



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
THIRD REGIONAL DEVELOPMENT PROJECT  
APPROVED ON JULY 1, 2015  
TO  
GEORGIA

March 29, 2022

URBAN, RESILIENCE AND LAND

EUROPE AND CENTRAL ASIA

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## ABBREVIATIONS AND ACRONYMS

GEL	Georgian Lari
MDF	Municipal Development Fund
NACHP	National Agency for Culture Heritage Preservation of Georgia
PDO	Project Development Objective
RDP3	Third Regional Development Project
US\$	United States Dollar



**BASIC DATA**

**Product Information**

Project ID P150696	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 01-Jul-2015	Current Closing Date 31-Dec-2022

**Organizations**

Borrower Georgia	Responsible Agency Georgia Municipal Development Fund
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**Project Development Objective (PDO)**

Original PDO

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.

**Summary Status of Financing (US\$, Millions)**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IBRD-84940	01-Jul-2015	07-Aug-2015	15-Oct-2015	31-Dec-2022	60.00	31.76	28.24

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No



## I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

### A. General

1. An IBRD loan of US\$60 million for the Third Regional Development Project (RDP3) was approved by the World Bank Board of Directors on July 1, 2015. The Loan Agreement was signed on August 7, 2015, and became effective on October 15, 2015. An original Loan Closing Date was December 31, 2019.
2. The Project was restructured in October 2019 at the request of the Borrower to: (i) extend the loan closing date by 3 years, from December 31, 2019, to December 31, 2022, to allow the full implementation of all subproject investments that were critical to achieving the Project Development Objective (PDO), and (ii) modify the Results Framework to enhance its alignment with the PDO and improve attribution of the PDO indicators to the project supported activities.
3. **PDO and Overall Project Status.** The Project Development Objective (PDO) is to *improve infrastructure services and institutional capacity to support the increased contribution of tourism in the local economy of the Samtskhe-Javakheti and Mtskheta-Mtianeti regions*. Activities supported under the Project have already led to improved public services and facilities for 11 thousand beneficiaries through (i) 13 thousand square meters of rehabilitated urban and public spaces; (ii) improved water supply connections for 58 households; (iii) 35 kilometers of rehabilitated roads leading to key tourist attractions; (iv) 185 upgraded street light posts; (v) 17 rehabilitated historical houses, renovated Observatory Complex and the cable way in Abastumani; (vi) rehabilitated Central Park in Dusheti, and (vii) improved tourism infrastructure at key tourist attractions such as the Vadzia cluster comprising a number of historical monuments and Sapara Monastery. To date, the cumulative disbursement under the loan has reached US\$31.3 million (52.2 percent of the total loan amount).
4. The PDO remains relevant and the Progress towards the achievement of the PDO is rated as **Moderately Satisfactory**. From December 2020, however, the rating for Implementation Progress has been **Moderately Unsatisfactory** due to delays with the preparation of detailed designs for the pipeline investments. Specifically, the preparation of designs for thirteen the agreed investments worth US\$22 million suffered from unexpected and substantial delays driven mainly by the impacts of COVID-19 and related measures introduced in Georgia to curb the spread of the pandemic, including: (i) the government imposed fiscal limits during early 2021 that paused the preparation of the needed documentation and led to the delayed launch of some detailed designs and key investments; and (ii) overall operational challenges caused by the COVID-19 pandemic, including travel restrictions, that disabled the required mobilization of international expertise for the preparation of detailed designs. The preparations also suffered from procurement-related delays, including due to long decision-making within the Ministry of Regional Development and Infrastructure (MRDI) and changes in leadership within the Ministry following the parliamentary and municipal elections held in November 2019 and October 2020.
5. Since October 2020, the Bank and Municipal Development Fund (MDF) - the Project implementing unit (PIU) - have been closely working together to advance the project implementation and conducted regular virtual monthly progress monitoring meetings to review implementation progress against the agreed implementation plan, closely monitor ongoing and planned activities, and provide support to MDF in identifying solutions for pending issues. As a result of these collaborative efforts, the project has since gained positive momentum both in terms of the pipeline preparation and implementation of the existing contracts. In particular, the design packages for the key high-impact subprojects are now ready, and there has been notable progress in the pace of implementation with 20 civil works contracts valued at US\$13.3 million completed and five civil works contracts valued at US\$20.9 million committed and works ongoing. In addition, 10 consultancy contracts worth circa US\$1.85 million have been completed and an additional 12 consultancy



contracts valued at US\$10.8 million are currently underway. At the same time, about US\$22 million of pipeline investments (or 37 percent of the Project Loan amount) are at risk of not being able to commence or be fully implemented within the current Loan Closing Date of December 31, 2022.

