



# Project Information Document (PID)

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Concept Stage | Date Prepared/Updated: 11-Apr-2019 | Report No: PIDC26464

**BASIC INFORMATION****A. Basic Project Data**

Country Georgia	Project ID P169747	Parent Project ID (if any)	Project Name Integrated Regional and Local Development Project (P169747)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Jan 20, 2020	Estimated Board Date Mar 24, 2021	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance of Georgia	Implementing Agency Municipal Development Fund of Georgia under the Ministry of Regional Development and Infrastructure	

**Proposed Development Objective(s)**

The Project's development objectives are to improve living conditions and economic activity in selected lagging areas by improving infrastructure for service provision, tourism, and related productive assets and to strengthen institutional and local capacity to support local economic development.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	60.00
<b>Total Financing</b>	60.00
<b>of which IBRD/IDA</b>	50.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	50.00
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**Non-World Bank Group Financing**



Counterpart Funding	10.00
Borrowing Agency	10.00

Environmental and Social Risk Classification

Moderate

Concept Review Decision

Track I-The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

**Between 2007 and 2016, the Georgian economy grew at an average annual rate of 4.5 percent. This growth trend is expected to remain steady over the medium term, as confirmed by the economy’s good performance in 2018,** when real gross domestic product (GDP) growth was maintained at an estimated 4.7 percent<sup>1</sup>, led by a stronger external environment and an increase in private consumption. Fiscal stability was supported by strong revenue performance and moderate budget spending, helping to keep Georgia’s public debt sustainable at around 45 percent of GDP as of the end of 2018. Georgia’s external position strengthened, with the current account deficit narrowing by 0.6 percentage points of GDP to 6.5 percent of GDP in the first three quarters of the year. The banking sector is well capitalized and profitable, and the level of nonperforming loans (NPLs) is not cause for concern, although structural vulnerabilities remain high due to dollarization and a relatively high loan-to-deposit ratio.

**Georgia’s development over the past decade can be considered a success story, and Georgia’s recent economic reforms have promoted economic growth and poverty reduction.** Coupled with a system of targeted social transfers, the reforms helped to nearly halve the national poverty rate from 37.4 percent in 2007 to 21.3 percent in 2016, and to improve the income and living conditions of households in the bottom 40 percentile. Nevertheless, roughly one in every five Georgians is still poor, and almost half the poor population is at risk of falling deeper into poverty. Based on the national poverty line, poverty stagnated at 21.9 percent in 2017, affected by a slow increase in employment opportunities and a spike in inflation. Using internationally comparable data (the poverty line for lower-middle-income poverty line measured as US\$3.2/day based on 2011 purchasing power parity [PPP]), poverty was estimated at 18.1 percent in 2017

Although the economy’s expected continued expansion in the coming years should lead to more employment opportunities and more income-generating opportunities, the country faces a number of key development challenges:

<sup>1</sup> National Statistics Office of Georgia, [http://geostat.ge/index.php?action=page&p\\_id=119&lang=eng](http://geostat.ge/index.php?action=page&p_id=119&lang=eng)



