I. Introduction and Context

Country Context

Georgia's economy has recovered strongly since the double shocks of the financial crisis and conflict of 2008. The steep decline in economic growth from 12.3 percent in 2007 to 2.3 percent in 2008, led to a reduction in employment and a rise in poverty. However, the country's economic growth rebounded strongly to 7.2 percent in 2011 and an estimated 6.2 per cent in 2012, mainly due to an increase in exports and tourism and the continued high levels of public investment. Public investment during this period has mainly focused on infrastructure, including an important effort to improve main road corridors and local connections. The rebound in the growth of the service sector was supported heavily by revenue from transit-related transport (particularly to and from Turkey, Armenia, Azerbaijan, and Central Asia).
Despite this economic recovery, between 2006 and 2011, poverty remained between 17 and 21 percent (using a line set for national poverty analysis). The recent drop in poverty to 14.8 percent in 2012 was led by social assistance, as well as a decline in food prices favoring the poor. Strong social transfers and falling food prices have also led to a noteworthy reduction in the extreme poverty rate to 3.7 percent. Unlike previous years when the consumption of the bottom 40 did not grow, between 2010 and 2012, the bottom 40 enjoyed a consumption growth of 5.4 percent per year. Despite the recent gains in poverty reduction, unemployment remains high at 15 percent in 2012 (urban unemployment rate is particularly high at 26 percent). Inequality has also remained high with the Gini coefficient remaining close to 0.40. Cross-country comparisons show that Georgia has one of the highest poverty rates in the ECA region. Going forward, growth is expected to be driven more by domestic savings and tradables; further fiscal consolidation is required. In prioritizing public spending, the government will need to balance competing priorities including social expenditures to support an aging population and improve health, as well as infrastructure. Increased spending on roads, water and rural development are required to catalyze private investment and create jobs.

**Sectoral and Institutional Context**

Over the last eight years Georgia has followed a very dynamic policy to develop its transport sector. This policy is centered on: (i) maximizing private sector involvement in management and investment for rail and ports; (ii) more strategic prioritization of Government sector investments including, for instance, concentration of investments on the East-West Highway transit corridor and improving rural access; and (iii) increasing expenditure on maintenance, particularly on secondary and local roads. Recent efforts in urban transport have focused on improving the efficiency and sustainability of transport services mostly driven by municipalities, including Tbilisi and the main cities in the regions. Investment and management of ports are now undertaken by private operators under concession agreements, or as full owners of facilities. Transport services have been liberalized in the railway sector and the Georgian Railways operates as a semi-autonomous entity. Railways’ sound financial basis is the result of the profitable carriage of oil products transiting from Azerbaijan to the Black Sea. Government investments have therefore focused on the road sector, with rail and port sectors financed largely by the private sector.

A policy-based, efficient, and long-term strategic investment is the main priority of the new government. The government continues to be strongly committed to infrastructure improvement. To lay out infrastructure investment plans, the Ministry of Regional Development and Infrastructure (MRDI) has developed an Action Plan (December 20, 2012, Action Plan for 2013, Webpage of the Ministry of Regional Development and Infrastructure, http://mrdi.gov.ge/) for 2013 which allocated roughly GEL900 million for Infrastructure development, including GEL500 million for road improvements. The new government (2012) formulated two main criteria for the investment: (i) infrastructure investments are to be prioritized in accordance to economic efficiency and need to be part of the overall sector investment policy; and (ii) strategic and long-term investment commitments made by the previous government (2008-2012) will be respected and funding continued. The continuation of funding for the East-West Highway corridor improvement is one of the priorities of the Action Plan. The government considers prioritized maintenance of the road infrastructure amongst its highest priorities. To achieve that objective, the MRDI is strongly supportive of institutional capacity building activities within the ministry and its agency the Roads Department (RD).
The government wants to create a favorable environment for regional socio-economic development and 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 (See "Georgia Regional Development Strategy, 2010 to 2017" published in June 2010). The World Bank is supporting regional development strategies in the Kakheti and Imereti Regions which are aimed at job creation by reducing imbalances among and within regions, improving public services, and attracting an increased volume of private sector investments, especially in tourism.

Responsibility for road infrastructure policy and planning in Georgia lies with the MRDI, while management of the National/Regional roads and local roads is the responsibility of the RD and the Municipalities respectively (Improving the sustainability of road management and financing in Georgia, The World Bank, October 2011).

Regional and local roads remain in poor condition. Road density in Georgia is lower than in several EU-15 member countries but compares favorably to densities in Southern Caucasus and Central Asia countries. The main road network includes 22,010 km which consists of 1,564 km of National/International roads (including 80 km of 4 lane motorways in the East-West corridor). The secondary and local road networks include 5,446 km and 15,000 km respectively. While most of the international roads (76 percent) in Georgia are in good or fair condition, most of the secondary roads (70 percent) and local roads (85 percent) are in a deteriorated state and lack maintenance funding. Between 2004-2010, total road sector expenditures (construction, rehabilitation and maintenance) on international and secondary roads tripled from 0.7 to 2.4 percent of GDP.

