritage site to manage the flow of visitors to its capacity and the monks' needs.

72. **Readiness.** The Project is ready for implementation. Activities and investments at all proposed urban renewal and cultural heritage sites were designed by the government and its consultants and appraised by the Bank. The MDF has been working closely with all agencies concerned. The Bank team has appraised the following documents and visited all Project sites, inter alia:

- Designs and bidding documents for four tourism infrastructure subprojects prepared by the MDF;
- Year one SARs/SSRs and Bid Documents prepared by the MDF;
- Tourism-related technical assistance Terms of Reference (TORs) prepared by GNTA;
- Performance M&E TORs prepared by the MDF;
- Construction supervision arrangements including bidding documents for construction supervision consultants prepared by the MDF;
- Procurement Plan prepared by the MDF;
- Operations Manual prepared by the MDF;
- Financial management framework prepared by the MDF;
- Resettlement Policy Framework (RPF): prepared by the MDF, reviewed and disclosed on February 18, 2015;
- Environmental and Social Management Framework (ESMF): prepared by the MDF, reviewed and disclosed on February 18, 2015; and
- SECHSA report prepared by the MDF, and the Executive Summary was disclosed on February 18, 2015.

C. Financial Management

73. The financial management (FM) arrangements of the Project are the same as for the on-going projects implemented by the MDF, which are acceptable to the Bank. The significant strengths that provide a basis for reliance on the Project FM system include: (a) significant experience of the MDF's FM staff in implementing Bank-financed projects for several years; (b) overall adequate accounting system and software utilized by the MDF, (c) FM arrangements currently being implemented by the MDF are found to be acceptable to the Bank, and (d) unmodified audit reports issued on the on-going projects and on the entity financial statements.

74. The FM arrangements at the MDF, including budgeting and planning, accounting and financial reporting, external audits and funds flow are overall adequate and acceptable to the Bank.

75. The MDF has overall adequate internal control system in place for Project's implementation. In the long run, there is a strong control environment in place at the MDF. The recent changes in the MDF management resulted in a strong ownership from and commitment of the management to transform the MDF into a sustainable and competitive organization.

76. No major weaknesses were identified at the MDF, although some inconsistency was observed in the timeliness and quality of the interim un-audited financial reports (IFRs) on the on-going projects submitted to the Bank. Specific actions were identified and agreed with the MDF to address past issues with IFRs. The MDF will enforce proper control procedures ensuring that IFRs are submitted to the Bank on time, and consistent quality control procedure over IFRs is maintained. The quality and timeliness of IFRs will be constantly monitored by the Bank. The only action (not a condition but a capacity building action) agreed during the assessment relates to the update of the on-going projects' FM manual to cover the FM arrangements under the proposed Project.

77. Since January 2006, the Treasury's foreign currency account at the National Bank of Georgia (NBG) has been used for all new World Bank financed projects' designated accounts (DAs). Overall, these arrangements are satisfactory and will remain in place during the Project's implementation.

D. Procurement

78. The procurement capacity assessment of MDF has been carried out. Major findings have already been identified and respective risk mitigation measures were proposed as outlined in Annex 3. The procurement unit of the MDF, with adequate capacity will undertake and be responsible for all procurement related aspects under the project. Generally, the procurement arrangements will be similar to those under ongoing RDPs and RMIDP II. The Project will finance around 30 civil work contracts including restoration of palaces, historical streets, arrangement of trekking routes, rehabilitation of roads, arrangement of recreational parks, etc. All packages will be tendered out with National Competitive Bidding (NCB) procurement method under modified Georgian E-Government Procurement System (Ge-eGP). The Project

will also finance consulting services including but not limited to: technical supervision, preparation of feasibility studies, performance evaluation and monitoring.

79. The decision making structure of MDF has not changed. Two procurement specialists have attended regional procurement training held in Tashkent, Uzbekistan, in early April 2014. In May 2014 the Head of the Procurement Unit attended a Regional Fiduciary Workshop held in Tbilisi, Georgia. Five procurement specialists attended a workshop on "Using Georgian E-Government Procurement System under the World Bank financed projects" held in Tbilisi, Georgia, in June 2014. One procurement specialist participated in the Training Course in Procurement Management in the Public Sector, ILO, Turin, Italy in October 2014. In December 2014, two procurement specialists attended a Cornerstone Seminar on the International Federation of Consulting Engineers (FIDIC) Contracts, held in Tbilisi, Georgia. In addition, six staff members of the Procurement Unit attended training on using NCB documents in December 2014.

80. Procurement will be carried out according to the World Bank's — Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants, January 2011 – Revised July 2014 and the Guidelines: Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank Borrowers, January 2011 – Revised July 2014; and the provisions stipulated in the Loan Agreement.

E. Social (including Safeguards)

81. The Project is expected to generate positive social impacts by creating employment, building productive capital, and improving infrastructure and transport connections. The negative social impacts are expected to be limited, including some temporary inconvenience to local residents during construction, and longer-term impacts related to increased visitors.

82. Temporary impacts include dust, noise, limited access to the areas, and increased safety risks, which will be addressed through the EMPs to be prepared for each subproject in accordance with the OM. These temporary impacts will likely be limited, since there are only few residential structures in the immediate vicinity of most subproject sites.

83. Other long-term social impacts might be related to: (a) urban gentrification in key cities, resulting from the increased price of goods/services as well as property values; and (b) a large influx of investors and migrants attracted by the new economic opportunities. The SECHSA analyzed such issues and suggested mitigation measures.

84. Consideration of gender and citizen engagement has been mainstreamed during the Project preparation and will be executed during implementation. Gender issues are considered to be most relevant in the design of skills training activities and in the design of livelihoods restoration activities for project affected people. Citizen engagement is considered most relevant during and immediately after the selection and design of individual subprojects. Consultations have taken place in each region and will continue during Project implementation. Consultations will be designed to make it possible to incorporate the points of view of men, women, and

vulnerable groups, including ethnic minorities, Internally Displaced Persons (IDPs), disabled individuals, etc. When ethnic minorities are present in a sub-project location, communications and consultation efforts will consider the languages spoken by these individuals.

85. The Project includes a strong grievance redress mechanism (GRM). This GRM will be administered by the MDF and will allow citizens to provide both positive and negative feedback on the project. Citizens will be informed about the GRM during consultations/information sharing events, and will be encouraged to use it when they have feedback on the quality of works, selection of contractors, noise levels, pollution levels, or when they have been directly or indirectly affected by unintended project impacts. The Project will also put in place specific measures for grievance redress for subprojects resulting in resettlement or livelihood impacts, when these are necessary. Specific GRMs will only be necessary if the assessment carried out as part of the process of Resettlement Action Plan (RAP) development determines that the project level GRM cannot address the needs of those affected by the project.

86. The Project triggers the World Bank Safeguards Policy on Involuntary Resettlement OP 4.12. A Resettlement Policy Framework was prepared and disclosed to the public according to the policy. Resettlement impacts would mainly relate to temporary relocation and/or loss of income or productive assets during construction. However, there might also be some cases of permanent resettlement. Prior to the start of works at any site that might require a RAP, the MDF will ensure that a RAP is prepared as part of the SAR and affected people are fully compensated according to the RAP provisions.

87. Resettlement activities will be fully inclusive of people with different needs. In particular, consultations held with project affected people will be held in venues that are accessible, in a form and language appropriate for the group, and results of the meetings will be publically disclosed. Information on project affected people will be collected in a way that makes it possible to identify specific vulnerabilities that may make it difficult for that person or their household to cope with project impacts. Gender, disability, income, education and age will be considered when determining specific individual vulnerabilities. In Mtskheta-Mtianeti, special attention will be paid to mountain communities.

88. Resettlement activities will incorporate a focus on livelihood restoration. To the extent possible, project affected people will be included in project-funded skills development activities. When this is not possible, the project will try to connect those affected with other government or donor-funded activities promoting skills, income generation, or access to finance. If no other activities exist that are appropriate for these individuals, the project will provide technical assistance funding for individuals to start small businesses, to acquire skills, or to expand other livelihood activities, as appropriate. The project will pay special attention to livelihood restoration activities for women and for pensioners, given that these two groups are more likely to have difficulties adapting to different livelihood activities.

89. Monitoring and evaluation of resettlement and land acquisition will be carried out systematically. Monitoring of impacts on resettled individuals and households, and on those receiving livelihoods restoration assistance will take place immediately after the implementation of RAPs as well as six and twelve months after displacement has occurred. If after 12 months of

displacement, negative impacts, such as reduced income are found, the project will provide additional support to those individuals.

F. Environment (including Safeguards)

90. The Project includes investment components to develop infrastructure and thus triggers the OP/BP 4.01 Environmental Assessment. None of the activities are expected to have significant, long-term, or irreversible impacts on the natural environment. Thus, the Project is classified as environmental Category B. The Environmental and Social Management Framework (ESMF) prepared for the Project guides the preparation of subproject-specific Environmental Management Plans (EMPs). The MDF carried out SECHSA, building on and assessing Tourism Development Strategies and Regional Development Strategies worked out by the Government of Georgia for Samtskhe-Javakheti and Mtskheta-Mtianeti. The SECHSA identified risks and opportunities associated with the overall development program proposed for the two regions. It (a) collected and analyzed baseline information about the two regions; (b) analyzed the expected long-term, cumulative, and direct/indirect impacts of the two Regional Tourism Development Strategies as well as of the Project activities; and (c) assessed the institutional capacity of the government agencies to manage environmental, cultural, and social implications of the development in the two regions, including identifying gaps and making recommendations about capacity building.

91. The MDF is the Project's implementing agency. It has a long history of implementing World Bank-supported projects with a good track record of complying with safeguards, but its in-house capacity to monitor application of measures to mitigate negative impacts of civil works is limited because of the MDF's large portfolio of projects with a wide geographic span and due to lack of experienced environmental and social professionals resulting from continuous turnover of staff. Considering this limitation and acknowledging that implementation of Project activities in the proximity to cultural heritage monuments and aesthetically valuable landscapes carries additional challenges for safeguarding these sensitive sites, the MDF will hire an international construction supervision firm to support technical supervision of works and monitor compliance to safeguards policies. The MDF will be further encouraged to consider safeguards training for its staff.

G. Other Safeguards Policies Triggered

92. The Project interventions may cover areas adjacent to the Javakheti and Tbilisi National Parks, which may cause indirect and/or induced impacts on the natural habitats. OP/BP 4.04 is triggered to ensure that any interventions are fully harmonized and supportive of the habitat conservation goals. Site-specific ESRs and/or EMPs will explain how OP/BP 4.04 principles are integrated into the design and implementation arrangements of respective subproject(s).

93. Because the Project aims to increase the flow of tourists to the natural and cultural heritage sites, this will require improving their access and developing tourist infrastructure around them. Civil works in the immediate area of the monuments, etc. might affect their aesthetic value, risk accidental damage, or gradual deterioration. Also, they will imply earth works which carry a high likelihood of chance finds. OP/BP 4.11 is triggered to ensure that no

element of cultural heritage is affected negatively, either during construction or eventual operations. Site-specific Environmental Reviews (ERs) and/or EMPs will cover the preservation of cultural heritage and carry relevant mitigation measures, as well as arrangements for monitoring implementation. The MDF and the NACHP will closely supervise adherence to OP/BP 4.11 in the course of implementation. Once civil works are completed, the NACHP will manage the sites in compliance with the laws and regulations stipulated by the state, beyond the life of the Project.

94. The Project's subcomponent 1.1 will finance urban regeneration of old towns and villages through restoration of building facades, public spaces, museums, roads, and water supply and sanitation systems, and enhancement of cultural and natural heritage sites. Subcomponent 1.2 will provide complementary public infrastructure to stimulate tourism and agribusiness related private investment. Therefore, activities that may be suggested for the Project's interventions include upgrade or extension of the infrastructure in the two target regions, including water supply, wastewater collection and water drainage schemes. Because water-related infrastructure is eligible for the Project funding and because the vast majority of Georgia's rivers fall under the category of international waterways as defined by OP/BP 7.50, this policy is triggered. However, construction of new water and wastewater infrastructure that may end up using or polluting the water from these international waterways will be excluded from the Project funding. Investments for rehabilitation of the existing schemes that are aimed at cutting water loss due to seepage, leaks overflows, and malfunctioning of hydraulic structures will be supported on the condition that no alteration of water intake and/or discharge results from the Project implementation. If any activity under an Investment Subproject will involve any international waterway, then: (a) such activity will be limited to ongoing schemes, projects involving additions or alterations that require rehabilitation, construction, or other changes that: (i) will not adversely change the quality or quantity of water flows to the other riparian; and (ii) will not be adversely affected by the other riparians' possible water use; and (b) such activity will be limited to only minor additions or alterations to the ongoing scheme and it does not cover works and activities that would exceed the original scheme, change its nature, or so alter or expand its scope and extent as to make it appear new or different scheme. Due to these rules of subproject selection included in the OM, communication to the riparians was deemed unnecessary and exemption from the requirement of communication to the riparian was obtained from the Bank's Vice president on February 3, 2015.

Annex 1: Results Framework and Monitoring

GEORGIA: Third Regional Development Project

Project Development Objectives

The Project Development Objective is to improve infrastructure services and institutional capacity to support increased contribution of tourism in the local economy of the Samtskhe-Javakheti and Mtskheta-Mtianeti regions.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Increased number of hours per day of piped water services in project areas.	<input type="checkbox"/>	Number	8	8	8	12	14	18	Annual	Progress Reports	MDF
Number of people in urban areas provided with access to all-season roads within a 500 meter range under the project	<input checked="" type="checkbox"/>	Number	0.00	0	600	900	1,000	1,280	Annual	Progress reports	MDF
Increased volume of private sector investments in targeted areas.	<input type="checkbox"/>	Number (US\$ mln)	0.00	0	4	12	20	30	Annual	Progress Reports	MDF
Number of jobs created by activities linked to support tourism industry (gender disaggregated)	<input type="checkbox"/>	Number	63,787	66,976	70,325	73,841	77,533	81,410	Annual	Progress reports/ Annual surveys	MDF/GNTA
Increased annual number of visitors at Project sites	<input type="checkbox"/>	Number	895,428	940,199	987,208	1,036,568	1,088,396	1,142,815	Annual	Progress reports/ Annual surveys	MDF
Number of regional destination management offices established and operational to ensure sustainability.		Number	0	0	0	2	2	2	Annual	Progress Reports/ GNTA Statistics/	MDF/GNTA

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			

Project Development Objectives

The Project Development Objective is to improve infrastructure services and institutional capacity to support increased contribution of tourism in the local economy of the Samtskhe-Javakheti and Mtskheta-Mtianeti regions.

Piped household water connections that are benefiting from rehabilitation works undertaken by the project	<input checked="" type="checkbox"/>	Number	0.00	0	400	500	600	820	Bi-annual	Progress Reports	MDF
Number of houses restored	<input type="checkbox"/>	Number	0.00	0	0	40	80	140	Bi-annual	Progress Reports	MDF
Improved access roads to selected tourism attraction sites.	<input type="checkbox"/>	Km	0.00	0	3	15	25	28	Bi-annual	Progress Reports	MDF
Number of street lighting posts and bulbs replaced	<input type="checkbox"/>	Number	0.00	0	100	200	500	760	Bi-annual	Progress report	MDF
Increased hotel beds in circuit areas.	<input type="checkbox"/>	Number	10,939	10,939	11,200	12,600	14,200	15,277	Bi-annual	Progress Reports	GNTA Statistics/ Progress Reports
Increased number of tourism related enterprises (e.g., souvenir and handcraft shops, family and guest houses, restaurants, museums, etc.).	<input type="checkbox"/>	Number	189	198	207	217	228	240	Bi-annual	Progress Reports	GNTA Statistics/ Progress Reports
Number of Parks upgraded	<input type="checkbox"/>	Number	0.00	0	1	2	2	3	Bi-annual	Progress reports	MDF
Number of tourism facilities constructed at cultural heritage sites along the tourist circuit	<input type="checkbox"/>	Number	0.00	0	3	4	8	11	Bi-annual	Progress reports	MDF
Number of museum refurbished	<input type="checkbox"/>	Number	0	0	0	1	2	3	Bi-annual	National Museum Statistics and Progress Reports	MDF
Production and distribution of new maps based on geotourism database	<input type="checkbox"/>	Number	0.00	2,000	5,000	10,000	15,000	20,000	Bi-annual	Progress report	MDF
Number of beneficiaries of skills development training provided by the Project, disaggregated by gender	<input type="checkbox"/>	Number	0.0	0.0	100	200	300	300	Annual	Progress reports/ Household survey	MDF
Percentage of households in Project areas with home-based economic activities	<input type="checkbox"/>	Percentage	16.5%	17%	17.5%	18.5%	19%	19.8%	Annual	Progress reports/ Household survey	MDF

Project Development Objectives

The Project Development Objective is to improve infrastructure services and institutional capacity to support increased contribution of tourism in the local economy of the Samtskhe-Javakheti and Mtskheta-Mtianeti regions.