- **Georgia is impacted by a sharp decline in its population** . Georgia’s population has declined from 5.0 million in 1991 to 3.7 million today and is projected to decline to 3.0 million by 2050.<sup>2</sup> The population is aging and shrinking due to low fertility and high emigration rates, thus creating challenges for service delivery and social protection systems. Population decline has occurred mainly since 2012 (the population was largely stable from 2007 to 2012) and, during this period, every region has seen an annual population decline of over 6 percent, with Tbilisi being the least affected.
- **There are large urban-rural and intraregional disparities in the incidence of poverty.** Regional differences within rural areas are substantial, with remote and mountainous regions bearing the highest burden of poverty. Over 50 percent of rural households with unemployed heads are poor. The gap between rural and urban poverty rates has remained broadly stable over the past decade, at an average of around 8 percentage points. Moreover, poverty is higher among female-headed households (between 2012 and 2016, female-headed households reported average poverty levels almost 4 percentage points higher than male-headed households). Gender inequalities are explained by the availability of fewer economic opportunities for women than for men.
- **Rural poverty remains a challenge.** The agricultural sector accounts for almost half of total employment while contributing less than 10 percent to GDP. Consequently, the majority of Georgia’s labor resources are locked in low-productivity jobs that require low-level skills, while young people with higher levels of education face unemployment as a result of a persistent mismatch between the skills they have and the requirements of a labor market which is increasingly driven by technological advancements and the demands of the global marketplace. Opening employment opportunities in other sectors to the labor force now employed in low-productivity agriculture will be critical to reducing rural poverty. In fact, agricultural development alone will not be sufficient to lift the chronic poor out of poverty. Focusing on re-skilling the labor force to meet new demands will be critical, as will activation policies.
- **Widening inequalities in opportunities, rather than inequality in outcomes, are more likely to create dissatisfaction among the population.** Any effort to create employment opportunities must be accompanied by a focus on the requisite skills as well. The “Georgia 2020” Social-economic Development Strategy of Georgia identifies a skill mismatch as an element preventing the current and upcoming workforce from taking full advantage of many new employment opportunities.
- **Georgia presents uneven levels of connectivity, both internally and externally,** in terms of both transport and digital connectivity, despite significant investments in infrastructure.
- **There are high levels of vulnerability to climate change and natural disasters.** Two-thirds of agricultural lands are eroded or degraded, and loss of land productivity as a result of degradation and the increased frequency and magnitude of floods, landslides, and mudflows greatly affect people in rural areas. Observed and anticipated climate change impacts are expected to exacerbate natural and environmental fragility.

## Sectoral and Institutional Context

**The Government of Georgia has identified addressing regional disparities as a key priority for the country.** The Regional Development Programme of Georgia (2018–21) is part of a program that builds on prior national planning documents,<sup>3</sup> setting out the main goals of Georgia’s regional development. Most noticeably, the program’s strategic

<sup>2</sup> World Development Report 2018: Learning to Realize Education’s Promise

<sup>3</sup> The Social-economic Development Strategy of Georgia (“Georgia 2020”), the State Strategy for Regional Development (2010–17), and the Regional Development Programme (2015–17).



vision and delivery modalities are in line with the European Union's (EU's) recent approaches to a cohesive socioeconomic policy, including territorially integrated interventions and a focus on the exploitation of territorially differentiated potentials.

**Most recently, in December 2018, the “Development of High Mountain Regions of Georgia 2019–23” strategy was launched,** which is aimed at operationalizing the Mountain Law of Georgia,<sup>4</sup> promoting local economic development in the high mountain regions, and addressing the challenges faced by an estimated 300,000 inhabitants (or almost 10 percent of Georgia's population). The main objective of the strategy is to promote the sustainable development of Georgia's highlands and to support small- and medium-sized business. Together with investments in health, education, and roads (mostly addressed by large-scale national programs), the strategy's key priorities include: the development of tourism infrastructure and service development to support year-round mountain tourism; the scale-up of the restoration of cultural heritage sites in mountainous areas (making them more attractive to tourists); the expansion of access to key public services, including energy, natural gas, drinking water, sanitation, and waste management, adopting alternative sources if the geography does not allow for networked supply. Also critical is the installation of an early warning system to safeguard mountain populations and visitors from disasters caused by climate change. A related set of efforts would be the implementation of pilot projects to mitigate the impacts of natural disasters and introduce insurance programs.

**The Bank has been the Government of Georgia's leading partner in support of its Regional Development Programme since the program's onset in 2011,** through a combination of technical assistance and three investment project financing (IPFs)<sup>5</sup> operations aimed at improving infrastructure in support of the tourism industry and attracting private investors in a total of four sequentially targeted regions of the country. While two of the programs are still ongoing, the first Regional Development Program closed in December 2017 with satisfactory results and several critical lessons that include the facts that: (i) success of tourism development depends on concentrated investments in transformative improvements of core tourist hubs; connections between these hubs and secondary attractions and any supplementary tourist infrastructure/services in peripheral locations should be carefully assessed and ranked; (ii) securing participation and ownership by local governments is critical to ensure future sustainability; and (iii) it is important to crowd in private sector investments to create proof-of-concept cases and instill a sense of confidence. Ultimately, the long-term success of the tourism industry will depend on building strong partnerships with and leveraging of the private sector.