IFI's. About 75 percent of committed construction, periodic and rehabilitation maintenance has been financed by development partners including the World Bank's support under the three East West Highway Improvement Projects and the First and Second Secondary and Local Roads Projects. Going forward, these development partners will continue to work closely with the Government with the goal of ensuring that the improved international roads are put under regular maintenance and increasing attention is given to improving the secondary and local roads.

Despite recent achievements, the road sector still faces a number of challenges. (i) over the past decade, the level of investment in national roads and expressways has not kept pace with increasing demand and growth; (ii) a high number of road fatalities requires the need to develop a coordinated road safety strategy and a plan of actions (i.e. a sub-component of the on-going east West Highway Improvement 4 project – EWHIP4); (iii) road condition has improved for international roads, but the rest of the network faces significant challenges, as a large part of the secondary and local road network is in poor condition.

Decentralization of the management of local roads at the Municipality level has led to fragmented road management institutions with weak capacity. Responsibility for local roads was transferred in 2007 from the RD to the 63 municipalities and cities (Rayoni). After the transfer, basic data on local roads has often not been available, accurate or even collected (i.e., length, surface type and condition). Lack of data contributes to the deterioration of the local road network. As an intermediary step to addressing this issue, the Government is considering the establishment of a new division in the roads department to provide technical oversight related to a core network of local roads and to develop a road maintenance strategy. To this end, the RD has already taken the initiative and carried out a comprehensive road condition survey of the local road network which
should form a basis for developing and sustaining a core local road network database.

Currently, local road maintenance is focusing on deteriorated roads (Introduction of road maintenance microenterprises in Georgia. Cartier Consult, April, 2010). This is evident from the bill of quantities for local road maintenance contracts, where the most important works category is the maintenance of the roadway, which represents around two-thirds of the contract value. This is followed by maintenance of the road structures (mainly the drainage system), with winter maintenance playing a smaller role in the local road network. There is clearly not a well-functioning market for local road routine maintenance works as they represent only a marginal part of the total turnover of the contractors. As a result local road routine maintenance work interventions are not carried out systematically. There is clearly an opportunity to provide incentives to carry out routine maintenance interventions systematically and in an effective way using a micro-enterprise approach.

The increase of transit traffic across main towns and municipalities has led to an increase in congestion and in road accidents. As an illustration of this situation is the secondary road of Akhmeta-Telavi-Bakurtsikhe in Kakheti touristic region. The road section goes through the town of Gurjaani and crosses six highly populated villages. It carries around 7,000 vehicle per day of which 20 percent are heavy vehicles. Traffic congestion is high due to the poor road alignment and significant side friction. Road safety is poor and on average 50 people a year are injured along this section alone most of which are pedestrians. The Government of Georgia started the construction of a by-pass in late 1980s but with the collapse of the Soviet Union the construction was stopped and has never resumed. The construction of the by-pass will not only help address the road safety issue but will also lead to wider economic, social and environment benefits.

Road Safety has been significantly improving in Georgia in the past few years but still remains worse than in developed countries. Road death rates in Georgia have reduced over the last decade by around 9 percent against a 2.6 fold increase in traffic. Albeit fragmented a number of road safety interventions are carried out (i.e. the introduction of compulsory front seat belt legislation, Grade-separated road improvements and targeted treatments at high-risk sites, changes in enforcement of excess alcohol rules…). However, road users in Georgia face significantly higher risks of death and injury than in many other countries in the region and a death rate which is 4 times as great as in the best performing countries globally (Breen, J. “Road Safety Capacity Management Review: Georgia.” June 2013. Prepared for the World Bank and funded by the Global Road Safety Facility). Considering current traffic growth forecasts, fatality rates will likely increase in a business as usual situation. Road safety engineering measures need to be supplemented with publicity campaigns/education to all groups of road users, and work with traffic police and emergency services on demonstration corridor.

There is clearly a need to shift towards more direct road safety interventions with road users, especially in rural areas, where regional and transit traffic has increased significantly. Most of the road safety interventions supported under World Bank projects have involved engineering measures on the East-West Highway, the regional and secondary roads and some technical assistance to the Road Department’s Road Safety Unit. The recently-approved EWHIP-4 is supporting the creation of a Road Safety Working Group who is tasked with developing an integrated road safety strategy and a plan of actions. However, road safety cannot be improved without direct and active participation of road users themselves. While road safety engineering measures will continue to be embedded in road designs under the proposed project, there is clearly a need for road safety awareness and education campaign at community level.
**Relationship to CAS**

The proposed Third Secondary and Local Roads Project is in line with investment priorities identified in the new 2014-2017 Country Partnership Strategy (CPS). Indeed the draft CPS identifies two strategic pillars: (i) strengthening public service delivery to promote inclusion and equity; and (ii) enabling job creation and competitiveness to accelerate private sector-led inclusive growth. Direct job-creation is the expected result from the second strategic pillar of the CPS. The First Secondary and Local Roads Project has shown that investments into the secondary and local roads create substantial local employment.

