

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA598

<b>Project Name</b>	Regional Development Project II (P130421)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Georgia
<b>Sector(s)</b>	General water, sanitation and flood protection sector (60%), Urban Transport (30%), Sub-national government administration (8%), Voc ational training (2%)
<b>Lending Instrument</b>	Specific Investment Loan
<b>Project ID</b>	P130421
<b>Borrower(s)</b>	Ministry of Finance
<b>Implementing Agency</b>	Municipal Development Fund
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared</b>	24-Sep-2012
<b>Estimated Date of Appraisal Completion</b>	21-Sep-2012
<b>Estimated Date of Board Approval</b>	06-Nov-2012
<b>Decision</b>	

**I. Project Context**

**Country Context**

A Post Conflict Country in Economic Recovery: With a population of 4.48 million, Georgia is a resource rich lower middle-income country. In 2008-09, Georgia's economy was hit by the twin shocks of the August 2008 armed conflict, followed by the global economic crisis. Economic growth, which had been in excess of 9% between 2005 and mid-2008, fell sharply to 2.3% in 2008 and contracted by 3.8% in 2009. As a result of the conflict, Georgia found itself with thousands of new internally displaced persons (IDPs) and thousands more hurt from the job and income loss. The authorities were faced with the dual challenges of mitigating the impact of the economic downturn in the short term, and facilitating recovery and preparing Georgia for a post-crisis growth in the medium term. Economic recovery took hold in 2010–11 as a result of the government's policy reform agenda. While the eurozone crisis dragged down growth in many other emerging economies in Eastern and Central Europe, the Georgian economy grew strongly by 7% in 2011. Strong exports, tourism inflows and high levels of public investment were the main contributors to the pace of economic expansion.

At the aggregate level, the Government's reform aims to address two priorities – increasing employment and narrowing the current account deficit. This is to be achieved by promoting private investments in sectors, such as tourism, power and logistics, and by continue the focused public interventions in infrastructure, regional development, agriculture, and education. These efforts are all seen as key catalyst for accelerating job creation.

Supportive Environment for Private Sector Growth: The authorities continue to support the private sector to lead such economic growth and job creation efforts. Georgia's reforms in the past years has positioned the country to be one of the world's most competitive business environments —ranked 16th out of 183 countries in the IFC 2012 "Doing Business" Report. Georgia scores well in terms of business start-ups, tax processes, investor protection, access to credit, enforcement of contracts, registering property and issuing construction permits. To continue the gradual process of regaining private sector's confidence after the twin shocks, the Government developed a regional development framework to focus its efforts in the past years on attracting private investors in secondary cities across various sectors, including tourism. The ultimate aim has been to enhance the potential and comparative advantage that regions have. There still remain, however, some physical and institutional capacity constraints to attract private investments in regions with high economic development potential.

Within the above-mentioned regional development framework, Georgia intends to fully tap its potential to promote sustainable tourism in promising regions, such as Kakheti and Imereti. In the framework of the Country Partnership Strategy Progress Report (CPS-PR) for FY10-FY13 presented to the Board in April 2011 (Report Number: 58287-GE), the Government asked the Bank to support regional development by applying a programmatic approach. The first Project under the program, Regional Development Project (RDP- P126033), US\$ 60 million IBRD loan, was approved by the Board in March 20, 2012, focusing on Kakheti region, and is now under implementation. This Project is the second in a series of regional development operations being implemented under the CPS, focusing on Imereti region.