Considering Bank's long-term experience supporting regional development in Georgia, **the Government of Georgia requested the World Bank Group (WBG) to assist in systematically operationalizing the Regional Development Programme of Georgia (2018–21) in support of the spatially equitable development of the country,** with a focus on lagging regions, the majority of which are mountainous.<sup>6</sup> To respond to the Government's request, a number of relevant studies and technical assistance activities were carried out over the past three years to provide the necessary analytical underpinning for an innovative design of the Integrated Regional and Local Development Project (IRLDP). Box 1 below provides a list of key studies supporting the relevance of a place-based approach to regional development and how they relate to the proposed project design.

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<sup>4</sup> Law of Georgia on the Development of High Mountain Regions (2016). The “Mountain Law” defines a high mountainous settlement as a settlement that is located in a mountainous region at approximately 1,500 meters or higher according to hypsometric analyses. The Government of Georgia is entitled to take into consideration different criteria (steepness of mountain slope, condition of infrastructure, climate condition and natural environment, scarcity and deficiency of agricultural lands, and demographic profile, including aggravated migration processes) and to grant the status of high mountainous settlement to a settlement located at not less than 800 meters in a mountainous region. Regardless of their altitudes, the status of high mountainous settlement shall be granted to settlements located within the following historic and geographic areas: Khevi, Mtiuleti, Pankisi Gorge, mountainous Adjara, Gudamakari Valley, Pshav-Khevsureti, Tusheti, Upper Svaneti, Kvemo Svaneti (Lower Svaneti), Lechkhumi, and Racha.

<sup>5</sup> First Regional Development Project (US\$60 million), Second Regional Development Project (US\$39 million), and Third Regional Development Project (US\$60 million), with a total investment of US\$159 million.

<sup>6</sup> Eighty-five percent of Georgia's territory can be classified as mountainous (more than 500 meters above sea level).



**Box 1: Key studies supporting the project design.**

<i>Georgia Urban Strategy: Economic Role of Major Cities</i> <sup>7</sup>	Georgia’s uneven economic development has created unique challenges in some parts of the country. For economic growth to be sustainable, a balanced vision for all the countries’ cities must address the diverse constraints to economic development that are confronted by relatively small urban centers. Key challenges include the underfunding of infrastructure, public services, and public amenities; dysfunctional land markets; and the inadequate capacity of local governments.
<i>Cities in Eastern Europe and Central Asia: A Story of Urban Growth and Decline</i> <sup>8</sup>	Using both nighttime lights (NLS) as a proxy for economic activities at a subnational level, and GINI coefficients, this study demonstrates that urbanization in Eastern European and Central Asian countries is profoundly affected by an overall decline in population. Only a few economic hubs are growing; most are shrinking. Georgia is no exception: 31 percent of the cities in its urban system have shrunk over the past decade, cities with more than 50,000 inhabitants host about 80 percent of the country’s population, and smaller cities and towns continue to decline. The study recommends that local authorities reassess how infrastructure is planned and maintained, and how services are financed and delivered.
<i>South Caucasus in Motion</i> <sup>9</sup>	There are strong regional disparities in Georgia’s economic growth, poverty rates, and job opportunities. Using NLS as a proxy for economic productivity (see maps in annex 1), this study confirms that economic activity is concentrated in major urban areas. Women and rural residents have the fewest opportunities to gain formal employment, and there is a high percentage of self-employment and family employment in urban centers outside Tbilisi. Moreover, in all regions except Tbilisi, the population has been declining at a rate of nearly 6 percent a year since 2012, especially due to emigration.
<i>Rethinking Lagging Regions. Using Cohesion Policy to Deliver on the Potential of Europe’s Regions</i> <sup>10</sup>	This World Bank report on the European Union focuses on lagging regions and argues that persistent inequalities—at the regional, local, and household level—lead to high rates of poverty and emigration and act as a potent stumbling block to a country’s economic prosperity and well-being. Regional disparities also threaten social and political cohesion. The study offers an innovative, twofold strategy applicable to the specific case of Georgia: (i) use a place-based approach to maximizing potential in all areas, not only in terms of output per capita, but also in terms of the capacity to generate productive jobs; and (ii) ensure equality of opportunity to achieve individuals’ potential.