## B. Rationale for Restructuring

6. **Borrower Request.** On February 9, 2022, the Ministry of Finance (MOF) sent a letter to the Bank requesting to extend the Loan Closing Date by 22 months from December 31, 2022, to October 30, 2024, to allow for full implementation of all subproject investments and achieving the PDO. On February 16, 2022, the Ministry of Regional Development and Infrastructure (MRDI) sent a follow-up letter requesting amendments to the Results Framework to realistically capture the expected results from the Project and contribution of the results to achieving the PDO.
7. **Achievement of the project's objectives.** At the current 52.2 percent cumulative disbursement rate (US\$31.3 million) and with only one more construction season left before the current Loan closing date of December 31, 2022, the full disbursement of the remaining loan funds and full achievement of the project objectives will no longer be attainable. If the Project is not extended, it is estimated that only 65 percent of the total Loan would be disbursed (est. US\$40 million) and about thirteen high impact investments (worth up to US\$22 million) would need to be dropped or would not be completed. This would prevent the full rehabilitation of two high-visibility resort towns of Abastumani and Bakuriani, which would hinder the realization of their economic potential to leverage private sector mobilization and support the creation of additional jobs in the hospitality sector at the local level. The proposed extension of the closing date would also enable the continuation of the Project-financed technical supervision for the ongoing construction sites, many of which belong to high value cultural heritage sites, leading to successful completion of the works, operationalization of the assets, and thus contributing to the sustainability of investments.
8. An assessment of the works' duration and associated terms of the extension of the loan closing date was undertaken during the latest Bank mission<sup>1</sup>, and it was confirmed that the remaining works would overall require two additional construction seasons - which entails a 22-month extension – to be fully completed and contribute towards enabling the project to satisfactorily meet its objectives. Following the mission, the Bank and MDF defined the key milestone to be met as a basis on which the 22-month extension of the Project would be considered. The key milestone was to ensure that four investment packages (Bakuriani Park, Bakuriani Bus Depot, Juta Huts and Abastumani Telescope) worth US\$16 million (est. 73 percent of the remaining planned investments) would be tendered by end-December 2021<sup>2</sup>. The milestone was successfully met, and the Bank team believes an extension of the Project is justified. The evaluation of the civil works tenders worth US\$16 million (plus two additional investments worth US\$4 million) is expected to be completed by May 2022, and the respective civil works (totaling US\$20 million) are expected to commence before or no later than June 2022. The full commitment of the remaining US\$2 million in loan funds is planned to be achieved by August 2022.
9. MRDI is fully committed to utilizing all loan funds to implement the remaining investments in tourism, urban infrastructure, and rehabilitation of high value sites, as planned. The previous constraints in implementation progress, stemming from delays in the preparation of designs, have now been fully resolved and the design packages for the key high-impact subprojects have been tendered. This has given the Borrower renewed momentum to fully implement the remaining subprojects within the proposed extension period. In preparation for the extension, MDF has prepared a

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<sup>1</sup> Conducted from November 16 to 19, 2021

<sup>2</sup> The main subprojects include rehabilitation of Abastumani Houses (second batch), operationalization of Abastumani Observatory, revitalization of Roscha Park in Abastumani, construction of Bakuriani Bus Depot, rehabilitation of Bakuriani Recreation Park, Dusheti Urban Upgrading, and rehabilitation of tourism infrastructure at Tbilisi National Park.



detailed action plan to ensure the completion of all outstanding activities during the prolonged Project implementation period as well as the full disbursement of the remaining loan funds. A three-month cushion period has also been included in the action plan to allow for unexpected delays during the implementation of construction works. The Bank and Borrower will continue to jointly monitor the implementation of the action plan through regular monthly meetings. Finally, the procurement related gaps leading to the delays with implementation have been duly addressed and MDF assigned additional human capital to the project to ensure timely preparation of procurement packages. These procurement staff have been continuously receiving formal and on-the-job training from the Bank to address the issues identified either during the implementation support missions or during the post reviews.

