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|--|------------------------------|---------------------------------|---------------|
| <b>1. Project Data:</b>  |                              | <b>Date Posted :</b> 05/22/2001 |               |
| <b>PROJ ID:</b> P008417  |                              | <b>Appraisal</b>                | <b>Actual</b> |
| <b>Project Name:</b> Municipal Infrastructure Rehabilitation   | <b>Project Costs (US\$M)</b> | 19.69                           | 20.22         |
| <b>Country:</b> Georgia  | <b>Loan/Credit (US\$M)</b>   | 18.00                           | 17.67         |
| <b>Sector(s):</b> Board: UD - District heating and energy efficiency services (26%), General transportation sector (26%), Sewerage (19%), Water supply (17%), Solid waste management (12%) | <b>Cofinancing (US\$M)</b>   | 0.3                             | 0.36          |
| <b>L/C Number:</b> C2658; CP886  |                              |                                 |               |
|  | <b>Board Approval (FY)</b>   |                                 | 95            |
| <b>Partners involved :</b> Soros Foundation, USAID   | <b>Closing Date</b>          | 12/31/1997                      | 06/30/2000    |
| <b>Prepared by :</b>   | <b>Reviewed by :</b>         | <b>Group Manager :</b>          | <b>Group:</b> |
| Roy Gilbert  | Anwar M. Shah                | Alain A. Barbu                  | OEDST         |

**2. Project Objectives and Components**

**a. Objectives**  
**(long-term):** to provide a foundation for future reforms aimed at improving overall management and delivery of crucial municipal services.  
**(short-term):** (a) to preserve essential infrastructure and municipal services; (b) to improve management and delivery of municipal services in a sustainable and environmentally beneficial manner; and (c) to reinforce credibility of local governments through visible interventions in key services in order to reinstate public confidence and ensure social stability.

**b. Components**  
**Infrastructure** (US\$15.3m. or 76% of total), including:  
 - Tbilisi Immediate Action Plan (weatherproofing of 23 hospital and school buildings; provision of dedicated electricity lines for 15 hospitals; spare parts and equipment for underground and other public transport )  
 - Short-term investment Program (rehabilitation of essential municipal infrastructure in Tbilisi Batuma and Poti )  
**Institutional Development** (US\$1.95m. or 10% of total), including:  
 - Creation of Independent Agency for Development of Municipal Services (temporary project implementation unit - PIU to implement the project)  
 - Technical assistance and studies (related to project implementation, public awareness, master plan for Tbilisi water/solid waste and municipal services, including housing .

**c. Comments on Project Cost, Financing and Dates**  
 Project costs at completion--US\$20.22m., slightly higher than appraisal estimates--were financed as follows: 87% IDA; 2% USAID co-financing; and 11% government counterpart. In addition, Soros Foundation co-financing--not included in the total cost estimates here--provided a US\$0.5m. bridging loan that the government repaid upon the effectiveness of the IDA Credit. The project was approved on 11/08/94 and it was closed on 06/30/00 two-and-a-half years later than planned.

**3. Achievement of Relevant Objectives:**  
 The modest (and vague) **long-term** objective of laying the foundations for future reform of municipal service delivery was probably achieved, simply through the involvement of local governments in this, the first Bank financed operation in Georgia.  
 Among the **short-term** objectives:  
 (a) preserving infrastructure and services was achieved . The ICR cites many instances in the cities of Tbilisi, Batumi and Poti, of restored power, heating, water, transport and solid waste services ( see: ES section 4)  
 (b) improving service management and delivery was achieved in part, especially for the Tbilisi metro system which no longer needed a subsidy . For other services, the ICR cites other cases of weak management of cost controls and procurement.

(c) success reinforcing the credibility of local government is not possible to judge from the ICR, which considers this, in any case, to be a long-term objective. The ICR does not provide related evidence (e.g. opinion polls of public perception of local government in Georgia) for or against.

**4. Significant Outcomes/Impacts:**

- Notable improvements to municipal services, as illustrated by: (i) weather-proofed schools in Tbilisi, Telavi and Senaki no longer needing to close for 12 weeks during winter; (ii) 24 hour electrical power service--through dedicated lines provided by the project--to hospitals that had only 6 hours per day for half the year previously; (iii) water supply to 10,000 families in Kutaisi for eight hours every day, instead of only two times a week for an hour.
- Keeping Tbilisi's Metro system, upon which 90% of the city's population depended for transport, in service.
- Enabling the Tbilisi Metro to become the first of the former Soviet Union to adopt a fully transparent subsidy system.
- Improved public relations and better information about project achievement and shortcomings, through press and TV, which included interviews of government and municipal officials involved in the project.

**5. Significant Shortcomings (including non-compliance with safeguard policies):**

- Government failure to provide necessary counterpart funding at key points during project implementation .
- Inadequate staffing, with little experience in management of procurement, led to multiple delays .
- Weak financial management by the PIU which led to a difficulties in tracking expenditures .
- Early on, Bank supervision did not focus enough upon the oversight of financial management results, although several years into the project life, supervision did turn its attention to such oversight .

| 6. Ratings:                 | ICR            | OED Review     | Reason for Disagreement /Comments |
|-----------------------------|----------------|----------------|-----------------------------------|
| <b>Outcome:</b>             | Satisfactory   | Satisfactory   |                                   |
| <b>Institutional Dev .:</b> | Modest         | Modest         |                                   |
| <b>Sustainability:</b>      | Likely         | Likely         |                                   |
| <b>Bank Performance:</b>    | Unsatisfactory | Unsatisfactory |                                   |
| <b>Borrower Perf .:</b>     | Unsatisfactory | Unsatisfactory |                                   |
| <b>Quality of ICR:</b>      |                | Satisfactory   |                                   |

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

- Rapid project preparation have both benefits (responsiveness to urgent needs, strong ownership, etc .) and costs (responsible institutions have to learn the meaning of financial discipline, transparency and competitive procurement).
- Strong and continuous support by Bank teams in initial stages helps move a first investment project with a borrower forward. In this case, even during periods of reduced Borrower interest and diminished Bank resources, Bank staff maintained daily contact on Bank procedures helping to shore up project performance during the final years of implementation .
- Applying standard Bank approaches to procurement in a country recently at war was unrealistic and this is illustrated by several failed attempts to procure internationally . For example, supply and installation of the Metro's telemanagement system was originally bid internationally, but the value of the work was not high enough to attract any responses from qualified firms willing to mobilize in such an uncertain and risky environment.
- Although the Bank's willingness to accommodate Georgia's initial request to extend the project closing date in order to complete procurement of the remaining three contracts was understandable . In hindsight, closing a project that is nearly completed and in which interest may be declining, can release scarce resources to be used productively in other activities .
- Bank failure to supervise financial management closely can result in the loss of financial discipline and transparency .
- Project implementation progress is correlated over time with the degree of ownership of the principal representative of the borrower, the Ministry of Finance (MOF) in this case. When MOF ownership and supervision abated as the project approach its original closing date, performance languished, although it picked up again as MOF interest was renewed .

**8. Assessment Recommended?** ● Yes ○ No

**Why?** An audit could provide valuable inputs to future OED studies (on post-conflict and natural disasters), be part of a country/region cluster and resume OED activity in a country where there have been few audits in recent years.

**9. Comments on Quality of ICR:**

This is a satisfactory ICR, which provides a graphic account of the achievements and the shortcomings of this rich project experience, backed up with good indicators of outcome at the level of urban services .