**II. Sectoral and Institutional Context**

Georgia Regional Development Strategy: The objectives of the Government's State Strategy on Regional Development for 2010-2017, approved in June 2010, are to create a favorable environment for regional socio-economic development and to improve living standards. These objectives are to be achieved through balanced socio-economic development policy, increased competitiveness, and greater socio-economic equality among the regions. Initiated regional development strategies in the country, including the World Bank support to the Kakheti Region, intend to stimulate job creation by reducing imbalances among and within regions, improving public services, and attracting increased volume of private sector investments, especially in tourism. In line with this strategic direction, the Government invested about US\$300 million between 2005-2011, in economic and physical revitalization of Tbilisi, Signagi, Mtskheta, Batumi and Kutaisi cities. Implemented projects focused on a complete revamp of municipal infrastructure and restoration of old buildings stock (most of which featured heritage values). According to the Georgia National Investment Agency, the number of tourists to Georgia increased from 560,000 in 2005 to 2.7 million in 2011, with a projection to reach about 5 million by 2014. Nonetheless, the Government recognized that restoration of buildings and municipal infrastructure alone was not

sufficient condition to trigger and sustain local economic transformation. An integrated and demand-driven approach to regional development was seen as critical to spurring growth in secondary and historic cities.

Imereti Regional Context: Imereti is considered a lagging region; with the incidence of poverty standing at 14 percent, lower than the Georgian average of 16 percent. The unemployment rate is 11 percent, compared to the national average of 16 percent and that of Tbilisi's at 30 percent. Services, including tourism and retail, are the main driver of economic activities, contributing 73 percent of its total value added. While the bulk of services are represented by activities associated with tourism – given the numerous natural attractions of this region, this sector is highly underdeveloped. Agriculture constitutes 12 percent of the GDP of Imereti, versus 8 percent for Georgia as a whole.

Growing Importance of Imereti: The Government has been investing in Imereti for the past two years. Kutaisi, the region's capital and the 2nd largest city in Georgia after Tbilisi, has benefitted from substantial investment in urban regeneration. It is becoming Georgia's most significant administrative/government center after Tbilisi. In the fall of 2012, the Parliament of Georgia will be relocated from Tbilisi to Kutaisi, providing a major impetus for the city to reap the benefits from the significant presence of public administration. Some central government agencies, government regional buildings and other facilities are also being constructed in the downtown Kutaisi. The Government has also rehabilitated Kutaisi International Airport, which will open at the end of the 2012, bringing regular-fare and budget flights from within and outside Georgia. In addition, the Government has invested in the restoration of Sataplia and Prometheus caves, the Borjomi-Kharagauli National Park, and is currently partnering with the World Bank to expand the rehabilitation of the East-West highway to Imereti. All spa resorts in Tskaltubo have been privatized, with investors restoring the architecturally-significant buildings and the Government is upgrading and expand municipal infrastructure. The Government is also developing the Black Sea resorts of Batumi, Kobuleti and Anaklia and the ski resort of Upper Svaneti.

Tourism Development Potential: The Imereti spatial economic analysis and Imereti Regional Development Strategy have identified tourism, industry and trade as the main drivers of economic growth in the region. In addition, The Imereti Tourism Development & Marketing Strategy was prepared by the Government with the help of an international consulting firm to define the long term tourism development vision of Imereti and underpin this Project's design. Imereti is home to several cultural heritage patrimonies, most significantly are Bagrati cathedral and Gelati monastery, which are listed as UNESCO World Heritage Sites. The ancient town of Vani and its museum features a unique archaeological area associated with the myth of the Golden Fleece. The Katskhi monastery column, the Katskhi church, the Motsameta monastery and the Ubisa church also feature unique monuments with impressive architecture and geographic landscape. There are three significant natural areas: the Gordi gorge, one of the deepest and most attractive in Europe; 12 unique caves including the most significant in Europe- Prometheus and Sataplia; and 9 wellness/spa destinations in Tskaltubo and Sairme based on spring thermal water with unique therapeutic qualities. The protected area of Borjomi-Kharagauli National Park, one of the largest national reserve in Europe with rich landscape, is adjacent to Imereti.