10. **Revisions to the Results Framework.** The COVID-19 globally has negatively impacted the tourism sector and put the achievement of the targets set out in the Project Results Framework at risk. The record high growth of tourism arrivals in Georgia for the last decade and increase in tourism-related investments have been upended by the effects of the pandemic, making it necessary to revisit the initially set targets and amend them considering the new reality related to declining trends and a negative forecast for the tourism sector. While the potential economic impacts of Russia's invasion to Ukraine are yet to be fully realized, it is expected that the conflict as well as the ensuing crisis in the region will have adverse impacts on the economy and future tourism development prospects in Georgia, as the country's primary tourism markets will be heavily impacted by the recent developments. To this end, the requested changes to the results framework include: (i) revision of targets to accommodate the impact of COVID-19 and recent regional conflict on the tourism sector, reflecting a decrease in both tourist numbers and tourism related private sector investments and jobs, (ii) refinement of data collection methodology, and (iii) modification of select indicators to better align expected results with project activities and further improve attribution.
11. **Restructuring Requirements.** The proposed restructuring meets the following requirements of Paragraph 50 of the World Bank's Investment Project Financing Directive<sup>3</sup>: (i) the project objectives continue to be achievable; (ii) the performance of the Borrower is Moderately Satisfactory; and (iii) the World Bank and the Borrower have agreed on actions that will be undertaken by the Borrower to complete the project within the new loan closing date. There are no outstanding or unsatisfactory audit reports. Procurement and safeguards compliances continue to be Moderately Satisfactory, and no significant safeguards-related issues have been reported.

## II. DESCRIPTION OF PROPOSED CHANGES

12. In light of the Borrower's request, the proposed restructuring seeks to: (i) extend the loan closing date by 22-months, from December 31, 2022, to October 30, 2024, with the project implementation schedule adjusted and disbursement projections modified accordingly to capture the extension, and (ii) revise the Project Results Framework and associated target values of the indicators considering the new reality related to declining trends and a negative forecast for the tourism sector due to impact of COVID-19 and the recent regional conflict.
13. **Extension of Loan Closing Date.** This restructuring paper proposes a 22-month extension of the Loan Closing Date—from December 31, 2022, to October 30, 2024. This will be the second extension of the Loan Closing Date, and, together with the first extension processed in October 2019, will lead to a cumulative extension of 4.8 years beyond the original closing date and therefore requires approval by the Regional Vice President. This extension will bring the cumulative project age at Loan Closing to approximately 9.3 years.

<sup>3</sup> <https://ppfdocuments.azureedge.net/a8028031-038c-46e8-99b2-c31487ebe0ad.pdf>



14. **Changes to Results Framework.** The following changes to the Results Framework are proposed: i) modification of targets to reflect the effects of the pandemic and regional conflicts on the tourism sector as well as more refined data collection methodologies, and ii) refinement and replacement of several indicators to ensure attributability to the project activities. The proposed changes are detailed in Table 1.

**TABLE 1: SUMMARY OF PROPOSED CHANGES TO RESULTS FRAMEWORK**

<b>Indicator</b>	<b>Proposed change</b>	<b>Justification</b>
<b><i>PDO indicators</i></b>		
Number of functioning destination management organizations in the Project area, supported under the Project (Number)	Changed the target from 2 to 1 DMO.	The current target was assessed as not feasible to achieve given the effects of the pandemic on tourism and uncertainty on how and when the sector will rebound.
	Revised formulation of the indicator to refer to functioning DMOs within the Project area and supported by the Project.	The indicator will be achieved through the support provided to the existing DMO whose capacity will be further enhanced to meet the needs of the tourism sector.
Increased number of local visitors at selected Project sites (Percentage)	Revised formulation of the indicator to specify the increased number of local visitors to Project sites as opposed to regional-level visitors.	This change is intended to improve attribution to the project activities and realistically capture the project results, given the ongoing COVID-19 impact and recent regional developments.
Management plans operationalized for museums and cultural heritage sites (Number)	This is a new indicator.  Baseline: 0 Target: 3	This indicator is introduced to capture the operationalization of new museums and cultural heritage sites, and is directly linked to the number of museums to be refurbished through the project.
Increased volume of private sector investments in targeted areas (GEL, millions).	Revised currency from US\$ to GEL and updated the indicator with new target.  Baseline: 0 Target: 66	This change is to reflect the ongoing effects of the COVID-19 pandemic on the tourism sector, based on latest available data from planned large-scale investments. This revision also reflects adjustments to the unit of measurement to avoid currency fluctuations.
<b><i>Intermediate indicators</i></b>		
Number of jobs created by the Project activities linked to the RDP 3 (Number)	Revised the formulation of the indicator definition to improve its attribution to the project activities and clarified that these are the jobs created by the activities directly linked to the Project.  New target set to 2,000 to reflect only those jobs which are directly linked with the project as opposed to relying on the regional statistics (including beyond the project affected areas and locations) provided by Geostat.	The proposed change aims at improving the attributability of the indicator and its target to the actual project activities. The previous target of 82,410 accounted for all tourism related jobs at the regional level calculated by the Georgia statistics office. This revision will help directly link the jobs created through the Project-related activities and thus, improve the attribution of the indicator.