Grievances responded to and/or resolved within one month of being filed	<input type="checkbox"/>	Percentage	0.00	50%	60%	100%	100%	100%	Annual	Progress reports	MDF
Grievances registered related to delivery of Project benefits addressed	<input type="checkbox"/>	Percentage	0.00	50%	60%	100%	100%	100%	Annual	Progress reports	MDF
Project beneficiaries	<input checked="" type="checkbox"/>	Number	0.00	20,000	80,000	150,000	280,000	333,000	Annual	Annual surveys	MDF
Of which female (beneficiaries)	<input checked="" type="checkbox"/>	Number	0.00	10,500	42,000	76,000	143,000	180,000	Annual	Annual surveys	MDF

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Increased number of hours per day of piped water services in project areas	This indicator measures number of hours per day of piped water services in project areas. It is a reflection of customer satisfaction from improved water service.	Annual	Progress Reports	MDF
Number of people in urban areas provided with access to all-season roads within a 500 meter range under the project	This indicator measures the number of people that will have access to all-season roads that are within a 500 meter range from the selected project sites. All-season road is defined as a road that is motorable all year by the prevailing means of transport. The baseline is zero. This can be measured by assessing the kilometers of roads constructed or rehabilitated, and estimates of the population in the project area within a 500 meter range.	Annual	Progress Reports	MDF
Increased volume of private sector investments in targeted areas	This indicator measures the volume of private sector investments in the selected project areas. This indicator refers to cumulative dollar amount leveraged in the project sites as a result of components 1.2 (directly leveraged to benefit from provided public infrastructure) and component 1.1 (indirectly leveraged in renovated sites under the project to benefit from provided urban regeneration activities).	Annual	Progress Reports	MDF
Number of jobs created by activities linked to support tourism industry (gender disaggregated)	This indicator measures the number of jobs created by activities linked to support tourism industry. This will allow assessing further how employment varies across less well-off and better off households.	Annual	Progress Reports/Annual surveys	MDF/GNTA
Increased annual number of visitors at Project sites	This indicator measures the number of visitors to the sites included in the Project.	Annual	Progress Reports/Annual surveys	MDF
Number of regional destination management offices established and operational to ensure sustainability.	This indicator measures establishment of two DMOs based on sound institutional organization and coordination within involved tourism related entities. These DMOs are expected to stimulate rapidly increased travel to the regions and develop institutional capacity and performance of tourism related local and regional entities.	Annual	Progress Reports	GNTA Statistics and Progress Reports

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Piped household water connections that are benefiting from rehabilitation works undertaken by the project	This indicator measures the number of piped household water connections benefiting from rehabilitation works under the project.	Bi-annual	Progress Reports	MDF
Number of houses restored	This indicator measures the number of houses restored as part of the urban regeneration since the start of the project implementation. These houses are considered cultural heritage.	Bi-annual	Progress Reports	MDF
Improved access roads to selected tourism attraction sites	This indicator measures improvement of state of the access roads providing better access of visitors and local population to selected tourism attraction sites included in the project area.	Bi-annual	Progress Reports	MDF
Number of street lighting posts and bulbs replaced	This indicator measures the number of street lighting posts and bulbs replaced/installed since the start of project implementation. The new bulbs will use modern energy efficiency, thus saving O&M cost for municipalities.	Bi-annual	Progress Reports	MDF
Increased hotel beds in circuit areas	This indicator measures the number of additional hotel beds in the selected project area after the start of the project implementation.	Bi-annual	Progress Reports	GNTA Statistics and Progress Reports
Increased number of tourism related enterprises	This indicator measures the number of tourism related enterprises (e.g. souvenir and handcraft shops, family and guest houses, restaurants, museums, etc.) as an indirect impact of tourism development in the selected project areas after the start of the project implementation.	Bi-annual	Progress Reports	GNTA Statistics and Progress Reports
Number of Parks upgraded	This indicator measures the number of upgraded recreation parks located in the project areas since the rehabilitation works started under the project.	Bi-annual	Progress Reports	MDF
Number of museums refurbished	This indicator measures the number of historic and ethnographic museums refurbished in the project area. Majority of the museum buildings carry cultural heritage status.	Bi-annual	National Museum Statistics and Progress Reports	MDF
Number of tourism facilities constructed at cultural heritage sites along the tourist circuit	This indicator measures the number of tourism facilities constructed or rehabilitated at each cultural heritage site along the tourist circuit included in the project.	Bi-annual	Progress Reports	MDF
Production and distribution of	This indicator measures the production and distribution of new maps based	Bi-annual	Progress	MDF

new maps based on geo-tourism database	on geo-tourism database. It is calculated by the number of additional customers provided with access to selected tourism destination sites as a result of project implementation.		Reports	
Number of beneficiaries of skills development training provided by the Project, disaggregated by gender	This indicator measures the number of beneficiaries that received the skills development training provided by the project (gender disaggregated).	Annual	Progress Reports/ Household Survey	MDF
Percentage of households in Project areas with home-based economic activities	This indicator measures the percentage of households in project areas that are engaged in home-based economic activities. The baseline has been derived from the Geostat Integrated Household Survey (2013) for urban areas in the two regions. It is % of urban households with household members that fall into group 2 (An entrepreneur, farmer working at his own enterprise, with hired employees) or 3 (working at private enterprise in non-agricultural sector (without hired employees): production of goods, trading, transportation service, building, repairing, crafts, or: professional activity (private tuition, medical diagnostics, consulting and treating, legal or audit services, sewing, hairdressing, other services) according to Geostat classification.	Annual	Progress Reports/Household Survey	MDF
Grievances responded to and/or resolved within one month of being filed	This indicator measures the percentage of citizen engagement through grievances responses within one month of being filed.	Annual	Progress Reports	MDF
Grievances registered related to delivery of project benefits addressed	This indicator measures the percentage of citizen engagement through grievances registered related to delivery of project benefits addressed.	Annual	Progress Reports	MDF

Annex 2: Detailed Project Description

GEORGIA: Third Regional Development Project

1. The Project will finance investment priorities identified under the tourism development strategy of each region. Proposed investments will also be aligned with the regional development strategies, prepared with technical assistance from EU (Mtskheta-Mtianeti) and GiZ (Samtskhe-Javakheti). The design of the Project – a proposed blend of institutions, infrastructure, and targeted interventions – has been informed by both a comprehensive diagnostic and relevant international experience. The Project aims at supporting the local economy in the regions by carrying out an integrated approach to tourism development, focusing on infrastructure, urban regeneration, cultural heritage restoration, skills development and enabling the environment to attract private sector investments. The Project is expected to support better anchoring of the regions to the Georgia-wide tourism circuits, to tap the hitherto untapped yet potentially significant tourism and hospitality industry potentials. The Project is important in the general context of Georgia regional development and spatial planning vision.

2. The Samtskhe-Javakheti region stretches over 6,413 km² and a population of 208,000. The region includes 6 large municipalities and its administrative center is Akhaltsikhe. Main urban areas are Akhalkalaki, Akhaltsikhe, Borjomi, Vale, and Ninotsminda. In 2013, the region was visited by 180,273 international tourists. There are 199 accommodation units, including 55 percent family houses, 36 percent hotels, and 4 percent guest houses. The total number of beds is 7,726. A SWOT analysis concerning the tourism sector highlighted a number of strengths comprising increasing tourism trends; ski infrastructure in Bakuriani; Borjomi-Kharagauli National Park and its tourism trails; uniqueness of cultural heritage; varied landscape, flora, fauna, and folk craft traditions. However, a number of weaknesses prevent tourism from growing further, including lack of high standard hotels; weak tourism and municipal infrastructure; low level of tourism services and skills; inadequate condition of natural and cultural heritage sites and poor access; lack of high quality food services, souvenirs and craft shops in the regions; and poor marketing, promotion and destination management.

3. The Mtskheta-Mtianeti region has an extension of 6,785 km² and a population of 125,000. The region includes 4 large municipalities and its administrative center is Mtskheta. The main urban areas are Mtskheta and Dusheti. In 2013, the region was visited by 715,155 international tourists. There are 107 accommodation units, including 57 percent family houses, 39 percent hotels, and 4 percent guest houses. The total number of beds is 3,213. From a tourism standpoint, the region offers a variety of products, with potential to offer high-quality tourism, through preserving and enhancing wildlife, ecosystems, and cultural heritage. Harnessing the tourism potential of this region might help provide job opportunities and therefore support rural population, balancing migrations to lower plains.

4. Building on the design and lessons learned under the RDP and RDP II, the Project will have two components:

Component 1: Infrastructure Investment (US\$53.25 million)

Component 1.1: Urban Regeneration and Circuit Development (US\$46.00 million). This component will finance: urban regeneration of old towns and villages, including restoration of building facades and roofs, public spaces, museums, roads and water, and enhancement of cultural and natural heritage sites, including access and presentation.

Based on product development and marketing potential, infrastructure needs, and employment levels, the project will focus on sites along the circuit connecting the selected heritage, nature and ski sites. The proposed sites/subprojects discussed with the Government for financing under the Project will supplement what the Government has already invested in. These can be grouped into two categories:

- Urban regeneration in three hub cities: Dusheti, Stepantsminda and Abastumani. The Project will also build on previous urban regeneration investments made by the Government, and may finance small-scale incremental investments needs, in Mtskheta, Gudauri, Bakuriani, Borjomi and Akhaltsikhe. Additional investment needs in Akhalkalaki, Ninosminda and Khevsureti will be subject to a great scrutiny.
- Improved site management and construction of tourism facility and access road in the following cultural heritage sites: Saphara Monastery, Saro Darbazi houses, Zarzma Monastery, Vardzia caves, Vanis Qvabebi Caves, Khertvisi Fortress, Akhalkalaki Fortress, Tmogvi Fortress, Jvari monastery, Mtskheta archaeological sites, Ananuri Fortress, Gergeti Trinity Church, and Dariali monastery.

Component 1.2: Provision of Public Infrastructure to Attract Private Investments (US\$7.25 million). To encourage private sector investments in the region, this component will support a selected number of private sector entities in project areas that demonstrate interest and capacity to invest in tourism or agribusiness through investing in complementary public infrastructure that is necessary to ensure the viability of their investments e (e.g. public facilities within vicinity of the investments, road/sidewalk, water/sanitation, communications, etc.). The investment proposals would be subject to screening by a selection committee and there will be appropriate conditions tied to that.

Component 2: Institutional Development (US\$6.6 million).

The component will support institutional capacity and performance of the Georgia National Tourism Administration (GNTA), Agency for Culture Heritage Preservation of Georgia (NACHP), National Museum, Project Implementing Entity (Municipal Development Fund of Georgia, MDF), and other local and regional entities in order for them to carry out the following activities: setting up of a destination management office in each region; marketing and promotion; preparation of sustainable site management plans for all Project's cultural heritage sites; training for skilled workforce development and capacity building; cultural heritage advisory service to the NACHP to improve their capacity on protection and management of the World Heritage property Historical Monuments of Mtskheta to help with its removal from the List of World Heritage in Danger; business start-up/expansion advisory service to tourism SMEs;

performance monitoring & evaluation activities; preparation of feasibility studies of potential investment subprojects, design and construction supervision.

In order to stimulate rapidly increased travel to the regions and develop institutional capacity and performance of tourism related local and regional entities, establishment of Regional Destination Management Organizations (DMO) should be given priority. There is not a single institutional unit which exists that could work with the government, donors, the international travel trade, and help to define a product development strategy, implement it, and market the destination. In terms of the proposed project, the role and importance of DMO experience have been highly addressed.

Business development for tourism and agribusiness SMEs is a key alongside improved business access to markets and finance. The Ministry of Economy and Sustainable Development (MESD) intends to promote micro businesses in all regions of Georgia through its newly established Enterprise Foundation. In this regard, TA will be provided under this Component in order to support prospective SMEs with business startup/expansion advisory services so that they can easily access micro finance programs offered by MESD.

Description of Component 1.1:

5. **Proposed subprojects in Samtskhe-Javakheti.** The following table summarizes proposed subprojects in Samtskhe-Javakheti, followed by a detailed description of each subproject activities (subject to appraisal of each SAR during implementation).

Table 2.1: Summary of proposed subprojects in Samtskhe-Javakheti*

Attraction/Site Description	Timing	Estimated Budget US\$
Restoration of Borjomi Historical Museum	2015-2016	2,000,000
Tourism Infrastructure Development at Bakuriani	2015-2016	2,500,000
Tourism Infrastructure Development at Bakuriani Recreation Park	2015-2016	500,000
Restoration of access road to Sapara Monastery and arrangement of tourism infrastructure	2015-2016	3,000,000
Arrangement of tourist infrastructure for Tour of Tolerance in Akhaltsikhe	2015-2016	3,000,000
Arrangement of tourism infrastructure at Zarzma Monastery (touristic hub development)	2015-2016	3,000,000
Urban regeneration of Abastumani (including restoration of wooden houses).	2015-2016	6,000,000
Rehabilitation of Abastumani Observatory	2017-2018	2,000,000
Restoration of Saro Darbazi houses, rehabilitation of access road and tourism infrastructure.	2015-2016	2,000,000
Rehabilitation Khertvisi Complex and arrangement of	2015-2016	1,600,000

tourism infrastructure		
Rehabilitation and Safety Measures of an access road to Gogasheni village	2015-2016	1,000,000
Arrangement of tourism infrastructure at Vanis Qvabebi	2015-2016	500,000
Arrangement of tourism infrastructure at Akhalkalaki Fortress	2017-2020	700,000
Akhalkalaki Fortress Lightening	2017-2020	500,000
Rehabilitation of Tmogvi Fortress bridge and arrangement of tourism infrastructure	2015-2016	1,000,000
Arrangement of East Caucasus Trekking Route/mountain huts	2015-2016	750,000

* This is a tentative list. Some subprojects and their cost estimates may be modified during Project implementation

Description of proposed subprojects in Samtskhe-Javakheti:

6. **Borjomi Historic Museum:** The Borjomi History Museum is a building listed as heritage property and represents a remarkable architectural monument from the 19th century where the chancellery of the Romanov's (Tsar's family) was located. Today, this is a history museum with an extremely rich collection combining the history, ethnography, and nature of the region. The building is in a very poor condition and needs significant rehabilitation measures and construction improvement.

7. The NACHP is preparing a building rehabilitation design and will provide an estimated budget for complete reconstruction together with new exposition settings.

8. **Bakuriani Recreation Park Development:** Bakuriani is one of the most popular resorts. In winter it is mainly a ski resort and in summer it is recreation area. Several ski lifts, high number of hotels and guesthouses provide sufficient accommodation for all type of guests. The resort is mostly targeting domestic and regional markets.

9. In Bakuriani, the Project will help to develop a Recreation Park that can attract visitors in summer, thus address issues of seasonality. This will also create conditions to attract new businesses, especially small to medium-sized investments.

