I. Introduction and Context

Country Context

Following four years of rapid growth, backed by far-reaching reforms and strong foreign direct investment (FDI) inflows, Georgia experienced a sharp economic downturn resulting from the twin shocks of the August 2008 conflict and the global financial crisis. As a result, authorities launched a counter-cyclical fiscal stimulus and also realigned public expenditures to social and infrastructure investments. As economic recovery takes hold, driven by higher exports and private investment, authorities are reducing the stimulus and implementing fiscal adjustments to safeguard sustainability. Although the recovery resulted in about 6.8 percent growth rate in 2011, there is uncertainty about the pace of future growth due to global economic uncertainties. In response, the authorities are addressing macro-economic vulnerabilities through well-designed fiscal, monetary and debt management policies. The authorities have also maintained their economic reform program backed by a strong public investment program. Georgia is also currently negotiating a Deep and Comprehensive Free Trade Agreement with the EU, which is expected to enhance market access for Georgia goods and modernize industries.

Georgia has one of the world's most competitive business environments—ranked 16th out of 183 countries according to the “Doing Business” Report, IFC 2012. In particular, it scores well in terms
of business start-ups, tax processes, investor protection, access to credit, enforcement of contracts, registering property and issuing construction permits.

The Government refocused efforts in the past six years by launching several regional development initiatives to attract private investors in various sectors. Georgia, however, has not yet fully tapped 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 was approved by the Board in March 20, 2012, focusing on Kakheti region. This project focuses on Imereti region.

Sectoral and Institutional Context

Georgia Regional Development Strategy. In June 2010, the Government approved by Resolution no. 172, the State Strategy on Regional Development for 2010-2017, prepared by the Ministry of Regional Development and Infrastructure (MRDI). Its main objectives are to create a favorable environment for regional socio-economic development and to improve living standards. These objectives will be achieved through a balanced socio-economic development policy, increased competitiveness, and greater socio-economic equality among the regions. Following up on the successful start of the first Regional Development Project focusing on the Kakheti region, USD 60 million IBRD loan approved by the Board on March 20, 2012 and is currently under implementation, the national and local governments intend now to invest in Imereti so it can become another growth center through better promoting the tourism and agriculture potential of the region and reducing internal socio-economic disparities.

Imereti occupies a territory of approximately 6,552 km² (9.4 percent of Georgia area). Imereti consists of 12 administrative districts: Kutaisi (the Capital of the region), Tkibuli, Tskaltubo, Chiatura, Baghdati, Vani, Zestaponi, Terjola, Samtredia, Sachkhhere, Kharagauli, Khoni. There are 542 settlements in the region of which: 10 cities (Kutaisi, Tkibuli, Tskaltubo, Chiatura, Baghdati, Vani, Zestaponi, Terjola, Samtredia, Sachkhhere, and Khoni); 3 towns (Shorapani, Kulashi and Kharagauli); and 529 villages. The population of Imereti is about 703,485 (16 percent of Georgia population) at density 107 people/km².

Imereti has huge tourism development potentials. The region is located along the East-West Highway, connecting Tbilisi with Adjara on the Black Sea. This makes it easily accessible (2:30h from Tbilisi) and an attractive rest stop destination for visitors going to Adjara, especially for summer vacation. Imereti is home to 78 Churches, 13 Castles, 39 Archeological Monuments and 27 Museums. The most significant cultural heritage patrimonies are: Bagrati cathedral, Gelati monastery, ruins of the ancient town of Vani and its museum, Sataplia grotto, Katskhi column and church, Motsameta and Ubisa monasteries. The region also has 3 protected areas, 12 unique caves and 9 SPA destinations based on hot and cold spring water. There is also in a close proximity to Imereti, the Borjomi-Kharagauli National Park, which is the largest national reserve territory in Europe.

The Government views the regional development program as a catalyst for its interventions in the region, as it is expected to have a high impact and allow the country to leverage added finances from the donor agencies, private sector, and state budget. The Project should 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 potential which exist in the region. 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. Imereti’s capital, Kutaisi, is Georgia’s second larger city is transforming fast into becoming Georgia’s most significant administrative/government center after Tbilisi. In the fall of 2012 the Parliament of Georgia shall be relocated from Tbilisi to Kutaisi, providing a major impetus to the city and kicking in significant externalities for local/regional development. The Chamber of Control, the Government regional buildings and other facilities are being constructed in the Kutaisi downtown. An International Airport close to Kutaisi will open by the end of the 2012, bringing in regular and budget flight from within and outside of Georgia. In addition to Kutaisi, the Government has also invested heavily in 2 other natural attractions in Imereti: Sataplia grotto and Borjomi-Kharagauli National Park. The Government is developing a number of important resort destinations in close proximity to Imereti, including the sea resort of Anaklia and the ski resort in Upper Svaneti.

The design of the Project— the blend of institutions, infrastructure, and targeted interventions – is informed by both a comprehensive diagnostic and relevant 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.