The proposed Third SLRP will improve domestic connectivity and reduce transport costs, which directly contributes to the CPS second pillar of strengthening competitiveness. The Socio-economic Survey of 2004 showed that reduced transport cost increases the competitiveness of local produce. The local subcontracting industry could further support business growth through medium term contracts to be issued to local contractors in different parts of the country, while the improved local roads network will lead to lower costs for local small businesses. Reducing transport costs thus facilitates trade and is supportive of regional development, a priority in Georgia given high regional disparities.

**II. Proposed Development Objective(s)**

**Proposed Development Objective(s) (From PCN)**

The Project Development Objective (PDO) is to: (i) reduce road user cost, (ii) increase road safety and (iii) improve the management of routine maintenance on the selected local roads.

**Key Results (From PCN)**

The key expected results from the implementation of the project and the respective monitoring indicators are:

**Result 1: Reduce road user costs on the selected local roads.**

This will be measured through:
- Indicator 1: reduction in vehicle operating costs.
- Indicator 2: reduction in travel time.

**Result 2: Improve road safety on the selected local roads**

This will be measured through:
- Indicator 1: reduction in road accidents.

**Result 3: Improve the management of routine maintenance works of the selected local roads.**

This will be measured through:
- Indicator 1: improve road conditions of the selected local roads, by measuring their IRI.

**III. Preliminary Description**

**Concept Description**

The proposed Third SLRP builds on the SLRP I concept and incorporates the following lessons
learned:

(i) A need to incorporate road safety audits in road design: under earlier efforts designs did not include initially the inclusion of road safety audits in the design process. This resulted in suboptimal design and implementation. Under SLRP II and East-West Highway Projects, such audits have become systematically incorporated in the detail design enhancing the sustainability of the road sections. This feature will also be a requirement under the proposed Project.

(ii) Strengthening the institutional capacity of the road sector is timely. The Roads Department is the midst of a modernization process and a set of institutional components under the fourth East-West Highway Project are under implementation. The main objective is to improve the road management practices. However, most of these activities are targeting the management of the high level of the road network (International and Secondary road networks). The new RD’s organization structure is aiming at bridging this institutional gap by establishing a Unit to provide technical oversight to the core local road network. The proposed project will provide support to this new RD Unit and to the selected Municipalities on a pilot basis.

(iii) Lack of technical and management capacity of Municipalities was an impediment to sustain good management practices: Under SLRP I, two institutional strengthening components were implemented including: (i) preparation of Guidebooks/Manuals for planning and management of local roads and manual for procurement and execution of the effective road works which were distributed in all 69 local municipalities(ii) strengthening the capacity of RD’s Planning Unit to develop multi-year investment and maintenance programs using a GIS and HDM-4. Implementation of the latter by Municipalities is an issue given the lack of technical capacity to use the Guidebook and Manuals for local roads management and for execution of works. As an intermediary step, there is a need for the RD to continue providing technical oversight in a more structured way. Hence, the establishment of a Local Roads Unit within RD.

Third SLRP will put more emphasis on building the management capacity of local roads: The proposed project draws lessons from the implementation of the First Secondary and Local Roads Project and its additional financing (SLRP I implemented between 2004-2012). It will also complement the on-going Kakheti and SLRP II projects which will pilot for the first time Design and Build and Performance Based Contracts, respectively. Third SLRP will continue financing the rehabilitation of priority sections of secondary and local roads with a focus on strengthening the institutional capacity to manage and execute routine maintenance works of local roads.

The proposed project would consist of four components totaling US$90 million.

Component 1: Improvement of Secondary and Local Roads (about US$ 85.0 million). This component will finance (i) the rehabilitation of secondary and local roads, totaling 175 km including the Gurjaani-Bakurtsikhe bypass (15 km), and (ii) routine maintenance pilot in three selected Municipalities using a micro-enterprise approach. This component will include a training activity targeted to the selected Municipalities on micro-enterprise contract management.

Component 2: Capacity Building and Advisory Services to the newly established local roads Unit within the Roads Department (about US$ 2.0 million). The aim of this component is to consolidate the previous condition survey carried out by the Roads Department (RD) on the core local road network, integrate this in the RD database and RMS and develop a priority road rehabilitation/
maintenance program for the core local road network. The component will also finance baseline survey and impact studies on project beneficiaries. Through the collection of quantitative and qualitative data (practical surveys instruments before and after project completion), the proposed assessments will document potential income and social impacts.

Component 3: Road Safety Technical Assistance sub-component ($0.3 million). This sub-component will finance a pilot “Safe Village” program in four demonstration villages linked to Third SLRP road sections. The “Safe Village” program will comprise a combination of road safety elements, such as education programs in village schools, publicity campaigns among the villagers and other road users.

Component 4: Design and supervision consultant (US$2.7 million). This component will finance the detailed design of the remaining project work program (the detailed design of around 70 km out of 175 km of the selected secondary and local roads will be completed during the project appraisal stage) and the supervision activities for all road rehabilitation and maintenance works. This component will also finance independent technical audits of civil works.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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