10. **Monastery Sapara:** The Sapara Monastery was established in the 10th century and developed between the 11th and 14th centuries as a residence of Duke Jakeli's family. This is an active monastery (ranging from 4 to 12 monks in residence) and seminary (up to 40 students). The surrounding territory offers recreational and outdoor opportunities.

The Project will mainly include following works:

- Rehabilitate 8 km of paved road from Akhaltsikhe;
- Construct small tourism-related amenities and facilities (including a parking facility and public toilets);

- Rehabilitate the water treatment plant, sewerage system and waste disposal;
- Establish new building for seminary or use upper floor of existing building for exposition;
- Design existing dwellings (storage rooms, old stable) for souvenir kiosks and food shops;
- Develop heritage zones around the fortress by introducing archaeology and terrace reconstruction, paths to the tower with scenic views; and
- Design a small scenic trail outside the monastery into the trail to the fortress.

11. **Tour of Tolerance in Akhaltsikhe:** The Project will support the design and implementation of an interpretive trail connecting main religious communities – three churches of town located in its old part and use Rabati Castle as a trail hub. This circuit would be a trail of religious tolerance including the Georgian Orthodox Church, the Armenian Gregorian Church, the Catholic Church, Muslim Mosque and Turkish Baths. Visitors should be guided and interpretation panels be part of the experience.

The Project will mainly include the following works:

- Rehabilitation of access roads; street lighting posts and urban landscape;
- Installation of signage and interpretation panels; and
- Implementation of emergency conservation measures and restoration works at the selected sites.

12. **Zarzma Monastery:** Zarzma Monastery is an active monastery located in the center of the village Zarzma, along the road from Samtskhe-Javakheti to Adjara region. The architecture of the monastery is a beautiful example of the Medieval Christian era. Monastery walls have extraordinary frescos and mural paintings dating to the 14th to 16th centuries. The Church is located in the decorated yard surrounded by monastery walls. The complex includes seminary.

The Project will mainly include following works:

- Construct a tourism facility outside the core of the Site;
- Organize exhibition and site interpretation area;
- Construct small tourism-related amenities and facilities (including parking facility, public toilet and information center);
- Rehabilitate the water, sewerage system and solid waste disposal;
- Develop a heritage zone around the monastery;
- Design a scenic trail on the land outside of the monastery;
- Identify village opportunities to provide basic services and local food, fruits and drinks.

13. **Urban Regeneration of Abastumani:** Abastumani Resort represents a unique collection of 19th century wooden buildings. The urban regeneration of Abastumani is based on cultural-heritage values and the recreation potential of the site and aims to improve the facilities and services.

The Project will mainly include the following works:

- Restore selected wooden houses;
- Improve resort infrastructure facilities (water supply and sewerage collection system, street lighting posts, and solid waste collection); and
- Rehabilitate streets, sidewalks and bridges.

14. **Abastumani Observatory:** The Observatory was established in 1932. It is located in a beautiful landscape and offers a nice park with scenic views. The complex includes several buildings (administration, telescopes, living apartment blocks, catering and conference building). The property is state-owned, by the Ministry of Education and Science, and is administrated by The University of Ilia.

The Project will mainly include following works:

- Improve urban landscape and visitor facilities (including parking and public toilets);
- Rehabilitate the main telescope and purchase modern telescopes for visitor attraction purposes;
- Design an exposition area;
- Rehabilitate catering facilities, park pathways, and picnic spots.

15. **Restoration of Saro Darbazi houses and creation of a specialized sub-circuit:** Village Saro is a unique location where the ancient history and landscape beauty of Samtskhe-Javakheti is presented. Saro is located at the edge of the Javakheti highland and overlooks the river Mtkvari valley. Saro is known for the megalithic fortress built there around the third millennia. Next to the ruins of the citadel is the early medieval church of St. Archangels dating to the 7th century. Near the church, there are seven traditional Meskhuri houses in the traditional Darbazi style with large wooden decorated roofs.

The Project will mainly include the following works:

- Rehabilitation of traditional dwellings of “Darbazi house complexes” at Saro heritage village, where the local community can present their local tangible and intangible heritage;
- Construction of small tourism-related amenities and facilities (including parking facility and public toilets);
- Improvement of the village road (or by-pass about 300m) leading from the main road; and
- Develop of the network of off-road trails.

16. **Khertvisi Fortress:** This historical fortress dates to the 9th century. One of the most impressive and well-preserved fortresses, the Khertvisi Fortress stands at the peak of a rock formation at the conjunction of the Paravani and Mtkvari rivers. The fortress represents the best example of medieval fortifications and is the gateway to the upper part of Mtkvari River – Vardzia valley.

17. The Project will help establish a tourism facility outside the core of the Site including to:

- Construct small tourism-related amenities and facilities (including a parking facility, public toilets, open marketplace) along the road incorporating the river recreation zone;
- Develop a waterfront area;
- Construct a visitor's center with adaptive architectural design; and
- Design info-interpretation area and ticket shop offering guide services.

18. **Tmogvi Citadel and bridge:** Tmogvi Citadel located on the opposite side of the river in the high rock cliff represents the ruins of an impressive fortress and churches. The citadel was the main stronghold of the valley during the middle ages. It was mostly destroyed in the 16th century after a great earthquake. Opposite of the canyon stand impressive ruins overlooking the valley. It is difficult to get there and only a few visitors take the risk. Installing a hanging pedestrian bridge over the canyon will make it a top destination for those who want to discover this new untapped destination. The Tmogvi Citadel will be a new “discovery” helping to promote development and tourism in the region.

The Project will mainly include following works:

- Design and construct a hanging pedestrian bridge as an access leading from the main road (near village) to the citadel. The bridge itself will be a highlight and will attract all visitors traveling to Vardzia.
- Establish safety measures and interpretation panels

19. **Vanis Qvabebi:** Vanis Qvabebi cave is a heritage site and monastery. It was established in the 9th century as a nun's convent (monastery) and developed mainly during the XI-XIII centuries. Currently, it is made up of a complex of caves including the ruins of a cathedral and a small church located high in the rocks. The monuments need intensive archaeological research and conservation but are already an attractive place to visit for adventure traveler groups.

The Project will mainly include following works:

- Implement emergency conservation measures and research to protect the site and insure safety of visitors;
- Rehabilitation of access road, organize limited parking lot, public toilets and interpretation panels; and
- Improve infrastructure (water supply system and electric supply grid).

20. **Road from Vardzia to Gogasheni:** The mountain road connecting the Vardzia site with the village Gogasheni (located above the valley 5 km from Vardzia) currently is in very poor condition.

21. The Project will help rehabilitate road surface and install safety measures. Visitors as well as villagers will have a short, safe and pleasant tour connecting the river Mtkvari canyon (from Khertvisi to Vardzia) to Javakheti highland and arriving in Akhalkalaki or at Bavra (border to the Armenia).

22. **Akhalkalaki Fortress:** The ruins of the medieval fortress are at the very entrance of the town (along the road from Khertvisi). The ruins belong to the ancient Akhalkalaki Fortress

dating back to the 8th century and include several preserved towers and buildings. The site should be converted into a visitor destination spot and a gateway to the town. Extensive archaeological research in combination with reconstruction works will insure safety of the site and visitors.

The Project will mainly include following works:

- Extensive archaeological research;
- Conservation works;
- Tourism infrastructure (parking, public toilet, exposition area, interpretation signs);
- Proper technical instruments for protection; and
- Fortress lightening

23. **Proposed subprojects in Mtskheta-Mtianeti.** The following table summarizes proposed subprojects in Mtskheta-Mtianeti, followed by a detailed description of each subproject activities (subject to appraisal of each SAR during implementation).

Table 2.2: Summary of proposed subprojects in Mtskheta-Mtianeti

Attraction/Site Description	Timing	Estimated Budget US\$
Arrangement of tourism infrastructure at Samtavro archaeological site	2015-2016	60,000
Improvement of access roads to the Bagineti archaeological site	2015-2016	40,000
Conservational works and development of tourist infrastructure at Dzalisi settlement	2015-2016	200,000
Conservational works and development of tourist infrastructure at Armaziskhevi archaeological site	2015-2016	200,000
Rehabilitation and enhancement of Mtskheta Recreational Park	2015-2016	1,000,000
Development of Tourism infrastructure at Jvari monastery	2015-2016	1,100,000
Rehabilitation of Mtskheta old cinema and establishment of an archeological museum	2015-2016	2,000,000
Dusheti: Rehabilitation of historical streets (infrastructure rehabilitation, street lighting posts, and restoration of houses' facades and roofs)	2017-2020	6,000,000
Dusheti: Restoration of city park and construction of an artisan marketplace	2015-2016	500,000
Dusheti: Restoration of Chilashivili palace (Arrangement of archeological exhibition, access road to palace and tourism infrastructure)	2015-2016	1,000, 000

Dusheti: Restoration of "Stancia" Ethnographic Museum	2015-2016	2,500, 000
Arrangement of tourism infrastructure at Ananuri castle (improvement of parking, tourism infrastructure and arrangement of small artisan marketplaces)	2015-2016	350,000
Development of Shatili heritage village (increase the capacity of local residents to improve hospitality services, which includes accommodations, meals, guided tours, camping. A network of mountain huts, equipment rentals, horseback riding and bike tours)	2015-2016	2,000,000
Arrangement of East Caucasus Trekking Route/mountain huts	2015-2016	750,000
Restoration of Stepantsminda Museum	2015-2016	1 700,000
Urban regeneration of the access road to Gergeti church, (including houses restoration, infrastructure rehabilitation and construction of cobble stone road)	2015-2016	2,500,000
Arrangement of parking and access road to Dariali monastery	2015-2016	250,000
Arrangement of tourism infrastructure at Gudauri	2015-2016	3,000,000

* This is a tentative list. Some subprojects and their cost estimates may be modified during Project implementation

Description of proposed subprojects in Mtskheta-Mtianeti:

24. **Mtskheta Archaeology Trail:** Mtskheta is an ancient town/settlement dating back to the 3rd century. The territory of the town includes several archaeological sites that are well connected and can be developed as an archaeological trail connecting 4 major sites – Baginati, Samtavro, Armaziskhevi and Dzalisi (distance from Mtskheta- 15 km).

The Project will mainly include following works:

- **Bagineti Archaeological Site:** Improve the access road to the site, maintaining the existing trail;
- **Samtavro Archaeological Site:** Design and build visitors' education and interpretation facility;
- **Armazi Archeological Site:** Support on-going conservation works to protect site (including existing construction) and develop visitors' infrastructure; and
- **Dzalisi Archaeological Site:** Improve conservation measures, rehabilitate existing infrastructure and develop visitor infrastructure.

25. **Rehabilitation of Mtskheta Recreation Park:** Mtskheta Recreation Park occupies the territory around the historic fortress of Bebristsikhe (historic site). In addition to the ancient

ruins, the fortress territory includes the remains of an open area amphitheater that could serve the town as a site for holding festivals, events and outdoor performances.

The Project will mainly include following works:

- Develop a proper concept of Mtskheta Recreation Park;
- Elaborate infrastructure design and zoning documentation;
- Define infrastructure investment needs of the park facilities; and
- Establish park management system and business approach for concession/rent agreement, recreation and conservation activities and land-use plan.

26. **Jvari Church:** Jvari Church is part of the Mtskheta World Heritage Site. The church dates back to the 6th century and represents one of the best examples of early medieval architecture. The church is located on the top of the mountain opposite of the ancient town of Mtskheta.

The Project will mainly include following works:

- Establish a tourism facility outside the core of the site;
- Prepare a detailed design and construction project of visitor infrastructure;
- Extend car and bus parking;
- Construct a visitors' center with public toilets; and
- Arrange exposition area and a souvenirs sales point, pathways and interpretation signage.

27. **Mtskheta Archaeological Museum (New):** Mtskheta needs a new archaeological museum, as the exhibits are currently in storage and visitors to the city do not have many other activities to prolong their stay and spending. A new museum building design is under preparation by the NACHP and will account for all modern standards and necessary requirements. It will serve as a research, education and visitor hub to the Mtskheta historical heritage. The design and construction process will be subject to municipal agreement.

28. **Rehabilitation of Dusheti:** Dusheti is the administrative center of the municipality. It is located 54km to the northeast of Tbilisi. This town has appeared in Georgian records since 1215 and has a current population of about 33,000 inhabitants. Dusheti historical park represents a network of streets and 14th century buildings concentrated around the central park area.

The Project will mainly include following works:

- Repair historical streets, including infrastructure rehabilitation and restoration of old houses facades and roofs;
- Improve utility and road infrastructure;
- Rehabilitate street lighting posts; and
- Construct a centrally-located market place to allow local residents and SMEs to sell their local produce and souvenirs.

29. The Project will also finance restoration of **Chilashvili Palace (Amilakhvari museum)**, which is the most significant historical building of Dusheti, serving as the center for the Dusheti Archaeological expedition. This building presents listed historic sites.

30. The Project will also help to restore the existing **Ethnographic Museum (Stancia)**, converting it into an attractive place for the visitors, telling history of travelling along the “Georgian Military Road”.

31. **Ananuri Fortress:** The Ananuri Fortress is an architectural monument dating from the 14th-16th centuries. It contains a well-preserved medieval fortress and complex of churches and towers. It has a long and fascinating history of many battles. The complex is located near the main road on top of the Zhinvali Lake (dam) and offers a lovely view of the lake. This is a great place to stop during group tours that drive along the military road from Tbilisi to Kazbegi.

32. The Project will help establish a tourism facility outside the core of the Site which will:

- Organize parking;
- Design visitor facilities;
- Improve sanitation with public toilets;
- Design and construct marketplace and workshops for local goods; and
- Conduct safety measures to protect monument and visitors.

33. **Shatili:** Shatili is a village located in the region of “Pirikita Khevsureti”. It was built as a fortified village to protect Khevsureti and Georgia from northern invaders. The Shatili towers and village have been restored, and today it is a spectacular architecture complex with an integrated village and accommodation facilities for visitors. Shatili is a main settlement in the “Pirikita Khevsureti” community, with a school and administrative unit. This is the beginning of The East Caucasus Trail connecting Khevsureti and Tusheti.

34. The main conservation-rehabilitation works have already taken place, however several towers need construction protection measures. Investment should be accelerated to increase the capacity of local residents to provide better hospitality services. This includes improvement of village facilities and infrastructure (water, electricity, and sewage), providing places for meals, guided tours, setting up a network of small mountain huts, equipment and establishing of small rentals for horseback riding and bike tours.

35. **Great East Caucasus Trail:** The East Caucasus Trail connects three remote mountain provinces – Khevi, Khevsureti and Tusheti including territories of the Kazbegi (Khevi), Dusheti (Khevsureti) and Akhmeta (Tusheti) municipalities. For safe operation of the trekking routes, limited infrastructure is needed included trail marks, bridges, shelters. Today, this is a very popular mountain trekking route where tourists can visit a most remarkable landscape and traditional villages. The trail is divided into 3 main parts: Juta – Roshka, Shatili – Mutso - Atsunta, Atsunta – Girevi –Parsma – Dartlo.

The Project will mainly include the following works:

- Design and construct shelters, trail marks and visitor access facilities;
- Facilitate capacity building of local residents to provide hospitality services (camp sites and family run huts) such as local guiding, operation of a network of mountain huts, equipment rentals, horseback riding and bike tours.

36. **Stephantsminda Museum:** The museum complex includes 2 historic buildings (house of Kazbegi family) where exposition and artifacts storage is located, half-finished support facility and the family church which was built in the 18th century. The area is large and perfectly situated with garden and a panoramic view of the summit. The museum building needs complete reconstruction/renovation, and new exposition and visitor facilities (sales points, public toilets and information center) can be added. The garden can also be used for multiple attractions.

37. The museum is being administrated by NACHP (site-museum). The NACHP contracted a company to design museum renovation works. Investment costs include reconstruction of houses, territory and the exposition area. It has been recommended to combine conservation works with the works around the museum territory in the historic ruins of buildings.