**Relationship to CAS**

The Project supports both features of the Country Partnership Strategy (CPS) for Georgia for FY10-FY13 (Report Number: 48918-GE), presented to the Board in September 2009. It focuses on the CPS goals of economic and business growth, job creation and social services. The Project is also included in the CPS Progress Report, presented to the Board in April 2011. It intends to help create permanent jobs, as well as temporary ones during construction. The CPS and the Project recognize the importance of building local infrastructure, to promote social welfare and stimulate growth. The country has been improving its municipal infrastructure (water supply, wastewater management, local roads and housing) by analyzing issues, setting priorities and financing projects through the Municipal Development Fund (MDF). The Project objectives are referenced in the Government’s most recent Ten Points Priority Plan of Modernization and Employment for 2011-2015, adopted in October 2011. Under the Plan, the Government intends to reduce the imbalance between urban and rural development, create employment centers, improve public services and transport connections among regions, and improve the tourism infrastructure. Its goal is to increase number of tourists from 2 million in 2011 to 5 million by 2015.

The rationale for Bank involvement lies in the Project’s contributing to (a) the huge tourism potential, (b) the growth of under-developed areas, (c) leveraging public and private investment, and (d) building on a series of World Bank interventions in the Region aimed at improving transport connections (the East-West Highway and the Secondary and Local Road Projects, which have significantly reduced travel time from Tbilisi) and improving municipal infrastructure (the Regional & Municipal Infrastructure Development Project and its Additional Financing, which improved water services and urban roads in several Imereti cities and villages).

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, the Governor of Kakheti, parliamentarians and NGOs has been working closely with the Bank to identify and prepare the
Project. Meetings have been held regularly with the Prime Minister and the Minister of Finance, who also leads donor coordination. A multi-agency Working Group has also been established and been acting as a counterpart to the Bank team during identification and preparation. It will continue to work during implementation.

The Government views the regional development program as a catalyst for its interventions in the region, as it is expected to have a high impact and allow the country to leverage added finances from the donor agencies, private sector, and state budget. To date, the EU has agreed to provide technical assistance to update the Regional Development Strategy, so as to create a medium-to-long term participatory strategic investment plan that anticipates both public and private capital needs. The EU has started a capacity-building program for the Georgia National Tourism Administration (GNTA) on managing destinations. The Swedish International Development Agency (SIDA) has provisionally agreed to provide parallel funds to the Project with US$7-8 million, for the rehabilitation of Tskhaltubo wastewater treatment plant, subject to signing the Administration Agreement between SIDA and the Bank.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
The Project Development Objective is to improve infrastructure services and institutional capacity to support the development of tourism-based economy and cultural heritage circuits in the Imereti region.

Key Results (From PCN)

Infrastructure Services:
• Increased average number of hours per day of piped water services in Project areas (from 8 hours/day to 24 hours/day).
• Reduced average vehicle operating costs due to improved urban roads by 25 percent.

Tourism Economy:
• Increased volume of private sector investments by US$20 million in targeted areas.
• Increased number of hotel beds in circuit route areas by 20 percent (from 2661 to 3193 beds).

Institutional Capacity:
• Increased tourism points of sales (tourism related enterprises, e.g., total number of museums, hotels, family and guest houses, restaurants, sites ticket offices, etc.) in renovated sites and cities by 30 percent (from 249 to 323).

III. Preliminary Description

Concept Description
The Project includes two components (building on the design and lessons learned under the RDP):

Component 1: Infrastructure Investment

Provision of financial resources to local self-governments (LSGs) to carry out Investment Subprojects for the following activities:
Urban regeneration: An integrated approach is proposed for renewal of Tskaltubo city and the heritage village of Vani. This includes a) the rehabilitation of municipal infrastructure and utilities in the central area, b) conservation and upgrading of public spaces and cultural buildings, and c) conservation of public buildings with vernacular architecture. The proposed conservation and upgrading activities will help improve livability and hospitality in a culturally-informed manner, enhance attractiveness for visitors, revitalize the urban nuclei, and attract increased volume of private sector investments around the medical and spa tourism cluster.

Tourism circuit development: Integrated approach to culture heritage site upgrading and improved management in the most attractive four cultural and natural heritage sites located along the main tourism circuit/route in Imereti. These include a) improved urban landscaping and public parking; b) construction of info kiosks, cafes and public toilets; and c) improving access roads. The main tourism and culture heritage circuit has been identified, connecting the following cultural and natural heritage sites, which are targeted for upgrading: Gelati Church; Vani Museum and ethnographic site; Ubisa Church; Katskhi Church and Katskhi Monastery Column.

The estimated cost of this component, including physical and price contingencies, is about US $32.28 million, of which IDA will provide US$26.9 million and the Recipient will provide US$5.38 million counterpart funding.

Component 2: Institutional Development

Enhancing the institutional capacity and performance of the Georgia National Tourism Administration (GNTA), the Agency for Culture Heritage Preservation of Georgia (ACHP), the National Museum, the Project Implementing Entity - Municipal Development Fund of Georgia (MDF), and other local and regional entities to carry out the following activities:

- Destination management and promotion, including preparation of site management plans and local outreach campaign;
- Geo-tourism routes and tourism portal;
- Skilled workforce development and capacity building;
- Construction supervision and sustainable site management of cultural heritage; and
- Performance monitoring & evaluation activities.

The estimated cost of this component, including physical and price contingencies, is about US$3.72 million, of which IDA will provide US$3.1 million, the Recipient will provide US$0.62 million counterpart funding.

IV. Safeguard Policies that might apply

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