Degraded Infrastructure Legacy in Tskaltubo: Government Investment in Imereti was focused mainly in Kutaisi on development of the parliament and public administration, with little attention to Tskaltubo and its neighboring historical sites (Gelati Church, Vani Museum, Ubisa Monastery, Katskhi Church and Katskhi Monastery Column). Infrastructure and historical buildings in Tskaltubo are degenerating despite the city's historic prominence as a wellness destination based on hot springs and natural spas. Years of neglect after independence have turned a once vibrant wellness tourism destination into one characterized with dilapidated buildings, unreliable infrastructure, poor water supply and sanitation system, inefficient street lighting system, degraded urban roads and under-utilized 70 hectare central park with several spring water baths. Several old and architecturally-significant hotel buildings are now vacant or under-utilized. There is absence of tourism facilities, such as public parking, public toilets, cafes, restaurants and information centers.

The tourism development strategy further identifies key challenges, which may hinder tourism development and require investment attention, including:

- Poor physical conditions and under-utilization of Vani Museum and its surrounding ethnographic site;
- limited hotel capacity (only 34 accommodation structures, mostly guest-houses and family-houses) and concentration of hotels in the capital city of Kutaisi;
- Limited number of food & beverage facilities (48 restaurants, 31 cafes and 15 bars);
- Limited sports & adventure offers;
- Lack of activities to promote the region as an attractive tourism destination;
- Lack of investor information, communications and cooperation among investors to attract private investment; and
- Inadequate skills for a services-based economy and limited proficiency in foreign languages.

As a result:

- Only 5 percent of visitors to Imereti (32,500 visitors) spend at least one night in Imereti, often in the capital city Kutaisi; and
- The vast majority of day visitors spend as little as US\$25/day.

The government recognizes the need to enhance amenities and urban services to also support business tourism related to the relocation of some elements of the Government to Kutaisi. The goal is to attract private investments, promote public-private partnerships, revitalize local business activity, define a full-fledged regional tourism circuit, and foster two leisure travel clusters (wellness/nature and cultural heritage). The tourism development strategy proposes to develop Imereti, with Kutaisi, Tskaltubo and Vani at its core, as a high-quality, year-round wellness/nature and cultural heritage destination. Seeking to attract both domestic and international tourists in Imereti, the strategy proposes an integrated approach, using the concept of geotourism, comprehensive urban renewal in Tskaltubo, rehabilitation and extension of Vani Museum and construction of tourism amenities at the neighboring historical sites. This complements the tourism development vision of other regions, such as in Kakheti (wine tourism, culture heritage and adventure), or in Adjara (sea sports, nature and recreation).

Projected Tourism Growth: With the implementation of an integrated approach to tourism development in Imereti, and the operation of Kutaisi international airport, the tourism strategy projects that the annual number of visiting tourists is expected to increase from 740,000 (585,000 Georgian visitors and 155,000 foreign visitors) in 2010 to 1.20 million by 2016 and to 2.00 million by 2020. The number of beds in hotels, guest-houses and family-houses is projected to grow from 2,661 in 2010 (in 34 hotels and 34 guest and family houses) to about 3,193 in 2016—to serve an expected increase in number of tourists with at least one night stay from 32,500 in 2010 to 110,000 by 2016 and to 300,000 in 2020. The number of tourists with at least one night stay is projected to reach 300,000 by 2020. About 23 percent of visitors to Imereti are international (the UK, Netherlands, France, Italy and Israel), while 11 percent are regional (Ukraine, Armenia and Azerbaijan). Most tourists do report enjoying the region's rich nature and cultural heritage and leave with very high level of satisfaction (8.5/10).

World Bank Support: Launching an ambitious tourism development strategy will require a multi-pronged intervention with the support of the World Bank in the following areas:

- Rehabilitating municipal infrastructure (water, sanitation, street lighting and access roads) and urban regeneration in Tskaltubo to improve public services and the park for residents and visitors alike, and attract private sector investments;
- Improving access roads and construct new tourism amenities in the five major cultural heritage sites;
- Rehabilitating and expanding Vani Museum;
- Improving planning and organization around the targeted segments tourism industry, e.g., managing/organizing destinations in a financially and environmental sustainable manner;
- Developing tourism clusters, mapping geo-tourism sites, developing circuits and improving visitor services, marking and promotion ;
- and
- Strengthening tourism and cultural heritage institutions and building capacity at the local level for improved system of assets operation and maintenance.