38. **Gergeti Trinity (Sameba) Church:** Gergeti Trinity “Sameba” Church is a national heritage highlight and key tourist destination site. The church is located at the base of Mt. Mkinvartsveri (Kazbegi) at an altitude of 2,170m. Gergeti Trinity was built in the 14th to 16th centuries. It is an architectural monument with significant spiritual value and attracts thousands of pilgrims and visitors annually. Next to the church is an active monastery.

The Project will mainly include the following works:

- Rehabilitate the houses and access road leading to the village of Gergeti;
- Construct small tourism-related amenities and facilities (including a parking facility, public toilet and camp area);
- Rehabilitate 7 km cobble stone narrow road (reinforced); and
- Arrangement of road lightening and restoration of house facades and roads.

39. **Dariali Monastery:** The Dariali monastery is located in the Dariali gorge, which is a historic gateway through Caucasus ridge, connecting the North (Russia) and the South Caucasus. The construction of Dariali monastery started in 2005 and ended in 2011 with the blessing of Catholicos Patriarch Illia II. The Church has significant spiritual value and attracts thousands of pilgrims and visitors crossing the Russian-Georgian boarder.

40. In Dariali, the Project will help to establish a comfortable parking area and visitor access facilities between the main road and monastery.

41. **Gudauri Resort:** Gudauri ski resort is international ski-snowboard resort developed in 1987 as a high mountain sports resort located at an altitude of 2,000-2,200m on the south slope of central-east Caucasus ridge. Gudauri is one of the most popular resorts. In winter it is mainly ski resort and in summer – it is recreation area. Several ski lifts, high number of hotels and

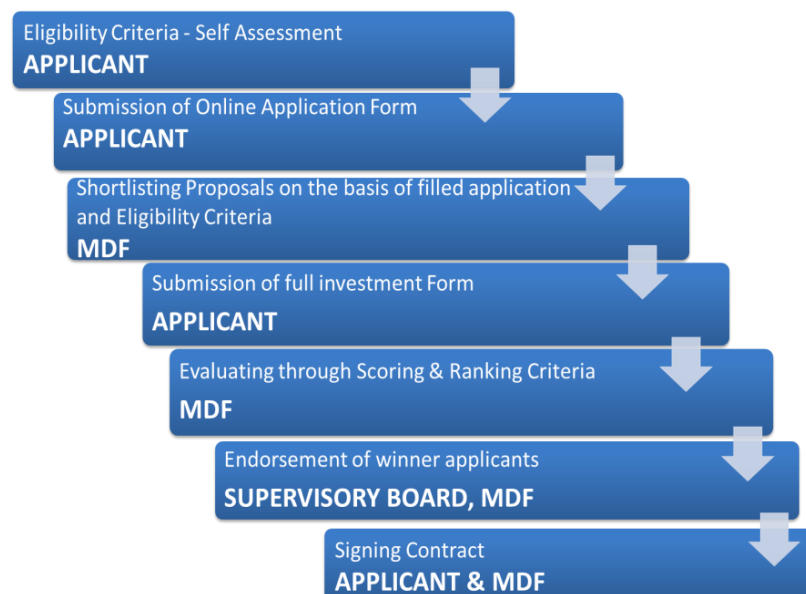
guesthouses provide sufficient accommodation for all type of guests. Resort is mostly targeting domestic and regional markets.

42. In Gudauri, Project may help (subject to EIA) to develop a recreational park. This will create condition to start new businesses based on land concession and permits to operate small to medium-sized investment projects. The Project will also help to arrange tourism infrastructure, including access road, pathway, and a park with recreation and active sports facilities for the summer season.

Description of Component 1.2:

Provision of Public Infrastructure to Attract Private Investments (US\$7.25 million). To encourage private sector investments in the region, this component will support a selected number of private sector entities in Project areas that demonstrate interest and capacity to invest in tourism or agribusiness through investing in complementary public infrastructure that is necessary to ensure the viability of their investments (e.g., public facilities within vicinity of the investments, road/sidewalk, water/sanitation, communications, etc.). The investment proposals would be subject to screening by a selection committee and there will be appropriate conditions tied to that as described below.

Application and Selection Process



Phase One: Application & Screening

Eligibility Criteria. Before registering business proposal via online application system, interested private investors are supposed to go through the following eligibility criteria and make a self- assessment as whether they meet the initial eligibility criteria. Failing to meet any of these criteria will result in disqualification of the proposal.

Online Application Form. Once the interested investors pass the above eligibility criteria, they will need to fill in the on line application form available at: <http://mdf-ppi.biz>.

Phase Two: Evaluation & Selection

Full Investment proposal Form. On the basis of the filled application form, the MDF will contact eligible investors to deliver full investment proposal that includes:

- Preliminary feasibility study describing the proposed investment, economic and financial viability, environment assessment, type and estimated number of jobs to be created.
- Detailed description and cost estimations of required public infrastructure to be provided by the Government
- Profit/loss statements for the last 2 years
- Proof of ownership of land/property
- Proof of going concern (proof that entity is not under liquidation/property is not sequestered); Evidence to show financial health of the investor/company
- ISO/HACCP Certificates, if relevant

Evaluation System (including scoring and ranking criteria). After careful study of received data, the MDF will undertake the last phase of evaluation and selection process. A system of scoring & ranking criteria shown in the table below will be used:

Full investment proposals will be scored according to the scoring & ranking criteria below:

Criteria	1 score	2 scores	3 scores	4 scores	5 scores
Average annual profit based on last 2 years indicators (in USD)	<50,000	50,000 – 100,000	100,001 – 500,000	500,001 – 1,000,000	>1,000,000
Ration of self-financing investments and those of requested from Government	4- 4,5	4,5- 5	5 – 5,5	5,5 – 6	>6
Ratio of annual income and requested investment	0.5 – 1.0	1.0 – 2.5	2.5 – 3	3- 4,5	>4,5
Cost for each workplace (in USD)	>50,000	30,001 - 50,000	15,001 - 30,000	5,001 - 15,000	<5,000

Implementation of proposals will be determined in respect with the overall score that each proposal accumulates (priority will be given to the proposals with the highest scores) and the approval of the MDF Supervisory Board. Maximum available score is 20 point. Proposals with less than 10 points will be discredited.

Contract. Contract will be signed between selected investors and the MDF, defining the rights and obligations of each party. After the signature of the abovementioned contract, MDF will prepare detailed design of the public infrastructure works and announce a tender.

Dispute resolution. Either party having any claims to the other party relating to non-fulfillment or improper fulfillment of any obligations under this Agreement is authorized to apply to it in writing and state a reasonable period for remedy of defaults. In case of failure to reach agreement by the parties the dispute shall be resolved through court action.

Component 2: Institutional Development (US\$6.60 million)

The component will support institutional capacity and performance of the Georgia National Tourism Administration (GNTA), National Agency for Culture Heritage Preservation of Georgia (NACHP), National Museum, Project Implementing Entity (Municipal Development Fund of Georgia, MDF), and other local and regional entities in order for them to carry out the following activities: setting up of destination management office in each region; marketing and promotion; preparation of sustainable site management plans for all Project's cultural heritage sites; training for skilled workforce development and capacity building; cultural heritage advisory service to the NACHP to improve their capacity on protection and management of the World Heritage property Historical Monuments of Mtskheta to help with its removal from the List of World Heritage in Danger; business start-up/expansion advisory service to tourism SMEs; performance monitoring & evaluation activities; preparation of feasibility studies of potential investment subprojects, design and construction supervision.

The specific activities include the following:

Activity 2.1. Setting up of destination management office in each region

This will help create the institutional framework to ensure proper destination management, public-private-partnership and sustainability of investments made in each region. The assignment will include the following activities:

- Provide institutional and legal advice to define the best organization for the proposed establishment of destination management office in each of the two regions;
- Design and implement a Destination Management Network linking GNTA to regional and local level management and promotional activities;
- Help establish the destination management office in each region (attached to the tourism information center), define institutional and work arrangements, draft staff TORs including scope of work and minimum qualifications, assist GNTA in interviewing and appointing qualified staff, and offer on-the-job training to appointed staff;
- Suggest and carry out promotional activities; and
- Provide training, equipment and software so the new offices can pursue their mandate effectively.

Activity 2.2. Marketing and Promotion in each region

This activity will promote both regions as a new sustainable tourism destination and help create a mechanism for community participation, stakeholders' consultation and involvement of local government in developing tourism in the region. It will create an online marketing and promotion site that will increase awareness of the assets among local and international target

markets. It will also design a sustainable tourism map that can be sold at tourism visitor centers. In addition, a set of promotional activities will be supported to encourage cooperation among stakeholders as a precursor to future destination management activities. Promotional activities will:

- Conduct consultation workshops with local communities around tourism and heritage sites;
- Launch an information outreach campaign to engage local communities in tourism development;
- Provide information about sites, attractions, routes and visitor services, including lodgings, events, trails, routes and other information through the region's website;
- Produce maps and guidebooks;
- Serve as a platform for this pilot Project, but also as a general platform upon which tourism could eventually expand beyond the region;
- Tell the story of the regions (its health and ski features, cultural heritage, natural setting, live heritage, food and beverage, etc.) to attract visitors;
- Serve as an all-inclusive point of entry for information about tourism in the region;
- Incorporate media content from the regions, including photography and videos that feature the heritage assets of each region;
- Link this site into other social media channels;
- Design and launch a tourism network linking GNTA to regional and local level management and promotional activities;
- Develop an online and social media marketing campaign; and
- Conduct targeted marketing and outreach.

Activity 2.3. Preparation of sustainable site management plans for Projects' cultural heritage sites

This activity supports the preparation of visitor management plans for Ananuri Church, Jvari Monastery and surrounding archaeological sites, Khertvisi Fortress, Saro Darbazi Houses and Zarzma Monastery. It will provide on-the-job training to the ACHP for the following:

- Defining and applying methods to assess the sites' carrying capacity, based on local conditions; also, designing guidelines for each site and a tool-kit for operating the visitor programs;
- Defining and illustrating visitor trails, infrastructure, locations of service units, access and exists, and the nature of each site; also, describing visitor flows and projections, needed infrastructure capacity, required staff and qualifications, O&M guidelines, translation aids and, techniques, monitoring, research and conservation measures; and
- Mapping sites.

Activity 2.4. Training for skilled workforce development and capacity building

This activity will provide demand-driven capacity-building activities to three groups of beneficiaries, producing an integrated workforce development program around the skills needed in tourism-related businesses in the Samtskhe Javakheti and Mtskheta Mtianeti regions. The

groups are hotel staff, tour operators and guides, and officials at the GNTA, NACHP, National Museum and MDF. This will help promote and strengthen tourism-related businesses/activities. Efforts will focus on having local communities (equally involving men and women), contribute to local economic development and benefit from it.

Such activities will (a) produce a better understanding of the workforce gaps, including skills, numbers, and capacities, to educate by gender; (b) increase capacity in Samtskhe Javakheti, Mtskheta Mtianeti and Tbilisi facilities to provide world-class academic training in hospitality and tour management, marketing, customer service, cultural heritage interpretation, at various skill and managerial-levels; (c) increase knowledge about the region among restaurateurs and their employees, tour guides, and other key staff; and (d) encourage local communities to start new small and medium-size enterprises.

Activity 2.5. Cultural heritage advisory service to the NACHP

The Project will help to: (a) Oversee the preparation process of Mtskheta World Heritage Site master plan, in compliance with the World Heritage Committee's decisions; (b) Establish advisory service on the World Heritage Sites Tentative List for Georgia and provide assistance to CHPA in preparing nomination files for inscription; (c) Provide on the job capacity building to CHPA and municipalities on cultural heritage preservation and site management plans; and (d) Promote cultural heritage as unique tourism products in both the national tourism strategy and the global Silk Road initiative. This activity will be implemented by the UNESCO's World Heritage Center on a cost recovery basis under a direct contract arrangement.

Activity 2.6. Business start-up/expansion advisory service to tourism SMEs

This Support will provide MSMEs to enhance their business development capacity, and build credit with local financial institutions. This will include reach out to poor and vulnerable communities. Project will cooperate with the Georgia Entrepreneurship Development Agency's rural development project that provides matching grants and skills to rural population to start business activities. Technical assistance will be provided to up-grade the project and increase its scope and reach-out to the beneficiaries, ensuring access of vulnerable groups to the project. Project will consider offering additional trainings for beneficiaries and advisory support to the state program in order to increase its scope and accessibility to the vulnerable households in rural Georgia.

The activity will directly benefit poor by providing them new opportunities for increased income in agriculture, tourism, handicrafts and any other activity enabling to generate income from the increased flow of tourists in the affected cultural heritage sites. This will include consultations, meetings, and workshops that will link people interested in entrepreneurship with the Enterprise Development Agency Project or other local business associations and financial institutions. Depending on beneficiary capacity, guidance will be provided to the entrepreneurs on preparing loan applications, negotiating the terms of the loans, and better understanding the appraisal requirements of financial institutions. A detailed design and operational arrangement with the local financial institutions for achieving long-term bankable activities will be further developed.

Activity 2.7. Performance monitoring and evaluation activities

This activity will improve the understanding of tourism issues in each region at GNTA and introduce ways to monitor the effectiveness of efforts over the next four years. The activity will also monitor the Project's results indicators, annually. By measuring tourist arrivals/numbers, spending, opinions, occupancy rates, increases in tourism-related investments, and gender aspects, the Government will be better able to make adjustments when needed, and allocate resources for infrastructure, marketing, human resources, and policy reforms. At present, authorities have difficulty assessing the tourism activities in the region, as staff lacks the expertise to conduct surveys, the software available cannot accurately measure the accommodation statistics, and data is not reliable.

This will involve (a) designing and conducting seasonal surveys to determine the number and origin of visitors, spending activities, and satisfaction levels, and (b) gathering baseline data from both formal and informal tourism enterprises about the length of tourist stays, as well as employment rates (by gender), tax revenues, estimates of gross revenues, expenditures, rates of profitability, and other variables through surveys, interviews and questionnaires. The Government would learn the amount that tourism enterprises spend on local goods and services and thus be able to measure the indirect/direct impacts of the sector on the regional and national economy. Also, the survey will identify the challenges that businesses face when attempting to expand and become more profitable, particularly as they affect male and female entrepreneurs.

- Prepare a baseline database to determine the number of visitor arrivals, occupancy rates, average daily spending, and satisfaction levels;
- Compile a complete list of all tourism-related enterprises, volume of tourism-related investments and points of sale that are officially registered and operating;
- Provide an accurate estimate of the number and size of informal businesses/individuals in the tourism sector;
- Gather information such as employment rates, tax revenues and estimates of gross revenues and expenditures to provide an overview of the direct/indirect economic impact of the tourism sector;
- Identify and assess barriers preventing informal entrepreneurs from joining the formal sector; and
- Collect and monitor relevant gender data to better understand the roles of males and females in tourism, the potential impact of the Project by gender, and the constraints these entrepreneurs face in the region.

In addition, as part of the Project's Results Assessment, a baseline household survey is currently being conducted. The survey covers the main beneficiary settlements¹³ in the Samtskhe-Javakheti and Mtskheta-Mtianeti regions and is very similar in nature to the one implemented in the Kakheti region under RDP and in the Imereti region under RDPII. The baseline survey is being conducted by the Youth Voice Group Georgia with support from the Bank team and is

¹³ Abastumani, Akhaltshikhe, Borjomi, Kazbegi, Mtskheta and Dusheti.

expected to be finalized in spring 2015. A follow up survey will be conducted annually upon Project's completion.

Activity 2.8. Design and construction supervision.

This will provide MDF with funds for its operating cost, outreach and public awareness, preparation of feasibility studies and design, and construction supervision support by an international consulting firm. It will ensure quality implementation, sustainable management of the sites, and monitoring the implementation of the ESMF, ESMPs, RPF and RAPs.

