

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 88867

Project Name	Empowering poor communities and micro-entrepreneurs in the Georgia tourism sector
Region	EUROPE AND CENTRAL ASIA
Country	<i>Georgia</i>
Sector (s)	Other Social Services (50%) Other industry (50%)
Theme(s)	Micro, small and medium enterprise support (40%); Other Participation and civic engagement (30%); Cultural Heritage(30%)
Lending Instrument	Investment Project Financing (IPF)
Project ID	P146123
Borrower(s)	<i>Ministry of Finance</i>
Implementing Agency	<i>Elkana</i>
Environmental Screening Category	B
Date PID Prepared	<i>06/05/2014</i>
Estimated Date of Appraisal Completion	<i>June 25 2014</i>
Decision	The decision was to proceed with appraisal.

I. Country Context

The Republic of Georgia is a lower middle-income country with a population of 4.48 million. However, reducing poverty and promoting shared prosperity remain a challenge in Georgia. Poverty and extreme poverty, measured using absolute poverty lines anchored on the national relative poverty and extreme poverty lines, are high in Georgia compared to other countries in the region. In 2012, 14.8 percent and 3.7 percent of the population lived in poverty and extreme poverty respectively. Consumption growth among the bottom 40 percent of the population, the World Bank's indicator of shared prosperity, was also lower than for the population as a whole for the period 2006-2010. This was reversed in 2010-2012 mainly due to the benefits of the fiscal stimulus rolled out in the period after the global economic crisis that increased social transfers and finally brought about an improved shared prosperity of the bottom 40 percent.¹

High unemployment contributes to the weak link between growth and poverty reduction. Strong economic growth in 2006-2008 was accompanied by stubbornly high unemployment in the 12 to 13 percent range and very limited wage growth, while the crisis resulted in significant employment losses. Labor income, the main source of income for most households, declined causing poverty to rise from 18 percent in 2006 to 21 percent in 2010, while consumption growth among the bottom 40 percent was just 0.7 percent in 2006-2008 and minus 4.9 percent in 2008-2010. Among female-headed households, the poverty rate is estimated to have increased at a

¹Worldbank.2014. Georgia: Country Partnership Strategy.

rate twice as high as that for male-headed households, particularly in rural areas. Poverty was further exacerbated by thousands of new internally displaced people (IDPs) and thousands more who lost their livelihoods in the aftermath of the conflict.

The probability of being poor or among the bottom 40 percent is strongly associated with labor market status, gender and limited access to economic opportunities. The poor and those in the bottom 40 percent are more likely to live: (i) in larger households with greater number of dependents, and headed by someone with less than secondary education and/or a woman; (ii) in households suffering larger unemployment and inactivity rates, and headed by a self-employed individual; and (iii) in rural areas. Furthermore, Georgia has one of the highest incidences of Internally Displaced People (IDPs) in the world (estimated at 5.6 percent of the population). IDPs are dependent on subsistence agriculture and on social assistance, with limited recourse to adequate housing, sustainable livelihoods and jobs. Rates of employment and economic self-reliance are low among IDPs and they account for a disproportionate amount of the poor.³ Over 17 percent of IDPs are unable to afford nutrition or suffering from systematic starvation while only 48 percent claim average or above average nutrition levels².

Georgian authorities have undertaken reforms to mitigate the economic downturn, maintain macroeconomic stability, and protect the population from the effects of the crises. These include well-designed fiscal, monetary, and debt management policies, as well as an expansion of social assistance programs to the poor. Over the last few years the government has been strengthening the foundations for medium-term competitiveness and supporting new sources of growth by launching new initiatives to attract private investors. Among the new sources of growth are sustainable tourism/cultural heritage. This sector remains largely underdeveloped despite its potential as a catalyst for job creation and for transforming rural economies.

The Government has developed a regional development framework to focus its efforts on attracting private investors across various regions and sectors. In June 2010, the Government approved the State Strategy on the Regional Development of Georgia for 2010-2017 (Government resolution no. 172), prepared by the Ministry of Regional Development and Infrastructure (MRDI). The objectives of the strategy are to create a favorable environment for regional socio-economic development and to improve living standards. These objectives will be attained through balanced socio-economic development, increased competitiveness, and greater socio-economic equality among the regions.

