

## Roads to Recovery: Improving Infrastructure in Georgia's Cities

**RUSTAVI, Georgia, 1 November 2005** - Megobroba Street extends half-paved between rows of working class apartment blocks in Rustavi, Georgia's third largest city.

It's pouring rain so the road crew has taken a break. Pedestrians duck for cover as buses splash their way through the street's rough patches.

But push open the door of a supermarket on the same half-finished street, and you'll find Lea Pataridze, a young saleswoman at the pastry counter, all patience and smiles.



"It's great," she says of the construction work at her doorstep. "I just wish they would do the same everywhere. In the 12th district, the neighborhood where I live, there is no asphalt at all. There are puddles large enough to swim in. My son comes home from school covered in mud."

Eventually, the municipality of Rustavi may well repave Pataridze's street. It plans to rehabilitate virtually all of the city's water and road networks by collecting revenue from privatizations and taxes, and borrowing additional cash from Georgia's Municipal Development Fund.



This fund, known as MDF, was created under the World Bank-financed [Municipal Development and Decentralization Project \(MDDP\)](#) launched in 1997, and supported by [a follow-up project](#) in 2002. The idea was to allow credit-worthy municipalities to finance infrastructure work on advantageous terms. In the process, local administrations would learn how to identify priorities, handle money and repay loans.

"It's crucial to build administrative skills outside the capital," explains Tamara Sulukhia, infrastructure specialist at the World Bank's Georgia Country Office. "All economic and social resources are concentrated in Tbilisi. But we need to do something about the rest of the country

where the other seventy-five percent of Georgians live."

Support from the MDF is part-grant, part-loan, repayable in 10 years after a two-year grace period. "We want to encourage them to build fiscal and repayment discipline," she says.

As of November 2005, 11 municipalities, including the capital, had borrowed money to spruce up their streets and lay down water and sewerage pipes. In Rustavi alone, the fund has helped finance nine separate infrastructure projects.

These infrastructure upgrades have made a strong impact in a city still reeling from the death of the command economy. Rustavi was built from scratch in 1948 to house the workers of a massive metallurgical plant, one of the Soviet Union's largest. Since the Union's collapse, dozens of factories have shut down and the metallurgical plant, now privatized, has slashed its staff from over 11,000 to a few hundred workers.



Repaved streets and more reliable water supplies are key to the city's recovery. "Better roads trigger development. People want to open their shops there. And businesses function better where there are roads and sidewalks," says Zaza Suladze, Rustavi's recently-appointed vice-mayor, who notes an up-tick in the city's economic activity in the past few years.



Giorgi Alhanashvili's small business is a case in point. The barrel-chested man in his forties was unemployed when he decided to open a car wash two years ago on a major street that had just been repaved with MDF funding.

His business immediately thrived while his nearest competitor, a car wash located on a bumpy and muddy side-street, went bankrupt. Alhanashvili chose his business location with care. He says customers would not come if it were hard to reach. "However," he adds with a smile, "if mud didn't exist, I wouldn't have this business..."

On a larger scale, better infrastructure could help draw foreign investors, already lured by Rustavi's proximity to Tbilisi (the two cities are separated by a 20-minute car drive). Although thousands of skilled workers left Rustavi when activity at the metallurgical factory ground to a near halt, the municipality has plans to revive its reputation as an attractive industrial zone by creating a high-caliber vocational school. This type of strategic thinking is exactly what the project's backers had in mind when they launched the Municipal Development Fund.

Since 2002, MDF generates its own resources. "It's now a revolving fund with a long-term vision," says Giorgi Meskhishvili, head of the fund's Investment and Loan Department. "It's a sustainable Georgian institution whose staff will be able to assist any municipality," concurs Sulukhia, the infrastructure specialist. A further sign of the fund's credibility, the Millennium Challenge Corporation has asked MDF to manage a USD 60 million grant earmarked for infrastructure.