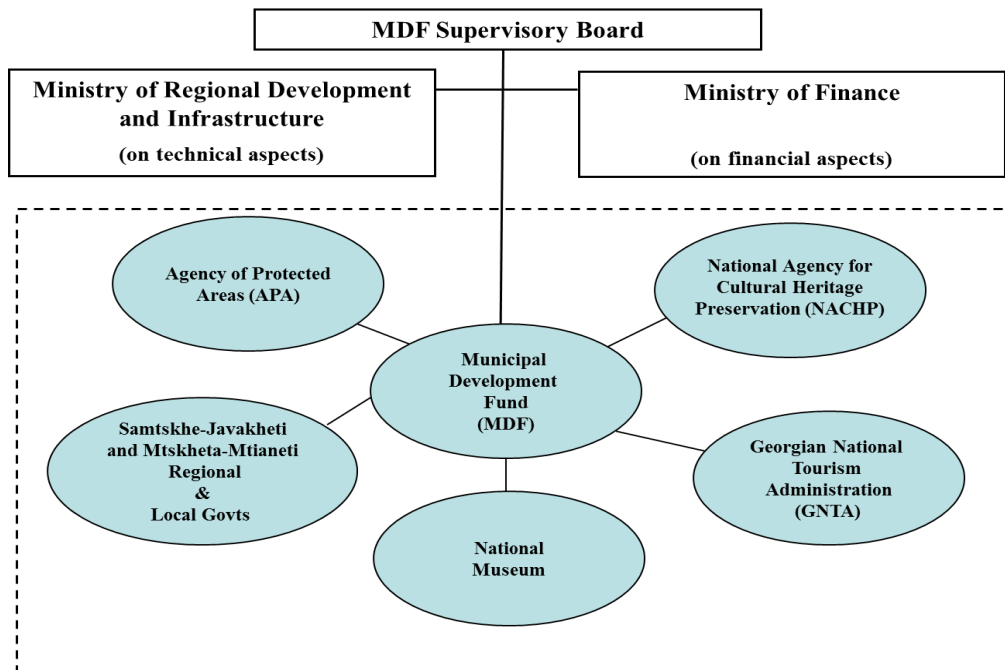
Annex 3: Implementation Arrangements

GEORGIA: Third Regional Development Project

Project administration mechanisms

1. The Municipal Development Fund (MDF) will be responsible for Project implementation. The MDF has grown to become a solid non-bank financial intermediary (FI) that plays a very substantial role in funding and implementing regional and municipal infrastructure development. MDF has been successfully implementing a series of IDA and IBRD-financed regional and municipal development projects since 1998. Its good performance is well appreciated and reflected by the growing interest both of the Government and donors in using the MDF as the primary organization for channeling grants and credits to the Georgian regions and LSGs.
2. MDF's governance structure. For the purpose of ensuring proper coordination and execution of the Project, the Government shall maintain the Supervisory Board of the MDF, chaired by the Prime Minister of Georgia, and comprising all ministers involved. The Board's functions include, inter alia: (a) overall supervision of Project implementation; (b) inter-agency coordination to achieve the Project objectives; and (c) review and approval of the annual work program budgets and reports for operating the MDF.
3. An informal working group has been established to assist MDF in preparing the Project. Each of the agencies in the working group and the LSGs in the two regions have been actively involved with MDF in preparing their respective investment subproject and will be involved in various aspects of bid evaluation and supervision.

Implementation and Institutional Arrangements



Financial Management, Disbursements and Procurement

Financial Management

4. For reasons described above, the Government prefers to use MDF for regional projects rather than using the respective ministries. Consequently, it was agreed that MDF will perform the fiduciary functions including FM, disbursement and procurement for all activities under the proposed project, including component 1.2. The MDF will be responsible for the flow of funds, accounting, planning and budgeting, internal controls, financial reporting, and auditing. MDF's FM arrangements are reviewed periodically as part of the ongoing projects' implementation support missions and found to be satisfactory. The latest FM assessment for the Project confirmed it is satisfactory and acceptable for Project implementation. The MDF will enforce proper control procedures to ensure that IFRs are submitted to the Bank on time, and their quality control procedures are consistently maintained; the Bank will monitor the IFRs' quality and timeliness. The overall FM risk for the Project was assessed as Moderate, with inherent and control risks before and after mitigation measures also rated Moderate.
5. The MDF has acceptable planning and budgeting capacity. The financial manager and the head of procurement and department managers are responsible for preparing budgets, which are approved by MDF's Supervisory Board. The procurement and monthly plans of works' execution are developed based on data from the contractors given to the procurement and financial management. The draft budget, in the form of budget requisitions (as established by the Ministry of Finance), is prepared in Excel spreadsheets, while the budget endorsed by MDF's Supervisory Board and approved by the Ministry of Finance is entered into the budget module of ORIS Manager Software.
6. The current FM staffing capacity in place at MDF is overall adequate for the projects' implementation. The FM staff consists of a financial manager with many years of experience in implementing Bank-financed projects, a chief accountant, 4 accountants, 2 budget specialists and 2 loan officers. The MDF's financial manager has strong experience and knowledge in implementation of the Bank-financed projects. The financial manager is responsible for oversight of statutory and other reporting under the projects, as well as for FM function with overall responsibilities for budgeting, accounting and financial reporting. The chief accountant is particularly responsible for general accounting of the MDF and tax related issues, whereas the accountants - for accounting of RMIDP (including AF), RDP, RDPIL, SIDA trust fund grant and other donor (ADB, USAID, EIB, KfW) financed projects. All the accountants are also responsible for their respective project's Treasury operations. The loan officers are responsible for monitoring on-going projects and other donor financed projects and is accountable to the financial manager.
7. The MDF's accounting books and records are maintained on an accrual basis. Project financial statements, including semi-annual IFRs, are presented in US dollars (except for the EC TF Grant, which is in Euros). It was agreed that the implementing entity will continue the accrual basis for reporting purposes under the proposed Project (as adopted under the current projects implemented by the MDF). MDF applies the IFRS for accounting and financial reporting for the past several years and will continue the practice in the framework of the proposed project. The entity's financial statements are used for the various types of financial analyses as required by the

MDF's management, also by donors. The chart of accounts being used is adequate and could be adapted for the purposes of the Project.

8. The MDF has overall adequate internal control system in place for the projects implementation. In the long run there is a strong control environment in place at MDF. The recent changes in the MDF management resulted in a strong ownership from and commitment of the management to transform the MDF into a sustainable and competitive organization. The MDF's new organizational structure includes internal audit function directly reporting to the director. Meanwhile in short run, there is a need to enhance the current system in place; particularly, the controls over the quality of IFR preparation need to be improved.

9. Project management IFRs will be used to monitor/supervise the Project and their formats will be included in the MDF FMM. The IFR formats were confirmed during assessment and relate to: (a) Project sources and use of funds, (b) use of funds by Project activity, (c) designated account statements, (d) balance sheets, and (e) SOE withdrawal schedules. The MDF will produce a full set of IFRs semi-annually through the life of the Project. These financial reports will be submitted to Bank within 45 days of the end of each calendar semester. The first semester IFRs will be submitted after the end of the first full semester following the initial disbursement.

10. The audit of the Project and MDF financial statements will be conducted (a) by independent private auditors through TOR acceptable to the Bank, and (b) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC).

11. The MDF's auditing arrangements and findings are satisfactory to the Bank. Thus it was agreed that similar audit arrangements will be adopted for the proposed project. Particularly, the sample audit TOR agreed with the Bank is attached to the FMM, and the annual audited project and entity financial statements will be provided to the Bank within six months of the end of each fiscal year, and for the Project also at the close of the Project. If the period from the date of credit effectiveness to the end of the Borrower's fiscal year is no more than six months, the first audit report may cover financial statements for the period from effectiveness to the end of the second fiscal year. The Borrower has agreed to submit the audit reports for the Project within one month of their receipt from the auditors, by posting the reports on the MDF website or by publishing them in a national newspaper. Following the Bank's formal receipt of these reports, it will make them publicly available according to World Bank Policy on Access to Information. The contract for the audit awarded during the first year of Project implementation may be extended from year-to-year with the same auditor, subject to satisfactory performance. The cost of the audit will be financed from the loan proceeds.

Disbursements

12. To facilitate timely disbursements for eligible expenditures, the MDF will establish a Designated Account (DA) in US dollars and maintain it until project completion. The DA will be opened as a Treasury's foreign currency account at the NBG, and on terms and conditions acceptable to the Bank. The DA will be drawn upon to meet payments to contractors, suppliers and consultants under the project. The Designated Account Statement will be audited in

conjunction with the annual audit of the Project. Detailed instructions on withdrawal of the loan proceeds are provided in the Disbursement Letter.

13. Funds will be disbursed similar to the ongoing projects implemented by the MDF. Procurement and payments will be done by MDF. Transaction-based disbursements will continue to be used. The Statement of Expenditure thresholds are as follows: Payments against contracts valued at less than: US\$4,000,000 equivalent for works, US\$300,000 equivalent for goods, US\$200,000 equivalent for consulting firms, and US\$50,000 equivalent for individual consultants.

14. Project funds will flow from (a) the Bank, either through the DA, to be maintained in the Treasury, which will be replenished on the basis of SOEs or full documentation, or on the basis of direct payment withdrawal applications and/or special commitments, received from the MDF; and (b) the Government, via the Treasury, through normal budget allocation procedures initiated by the implementing agency, according to standard Georgian Treasury and Budget execution regulations. The funds will be used to finance eligible expenditures under the Project. Withdrawal applications documenting funds drawn from the DA will be sent to the Bank at least every three months.

15. The disbursement categories and percentage of loan financing are provided in table below. Under retroactive financing, payments made prior to the date of signing the loan agreement, except that withdrawals up to an aggregate amount not to exceed US\$12 million equivalent, may be made for payments made prior to the date of signing the loan agreement, but on or after April 11, 2015, for Eligible Expenditures under Categories (1).

Category	Amount of the Loan Allocated (expressed in US\$)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, Consultants' services and Training	59,050,000	80%
(2) Operating cost	800,000	80%
(3) Front-end fee	150,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	60,000,000	

Procurement

Country Context

16. One of the most important completed procurement steps during 2014 was the introduction and implementation of an electronic procurement system of Georgia for all government contracts. The Bank has assessed Georgian E-Government Procurement System and has analyzed essential modifications to meet the Bank's/MDBs requirements. The State Procurement Agency (SPA) has already finalized such modifications and respective workshop for private sector and borrowers representatives was held in June 2014. Proposed –E-Government Procurement (Ge-eGP) system will be used under the Project to procure civil works with an estimated contract price of US\$10 Million equivalent and for goods with estimated contract price of US\$1 million equivalent following NCB procurement method. This will also support building capacity of procurement staff engaged in projects supported by the Bank and other donors as well as those in public procurement. The MDF has already launched 10 tenders using Government E-Procurement System under RMIDP and will continue such practice under RDPIII. Any contract below estimated contract price and method indicated above will be procured using Georgian E-Government Procurement System (Ge-eGP).

17. The MDF, through its Procurement Unit, will be responsible for all procurement functions under the project. The Bank team concluded that the core staff of the Procurement Unit has adequate experience to conduct procurement activities. The staff and procurement consultants of Procurement Unit are familiar with Bank procurement guidelines and procedures as they have been involved in similar - completed RMIDP and its AF and ongoing RDP, RDPII and RMIDPII and gained substantial knowledge and experience during, the implementation of the above projects.

Procurement Capacity Assessment

18. Procurement capacity assessment has reviewed the capacity of the Procurement Unit of MDF in carrying out the procurement functions. It is mainly based on the discussions held in Tbilisi, Georgia in December 2014 with Head of Procurement Unit and representatives of MDF. The PRAMS will be completed before completion of the mission for appraisal stage.

19. Procurement risk rating following the mitigations measures as of February 2015 is “moderate”.

20. Procurement Risks and Respective mitigations measures are as follows:

(i) Risk - Even though MDF procurement division is composed of staff with extensive procurement knowledge and experience, due to workload on other ongoing projects, there is a risk of delay. Maintaining quality in procurement activities will become more challenging. Mitigation measure: A Procurement Specialist with solid procurement experience will be dedicated to the Project. In addition, a Procurement Consultant with solid procurement experience in different sectors, currently responsible for RMIDPII, will provide hands on support

as needed. A Procurement Assistant who has been actively involved in procurement under RMIDPII and USAID and possesses adequate knowledge of procurement will also support. The Bank has cleared contracts of the Procurement Consultant and Assistant for a full time until June 2015. The Bank might consider splitting consultancy costs after such time between RMIDPII and this Project.

(ii) **Risk** - There is risk of poor contract management considering experience under the past projects. Contract management needs to be strengthened to avoid delays in contract implementation phases and oversight of important contractual milestones. **Mitigation Measure:** Three procurement specialist of procurement division will assume responsibility of contract management under the Project. It is expected that staff with good procurement and project management experience will contribute to effective contract management.

(iii) **Risk** - There is a risk that the same bidder might be successful for substantial amount of the contracts during same time period. **Mitigation Measure** - MDF will continue using sample Bidding Document as modified for RDP and RDPII and RMIDPII for procurement under the Project, where the cumulative bid capacity to handle more than one contract will be assessed.

(iv) **Risk** - There is a risk of perceived collusion among bidders. Mitigation Measure - MDF will closely analyze the unit rates of all the bids submitted in order to detect any unusual similarities. Each BER shall be supplemented by unit price comparison of all bidders vs unit rates in the cost estimate.

(v) **Risk** - There is a risk of frequent changes of scope and revisions of the design **Mitigation Measure** - MDF shall ensure preparation of high quality designs and thorough review before inviting the bids. MDF shall also ensure review of the design by Supervision Engineer (Project Manager).

21. Procurement will be carried out according to the World Bank's — Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants, January 2011 – Revised July 2014 and the Guidelines: Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank Borrowers, January 2011 – Revised July 2014; and the provisions stipulated in the Loan Agreement.

22. The Bank's anti-corruption norms ("Guidelines on Preventing and Combating Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants") of October 15, 2006 revised in January 2011 will be applied.

23. Procurement Plan - MDF has submitted draft Procurement Plan (PP) dated January 30, 2015, which was commented on by the Bank. MDF will resubmit revised PP shortly. As per draft PP, the project will finance around 30 civil work contracts including restoration of palaces, historical streets, arrangement of trekking routes, rehabilitation of roads, arrangement of recreational parks, etc. All packages will be tendered out with NCB procurement method under modified Georgian E-Government Procurement System (Ge-eGP) Project will also finance consulting service for technical supervision, preparation of feasibility studies, performance

evaluation and monitoring as well as cultural heritage technical advisory service by UNESCO estimated at US\$ 250,000.

24. The PP will be further discussed between the MDF and the Bank team and finalized before negotiations. The PP will be updated in agreement with the Project team annually or as required to reflect the actual Project implementation needs.

25. Prior review thresholds shall be agreed in the procurement plan and in subsequent updates based on the capacity and identified risks. GPN (General Procurement Notice) was published on January 26, 2015.

26. Procurement of goods and non-consulting services. Goods and non-consulting services estimated to cost US\$1M equivalent and more will be procured through ICB. Goods and non-consulting services estimated to cost less than US\$1M may be procured through NCB, and less than US\$100,000 through shopping.

27. Procurement of works: Works contracts estimated to cost more than US\$10 million equivalent will be procured through ICB. Those estimated to cost US\$10 million or less may be procured through NCB, and less than US\$200,000 through shopping. (NCB and SH using Georgian E-Government Procurement System)

28. Selection of consultants. Consulting services will be procured according to the Bank's Consultant Guidelines mentioned above the Bank's Standard RFP (revised in October 2011) will be used to select all consulting firms. Consultant selection methods will include Quality and Cost-Based Selections (QCBS), Fixed-Budget Selection (FBS), Consultant Qualifications (CQS), Least-Cost Selection (LCS), Single-Source Selection (SSS), Selection of UN Agencies, and Individual Consultants (IC). The latter will be selected according to Section V of the Consultant Guidelines. This method will require comparing at least three qualified and available candidates.