Indicator	Proposed change	Justification
	Considering the nature of the newly proposed wording, as it will measure the jobs created by the project financed activities (immediate effect), the newly revised indicator has been moved from the PDO-level to the Intermediate-level.	
Direct Project beneficiaries (Number)	Reduced target value from 120,000 to 33,684.	This change is to improve the attribution to the Project activities, and suggests adjustment of population figures of municipalities within which the project sites are located and where beneficiary training will be undertaken.
Female beneficiaries (percentage, Supplement)	Restated the unit of measure as a percentage.	This change is to revise the unit of measure as a percentage, rather than an absolute number, of the direct Project beneficiaries.
New or rehabilitated urban public spaces in selected municipalities (Square Meter(m <sup>2</sup> ))	Moved from PDO-level indicator to Intermediate results indicator.	This indicator creates an enabling environment for attainment of the PDO rather than contributing directly to the PDO. This change will improve the RF to be more aligned with the Bank best practice on Results Framework and Theory of Change.
	Reduced target value from 277,877 sq. m. to 95,000 sq.m.	This change is to introduce the revised target based on actual expected results following the full elaboration and completion of detailed plans and designs for subprojects to be implemented under the extension.
Improved access roads to selected tourism attraction sites (Kilometers)	Increased target from 35km to 41km.	This change is to update the target based on the actual expected results following the full elaboration and completion of the detailed plans and designs for subprojects to be implemented under the extension.
Number of people provided with on-the-job training in tourism management (Number)	This is a new indicator.  Baseline: 0 Target: 30	This indicator is introduced to account for Project activities aimed at providing tourism-related training.

15. **Changes to the implementation schedule.** The revised implementation plan is based on the new loan closing date of October 30, 2024. As noted above, the Bank and the Borrower agreed on the revised implementation plan, according to which, all planned and ongoing construction works will be completed, and delivered infrastructure and assets will become operational by the new loan closing date of October 30, 2024.





- 16. **Disbursement Estimates.** As a result of the revised implementation schedule, the disbursement projections have also been revised to match the revised implementation timeline and extended loan closing date. It is expected that the entire loan amount will be disbursed by the proposed new loan closing date of October 30, 2024.
- 17. **Safeguards.** The proposed restructuring does not change the Project’s environmental classification (Category B), nor trigger the application of any new policies or exceptions to any Bank safeguard policies.
- 18. The proposed changes will not impact the original economic, financial, technical, institutional, or social aspects of the Project as appraised. The composition of the Project components will also remain the same and there is no change in the implementation arrangements. Implementing agencies and contractors are fully committed to ensuring the successful completion of the Project.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Loan Closing Date(s)	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
PBCs		✓
Components and Cost		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓



Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

**IV. DETAILED CHANGE(S)**

**LOAN CLOSING DATE(S)**

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-84940	Effective	31-Dec-2019	31-Dec-2022	30-Oct-2024	28-Feb-2025

**DISBURSEMENT ESTIMATES**

Change in Disbursement Estimates  
Yes

Year	Current	Proposed
2016	5,000,000.00	5,000,000.00
2017	2,500,000.00	2,365,046.00
2018	500,000.00	556,404.00
2019	10,500,000.00	10,445,735.00
2020	3,000,000.00	5,389,569.00
2021	5,000,000.00	4,271,064.00
2022	15,000,000.00	7,000,000.00
2023	18,500,000.00	9,100,000.00
2024	0.00	15,872,182.00



Results framework

COUNTRY: Georgia

Third Regional Development Project

Project Development Objectives(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.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	End Target
<b>Infrastructure Investment</b>			
Increased number of local visitors at selected project sites (Percentage)		0.00	25.00
<i>Action: This indicator has been Revised</i>	<i>Rationale: Revised to refer to increased visitors to Project sites. This change is intended to improve attribution to Project activities. This change is intended to improve attribution to the project activities and realistically capture the project results, given the ongoing COVID-19 impact and recent regional developments.</i>		
Increased volume of private sector investments in targeted area (GEL, millions) (Number)		0.00	66.00
<i>Action: This indicator has been Revised</i>	<i>Rationale: Revised currency from US\$ to GEL and updated the indicator with new target. This change is to reflect the ongoing effects of the COVID-19 pandemic on the tourism sector, based on latest available data from planned large-scale investments. This revision also reflects adjustments to the unit of measurement to avoid currency fluctuations.</i>		