**Over the past decade, tourism development has remained a top priority for the Government of Georgia across all dimensions of economic development.** The tourism sector is rapidly growing in Georgia. According to statistics from the Georgian National Tourism Administration (GNTA), 2018 witnessed a record 8,679,544 international arrivals (compared with 2,032,000 arrivals in 2010), with a year-to-year estimated growth of 18.4 percent revenue from foreign tourism (an almost US\$500 million annual increase, reaching US\$3.2 billion in 2018). The latest country report by the World Travel and Tourism Council<sup>11</sup> estimates the travel and tourism industry’s total estimated contribution to GDP and employment

<sup>7</sup> by F. Shah, C. Young and D. Sivaev (2016)

<sup>8</sup> by P. Restrepo Cadavid, G. Cineas, L.E. Quintero and S. Zukhova (2017)

<sup>9</sup> by A. Fuchs et al. (2019)

<sup>10</sup> World Bank Report by T. Farole, S. Goga and M. Ionescu-Heroiu (2018).

<sup>11</sup> Total contribution to GDP is calculated by considering (i) the direct contribution, meaning the “internal” spending on travel and tourism (T&T) and the government’s “individual” spending; (ii) the indirect contribution, which includes GDP and jobs supported by T&T investment spending, government “collective” spending in support of T&T, and domestic purchase of goods and services by



at about US\$4,680 million (31 percent of total GDP) in 2017, with a growth outlook of 5.1 percent per year between 2018 and 2028 (to reach 35 percent of GDP by 2028). Visitor exports, that is, the spending done within the country by international tourists, is projected to rise as well, at a rate of 5.4 percent per year, from about US\$2,985 million in 2017 (46.8 percent of total exports) to an estimated US\$5,350 million by 2028.

At the same time, **some critical gaps remain to be addressed, leaving room for improvement and further leveraging of the cultural and natural endowments of the country.** A number of recent studies<sup>12</sup> recognize that, despite the robust growth of the tourism industry, focused action is required in a critical areas to maximize the development outcomes generated by the tourism industry:

- *Rebalance the current distribution of tourist visits, which is highly uneven* and concentrated on a few urban centers and circuits (which are already at maximum capacity). To expand the tourism industry to more remote areas of the country would require more integrated and innovative approaches to tourism development along selected value chains (e.g., nature and adventure, ecotourism, arts and heritage, educational and religious, gastronomic, wine and food, etc.).
- *Support the involvement of local small and medium entrepreneurs and communities* to increase their capacity to be globally (and virtually) connected, to attract and receive tourists, and to offer relevant and authentic experiences that would allow them to take full advantage of the growing demands of higher-spending travelers.
- *Increase horizontal and vertical coordination between the Georgia National Tourism Administration (GNTA), Enterprise Georgia (EG),<sup>13</sup> and other central and local agencies* responsible for implementing the national tourism development strategy, and various currently fragmented interventions by donors and other development agencies in the sphere of tourism development.
- *Address the mismatch between the skills of entrepreneurs and the requirements of the tourism industry*, and also reduce the risk of wasting scarce strategic resources on “intuitive” investments made without adequate knowledge of the market (e.g., by improving knowledge on how to best manage a business’s internet presence, adopting eCommerce solutions, carrying out service price calculations, etc.).
- *Increase the involvement of young entrepreneurs and women* in particular. In fact, international experience from European Alpine countries such as Austria, Switzerland, and Italy<sup>14</sup> shows that young urban entrepreneurs are willing to move out of cities and back to the countryside when new opportunities for tourism-related businesses and services emerge in remote areas. Previous World Bank–financed regional development projects in Georgia also provide evidence that the tourism industry is particularly amenable to creating employment for women (in Georgia there is evidence that an estimated 55 percent of guesthouses are run by women).<sup>15</sup>

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sectors directly dealing with tourists; and, lastly, (iii) the induced contribution, that is, the spending of those employed by the T&T industry.

<sup>12</sup> Technical Task Report 5, “Development and Piloting of Destination Management Offices—Imereti,” 2018; “Marketing, Branding and Promotional Strategy for Georgia,” 2018; “Rural Tourism in Georgia in Transition: Challenges for Regional Sustainability,” by L. Khartishvili et al., in *Sustainability* 2019, 11, 410; “Georgia: Leveraging Tourism GVCs for Prosperity,” World Bank Project P169303, February 2019, Aide Memoire.