29. Short lists composed entirely of national consultants. Short lists of consultants for services estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants, according to the provisions of paragraph 2.7 of the Consultant Guidelines.

30. Prior Review Threshold For goods and works and services other than consulting services:

Exp Category	Method	Procurement Method Thresholds	Prior Review Thresholds
1. Goods	ICB	>\$ 1 Mln	As agreed in PP
-“-	NCB*	≤ \$1 Mln	As agreed in PP
-“-	SH*	≤ \$ 100 K	As agreed in PP
-“-	DC		As agreed in PP
2. Works	ICB	>\$10 Mln	As agreed in PP
-“-	NCB*	≤ \$10 Mln	As agreed in PP
-“-	SH	< \$ 200 K	As agreed in PP

-“-	DC	As agreed in PP
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- Using modified Government E-Procurement (Ge-GP) System

For consulting services:

Exp Category	Method	Procurement Method Thresholds	Prior Review Thresholds
3. Cons. Services firms	QCBS		As agreed in PP
	FBS		As agreed in PP
	QBS		As agreed in PP
	LCS		As agreed in PP
	CQS	≤ \$300 K	As agreed in PP
	SSS		As agreed in PP
4. Cons. Services individuals	IC		As agreed in PP
	SSS		As agreed in PP

31. **Incremental Operating Costs:** These are reasonable and necessary incremental expenses towards recurrent expenditures, incurred by the Borrower with respect to Project implementation, management and monitoring, including the costs of staff salaries (excluding salaries of the Borrower's civil service staff), communication, editing, printing and publication, translation, vehicle operation and maintenance, bank charges, local travel costs and field trip expenses, office rentals, utilities, equipment and supplies. Such costs would be disbursed on the basis of annual budgets to be prepared by MDF and agreed with the Bank at the beginning of the year. Procurement of goods/supplies under IOC will be following State Procurement Law of Georgia with the use of e-procurement system. Mentioned system has been assessed by the Bank and found to be adequate to undertake procurement under IOC.

32. In addition to the Bank's customary prior review supervision to be carried out by the Bank, the capacity assessment recommends to visit the MDF and project sites once every year to carry out post review of procurement actions during supervision missions and/or regular post-reviews by PAS (Procurement Accredited Specialist). At least one out of five procurement packages not subject to Bank prior review will be examined ex-post, however PAS reserves the right to increase or decrease the number of packages to be examined based on risk during implementation.

33. Project Operational Manual: MDF prepared an OM and provided to the Bank for review.

34. Summary of the Procurement Packages planned during the first 18 months after project effectiveness (including those that are subject to retroactive financing and advanced procurement):

1	2	3	4	5	6	7
Ref. No.	Description	Estimated Cost	Packages	Domestic Preference	Review by Bank	Comments

		US\$ million		(yes/no)	(Prior / Post)	
	Summary of the ICB (Works)					N/A – No ICB Procurement Package is envisaged
	Summary of the ICB (Goods)					N/A – No ICB Procurement Package is envisaged
	Summary of the NCB (Works)	54.7	31	No	As agreed in PP	
	Summary of the NCB (Goods)					N/A – No NCB Goods is envisaged
	Shopping Goods					N/A – No SH Goods is envisaged
	Shopping - Works	0.5	4	No	As agreed in PP	
	Summary of the ICB (Non-Consultant Services)					N/A – No ICB NCS is envisaged

1	2	3	4	5	6
Ref. No.	Description of Assignment	Estimated Cost US\$ million	Packages	Review by Bank (Prior / Post)	Comments
	Summary of number of contracts that will be let under QCBS	3.00	1	prior	
	Summary of number of contracts that will be let under other methods	0.75	4	As agreed in PP	

Environmental and Social (including safeguards)

35. The Project involves financing of physical works with possible impact on the natural environment and social conditions within the target region of the country. Therefore, it triggers the OP/BP 4.01 on Environmental Assessment. The scope and nature of the potential environmental impact of the Project implementation is expected to be moderate and the Project is classified as environmental Category B. No large-scale and/or irreversible adverse environmental impacts are likely. Because the Project will finance generally similar activities in various locations of Samtskhe-Javakheti and Mtskheta-Mtianeti regions, an Environmental and Social Management Framework (ESMF) was developed in the course of its preparation. The ESMF provides guidance for screening and risk assessment of individual investments proposed under the Project and provides methodology for further environmental work depending on the screening outcomes. Site-specific Environmental and Social Reviews (ESRs), including Environmental and Social Management Plans (ESMPs) for higher risk activities, and EMPs for lower risk operations are developed in agreement with ESMF, publicly disclosed, and discussed with relevant stakeholders.

36. The client carried out Strategic Environmental, Cultural Heritage, and Social Assessment (SECHSA) building on and assessing the Tourism Development Strategies and the Regional Development Strategies of Samtskhe-Javakheti and Mtskheta-Mtianeti. The SECHSA identified risks and opportunities associated with the overall development program proposed for the two regions. It a) collected and analyzed baseline information about the two regions; b) analyzed the expected long-term, cumulative, and direct/indirect impacts of the two Regional Tourism Development Strategies as well as of the Project activities; and c) assessed the institutional capacity of the government agencies to manage environmental, cultural, and social implications of the development in the two regions, including identifying gaps and making recommendations about capacity building.

37. The Project interventions may cover areas adjacent to the Javakheti and Tbilisi National Parks, which may cause indirect and/or induced impacts on the natural habitats. OP/BP 4.04 is triggered to ensure that any interventions are fully harmonized and supportive of the habitat conservation goals. Site-specific ESRs and/or EMPs will explain how OP/BP 4.04 principles are integrated into the design and implementation arrangements of respective subproject(s).

38. The Project aims at attracting increased flow of tourists to the natural and cultural heritage sites of the two regions. This would imply improvement of access to these sites and development of tourist infrastructure around them. Implementation of civil works in the immediate proximity to the historical monuments and other elements of the cultural heritage carry the risk of affecting their aesthetic value, accidental damage, or gradual deterioration. Also, development of tourist infrastructure and improving access to the cultural sites will imply earth works carrying high likelihood of chance finds. OP/BP 4.11 is triggered to ensure that no element of cultural heritage is affected negatively neither during construction nor operation of the infrastructure provided under the project. Site-specific ERs and/or ESMPs will cover the aspect of cultural heritage preservation and carry relevant mitigation measures, as well as arrangements for monitoring their implementation. The MDF and the NACHP will provide close supervision of the adherence to OP/BP 4.11 in the course of the Project implementation. Once the civil works are completed, the NACHP or the Patriarchy will take over the management of cultural heritage sites in compliance with the laws and regulations stipulated by the state beyond the life of the Project.

39. The Project's subcomponent 1.1 will finance urban regeneration of old towns and villages through restoration of building facades, public spaces, museums, roads, and water supply and sanitation systems, and enhancement of cultural and natural heritage sites. Subcomponent 1.2 will provide complementary public infrastructure to stimulate tourism and agribusiness related private investment. Therefore, activities that may be suggested for the Project's interventions include upgrade or extension of the infrastructure in the two target regions, including water supply, wastewater collection and water drainage schemes. Because water-related infrastructure is eligible for the Project funding and because the vast majority of Georgia's rivers fall under the category of international waterways as defined by OP/BP 7.50, this policy is triggered. However, construction of new water and wastewater infrastructure that may end up using or polluting the water from these international waterways will be excluded from the Project funding. Investments for rehabilitation of the existing schemes that are aimed at cutting water loss due to seepage, leaks overflows, and malfunctioning of hydraulic structures

will be supported on the condition that no alteration of water intake and/or discharge results from the Project implementation. If any activity under an Investment Subproject will involve any international waterway, then: (a) such activity will be limited to ongoing schemes, projects involving additions or alterations that require rehabilitation, construction, or other changes that: (i) will not adversely change the quality or quantity of water flows to the other riparian; and (ii) will not be adversely affected by the other riparians' possible water use; and (b) such activity will be limited to only minor additions or alterations to the ongoing scheme and it does not cover works and activities that would exceed the original scheme, change its nature, or so alter or expand its scope and extent as to make it appear new or different scheme. Due to these rules of subproject selection included in the OM, communication to the riparians was deemed unnecessary and exemption from the requirement of communication to the riparian was obtained from the Bank's Vice president on February 3, 2015.

40. The Project triggers OP 4.12 Involuntary Resettlement, and the RPF was prepared and disclosed to the public in accordance with the policy. Resettlement impacts would be mainly related to temporary relocation and/or loss of income or productive assets during construction. However, there would also be some cases of permanent resettlement. Prior to the commencement of works in any site that requires RAP, the MDF will ensure that the affected people where works are to be implemented are fully compensated in accordance with the provisions of the RAP.

41. The MDF shall prepare RAPs, as needed, which will comply with OP 4.12 for applicable subprojects, which define necessary mitigation and compensation measures through consultations with affected people. The MDF will be responsible for implementing the RAPs. The environmental and social specialists, as well as consultants of the MDF, will help with their implementation prior to commencement of works in each location. The municipalities submitting proposals for subprojects will be required to provide information related to affiliation and ownership status of the selected sites based on available legal documents, as part of the sub-project summary.

42. The MDF is the implementing agency. The MDF has a long history of implementing World Bank supported projects with a good track record of safeguard compliance, but in-house capacity of the MDF for ensuring application and monitoring of the measures for mitigating negative impacts of civil works is limited due to the lack of specialized human resources and depends much on the services of external consultants.

43. The population of the two regions in general is the main beneficiary of the project. Municipalities, elected local councils, NGOs, tourism businesses, potential future investors to the region, the National Tourism Agency, the Agency for Cultural Heritage Preservation, Cultural Heritage Foundation, the Agency of Protected Areas, the Ministry of Culture and Monument Protection, the Ministry of Regional Development and Infrastructure, the Ministry of Economy and Sustainable Development, and the Ministry of Finance are also stakeholders of the Project. MDF is a designated implementing entity. At a higher level, the national Government of Georgia is directly involved in designing of the Project and establishing institutional set-up for its implementation because the Project is viewed as an important element and an integral part of the national strategy for regional development. From the very initial stage of the Project preparation,

the top management and technical staff of the above listed national line agencies as well as those of the regional and municipal governments have been directly involved in the consideration of all aspects of the proposed Project. Additionally, as part of the SECHSA process, a wide range of stakeholders including municipal authorities, local communities, civil society organizations, and the representatives of tourism operators and hospitality businesses have been consulted about potential direct, indirect, short term, and long term impacts of the Regional Tourism Development Strategies and of the Project interventions.

Monitoring & Evaluation

44. The MDF will be responsible for monitoring and evaluating the outcomes of the Project against agreed indicators as set out in the Results Framework. The MDF capacity in data collection and analysis will be strengthened by an international consulting firm whose services will be obtained through Component 2.

45. The M&E consulting firm, together with the MDF, will compile the baseline data already available in the SARs/SSRs and economic analysis report, and collect additional data from the government agencies, as well as through field visits and surveys. The Project's Intermediate Indicators, as defined in the Results Framework, will also be monitored on an annual basis.

46. The M&E consulting firm, together with the MDF, will compile the baseline data already available in the SARs/SSRs and economic analysis report, and collect additional data from the government agencies, as well as through field visits and household surveys. The Project's Intermediate Indicators, as defined in the Results Framework, will also be monitored on an annual basis. The M&E will assess the success of implementation of the Project and beneficiary (resident and tourists) access to Project resources and infrastructure through indicators defined for the Project. In addition, the M&E will be designed to monitor socio-economic outcomes at both individual and community-level outcomes including employment, land and housing values.

Role of Partners

47. To date, the EU has provided TA to prepare the Samtskhe-Javakheti Regional Development Strategy, which includes a medium-to-long term investment plan that anticipates both public and private capital needs. The EU provides a capacity-building program for the Georgia National Tourism Administration (GNTA) on managing destinations. The German GiZ provides TA to prepare the Mtskheta-Mtianeti Regional Development Strategies, including capacity building at the municipal and regional levels. The GiZ also provides training to GNTA staff on tourism statistical analysis and performance indicators, along with language and capacity-building training to tour guides. USAID supported tourism training and development through its Georgia Economic Prosperity Initiatives. The Norwegian Directorate for Cultural Heritage provides TA to the Agency for Cultural Heritage Preservation on Georgia (NACHP) in preparing pilot sustainable site management plans for cultural heritage sites. The European

Investment Bank (EIB) finances several water and sewerage rehabilitation projects in both regions. The Swedish International Development Agency (SIDA), through a Trust Fund Administration Agreement between SIDA and the Bank, provides funds to support execution of the National Wastewater Management Strategy, prepared under the Bank-financed RMIDP, and pilot implementation of modern and cost-effective wastewater treatment plants in two cities. Finally, the World Bank administered Italian Trust Fund for Tourism and Cultural Heritage has provided a grant to prepare model architectural restoration designs for the Darbazi houses in Saro and wooden vernacular houses in Abastumani and Dusheti under the Project.

Annex 4: Implementation Support Plan

Georgia: Third Regional Development Project

Strategy and Approach for Implementation Support

1. The implementation support strategy was developed considering the risks and mitigation measures identified in the ORAF and targets provision of flexible and efficient implementation support to the client.
2. **Procurement:** The procurement related implementation support will include: (a) timely advice from the country office based procurement officer on various procurement related issues and guidance on the Bank's Procurement Guidelines; (b) monitoring of procurement progress against the procurement plan. The Procurement Specialist is based in Tbilisi and works with MDF on a daily basis.
3. **Financial Management:** The Bank will conduct risk-based financial management implementation support and supervision mission within a year of the Project effectiveness, and then at appropriate intervals. In addition, the regular IFRs and annual Project and entity audit reports will be reviewed by the Bank. As required, a Bank-accredited Financial Management Specialist will assist in the implementation support and supervision process. The Financial Management Specialist is based in Tbilisi and can provide support to MDF any time as needed.
4. **Environmental and social safeguards:** The Bank's environmental and social specialists will provide regular support in strengthening the capacity of the MDF in tackling safeguards related issues. Additionally, the Bank's safeguards specialists will closely monitor implementation of the agreed ESMP and will provide guidance to the client to address the issues that may arise. The Environment and Social Safeguard specialists are based in Tbilisi and can provide daily support to the client.
5. **Operation support:** The Bank Task Team Leader, who is also the Program Leader for the South Caucasus, is based in the Georgia Country Office. He has had ongoing communication with the client during the identification and preparation of the Project. Supported by an operations specialist, who is also based in the Georgia Country Office, and local and international short-term consultants, he will continue to provide regular implementation support during implementation, including monthly visits to all Project sites especially during the first year of Project implementation. He will keep the Bank team apprised and provide implementation support and guidance to the MDF on various aspects of interventions as needed.

Implementation Support Plan

6. The Project team will provide timely and effective implementation support through daily supervision since the Task Team Leader and several team members are based in the region and local offices. The task team will provide the following detailed inputs to support project implementation:

- **Technical inputs:** Engineers, Tourism and Cultural Heritage Consultants will carry out regular site visits and review of documentation to ensure compliance to plans, quality, safeguards and timetable.
- **Fiduciary requirements and inputs:** The Procurement Specialist, based in the Georgia country office, and the Financial Management Specialist, based in the Georgia country office, will provide timely implementation support. The financial management specialist will conduct risk-based FM missions within a year after the project effectiveness, and then at appropriate intervals, while the procurement supervision will be carried out as per Bank's procurement rules and guidelines.
- **Safeguards:** The Environmental Specialist, based in the Georgia country office, and Social Development Specialists, Based in HQ and Georgia country office, will closely supervise implementation of the ESMP and RPF of the Project. The environmental and social specialists will conduct field visits on semi-annual basis to monitor implementation of safeguards policies.