Georgia intends to fully tap its potential to promote sustainable tourism in promising regions. An investment by the Government of \$300 million between 2005 and 2011 in the economic and physical revitalization of cities such as Tbilisi, Signagi, Mtskheta, Batumi, and Kutaisi was a key factor in the increase of tourists from 560,000 in 2005 to 2.7 million in 2011.³ The number of tourists to Georgia is projected to reach 6.2 million by 2014.⁴ However, Georgia is yet to realize its full tourism potential by investing in other promising regions. Since 2012, two Regional Development Projects (P126033 & P130421) have been under implementation in the Kakheti and Imereti regions. Those projects aim to improve large scale infrastructure services and institutional capacity to support the development of regional economies based on tourism

²World Bank, 2013 'Supporting the Livelihoods of Displaced Persons in Georgia'

and cultural heritage circuits. The government is now looking towards an integrated and demand-driven approach to sustainable tourism in secondary and historic cities.

II. Sectoral and Institutional Context

Kakheti and Imereti Regional Context. Located in the Eastern part of the country, Kakheti is the largest region in Georgia, with an area of approximately 11,300 km² and eight municipalities. It has about 404,000 inhabitants, at a population density of 35 persons per km².⁵ It is one of the poorest regions in the country, with a poverty rate of 25%, slightly above the country average of 24%.⁶ In 2013, unemployment rate is about 11%, which is below the Georgia average of 16%. The relatively low unemployment rate is attributed to the rural character of the region, in which a large section of the population is involved in low productivity agricultural self-employment. The Imereti Region is located in the western part of the country and occupies a territory of approximately 6,552 km². It has about 703,485 inhabitants, at a density of 107 persons per km².⁷ The poverty rate in the region is 14%, and the unemployment rate is 11%.⁸

Kakheti and Imereti have great potential for tourism development that can boost the regional economies. Services, especially tourism, have become increasingly significant in the two regions, generating about 60% value added in Kakheti, and 73% value added in Imereti.⁹ Widely recognized as a region of ancient culture, Kakheti is home to several ancient and unique monuments in Georgia. It is also known as the cradle of vine and wine. Approximately 178,000 visitors travelled to Kakheti in 2011, including overnight tourists and day excursionists.¹⁰ This is estimated to be an increase of over 48% from the preceding year, and the number is expected to increase to over 250,000 visitors per year with recently improved infrastructure and institutional capacity from the Regional Development Project I. Imereti is home to numerous churches, castles, archeological monuments, and museums.

The projected growth in tourism provides an opportunity for the participation of poor and vulnerable groups in the expansion of micro, small, and medium-sized enterprises (MSMEs) in the tourism sector. As the tourism market expands, there will be an increase in demand for goods and services provided by locally-owned MSMEs. Current tourism-related enterprises in Kakheti and Imereti include the provision of agricultural products, crafts, souvenirs, and various services. Viticulture is a common agricultural activity, and both regions are well-known for the local production of wine. Both regions produce a wide variety of fruits and vegetables, cattle and dairy products, which supply tourism businesses and visitors. The production of handmade souvenirs, carpets, and crafts for sale is also a common tourism-related activity among local populations. Services provided by local residents include walking tours, the provision of affordable housing for visitors, and edutainment shows in which local residents showcase local traditions and culture. There are numerous opportunities for the participation of poor and vulnerable groups in

³ Georgia National Tourism Administration. *Statistics and Reports* (2013). <http://gnta.ge/stats/portal/>

⁴ Ibid

⁵ National Statistics Office of Georgia. *Database* (2013).

⁶ Ibid

⁷ Ibid

⁸ Ibid

⁹ Georgia National Tourism Administration. *Statistics and Reports* (2013). <http://gnta.ge/stats/portal/>

¹⁰ Ibid

such enterprises, which would help to raise incomes and alleviate poverty among host populations.

The expanding tourism sector also provides an opportunity to increase local ownership of tourism development by engaging community members in the planning and implementation of tourism-related activities. Small works that engage neighborhood groups in community-driven conservation and maintenance initiatives is one way to engage local communities—especially the poor and vulnerable amongst them—in tourism development. This would not only increase local ownership of tourism development, but it would also provide linkages for poor and vulnerable communities to the local economy, and sustainably preserve social and cultural heritage. Community mobilization approaches that encourage community members, including IDPs, to collaborate with each other would help to build social capital by defining and acting on common goals.

Despite the increased opportunities for participation in the tourism sector, poor and vulnerable communities and individuals face significant constraints in fully exploiting them. One constraint is in access to financial services. In the context of high interest rates and collateral requirements, poor and vulnerable groups are often unable to access credit to finance entrepreneurial ventures. Coupled with a dearth of training opportunities for enterprise skills, poor and vulnerable groups may find it particularly difficult to benefit from the increase in tourism-related business opportunities. Another significant constraint is limited social capital among these groups. In Georgia, social networks are especially important for disseminating information about employment opportunities, facilitating contacts, and making connections that are useful for collaboration in business ventures. Poor and vulnerable groups are at risk of exclusion from broader social networks and may be unable to benefit from the opportunities they present. These groups are also at risk of exclusion from community-driven efforts in tourism development, and the social and economic benefits of such initiatives.