Indicator Name	PBC	Baseline	End Target
Number of jobs created by activities linked to support tourism industry (gender disaggregated) (Number)		63,787.00	81,410.00
<b>Action: This indicator has been Marked for Deletion</b>	<b>Rationale:</b> <i>Revised formulation and moved the indicator to intermediate results indicators.</i>		
New or rehabilitated urban public spaces in selected municipalities (Square Meter(m2))		0.00	277,877.00
<b>Action: This indicator has been Marked for Deletion</b>	<b>Rationale:</b> <i>This change is to move the indicator to intermediate results indicators.</i>		
<b>Institutional Development</b>			
Number of functioning destination organizations in the project area, supported under the Project (Number)		0.00	1.00
<b>Action: This indicator has been Revised</b>	<b>Rationale:</b> <i>The current target was assessed as not feasible to achieve given the effects of the pandemic on tourism and uncertainty on how and when the sector will rebound.</i> <i>The indicator will be achieved through the support provided to the existing DMO whose capacity will be further enhanced to meet the needs of the tourism sector.</i>		
Management plans operationalized for museums and cultural heritage sites (Number) (Number)		0.00	3.00
<b>Action: This indicator is New</b>	<b>Rationale:</b> <i>This indicator is introduced to capture the operationalization of new museums and cultural heritage sites, and is directly linked to the number of museums to be refurbished through the project.</i>		



### Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
<b>Infrastructure Investment</b>			
Direct project beneficiaries (Number)		0.00	33,684.00
<i>Action: This indicator has been Revised</i>		<i>Rationale: Reduced target value to 33,684. This change is to improve the attribution to the Project activities, and suggests adjustment of population figures of municipalities within which the project sites are located and where beneficiary training will be undertaken.</i>	
Female beneficiaries (Percentage)		0.00	50.00
<i>Action: This indicator has been Revised</i>		<i>Rationale: Restated the unit of measure as a percentage. This change is to revise the unit of measure as a percentage, rather than an absolute number, of the direct Project beneficiaries.</i>	
Grievances registered related to delivery of project benefits addressed (Percentage)		0.00	100.00
Grievances responded to and/or resolved within one month of being filed (Percentage)		0.00	100.00
Number of museums refurbished (Number)		0.00	3.00
Number of tourism facilities constructed at cultural heritage sites along the tourist circuit (Number)		0.00	8.00
Piped household water connections that are benefiting from rehabilitation works undertaken by the project (Number)		0.00	420.00
Improved access roads to selected tourism attraction sites (Kilometers)		0.00	41.00



Indicator Name	PBC	Baseline	End Target
<b>Action: This indicator has been Revised</b>	<p><b>Rationale:</b>  <i>Increased target to 41km. This change is to update the target based on the actual expected results following the full elaboration and completion of the detailed plans and designs for subprojects to be implemented under the extension.</i></p>		
Number of houses restored (Number)		0.00	58.00
Number of street lighting posts and bulbs replaced (Number)		0.00	760.00
Number of Parks upgraded (Number)		0.00	4.00
New or rehabilitated urban public spaces in selected municipalities (Square Meter(m2)) (Square Meter(m2))		0.00	95,000.00
<b>Action: This indicator is New</b>	<p><b>Rationale:</b>  <i>Moved from PDO-level indicator to Intermediate results indicator and reduced target value to 95,000 sq.m. The change is because this indicator creates an enabling environment for attainment of the PDO rather than contributing directly to the PDO. This change will improve the RF to be more aligned with the Bank best practice on Results Framework and Theory of Change.</i></p>		
Number of jobs created by the Project activities linked to the RDP 3 (Number)		0.00	2,000.00
<b>Action: This indicator is New</b>	<p><b>Rationale:</b>  <i>Moved from PDO-level indicator to Intermediate results indicator and revised formulation of the definition to improve its attribution and clarity that these are the jobs created by the activities directly linked to the Project. This change is to improve the attributability of the indicator and target to the actual project activities. The previous target of 82,410 accounted for all tourism related jobs at the regional level calculated by the Georgia statistics office. This revision seeks to more directly account for the jobs created through the Project-related activities and thus, improve the attribution of the indicator.</i></p>		
<b>Institutional Development</b>			



Indicator Name	PBC	Baseline	End Target
Number of beneficiaries of skills development training provided by the Project, disaggregated by gender (Number)		0.00	467.00
Number of people provided with on-the-job training in tourism management (Number)		0.00	30.00
<b>Action: This indicator is New</b>	<b>Rationale:</b> <i>This is a new indicator. This indicator is introduced to account for Project activities aimed at providing tourism-related training.</i>		



**The World Bank**

Third Regional Development Project (P150696)

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