



Project Readiness Financing Report

Project Number: 53118-002
November 2019

Georgia: Livable Cities Investment Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 17 October 2019)

Currency unit – lari (GEL)

GEL1.00	=	\$0.34
\$1.00	=	GEL2.97
€1.00	=	\$1.107

ABBREVIATIONS

ADB	–	Asian Development Bank
IUAP	–	integrated urban action plan
MFF	–	multitranches financing facility
MRDI	–	Ministry of Regional Development and Infrastructure
PAM	–	project administration manual
PRF	–	project readiness financing
TA	–	technical assistance

NOTE

In this report, "\$" refers to United States dollars.









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PROJECT AT A GLANCE

1. Basic Data		Project Number: 53118-002	
Project Name	Livable Cities Investment Program	Department/Division	CWRD/CWUW
Country	Georgia	Executing Agency	Ministry of Regional Development and Infrastructure of Georgia, Tbilisi City Municipality
Modality	Project Readiness Financing (Loan)		
Borrower	Georgia		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=53118-002-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=53118-002-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
 Water and other urban infrastructure and services	Other urban services		1.64
	Renovation and protection of cultural heritage		3.00
	Urban flood protection		0.30
	Urban sanitation		0.15
	Urban sewerage		1.50
	Urban solid waste management		0.09
	Urban water supply		4.20
Industry and trade	Small and medium enterprise development		0.45
Transport	Urban public transport		0.23
	Urban roads and traffic management		3.44
Total			15.00
3. Operational Priorities		Climate Change Information	
 Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
 Accelerating progress in gender equality			
 Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
 Making cities more livable		ADB Financing	
 Strengthening governance and institutional capacity		Adaptation (\$ million)	2.30
 Fostering regional cooperation and integration		Mitigation (\$ million)	1.20
Sustainable Development Goals		Poverty Targeting	
SDG 1.4, 1.5		General Intervention on Poverty 	
SDG 3.9			
SDG 5.4			
SDG 6.2, 6.3			
SDG 9.1, 9.3			
SDG 10.2			
SDG 11.1, 11.4, 11.5, 11.6, 11.7			
SDG 13.a			
4. Risk Categorization:		Low	
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.00	
Sovereign Project Readiness Financing (Regular Loan): Ordinary capital resources		15.00	
Cofinancing		0.00	
None		0.00	
Counterpart		3.27	
Government		3.27	
Total		18.27	
Currency of ADB Financing: Euro			

I. PROJECT READINESS FINANCING

A. Rationale

1. The Government of Georgia has requested project readiness financing (PRF) from the Asian Development Bank (ADB) to prepare the Livable Cities Investment Program multitranches financing facility (MFF).

2. The Socio-economic Development Strategy of Georgia (Georgia 2020) targets inclusive economic growth, the development of human capital, and private sector competitiveness. Tbilisi, the capital of Georgia, with 1.14 million urban inhabitants accounts for more than half of the country's urban population and contributes 70% of the gross domestic product.¹ The city's urban population increased by 5.94% from 2009 to 2019, while cities in the Kakheti and Samegrelo-Zemo Svaneti regions experienced a decline in their urban population during the same period. The reverse trend in regional cities highlights issues such as out-migration, unbalanced economic growth, limited job opportunities, low social benefits and poor quality of life.² The government's strategic priorities for the regions are to build economic competitiveness through local economic development, accessible tourism development, cultural and historical heritage conservation, and the development of small and medium-sized enterprises.³ Average annual tourist arrivals in Georgia totaled about 3.5 million in 2018 and are expected to increase to more than 6 million in 2028.⁴ The Georgia National Tourism Strategy 2025 aims to create unique, high-quality visitor experiences in line with demand in the highest spending outbound markets based on the country's inherent natural and cultural assets.⁵ The development of livable cities with improved infrastructure and services will help to capture the tourism benefit and realize Georgia's potential for sustainable urban development, balanced regional development, and inclusive economic growth (footnote 3).