The design of the Project – a proposed blend of institutions, infrastructure, and targeted interventions – is informed by comprehensive diagnostic and international experience. The Project will aim to support the local economy in the region 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 Imereti region to the Georgia-wide tourism circuits, to tap the hitherto untapped yet potentially significant tourism and hospitality industry potentials. Imereti shall be reinvigorated as one of the key pillars of growth and of attraction in the broader Georgian context. The Project is important in the general context of Georgia's regional development and spatial planning vision.

### III. 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 in the Imereti Region.

### IV. Project Description

#### Component Name

Institutional Development

Infrastructure Investment

### V. Financing (in USD Million)

For Loans/Credits/Others	Amount
BORROWER/RECIPIENT	7.50
International Development Association (IDA)	30.00
Total	37.50

### VI. Implementation

Building on the successful experience of the Regional & Municipal Infrastructure Development Project (RMIDP) and Regional & Municipal Infrastructure Development Project Additional Financing (RMIDP-AF), the proposed Project will repeat the same arrangements for implementation, procurement, safeguards, financial management and disbursements as also under the RDP. The MDF will be responsible for all aspects of Project implementation including financial management. The MDF has become a non-bank financial intermediary (FI) that plays a very substantial role in funding and developing regional and municipal infrastructure. Due to the Project's multi-sectoral nature, a multi-agency Working Group has been established and been acting as a counterpart to the Bank team during identification and preparation. It will continue to work during implementation. The Working Group includes all the agencies involved- namely, the MDF, Georgia National Tourism Administration (GNTA), Agency for Cultural Heritage Preservation of Georgia (ACHP), Culture Heritage Fund (CHF), the National Museum, United Water Company (UWC), Imereti Regional Administration and LSGs, Ministry of Finance, the Ministry of Regional Development and Infrastructure. The Working Group performed well during Project preparation.

All agencies in the Working Group and LSGs in Imereti have been actively involved with the MDF in Project preparation activities, and will be involved in various aspects of bid evaluation and supervision.

As a standard practice established under the RMIDP, RMIDP-AF and RDP, the MDF prepared Subproject Appraisal Reports (SARs) for all proposed subprojects to be implemented during the first year of project implementation, which discussed their feasibility, safeguards issues, and analyzed the availability of funds for operations and maintenance of the restored assets to ensure sustainability. All SARs were appraised and approved by the Bank.

The MDF's governance structure: There is strong client ownership of the Project. A Supervisory Board of the MDF composed of the Prime Minister, Head of President's Administration, key Ministers, parliamentarians and NGOs has been working closely with the Bank to identify and prepare the Project. The Board's functions include: (a) overall supervision of Project implementation; (b) inter-agency coordination to achieve the Project objectives; and (c) review and approval of the annual work programs, budgets and reports for the MDF operations. The Supervisory Board met several times during Project preparation and endorsed its design, cost, implementation arrangements and procurement plan. Meetings have been held regularly with the Prime Minister and the Minister of Finance, who also leads donor coordination.

### VII. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>X</b>	
Natural Habitats OP/BP 4.04		<b>X</b>
Forests OP/BP 4.36		<b>X</b>
Pest Management OP 4.09		<b>X</b>
Physical Cultural Resources OP/BP 4.11	<b>X</b>	
Indigenous Peoples OP/BP 4.10		<b>X</b>
Involuntary Resettlement OP/BP 4.12	<b>X</b>	
Safety of Dams OP/BP 4.37		<b>X</b>
Projects on International Waterways OP/BP 7.50		<b>X</b>
Projects in Disputed Areas OP/BP 7.60		<b>X</b>

### **VIII. Contact point**

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