Time	Focus	Skills Needed	Resource Estimate (Support Weeks/SWs)
First twelve months	Technical review of the SARs/SSRs	TTL, cultural heritage specialist, water and road engineers, safeguards specialists and economist	18 SWs
	Procurement review of the bidding documents	Procurement specialist	12 SWs
	Project implementation support	Cultural heritage specialist, water and road engineers	24 SWs
	Financial management and disbursements	Sr. Financial management specialist	4 SWs
	Environmental and social supervision	Sr. Environmental specialist	12 SWs
	Tourism institutional development implementation support	Tourism development consultants	8 SW
	Skills development implementation support	Human development specialist	4 SW
	Operation support with project supervision and coordination	Operations specialist	4 SWs
	Task management	Task Team Leader	12 SWs
12-48 months	Project implementation support	Cultural heritage specialist, water and road engineers	48 SWs
	Procurement support	Procurement specialist	24 SWs
	Financial management and disbursements	Sr. Financial management specialist	12 SWs
	Environmental and social	Sr. Environmental specialist	48 SWs

	supervision		
	Tourism institutional development implementation support	Tourism development consultants	12 SW
	Skills development implementation support	Human development specialist	12 SW
	Operation support with project supervision and coordination	Operation specialist	12 SWs
	Task management	Task Team Leader	32 SWs

Skills Mix Required

Skills Needed	Number of Staff Weeks 2012-2016	Number of Trips	Comments
Task team leader	40	Field trips as required	Country office based
Senior operations officer	40	Field trips as required	Country office based
Environmental specialist	30	Field trips as required	Country office based
Social specialist	30	Eight	HQ based
Procurement specialist	40	Field trips as required	Country office based
Financial management specialist	20	Field trips as required	Armenia country office based
Water engineer	30	Eight	Based in Europe
Road engineer	30	Eight	HQ based
Tourism/Cultural Heritage specialist	30	Eight	HQ based
Human development specialist	12	Field trips as required	Country office based
Short-term consultants for supervision	32	Field trips as required	Country office based
Program Assistants	60	Field trips as required	Country office based

Annex 5: Economic and Financial Assessment

Georgia: Third Regional Development Project

1. The proposed Project is expected to result in higher economic growth and employment in the region. It intends to focus on improving the quality and reliability of municipal infrastructure; supporting tourism and agribusiness development; and enabling the environment to attract private sector investments.

Socioeconomic and spatial profile Samtskhe-Javakheti and Mtskheta-Mtianeti

2. The Samtskhe-Javakheti region stretches over 6,413 km² and a population of 208,000. The region includes six large municipalities and its administrative center is Akhaltsikhe. Main urban areas are Akhalkalaki, Akhaltsikhe, Borjomi, Vale, and Ninotsminda. The Mtskheta-Mtianeti region has an extension of 6,785 km² and a population of 125,000. The region includes four large municipalities and its administrative center is Mtskheta. The main urban areas are Mtskheta and Dusheti. Samtskhe-Javakheti and Mtskheta-Mtianeti are largely rural regions of Georgia with differing sectoral mix of economic activity.

3. Although only 6 percent of Georgia's bottom 40 lives in these two regions, they make up a notable share of the residents living in these regions. The national bottom 40 is nearly 50 percent of the residents of Mtskheta-Mtianeti and 26 percent of the residents of Samtskhe-Javakheti. The poverty rate, measured using an absolute poverty line, was 5.8 percent in Samtskhe-Javakheti and 22.8 percent in Mtskheta-Mtianeti in 2012. In Samtskhe-Javakheti, the unemployment rate was at 5.8 percent in 2012, which is lower than the country's average (15 percent). In Mtskheta-Mtianeti, the unemployment rate is estimated to be 14.6 percent, a rate close to the national average in 2012. The reason that unemployment is low in Samtskhe-Javakheti is that a large number of the region's population is employed in agriculture (71 percent of employed men and 80 percent of employed women). In Mtskheta-Mtianeti, 56 percent of men and women are employed in agriculture; construction, transport and services (including tourism) are other notable sectors of employment for men. Both regions have a relatively large number of socially vulnerable people (pensioners, Borrowers of state medical insurance programs for the poor and targeted social assistance). Since the 2008 conflict, the number of IDPs in Mtskheta-Mtianeti has increased by more than 10,000 people, representing 9 percent of the whole population.

4. Samtskhe-Javakheti's per capita income was about US\$1,828 in 2012. This amount is only 32 percent of the per capita income in Tbilisi, and 52 percent of the country average. The overall contribution of Samtskhe-Javakheti to the country GDP is very small, an average of about 3 percent from 2006-2012. The total value added of the Samtskhe-Javakheti Region during the period 2008-2012 had a positive trend (with the exception of 2009). In 2011, the region's total value added was GEL665 million, with agriculture accounting for 32 percent (GEL213.7 million). According to the preliminary information, the growth of total value added in 2012 was 0.7 percent compared to the previous year, equal to GEL646. In 2011, the turnover of the enterprises in the region, by economic activities, totaled GEL367.2 million, which was 30 percent higher than the previous year.

5. In 2013, the annual monthly income of households in the Samtskhe-Javakheti Region was GEL872 (US\$498). However, Samtskhe-Javakheti has one of the lowest shares (13 percent) of income from hired work. The income from selling homegrown agricultural products is 22 percent, which is relatively high compared to other regions. The total expenditures of the Samtskhe-Javakheti region's population grow over the last years, reaching GEL46.1 million in 2013. The average monthly expenditures of families grew as well, totaling GEL1029.8 in 2013, which is GEL450 up from 2008. Most expenses in the family budget are for food products, constituting 26.1 percent of the total monthly expenses. The average monthly expenses for families in Samtskhe-Javakheti are higher than in other regions of Georgia.

6. Mtskheta-Mtianeti's per capita income was about US\$1,910 in 2012. This amount is only 33 percent of the per capita income in Tbilisi, and 54 percent of the country average. The overall contribution of Mtskheta-Mtianeti to the country GDP is small, an average of about 5 percent from 2006-2012. The total value added of Mtskheta-Mtianeti during the period 2008-2012 had a positive trend, reaching the highest (GEL1.3 billion) in 2012. The largest share of total value added is comprised of: industry 23 percent; public administration 20 percent, agriculture and forestry 18 percent. The annual monthly income of households in Mtskheta-Mtianeti Region was GEL601 (US\$364), making this region one of the poorest in the country. The average monthly expenditures equal GEL562. In 2013, the production output of Mtskheta-Mtianeti surpassed the amount of GEL327.3 million.

7. **Growth potential.** Interventions geared towards attracting private investments and generating productive jobs are crucial to help the regions realize their potential and contribute to national growth. There are opportunities to build on the more positive characteristics of peripheral areas, such as natural resources and assets, quality of natural environment, a strong cultural identity, space and quality of life. The region has an abundance of raw materials including agricultural produce, energy commodities and minerals (many of which are used in the construction sector). Infrastructure in the two regions has significantly improved in the past 5-6 years. Some of the funds allocated for infrastructure development are used for rehabilitation of the road network, municipal water and irrigation systems, bridges, sewerage, schools and pre-school establishments, squares and gardens, and setting up outdoor lighting. Continued efforts are needed for expansion and rehabilitation of physical infrastructure.

Cost-Benefit Analysis

8. Benefit streams were calculated based on the following available data and assumptions. For the Project's economic and financial analyses, a cost-benefit assessment was carried out. Benefit streams were calculated based on the following available data and assumptions:

Increase in tourist arrivals, overnight stays and spending

- As a result of the integrated development approach;
- Both domestic and international tourist arrivals are expected to increase by 5 percent per annum during the life of the project and 2 percent thereafter;
- Overnight stays are expected to increase from 1.8 days to 2.5 days on average by 2020;

- Expenditures on food, lodging, new activities (e.g., guided tours), and purchase of local products and handicrafts are expected to increase by 5 percent per annum during the first 6 years of the project and 2 percent thereafter.

Increase in number and profitability of economic enterprises

9. The development of tourism circuits and geotourism maps, destination management and marketing/promotion of Samtskhe-Javakheti and Mtskheta-Mtianeti as a new tourist destinations, and improvement of infrastructure will attract private investors to establish new economic enterprises or expand existing ones;

- The leverage factor for the private investments attracted by the public expenditures will equal 1 to 1;
- By the end of the Project, the number of hotel beds is expected to increase from 7,726 to 10,545 beds in Samtskhe-Javakheti and from 3,213 to 4,732 in Mtskheta-Mtianeti, in order to serve the expected increased number of tourists at additional destinations;
- Secondary sales multiplier will equal 1.5;
- New economic enterprises and increased profitability will increase amounts of collected corporate tax (15 percent), VAT (18 percent), and personal income tax (20 percent).

Property value appreciation

10. Tourism development and improvement of infrastructure will create more opportunities for businesses to invest and will increase demand for real estate, and therefore real estate value appreciation. Based on evidence-data collected from other cities in Georgia which underwent similar urban regeneration activities, i.e., old Tbilisi, old Mtskheta, Signagi and Batumi, the following assumptions are made for Samtskhe-Javakheti and Mtskheta Mtianeti:

- Property tax (1 percent) collection will increase because of new buildings and housing created by the Project itself and leveraged Private investments.

Temporary job creation

11. During implementation of various project activities, temporary jobs will be created. Temporary jobs also will be created during the construction of assets by investing Leveraged Capital. Based on analysis of the infrastructure projects conducted by MDF during the last 5 years which showed that on average infrastructure works have a 25 percent labor component (including production and transportation), with around a 20 percent labor component for general infrastructure and around 30 percent in the case of building construction, the following assumptions are made:

- Due to the specific nature of conservation/restoration works (large proportion of labor intensive facade restoration) labor component for the project activities could be more than 30 percent of the expenditures;

- Proportion of labor component during construction activities funded by Leveraged Private Capital will be 25 percent - it is assumed that most of the assets created will be buildings and recreational areas;
- Personal Income taxes from labor expenditures (20 percent) will be flowing to the government.

12. Cost-Benefit analysis was prepared for the Samtskhe-Javakheti and Mtskheta-Mtianeti regions separately, rather than for each component of subproject. The NPV, FIRR and EIRR were calculated for the next 20 years from 2015 up to 2034, including 4 years of project implementation period. For the economic analysis, financial costs were corrected and conversion factors were applied. Analysis considered 7 percent discount rate.

13. Secondary data was collected from various government entities, including Tourism Agency, Ministry of Finance, Public Register, Geostat, as well as from real estate brokers and completed studies from similar projects, e.g. USAID-funded Georgia Economic Prosperity Initiative (EPI). The primary data was derived from small-scale surveys using structure questionnaires and administered to selected groups of stakeholders (restaurants, cafes, hotels, guest-houses, and domestic and foreign visitors). Primary data collection also used qualitative in-depth interviews.

14. Fiscal impact and economic analysis shows that NPV at 7 percent for the Project for Samtskhe-Javakheti is positive and equals US\$8,938,619. Financial IRR equals 13.5 percent. Economic IRR equals 21.84 percent.

15. Fiscal impact and economic analysis shows that NPV at 7 percent for the Project for Mtskheta-Mtianeti is positive and equals US\$32,369,832. Financial IRR equals 21.52 percent. Economic IRR equals 33.12 percent.

16. Overall, the implementation of the Project will yield net economic benefits over and above the Project costs, as well as the cost of complimentary investments in additional tourism enterprises to be financed by private investors.

Sensitivity analysis

17. For Samtskhe-Javakheti, the NPV and FIRR are most sensitive to Secondary sales multiplier variable. An increase or decrease of 10 percent in Secondary sales multiplier will increase or decrease NPV by US\$ 1,658,934 and FIRR 0.96 percent and 1.02 percent accordingly. EIRR is most sensitive to the Secondary Sales Multiplier Factor – 10 percent increase or decrease in Secondary sales multiplier will increase or decrease EIRR 1.43 percent and 1.35 percent accordingly.

18. At the minimum possible level of the Secondary sales multiplier (that is 1.0), other assumptions unchanged NPV will still be positive and equals to US\$ 3,408,836, FIRR – 9.82 percent and EIRR – 17.56 percent.

19. If average stay in will not change and will stay the same - 1.8 days on average, other assumptions unchanged, NPV will be still positive and equal US\$ 3,978,192, FIRR – 10.46 percent and EIRR – 18.67 percent.

20. For Mtskheta-Mtianeti, the NPV and FIRR are most sensitive to Secondary sales multiplier variable. An increase or decrease of 10 percent in Secondary sales multiplier will increase or decrease NPV by US\$ 3,656,169 and FIRR 1.16 percent and 1.21 percent accordingly. EIRR is most sensitive to the Secondary Sales Multiplier Factor – 10 percent increase or decrease in Secondary sales multiplier will increase or decrease EIRR 1.98 percent and 1.85 percent accordingly.

21. At the minimum possible level of the Secondary sales multiplier (that is 1.0), other assumptions unchanged NPV will still be positive and equals to US\$ 20,182,600, FIRR – 17.23 percent and EIRR – 27.36 percent.

22. If average stay in will not change and will stay the same - 1.8 days on average, other assumptions unchanged, NPV will be still positive and equal US\$ 21,437,418, FIRR – 18.59 percent and EIRR – 30.00 percent..

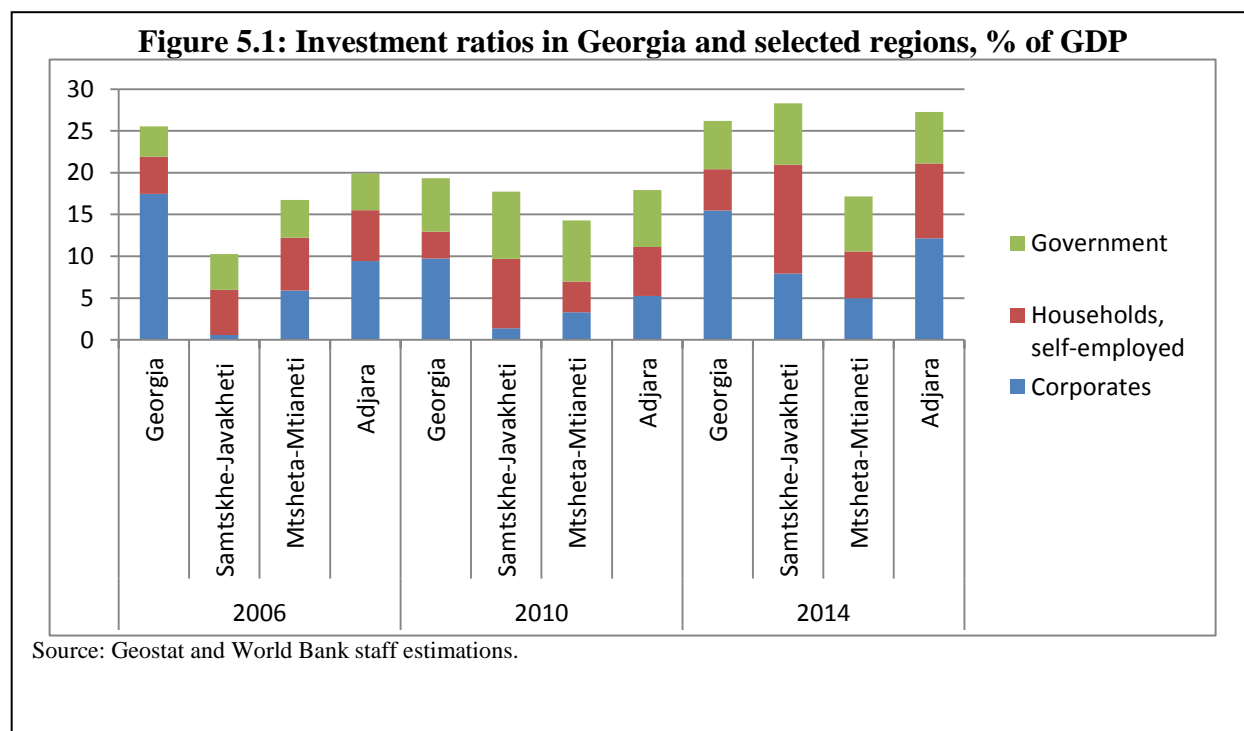
Incremental Capital-to-Output Ratio Assessment (ICOR)

23. The Project aims to increase public and private investment levels in Samtskhe-Javakheti and Mtskheta-Mtianeti regions, aligning them with those observed in the country (but not with the investment levels observed in the country's most vibrant region; the City of Tbilisi). Through its impact on investments, the project will boost economic activity and income levels during the project implementation period and beyond. This result hinges crucially on the pace and the effectiveness of project implementation. The pace would determine the timing for the 'stimulus' to be felt in the regions. The effectiveness would determine the degree at which the public investments supported by the project will "leverage" private investments, and the extent at which these investments will expand economic activity.