3. The government, with support from ADB, has reoriented urban sector operations since November 2016 under policy and advisory technical assistance (TA) for Livable Urban Areas, to provide programmatic solutions for developing livable cities by mainstreaming integrated urban development in a participatory manner.⁶ The TA prepared integrated urban action plans (IUAPs) with prioritized investments through participatory planning for the selected four urban region clusters to enable the development of inclusive, environmentally resilient, and economically competitive urban clusters. It set the principles and framework for livable cities, which is an operational priority of ADB's Strategy 2030.⁷ The ensuing MFF aligns with all seven key operational priorities of Strategy 2030. The proposed PRF and MFF are listed in the country operations business plan, 2019–2021 for Georgia and are aligned with ADB's Strategy 2030; Water Operational Plan, 2011–2020; Urban Operational Plan, 2012–2020; and Environmental Operations Directions 2013–2020.⁸

¹ National Statistics Office of Georgia. 2019. <https://www.geostat.ge/en/modules/categories/41/population> (accessed on 14 October 2019).

² State Commission on Migration Issues, 2015, 2015 Migration Profile of Georgia. Tbilisi Georgia.

³ ADB. 2016. *Realizing the Urban Potential in Georgia: National Urban Assessment*. Manila.

⁴ ADB. 2019. *Promoting Regional Tourism Cooperation under CAREC 2030: A Scoping Study*. Manila.

⁵ Georgian National Tourism Administration. 2015. *Georgia Tourism Strategy, 2015–2025*. Tbilisi.

⁶ ADB. 2016. *Technical Assistance to Georgia for Livable Urban Areas: Integrated Urban Plans for Balanced Regional Development*. Manila. The TA applied the 3E approach—economy, environment, and equity—described in ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila. It also advanced the approach by introducing a 4th E: “enablers.”

⁷ ADB. 2018. [*Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*](#). Manila.

⁸ ADB. 2018. *Country Operations Business Plan: Georgia, 2019–2021*. Manila; ADB. 2011. *Water Operational Plan, 2011–2020*. Manila; ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila; and ADB. 2013. *Environmental Operational Directions, 2013–2020*. Manila.

4. The ensuing MFF will improve the quality of public space, mobility, and livability, with an inclusive urban design and public space management for adapting the built environment for the elderly, people with disabilities, women, and children. It will have three interlinked outputs: (i) improved urban infrastructure and services; (ii) improved accessibility, connectivity, and attractiveness of regional tourism clusters; and (iii) enhanced institutional capacity for implementing and managing urban infrastructure and services. The four selected clusters present diverse economic models and the potential to scale up countrywide: (i) Kakheti: Telavi, Gurjaani, and Akhmeta municipalities, with a focus on viticulture, agribusiness, and cultural heritage; (ii) Samegrelo-Zemo Svaneti: Zugdidi cluster, with a focus on ecotourism, culture, agribusiness, and a logistics center, with links to the proposed deep sea port in Anaklia; (iii) Samegrelo-Zemo Svaneti: Mestia-Ushguli cluster, with a focus on adventure tourism and cultural heritage; and (iv) Tbilisi City, with a focus on urban area redevelopment, public space management, walkability, public transport improvements, and river rehabilitation.

5. The prioritized urban investments include integrated solutions that will bring co-benefits to citizens in the development of the urban clusters, including water supply, sewerage and sanitation, connectivity, urban transport and mobility (including nonmotorized and public transport), solid waste management, cultural and historical heritage conservation, flood control and drainage, urban resilience, and smart systems for urban management.⁹

6. The proposed PRF will assist the government in ensuring that urban and tourism infrastructure and services are implemented efficiently by systematically advancing the preparatory activities. This preparation will include feasibility studies, detail engineering design, bidding documents, and procurement assistance for advance contracting. This will contribute significantly to (i) improving the implementation performance of the ensuing MFF by reducing the period between program concept and loan approval and the commencement of program activities, (ii) helping to achieve the intended outcomes efficiently, and (iii) realizing the programs' impacts and benefits in a timely manner. The PRF will also develop capacity and help establish an enabling environment, supporting the government in implementing the livable cities program, the inclusive cities guidelines and gender-sensitive design and ensuring donor coordination.¹⁰

B. Outputs and Activities

7. The PRF will ensure high readiness of the ensuing MFF in Georgia, by delivering the following outputs:

8. **Output 1: Feasibility study, preliminary and detailed engineering design, and procurement support completed.** Under the PRF, the feasibility study will be completed, covering economic, financial, safeguard, gender, technical, and integrity aspects of the ensuing projects.¹¹ The PRF will support the preparation of the detailed engineering design for civil works, or review and validate projects for which the government has already prepared the detailed design. To ensure the ensuing MFF is ready for procurement, the PRF will support the preparation of the procurement documents and procurement process.