<sup>13</sup> Ministry of Economy and Sustainable Development of Georgia, together with the Ministry of Agriculture, launched a new government program, “Produce in Georgia,” to promote an entrepreneurial culture throughout the country by stimulating the establishment of new enterprise and supporting the expansion of existing operations. Enterprise Georgia is the key implementing partner of “Produce in Georgia” and is responsible for business support, export promotion, and investment in Georgia sectors (see <http://www.enterprisegeorgia.gov.ge/en>).

<sup>14</sup> Georgia knowledge exchange with Italy and Austria on Resilient Mountain Tourism, carried out in September 2017 (financed by the Global Facility for Disaster Reduction and Recovery, GFDRR).

<sup>15</sup> <https://www.worldbank.org/en/news/feature/2019/03/04/empowering-entrepreneurs---three-georgian-women-share-their-stories>.



**Climate change impacts are expected to worsen natural and environmental vulnerabilities**, as underlined in the Country Partnership Framework for Georgia (FY2019–22). The country is exposed to several potential natural disasters, particularly floods, droughts, earthquakes, and fires, which threaten agriculture, residential infrastructure, communications, and natural protected areas, exacerbating the vulnerability especially of the poor located in remote areas. Floods are quite frequent in Georgia and have a large cumulative effect on the country. The annual average population affected by flooding is estimated to be about 100,000 and the annual average affected GDP, about US\$400 million. Earthquakes pose a greater risk of a high impact. The annual average population affected is about 300,000 and the GDP affected is about US\$900 million.<sup>16</sup> On the basis of a resilience indicator developed by the World Bank, which focuses on how natural disasters affect people’s well-being, the annual average risk to assets is 0.96 percent of GDP and the risk to well-being is 1.4 percent. These risks could be decreased to 0.94 percent and 1.21 percent, respectively, if a combination of minimal resilience measures and early warning systems are implemented.<sup>17</sup>

#### Relationship to CPF

**The proposed Project is fully aligned with the objectives of the Country Partnership Framework (FY19–22)**, which supports sustainable and inclusive growth in Georgia, paying special attention to vulnerable groups and lagging regions. The CPF has three focus areas, the first and third of which are highly relevant to this Project.

**The proposed Project supports Focus Area 1: Enhance Inclusive Growth and Competitiveness**, as it aims at increasing economic participation, by implementing an integrated approach to tourism and other sectoral development in lagging regions, with a focus on infrastructure, urban renewal, cultural heritage restoration, skills development, and the attraction of private sector investments. The Project also promotes the improvement of connectivity and integration to reduce disparities and to help people living in rural and remote areas to better connect to services, business opportunities, and markets.

**The proposed Project also supports Focus Area 3: Build Resilience**, as it contributes to the enhancement of natural resources as well as to the increased sustainability of Georgia’s forests at the same time as strengthening the country’s disaster risk management and the preparedness system. The CPF will build on the World Bank’s long-lasting engagement in disaster risk management in Georgia, helping the country’s Ministry of Economy and Sustainable Development to improve the regulatory system, and to develop a quantifiable baseline and an investment plan.

#### *Consistency with higher-level objectives*

**The Project supports the World Bank Group’s goals of reducing poverty and promoting shared prosperity** in its efforts to contribute to progressively reducing regional disparities and supporting equal access to job opportunities and economic growth for the population of Georgia, targeting some of the poorest areas of the country. This is particularly important considering the World Bank’s Independent Evaluation Group (IEG) report titled “Growth for the Bottom 40 Percent.” As such, the proposed Project will increase the poverty targeting of the World Bank’s country portfolio, in light of the finding of the 2017 World Bank report, “Support for Shared Prosperity,”<sup>18</sup> that for Georgia the coefficient measuring the correlation between the share of World Bank projects in Georgia and the bottom 40 percentile at subnational levels is between –0.5 and 0.0.

### **C. Proposed Development Objective(s)**

<sup>16</sup> “World Bank Country Risk Profile for Floods and Earthquakes,” based on estimates for 2015.

<sup>17</sup> “Unbreakable. Building the Resilience of the Poor in the Face of Natural Disaster,” 2017.

