I. Introduction and Context

Country Context

Georgia’s demand-driven growth model has allowed it to significantly increase per capita income and make progress on reducing poverty. Structural reforms undertaken between 2004 and 2008 stimulated Foreign Direct Investment (FDI) and brisk economic activity. The 2008 conflict, followed by the global financial crisis, led to a brief economic contraction. The Government of Georgia’s response was to increase public capital spending and this has attracted private investment, albeit at a more moderate rate than during the boom years, and also supported growth recovery. The Government’s current economic agenda focuses on strengthening the foundations for inclusive growth and shared prosperity by providing reliable municipal services and infrastructure, enabling a business environment and a public policy environment that facilitate private sector job...
creation, export promotion and poverty reduction. Addressing poverty, unemployment and regional disparity have also been flagged as key priorities for intervention by the Government in its new national development strategy "Socioeconomic Development Strategy of Georgia: 2020". Initiatives to address these priorities include decentralization and regional development, higher pensions and social assistance, universal health coverage, renewed focus on transport and trade facilitation, and emphasis on rural development and agriculture.

**Sectoral and Institutional Context**

B. Sectoral and Institutional Context

Georgia’s urban system consists predominantly of small cities and towns - only 4 of its 110 urban settlements have a population of over 100,000. In most cities and towns, the quality, coverage and maintenance of basic urban services have declined through the early years of the current decade. Consequently, today, only slightly more than half of Georgian households have indoor bathroom facilities, only 78% of urban households are connected to a piped sewerage system, and at most only 5 out of 29 wastewater treatment plants have marginal functionality.

Since 1990, the Government has undertaken a series of reforms in an attempt to improve service delivery including addressing municipal fragmentation, and clarifying functions between various levels of Government. This culminated in the adoption of the 2005 ‘Georgian Law of Local-Self Government’. The Government’s most recent approach to implement this law and improve municipal services is articulated in “Main Principles of the Strategy on Decentralization and Self-Government Development of the Government of Georgia for 2013-2014,” adopted in April, 2013. This document places emphasis on improving engagement of people in decision making at the local level; better delivery of local services; and better management and maintenance of local assets, such as roads, utilities, public buildings, parks, and street lighting.

The World Bank has been supporting the improvement of local municipal service delivery and infrastructure since 199x, most recently under the on-going Regional and Municipal Infrastructure Projects (RMIDP) and its Additional Finance (RMIDP-AF). Both projects are almost fully disbursed, have satisfactory PDO and implementation ratings and will close in June 2014. These operations have contributed significantly in addressing the backlog of municipal capital investment requirements including construction of 245 kms of roads and improving access of approximately 400 000 people to water. The Project has also created approximately 12,000 temporary jobs. In addition, the operations have also assisted local governments in improving their finances and accounting and have also assisted the Government in the preparation of several key documents including a Road Design Guidelines Manual that provides an integrated approach to improving overall street, drainage and traffic conditions and a National Wastewater Management Strategy, including feasibility studies for wastewater treatment plants in six cities.

Nevertheless, the backlog remains and reforms at the local government level are still required in order to improve municipal service delivery. Consequently the Government of Georgia has requested the World Bank’s continued support in addressing reforms and investments in the local government sector.

**Relationship to CAS**

The Project supports is aligned with the Country Partnership Strategy (CPS) for FY10-FY13 (Report Number: 48918-GE), presented to the Board in September 2009. The project supports a)
II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective is to improve access to and quality of municipal services and infrastructure.

Key Results (From PCN)
- Improved energy efficiency of water and sewerage pumping systems through reduce energy consumption per cubic meter pumped (kWh/m³) in selected municipalities
- Number of people in urban and rural areas provided with access to improved water supply
- Number of new household sewer connections
- Length of roads rehabilitated (intermediate indicator)

III. Preliminary Description

Concept Description

Component 1: Infrastructure Investments (IBRD: US$42 million)

This component will finance infrastructure investment for the rehabilitation and expansion of priority municipal services such as roads, water and sanitation, wastewater treatment, solid waste management, street lighting, municipal markets, and community facilities.

It will also finance public infrastructure that will attract private sector investments in tourism and agro-processing. The latter builds on a series of successful interventions piloted under the Regional Development Project where private sector entities were willing to invest in an area but required complementary public infrastructure to make their investments viable (e.g. public facilities within vicinity of the investments, road/sidewalk, water/sanitation, etc.). The investment decision would be based on agreed criteria.

This component will be driven by demand from LSGs. Consequently, the full pipeline of subprojects will not be known a-priori. However, investments will be based on a clearly defined framework and criteria and the Operations Manual (OM) will include a list of eligible investments.

Financial resources will be provided on a combined credit and grant basis to large LSGs based on their borrowing capacity. Performance-based grants will be provided to LSGs with weaker capacity based on a list of eligibility criteria aiming to improve their service delivery.

It is expected that this Project will implement some of the studies developed under RMIDP and RMIDP-AF, such as the Road Design Guidelines and the Wastewater Management Strategy. It is also expected that selected investments would be informed by feasibility studies for wastewater treatment plants in six cities (financed under RMIDP and RMIDP-AF), and the Tbilisi City Development Strategy (financed by the Cities Alliance). The Project will also take into account outcomes of other relevant safeguards studies, such as Strategic Environmental, Social and Cultural Heritage Assessments (SESHAs) where these exist, noting in particular where these have been prepared or are under preparation under other World Bank-financed projects, such as for Kakheti.
and Imereti Regions.

Component 2: Institutional Development (IBRD: US$ 3 million)

This component will support LSGs and the Municipal Development Fund in improving their institutional capacity and performance. It will also finance Project Management activities.

Enhancing the institutional capacity and performance of LSGs: LSGs will be supported in a) developing human resource plans; b) improving fiscal discipline, accounting, budgeting, and reporting; c) developing participatory strategic plans, building civic engagement and social accountability; and d) developing technical standards, specifications, and asset management plans to ensure sustainability of investments.

Enhancing the institutional capacity and performance of the Municipal Development Fund: The MDF will be supported in strengthening its technical appraisal capacity, credit risk management ability and fiduciary functions.

Project Management: This component will also finance feasibility studies, engineering designs, construction supervision, and monitoring and evaluation of Project outcomes, with special attention to the gender dimensions of Project impacts.

The proposed Project will build on the successful implementation of RMIDP and RMIDP-AF, but will also:

• Support the decentralization agenda in line with overall Government reform strategy through financing investment priorities identified under the regional development strategies, prepared with technical assistance from EU, GIZ, and UNDP.
• Strengthen the MDF to support the Government's decentralization agenda through enabling it to facilitate citizen feedback and beneficiary participation.
• Assist the Government in leveraging additional financial resources from Council of Europe Development Bank (CEB) and Swiss Development Cooperation (SDC).
• Expand the menu of eligible investments to include municipal markets.
• Identify and pilot social accountability measures.
• Introduce performance-based grants to build incentives for better LSG performance.
• Scale up energy efficiency in water supply, street lighting, and municipal buildings.

IV. Safeguard Policies that might apply

<table>
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<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
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Projects on International Waterways OP/BP 7.50  ×
Projects in Disputed Areas OP/BP 7.60  ×

V. Financing (in USD Million)

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VI. Contact point

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