A prominent vulnerable group in Georgia, and in Kakheti and Imereti in particular is Internally Displaced Persons (IDPs). As with other poor and vulnerable groups, IDPs face significant challenges in accessing financial services and inclusion in wider social networks. However, these challenges are especially acute in the lives of IDPs. Without privatized housing or land to use as collateral, many IDPs are unable to access credit. Chronic unemployment often compounds the problem. As recent arrivals to the local communities, coupled with residence in physically segregated collective centers, IDPs are often not fully part of broader social networks. The psychosocial impacts of displacement such as residual feelings of loss, depression, alcoholism and listlessness are compounded by the day-to-day pressures of poverty among IDPs.¹¹ These challenges pose significant constraints for IDPs to participate in the growing tourism sector and to benefit from the opportunities in entrepreneurship and community development.

Among poor and vulnerable groups in Kakheti and Imereti, women face gender-related constraints that further prevent them from participating in the development of the tourism sector. Women face significant gender barriers in the local investment climate, despite their potential for

¹¹The World Bank. (2013). Supporting the livelihoods of Internally Displaced Persons in Georgia. http://imagebank.worldbank.org/servlet/WDSContentServer?IW3P/IB/2013/07/03/000333037_20130703101637/Rendered/PDF/791740WP0Georg0Box0377356B00PUBLIC0.pdf

business and job creation. As of 2011, the labor force participation rate of women in Georgia was 55.8%, compared to 76.5% for men.¹² Most are self-employed, often working for family farms or in businesses for no remuneration. In the aftermath of the crises in 2008, the poverty rate among female-headed households is estimated to have increased at a rate twice as high as that for male-headed households, particularly in rural areas. Among IDPs, those classified as living in extreme poverty or other forms of extreme vulnerability often consist of female-headed households and widows. The higher risk for poverty and vulnerability among women often constrains them from participating in entrepreneurial ventures. Collateral requirements, high interest rates for loans, and a scarcity of gender-sensitive training opportunities for enterprise skills pose significant challenges for the participation of women in the expanding tourism sector.

III. Project Development Objectives

The development objective of the pilot project for Empowering Poor Communities and Micro-Entrepreneurs in the Georgia Tourism Sector is to generate employment and increase household incomes for poor and vulnerable communities in the Kakheti and Imereti regions by supporting them to (i) start/grow micro, small, and medium-sized enterprises in the tourism sector and (ii) implement small works in the vicinity of cultural heritage sites.

IV. Project Description

The pilot will have the following five components.

Component 1: Market Assessment and Gender assessment (US\$ 82,680). This component will be carried out with the objective of better understanding MSMEs and vulnerable groups' role, including women, in the local economy. Baseline indicators will be drawn from these analyses. This output will closely inform the design of components 2 and 3.

Component 2: Technical Assistance and Capacity Building (US\$ 220,800). This will include management and other skills development, advisory services, training on access to markets (particularly tourism), and product development. The goal is to address the constraints of poor and vulnerable groups in accessing networks and know-how to tap into the tourism sector opportunities. Gender-sensitive training will be provided for women among the targeted beneficiaries.

Component 3: Support to MSMEs (US\$ 1,080,000). This component will fund (a) matching grants to eligible beneficiaries to start or expand their businesses/enterprises. The matching grant (average amount of US\$2,000) will support the production of goods and services related to cultural heritage for micro-entrepreneurs. This may include agro-processed foods, guiding services, handcrafts, performing arts, and other cultural industries. The grant will cover activities such as equipment, services, product promotion, and the acquisition of technical and market information. (b) Support will be provided to MSMEs to enhance their business development capacity, and build credit with local financial institutions. The support to MSMEs will include consultations, meetings, and workshops that will link entrepreneurs with local business associations and financial institutions.

¹²National Statistics Office of Georgia. *Database* (2013). http://www.geostat.ge/index.php?action=page&p_id=1145&lang=eng

Component 4: Community Mobilization for Implementation of Small Works at Targeted Cultural Heritage Sites (US\$ 741,520). The project will support community mobilization and small works at targeted cultural heritage sites. The grant facility will fund community driven small scale initiatives that engage neighborhood groups in protecting their own heritage and enhancing tourist visitation through maintenance and conservation initiatives such as cleaning the area, improving access to sites, providing signage and interpretation, etc. under the stewardship of the National Cultural Heritage Protection Agency. The grantees will be required to contribute up to 20% of project costs in cash or in kind. The size of the grant supporting the community driven initiatives shall not exceed USD 60,000.