24. **Context:** Total investments in the Samtskhe-Javakheti and Mtskheta-Mtianeti regions has been estimated to be around 10 to 17 and 16 to 17 percent of the region's GDP in the past¹⁴ respectively. The investment ratios for Samtskhe-Javakheti and Mtskheta-Mtianeti has, thus, being traditionally much lower than the ratio of the country leading economic region (the city of Tbilisi), and below that for the country as a whole (Figure 5.1).

¹⁴Data on investments (by household and corporations) came from GEOSTAT staff estimates, while the break-up of public investments by region was estimated by the World Bank based weights derived from regional GDP and population. In addition, break-up of private investment between Shida Kartli and Mtskheta-Mtianeti regions were estimated based on ratio of Mtskheta-Mtianeti economic entities in Shida Kartli and Mtskheta-Mtianeti as a whole.

Perhaps most importantly, the composition of investments in Samtskhe-Javakheti and Mtskheta-Mtianeti has also been very different to that of Tbilisi, Ajara and the nation as a whole. In



particular, household investment (broadly defined) dominates total investment in Samtskhe-Javakheti rather than investment by corporations (like in Tbilisi) or by the public administration. Slightly different situation is in Mtskheta-Mtianeti region, where public investments are higher than household or corporate investments.

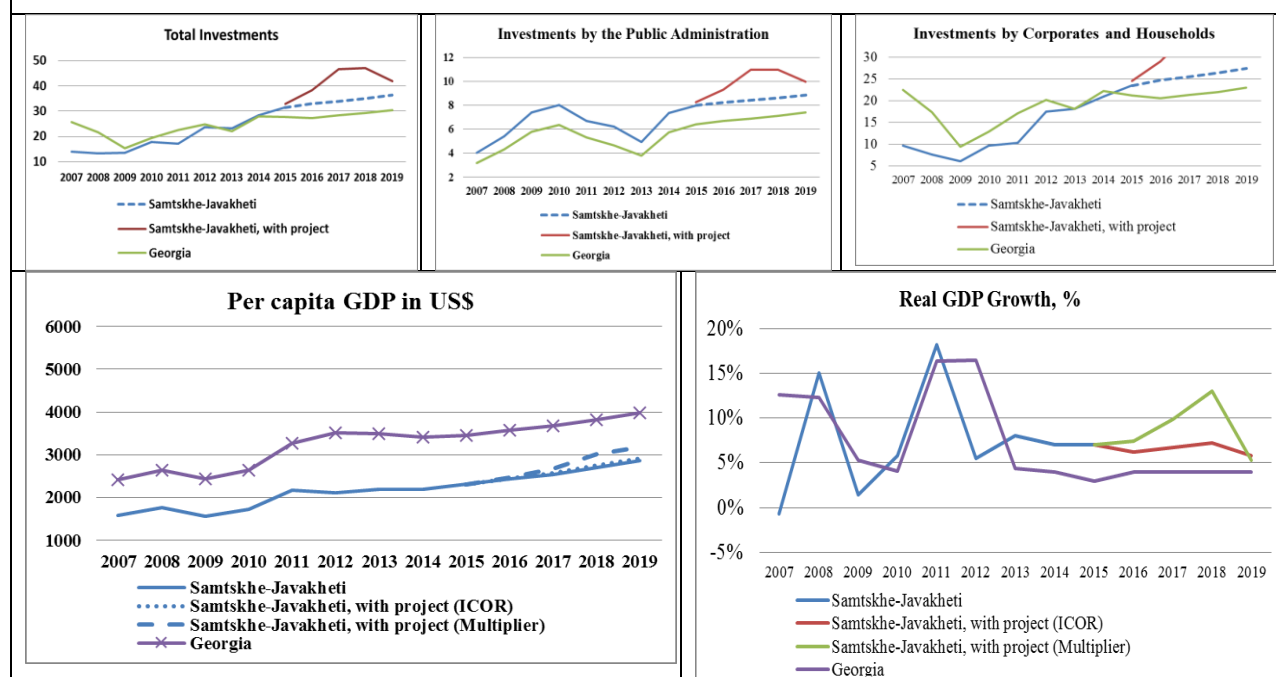
25. Household's investments by convention includes also those made by the self-employed and microenterprises (according to the System of National Accounts), the notable composition of investment in Samtskhe-Javakheti reflects well the rural economic nature of the region, i.e., dominated by activities such as small-scale animal raising, agriculture and trade and commerce. In Mtskheta-Mtianeti region, as the data from Geostat suggest, household's (narrowly defined) investment in this region has been negligible, i.e., there has been little if any renovation of the existing stock of housing (in parts other than Mtskheta) and very little construction of new housing.

26. **Project's Impact:** The project will inject US\$75 million dollars in investment over a period of 4-5 years. More importantly, the project has been designed to induce various types of private sector investments. Firstly, the project will encourage private investments by provide public goods (e.g., road access) needed by the private investors. Secondly, improvements in tourism circuits and cultural heritage sites in both rural and urban areas are design to stimulate household's investment as broadly defined in National Accounts. In particular, uplifting of, say, pedestrian walkways, parking space, and other public infrastructure or funding facade renovation, should motivate the establishment of a new individual or micro/small businesses

(e.g., shops, restaurants, transport and other tourism related services), as well as induce significant renovation of existing housing and the construction of new ones.

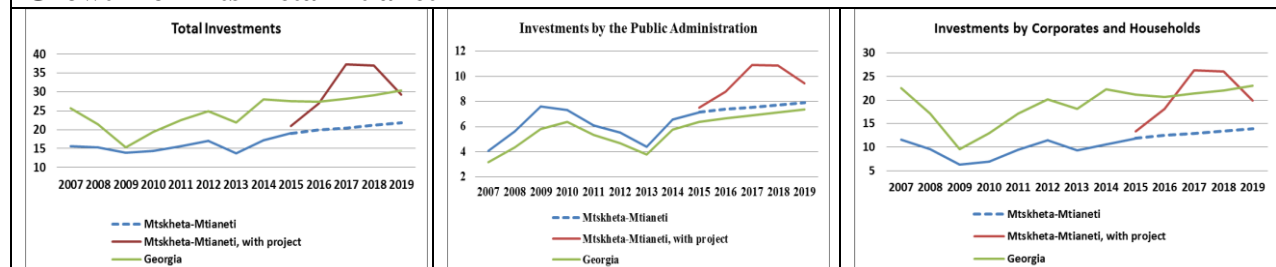
27. The above impact can be summarily captured by an indicator of the amount of corporate and household investments that public investments mobilize. During past booming periods (2006-7), Samtskhe-Javakheti and Mtskheta-Mtianeti leveraged respectively up to 2 and 3 dollar in private investments for each dollar invested by the public administration. More recently (2014), these ratios have been closer to one-to-3 and one-to-1.6 respectively. Our expectations for the project is to target a one-to-four ratio, which would lift up next 5 year average leverage ratios of the public administration investments in Samtskhe-Javakheti and Mtskheta-Mtianeti (i.e., those supported by the project as well as other public investments) to one-to-3.2 and one-to-1.7. These expected dynamics for investments with and without the Project are illustrated in Figures 5.2 and 5.3 (panels 1 to 3).

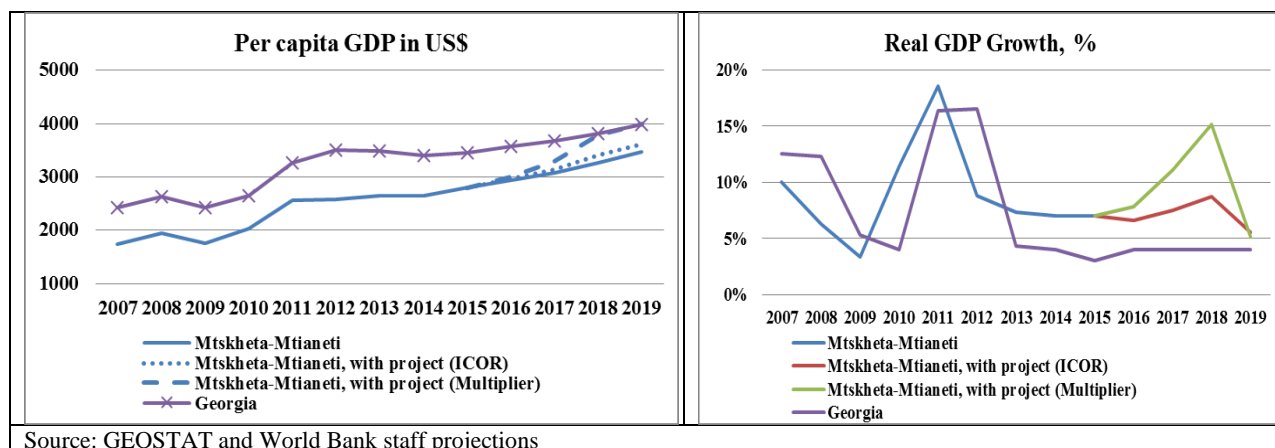
Figure 5.2: Summary of the Expected Impact of the Project on Investments, Income and Growth for Samtskhe-Javakheti



Source: GEOSTAT and World Bank staff projections

Figure 5.3: Summary of the Expected Impact of the Project on Investments, Income and Growth for Mtskheta-Mtianeti





28. The impact of these investments on economic activity will be significant. While a typical Keynesian accelerator model (using modern econometric tools, such as an impulse-response function¹⁵) could not be estimated at this time, two parameters were applied to gauge this potential impact:

- An incremental capital-to-output ratio (ICOR) of around 4 (each unit of investment results in a 25 percent permanent increase in output);
- A short-term multiplier effect under which one unit of investment results in one unit of additional output.

29. These two approaches are complementary in that the short-term (immediate) impact of the project is likely to be closer to the results offered by the short-term multiplier, while the medium-term impact of the project should be closer to that coming out of the ICOR. Using these parameters, we estimate that average growth in Samtskhe-Javakheti during the 2015-19 period would be between 0.5 and 2.9 percentage points higher than otherwise expected, with the range depending on whether the ICOR or multiplier assumption is used¹⁶.

30. Regarding Mtskheta-Mtianeti region, we that average growth in Mtskheta-Mtianeti during the 2015-19 period is estimated to be between 1.1 and 3.8 percentage points higher than otherwise expected, depending on assumptions used. Such growth will result in a GDP per capita in USD that would be between 2 and 11 percent higher in 2019 for Samtskhe-Javakheti and for Mtskheta-Mtianeti 4.2 and 15 percent higher than otherwise would have been realized.

31. Both the CBA and ICOR analysis demonstrates that capital investments in both regions are profitable and the marginal amount of investment capital necessary for an entity to generate the next unit of production is positive. The larger base of assets, economic activities and skilled labor in Mtskheta-Mtianeti gives higher returns estimates than in Samtskhe-Javakheti. The

¹⁵ An impulse response function could be estimated by using a Vector Autoregression Model (VAR) if there were sufficient observations for investments and output, which is not the case.

¹⁶ For simplicity growth in Kakheti without the project has been assumed to be the same as in Georgia as a whole

proposed investment in both regions is justified and is expected to a) reduce regional disparities that currently exist in both regions, b) leverage private sector investments, and c) create jobs.

Annex 5.1: Background Information and Calculations

	Key Parameters and Assumptions													
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Population, thousands person														
Samtskhe-Javakheti	208.4	208.0	207.9	209.7	212.1	213.5	213.9	213.6	213.7	213.8	213.9	213.9	213.9	213.9
Mtskheta-Mtianeti	124.5	124.1	105.2	105.2	108.8	109.3	109.7	108.9	108.8	108.8	108.8	108.8	108.8	108.8
Georgia	4396.1	4386.5	4381.9	4410.0	4452.8	4483.4	4490.7	4487.2	4489.4	4491.2	4492.5	4493.4	4493.9	4493.9
GDP growth (2006=1)														
Samtskhe-Javakheti (with out project)		-0.7	15.0	1.4	5.8	18.2	5.5	8.1	7.0	7.0	6.0	6.0	6.0	6.0
Mtskheta-Mtianeti (with out project)		10.0	6.3	3.4	11.4	18.6	8.8	7.4	7.0	7.0	6.0	6.0	6.0	6.0
Georgia		12.6	12.3	5.3	4.0	16.4	16.5	4.4	4.0	3.0	4.0	4.0	4.0	4.0
GDP deflator index (2006=1)	1.0	1.1	1.1	1.0	1.1	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2
Nominal exchange rate	1.7	1.6	1.7	1.7	1.8	1.7	1.7	1.7	1.9	2.0	2.0	2.1	2.2	2.2
Project related parameters														
Disbursements, USD million		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	5.5	13.8	13.8
Samtskhe-Javakheti Leverage ratio, units		2.4	1.4	0.8	1.2	1.5	2.8	3.7	3.0	3.1	3.2	3.2	3.3	3.3
Mtskheta-Mtianeti Leverage ratio, units		3.0	1.9	0.9	0.9	1.6	2.1	2.1	1.6	1.7	1.7	1.7	1.7	1.8
ICOR (uses GDP at t+1)														
Samtskhe-Javakheti (with out project)		0.9	9.2	2.3	1.0	3.1	2.9	3.3	4.2	5.5	5.7	5.9	6.1	6.1
Mtskheta-Mtianeti (with out project)		2.4	4.3	1.2	0.8	1.8	2.3	2.0	2.5	3.2	3.3	3.4	3.5	3.5
Georgia		2.1	4.1	3.8	1.2	1.4	5.7	5.5	9.3	6.9	6.8	7.1	7.3	7.3

Annex 6: Georgia: Third Regional Development Project Map



Investment sites in Samtskhe-Javakheti Region

1. Borjomi historic museum rehabilitation
2. Bakuriani recreation park
3. Sapara road and visitors infrastructure
4. Akhaltsikhe tour of tolerance
5. Zarzma monastery visitors infrastructure
6. Abastumani urban regeneration of old town
7. Abastumani observatory and park
8. Saro road and visitors infrastructure
9. Khertvisi road visitors infrastructure
10. Akhalkalaki fortress visitors infrastructure
11. Vanis Qvabebi visitors infrastructure
12. Vardzia-Gogasheni road
13. Tmogvi road and visitors infrastructure

Investment sites in Mtskheta-Mtianeti Region

1. Samtavro archaeological site visitors infrastructure
2. Bagineti archaeological site access road
3. Armazi archaeological site infrastructure
4. Mtskheta recreation park - Bebristsikhe
5. Dzalisa road and archaeological site infrastructure
6. Jvari visitors infrastructure
7. Mtskheta archaeological museum and exposition
8. Dusheti urban regeneration old town
9. Dusheti park and marketplace
10. Dusheti Chilashvili palace restoration – archaeological museum
11. Dusheti “stancia” museum restoration
12. Ananuri visitors infrastructure
13. Shatili infrastructure
14. East Caucasus Trail
15. Stepantsminda museum rehabilitation and urban regeneration
16. Gergeti road and rehabilitation of village
17. Dariali monastery parking
18. Gudauri thematic park