9. **Output 2: Program management, coordination, and institutional capacity for implementing and managing urban and tourism infrastructure and services improved.** The PRF will support institutional capacity building for implementing and managing urban and tourism infrastructure and services. An institutional capacity building plan for each key urban service provider will be prepared for implementation during the ensuing MFF. The PRF will provide

⁹ Integrated urban climate investment plans developed under the PRF will identify priority climate change projects.

¹⁰ The World Bank is focusing on cultural heritage upgrading, while EBRD is supporting replacement of buses.

¹¹ The government requested for a feasibility study to be undertaken for the rehabilitation of the Mtkvari River.

support and training to implementing agencies on integrated urban development, procurement, contract management, safeguards, and anticorruption measures. Urban management partnerships will be identified and/or established to share best practices, and core capacities will be developed to improve service efficiency and sustainability.

C. Ensuing Projects

10. The ensuing projects to be supported by the facility are listed in Table 1. The PRF will also support future tranches in additional regions under the MFF once the projects are identified during implementation and agreed between ADB and the government.¹²

Table 1: List of Ensuing Projects

Project Name	Indicative Financing Amount	Expected Year of Approval
Livable Cities Investment Program MFF	€361.2 (\$400 million)	2020
Tranche 1 of MFF	€45.15 (\$50 million)	2020
Tranche 2 of MFF	€45.15 (\$50 million)	2020

MFF = multitranche financing facility.

Source: Asian Development Bank.

D. Cost Estimates and Financing Arrangements

11. The PRF is estimated to cost €16.52 million (Table 2). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹³

Table 2: Summary Cost Estimates

(€ million)

Item	Amount^a
A. Base Cost^b	
1. Feasibility study, design engineering design and procurement support	12.63
2. Institutional capacity building for implementing and managing urban infrastructure and services	2.34
Subtotal (A)	14.97
B. Contingencies^c	1.50
C. Interest During Implementation^d	0.05
Total (A+B+C)	16.52

^a Includes taxes and duties of €2.97 million to be financed by the government. Such amount does not represent an excessive share of the project cost. The government has requested the loan to be in euro.

^b In mid-2019 prices as of 1 August 2019.

^c Price contingencies computed at about 10% for consulting services.

^d Interest during implementation for the ordinary capital resources loan has been computed at the 5-year euro fixed swap rate as of 2 August 2019 rate plus an effective contractual spread of 0.5%.

Source: Asian Development Bank.

12. The government has requested a regular loan of €13,550,000 (equivalent of \$15,000,000) from ADB's ordinary capital resources to help finance project preparation and design activities.¹⁴ The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; and such other terms and conditions set forth in the draft loan agreement. The summary financing plan is in Table 3. ADB will finance the expenditures in relation to consulting services,

¹² The selection criteria for choosing such projects are listed in Project Selection Criteria (accessible from the list of linked documents in Appendix 1), as agreed between ADB and the government.

¹³ Project Administration Manual (accessible from the list of linked documents in Appendix 1).

¹⁴ €1.0 = \$1.107 as of 17 October 2019.

including pre-implementation support and surveys, as shown in the PAM.

Table 3: Summary Financing Plan

Source	Amount (€ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	13.55	82
Government ^a	2.97	18
Total	16.52	100

^a The Government contributions include taxes and duties. Government has requested loan currency in Euro.
Source: Asian Development Bank.

E. Implementation Arrangements

13. The implementation arrangements are summarized in Table 4, illustrated in appendix 2, and described in detail in the PAM. The implementing agencies will be responsible for ensuring financial compliance and progress reporting in accordance with the loan and project agreement, as well as on-time withdrawal applications.

