I. Project Context

Country Context

Georgia is located to the south of the Caucasus mountain range, with Russia located to the north, Armenia and Turkey to the south, and Azerbaijan to the east. It is a mountainous country with elevations from zero to 5,000 meters above sea level. With a population of 5 million, it is moderately urbanized, with 40 percent living in rural areas. Poverty is a significant concern: Nationwide, about 11 percent live in extreme poverty, but the rate in rural areas is significantly higher, at about 30 percent.

Over the last five years, Georgia has achieved significant economic progress. Due to very aggressive, broad reforms, its economy rapidly grew at an average rate of over 9 percent a year from 2004-July 2008. It also overcame the two shocks in 2008, caused by the conflict with Russia and the economic crisis. Although growth contracted by 3.9 percent in 2009, this was followed by a strong recovery in 2010 and 2011, estimated at 6.4 percent and 6 percent, respectively. This recovery and growth was due to an increase in exports, tourism, external borrowing, and continued high levels of public investment, the latter focusing particularly on the road network. The increased public investments were to boost economic recovery by improving local connections and creating local employment.

To sustain high levels of economic growth after the crisis, the Government focused on new income sources (particularly in tourism and agriculture), launching new initiatives to attract private investors in selected regions. To this end, in June 2010, the Government approved the State Strategy on Regional Development of Georgia for 2010-2017 (Resolution no. 172), prepared by the Ministry of Regional Development and Infrastructure (MRDI).

The Government developed a 10-point economic action plan to counter the potential threat from the euro-zone crisis and global economic downturn, and to diversify sources of growth. In December 2011, it presented the plan to the public, which outlined key points to make Georgia “successful and prosperous.” Its main points are investments in transport infrastructure, agriculture, and urban regional development. Their success will depend on improved local connections and access to markets.

II. Sectoral and Institutional Context
Georgia has a well-developed road network; however, its number of roads per 1,000 sq km is less than that in countries of the Organization for Economic Co-operation and Development (OECD) — although its road coverage is similar to that of most countries in the region. It has a total road network of 20,930 km, of which 1,564 km are international roads, 5,466 km are secondary, and 3,750 km are core local roads. About 34 percent of secondary and local roads are paved, 59 percent are gravel and 7 percent are of earth. While main roads are mostly in good condition (82 percent), 70 percent of secondary roads and large parts of local roads require significant improvement.

Trading with its neighbors and providing good links for transit traffic is important to Georgia’s economy. To maximize these benefits the Government has focused on two areas: rehabilitating and modernizing the transport infrastructure along the main east-west corridor, and improving access throughout the country. To this end, it invested in rehabilitating and improving both the main transport corridors and the secondary and local roads networks.

The Government’s ambitious plans to maintain high rates of economic growth by promoting the transport of goods within the country, increasing tourism, and revitalizing agriculture in selected regions, pose a number of challenges to the road sector: (a) significant capital investment is needed to bring the road network to a level that can support the economy; (b) scarce resources need to be prioritized to ensure long-term sustainability of the road assets; (c) local connections must be improved to provide the rural population with easy access to markets; and (d) investments in the road sector need to generate employment.

To address the road sector issues—improving international and domestic connections and reducing overall transportation costs—the Government substantially increased funding for RD programs. Also, it directed most of the external donor assistance into the sector: The largest allocations were to improve the international road links, e.g., the East-West Highway (E60). However, a significant part is earmarked for rehabilitating secondary and local road networks. Besides World Bank support, the Asian Development Bank (ADB) financed sections of secondary roads in Svaneti region, and the Millennium Challenge Corporation (MCC) funded secondary and local roads in South Georgia.

To stop the deterioration of secondary and local roads, the Government increased funding for maintenance and rehabilitation. Since 2004, it increased the budget for road rehabilitation fivefold, to about US$90 million in 2010. The Bank has financed three secondary road projects, totaling US$120 million, including an additional US$70 million for the ongoing Secondary and Local Road (SLRP) project, which rehabilitated about 500 km of additional secondary and local roads. Also, the Bank supports the ongoing Kakheti Regional Roads Improvement Project, which provided US$30 million to rehabilitate the Vaziani-Gombori-Telavi road.

While Georgia has largely countered the effects of the recent financial crisis, it is concerned that the current Euro-zone crisis will negatively impact its economy. To boost the country’s economy and diversify the sources of growth, Georgia is focusing on developing selected sectors including infrastructure, agriculture and tourism, with the expectation that this would also create jobs. Rehabilitating secondary and local roads and improving local connections are also known to stimulate agricultural development. Further, reduced transport costs would lower agriculture sector costs, thus making agricultural products more competitive.

### III. Project Development Objectives
To improve local connectivity and travel time for selected secondary and local roads, and to strengthen the capacity of the Roads Department to manage the road network.

### IV. Project Description
**Component Name**
Secondary and Local Road Rehabilitation and Improvement  
Institutional Strengthening

### V. Financing (in USD Million)

<table>
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<th>For Loans/Credits/Others</th>
<th>Amount</th>
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<td>BORROWER/RECIPIENT</td>
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<tr>
<td>International Bank for Reconstruction and Development</td>
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<tr>
<td>International Development Association (IDA)</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>87.50</strong></td>
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### VI. Implementation
The proposed Project will be implemented by the Roads Department (RD) in the same manner as agreed for the ongoing Bank-financed transport projects. The Foreign Project Unit (FPU) of the RD, established by Ministerial Decree, is responsible for technical, procurement, monitoring and reporting, contract management, and other implementation matters. The Transport Reform and Rehabilitation Center (TRRC), established in 1995, to help implement Bank-supported transport projects, which will be responsible for the flow of funds, accounting, budgeting, financial reporting, and auditing.

This arrangement will be maintained for SLRP II, and both the Project Implementation Agreement between RD and TRRC, signed in July 2009, and the Project Operations Manual (POM), used for all Bank-funded projects, will be updated to include the SLRP II. In addition, TRRC has updated the Financial Management Manual (FMM), which applies to all Bank-financed projects, to include the SLRP II with its chart of accounts. The FPU is responsible for procurement, contract management, monitoring and reporting, technical and other implementation tasks.

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

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>
### VII. Contact point

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