Component 5: Participatory Monitoring and Impact Evaluation and Project Management and Administration (US\$ 375,000). This component will support technical support and training for Monitoring & Evaluation (M&E), knowledge dissemination, project management and administration.

V. Financing

Total Project Cost:	2.5	Total Bank Financing:	0
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00
International Bank for Reconstruction and Development			0.00
Others (JSDF)			2.5
Total			2.5

VI. Implementation

Project activities will be implemented by the Grant Recipient, the Non-Governmental Organization *ELKANA*. Founded in 1994, Elkana aims to improve the socio-economic conditions of communities and environmental protection through the development of sustainable organic farming, and promoting self-reliance among the rural population. Activities carried out by Elkana include supporting the organic market and value-added organic product enterprises in Georgia, promoting conservation and sustainable use of agricultural diversity, mobilizing communities in rural areas to develop their capacity for self-help, promoting rural tourism development, and the valorization of local traditional food and wine production and processing. The implementing agency was highly recommended by the Government of Georgia because of its strong track record on rural tourism development and experience in implementing projects from other donors.

Elkana has worked extensively with the Georgian National Tourism Administration (GNTA), the agency responsible for promoting sustainable tourism development in the country. Elkana participates in the GNTA strategy developments, as well as in consultancy meetings. Elkana has also implemented GNTA's tenders on the design and installment of signs at tourist sites. Elkana

works closely with the protected areas. It cooperates with them on guest-house development, and carries out inspections to ensure guest house conformity to principles such as lay-out, sanitation, and maintaining a traditional outlook. The Protected Areas have contracted Elkana to train their guides.

The proposed project team will consist of six persons: a Project Manager, two regional Project Coordinators, one Field Officer, a Social Media and IT Expert, a part time Financial Management Officer and part time Procurement Officer.

Elkana will work in close coordination with the Ministry of Regional Development of Georgia for the purposes of the project and the Project Implementation Unit (PIU) of the Regional Development Projects, the Municipal Development Fund (MDF). Elkana will establish and chair a multi stakeholder Supervisory Committee, which will include members of MDF. The full Terms of Reference for the Supervisory Committee will be described in the project's Operational Manual. The committee will meet at least quarterly and receive regular updates on project activities, implementation challenges and successes and will undertake field based visits to the activities. In particular, Elkana will work with the Ministry to facilitate connections between the project and central and local Government authorities to encourage institutional support for the project activities.

As the executor of the JSDF Grant, Elkana will be responsible for ensuring that grantee selection is done in accordance with the eligibility and selection criteria in a transparent manner, and in accordance with the governance risk mitigation mechanisms. It will also be responsible for monitoring the effective implementation of the proposed grants.

VII. Safeguard Policies (including public consultation)

The project is not expected to have any long-term impacts on the natural environment, while the social impacts will be positive.

- Environmental Assessment (OP/BP 4.1) is triggered because the activities /interventions proposed include physical works that may have certain impacts on natural environment, human health, and safety. Environmental Management Frameworks (EMFs) developed and approved for the implementation of RDP and RDP II were used to produce an Environmental and Social Management Framework (ESMF) for purposes of JSDF grant-financed project;
- Physical Cultural Resources (OP/BP 4.11) is triggered because interventions are expected in the vicinity of historic and cultural monuments. EMSF includes provisions for the protection of the Physical Cultural Resources.
- Involuntary Resettlement (OP/BP 4.12) is triggered in light of possible temporary impacts of minor civil works associated to MSME development and small community grants for the beautification of the sites. Because the location and footprint of these investments will not be known until implementation, the Resettlement Policy Framework (RPF) prepared for RDP and RDP II was adapted for the purposes of JSDF-financed project and will be used for its implementation.

The ISDS was approved on June 16, 2014. The [RPF](#) and [ESMF](#) were posted on Elkana's website on June 13 and 16. Consultations were held in Kutaisi and Telavi on June 17 and June 19.

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	x	
Natural Habitats (OP/BP 4.04)		x
Pest Management (OP 4.09)		x
Physical Cultural Resources (OP/BP 4.11)	x	
Involuntary Resettlement (OP/BP 4.12)	x	
Indigenous Peoples (OP/BP 4.10)		x
Forests (OP/BP 4.36)		x
Safety of Dams (OP/BP 4.37)		x
Projects in Disputed Areas (OP/BP 7.60)*		x
Projects on International Waterways (OP/BP 7.50)		x

VIII. Contact point at World Bank and Borrower

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*By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

IX. For more information contact:

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