Table 4: Implementation Arrangements for Project Readiness Facility

Aspects		Arrangements	
PRF implementation period	November 2019–August 2024		
Estimated loan closing date	30 December 2024		
Management			
(i) Oversight body	Program steering committees ^a		
(ii) Executing agencies	Ministry of Regional Development and Infrastructure of Georgia (for regional projects) Tbilisi City Hall (for Tbilisi City projects)		
(iii) Key implementing agencies	LEPL Municipal Development Fund of Georgia Roads Department of Georgia (under MRDI) United Water Supply Company of Georgia NPLE Tbilisi Development Fund (for Tbilisi City projects)		
Consulting services	4 firms: OCB – (international advertisement) QCBS (80:20)	774 person-months (131 person-months for tranche 1 and 280 person-months for tranche 2)	€10.35 million (\$11.46 million) ^b
	Individuals: individual consultant selection	145 person-months	€1.83 million (\$2.03 million)
Retroactive financing and advance contracting	Retroactive financing and advance contracting are proposed for the consulting services and pre-implementation support.		
Disbursement	Disbursements under the PRF will follow ADB’s <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, LEPL = legal entity under Public Law, MRDI = Ministry of Regional Development and Infrastructure of Georgia, NPLE = non-profit legal entity, OCB = open competitive bidding, PRF = project readiness financing, QCBS = quality- and cost-based selection.

^a The program steering committee for the regional projects will comprise deputy ministers or directors from (i) the Ministry of Regional Development and Infrastructure; (ii) the Ministry of Finance; (iii) the Ministry of Economy and Sustainable Development, and the Georgian National Tourism Administration under the Ministry; (iv) National Agency for Cultural Heritage Preservation under the Ministry of Education, Science, Culture and Sports; and (v) regional governors, municipalities, administrations of state trustees, and implementing agencies. The program steering committee for Tbilisi, led by the mayor, will comprise representatives from (i) the Ministry of Finance; (ii) the Ministry of Economy (Georgian National Tourism Administration); and (iii) the Ministry of Education, Science, Culture and Sports (National Agency for Cultural Heritage Preservation).

^b €1.0 = \$1.107 as of 17 October 2019.

Source: Asian Development Bank.

14. The government (implementing agencies) will recruit consulting firms through quality- and cost-based selection (80:20) and individuals through individual consultant selection, under contracts, following the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time) to undertake feasibility studies, detailed engineering design, and other project preparation activities.¹⁵ The government has requested advance action (contracting) to start consultant recruitment before PRF approval and ADB assistance with consultant firm recruitment for Tbilisi Development Fund. Retroactive financing is requested for the consulting services and pre-implementation support. Withdrawals from the PRF loan account may be made to finance eligible expenditures incurred under the PRF before the effective date of the PRF loan, but not earlier than 12 months before the date of the PRF loan agreement in connection with feasibility studies, detailed engineering design, and procurement preparatory activities, subject to a maximum amount equivalent to 20% of the PRF loan amount.

II. DUE DILIGENCE

15. **Technical.** Pre-feasibility studies of priority projects were prepared under the TA. The Ministry of Finance is implementing the public investment management system, which will filter individual project selection. The transaction TA facility for Preparing Integrated Solutions for Livable Cities will support due diligence, including economic and financial analysis; poverty, social, and gender analysis; procurement risk assessments; safeguard assessments; capacity assessments of the executing and implementing agencies; and climate assessments and preparation of the loan documents for the ensuing investment program.¹⁶

16. **Governance.** The executing and implementing agencies for the regional projects have experience with ADB projects. The institutional capacity and financial systems of all the executing and implementing agencies was reviewed. Considering TCH as a new executing agency and TDF as a new implementing agency, capacity building support will be provided. The combined risk for implementing the PRF is categorized *substantial*. Integrity due diligence for UWSCG, MDF, and TDF has been conducted for the PRF and has identified no significant integrity risks. All due diligence, including gender, will be updated through the TA for the ensuing projects of the investment program.

17. **Safeguards.** Since the proposed activities consist of consulting services only, activities have not been categorized in accordance with ADB's Safeguard Policy Statement (2009). The safeguard classifications for the ensuing loans of the MFF are expected to be *category B* for environment and involuntary resettlement. No adverse impacts from the ensuing projects are expected to affect indigenous peoples (*category C*). Safeguard ratings will be assessed for the ensuing investment program, with relevant documents prepared under the TA.

III. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the loan of €13,550,000 to Georgia for the project readiness financing of the Livable Cities Investment Program, from the ordinary capital resources of the Asian Development Bank (ADB), in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement; and hereby reports this action to the Board.

¹⁵ A framework agreement will be considered, given the similarity of the preparation work under the different tranches.

¹⁶ ADB. 2019. *Technical Assistance to Georgia for Preparing Integrated Solutions for Livable Cities*. Manila.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=53118-002-PRF>

1. Loan Agreement
2. Project Agreement: Regions
3. Project Agreement: Tbilisi City
4. Project Administration Manual
5. Project Selection Criteria