<sup>18</sup> See <http://ieg.worldbankgroup.org/blog/serving-bottom-40-percent-are-world-bank-group-projects-reaching-those-need>.





**The Project's development objectives are to improve living conditions and economic activity in selected areas by improving infrastructure for service provision, tourism, and related productive activities and to strengthen institutional and local capacity to support local economic development.**

**Beneficiaries:** In line with the Regional Development Programme of Georgia (2018-21), the primary Project beneficiaries are expected to be the communities living in lagging areas of the country, where limited access to economic opportunities and social services severely constrains inclusive growth. The final number of beneficiaries will be assessed during project preparation and finalized by appraisal. At PCN stage it is estimated to be about 25 percent of the country's population (including both direct and indirect beneficiaries) and potentially up to 700,000 visitors/year (both international and local) for Project-targeted areas.

#### Key Results (From PCN)

The achievement of the PDO will be constantly monitored and evaluated for several key results, among which are the following (to be finalized during preparation and appraisal):

#### **Service Delivery for Sustainable Growth:**

- Number of people in urban and mountainous centers provided with improved and resilient urban infrastructure (e.g., number of kilometers of rehabilitated roads, number of restored buildings).
- Number of people living in lagging areas provided with improved access to municipal services, social services, and connectivity.
- Cumulative fiscal take (taxes) from the economic activities resulting from the Project-specific investments (e.g., tourism, agribusiness, trade, as relevant), through all forms of relevant taxation.
- Firms benefitting from private-sector initiatives (CRI)

#### **Disaster Risk Management and Resilience:**

- Number of emergency and preparedness plans completed.
- Number of buildings and infrastructure elements rehabilitated to improve structural resilience.
- Number of communities informed about emergency plans.

#### **Skills Building and Institutional Strengthening:**

- Increased number of adventure and ecotourism packages.
- Beneficiaries of job-focused interventions (CRI)
- Creation of a well-designed and effective marketing and promotion (including e-marketing) strategy.

### **D. Concept Description**

The Project interventions are designed to be aligned with the Regional Development Programme of Georgia (2018–21) and ultimately contribute to its overall objective to achieve **balanced socioeconomic development and the improvement of living conditions across the national territory, reducing regional disparities and increasing territorial cohesion**. This overall objective is to be achieved through three specific program objectives: (i) *promoting economic growth* by systematically exploiting Georgia's comparative advantages in the dynamic international context, eliminating barriers for potential use, and developing relevant territorial units; (ii) *sustainable development*, that is, the rehabilitation and expansion of infrastructure and energy and communication networks and public utilities in an



environmentally friendly manner; and (iii) *promoting social and territorial cohesion* by creating equal opportunities for all citizens, irrespective of their social background and place of residence.

Consistent with the aspiration of the Regional Development Programme of Georgia (2018–21) to align with the EU’s approaches to socioeconomic cohesion, including the use of place-based integrated interventions and a focus on exploiting territorially differentiated potentials, **the IRLDP applies the innovative approach of the endowment-building framework advocated by the “Rethinking Lagging Regions” report**,<sup>19</sup> with the aim to unlock the regional potential of low-agglomeration, lagging regions in the country (see annex 2, for the conceptual framework adopted). Based on the endowment-building framework, the key elements leading the Project concept are the following:

- *Leverage (cultural and nature) tourism and related/supporting sectors* (e.g., agribusiness, farm-staying) as a strategic choice and focus on “niche” sectoral development.
- *Leverage the productivity potential of and invest in urban centers as locations of opportunities*, benefitting their capacity as hubs of economic activity and their regional impact. High-potential urban centers are not necessarily regional capitals, but rather “core centers of opportunity” identified using the methodology developed under the Georgia Urbanization Strategy 2020, as measured by their Market Access Index<sup>20</sup> and opportunity potential.
- *Address local infrastructure gaps and invest in last-mile connectivity.*
- *Support sectoral/tourism-related skill building*, as a no-regret intervention.
- *Support institutional strengthening.*

Consistent with this approach and the PDO, the main components of the proposed Project are the following:

### **Component 1: Service Delivery for Sustainable Growth (US\$35 million)**

The main objective of this component is to improve living conditions in selected lagging areas by improving infrastructure for service provision, the tourism industry, and related productive assets. Its three subcomponents are:

#### ***Subcomponent 1.1: Upgrading and Regeneration of Urban Centers***

This subcomponent will identify and prioritize investments that contribute to the upgrading and regeneration of selected urban centers in the lagging areas of Georgia, with the aim to improve living conditions and enhance the potential for economic opportunities in relation to the tourism industry. The investments would include street rehabilitation and street lighting, restoration of historic buildings, refurbishing of public spaces (including parks), rehabilitation of selected wastewater systems, construction of visitor facilities, and enhancement of natural and cultural heritage assets. Two types of urban areas would be targeted under this subcomponent: (i) **urban core centers of opportunities (UCCO)**, defined as urban agglomerations within municipalities that consists of urban centers with a population of at least 15,000. The size of these urban economies suggests that they are best positioned to draw from agglomeration economies and are poised to become the next tier of urban areas that can generate growth. Some of these urban economies are near major markets or highways, which can explain their size, while others have natural endowments that enable the urban economy to capitalize on its own economic gravity. And (ii) **satellite settlements** such as towns and villages functionally connected to the UCCOs and having the potential to create tourism clusters and actively contribute to fostering job opportunities thanks to relatively diversified tourism offerings.

#### ***Subcomponent 1.2: Sustainable Mountain Development.***

This subcomponent aims to promote a sustainable, green, and efficient use of the available natural and cultural assets to leverage mountainous regions for niche tourism sectors and related economies (e.g., adventure, homestays,

<sup>19</sup> <http://www.worldbank.org/en/region/eca/publication/rethinking-lagging-regions>.

<sup>20</sup> Connectivity to markets draws on the “Market Access Index” from the Georgia Urbanization Review (World Bank 2014). The index is a sum of distance to the big four markets of Tbilisi, Kutaisi, Batumi, and Rustavi and their distance to the main highway.



gastronomy, agrobusiness, handicrafts, etc.). A value chain approach will be used to identify priority areas to test an integrated approach to support mountain tourism development. Among the activities financed by this subcomponent, connectivity links along potential tourism circuits will be upgraded, enhancing attractions (ecotourism, adventure and sport tourism, winter and skiing, cultural tourism) in remote and mountainous areas, where the visitors could experience and enjoy untouched nature, while taking advantage of basic facilities. Examples of what could be financed under this subcomponent are: regeneration of strategic starting hubs for mountain trails, creation of eco-friendly, sustainable hospitality structures and tourism facilities (including huts along trails), improved solid waste management, rehabilitation of selected access roads to potential natural attraction points, and improvement of connectivity between the regional centers and selected strategic urban centers to facilitate movement.

### ***Subcomponent 1.3: Provision of Public Infrastructure to Attract Private Investments***

This subcomponent will leverage private sector support through targeted public investments in support of the sustainable development of mountain tourism. The investments will be selected and prioritized on the basis of their long-term sustainability for local development, and their potential capability for creating new job opportunities in various sectors (e.g., tourism, agriculture, trade). The investment proposals will be screened and identified through a participatory system by local stakeholders, based on selection criteria aimed at supporting the “Local Strategies for Opportunity Development” by local self-government units (LSGUs) and evolving experience developed under the previous three Regional Development Projects. This component will include also the piloting of innovative approaches to *leverage private sector investments for adaptive reuse of historic buildings/facades and villages, and for landscape restoration in the proposed areas of intervention.*

### **Component 2: Disaster Risk Management and Resilience (US\$6 million)**

This component aims to enhance disaster resilience, climate change adaptation, and preparedness<sup>21</sup> for potential emergencies, through the delivery of selected resilient lifeline infrastructure combined with the enhancement of institutional and technical capacity for disaster management and response in Project target areas. The Project will contribute to improving local governments’ capacity to manage natural and cultural resources, to avoid risks, and to mitigate and respond to existing risks in order to promote sustainable growth. The component could finance: the construction of resilient infrastructure, structural vulnerability assessments of public and private buildings and cultural heritage sites in selected areas, training of local communities in how to respond to hazardous events, communication campaigns devoted to increasing public awareness of this topic, focused interventions for improving the resilience of buildings and public facilities, drafting of resilience plans, and the creation of Emergency Centers (ECs) in select remote mountain locations to coordinate interventions in case of emergency.

### **Component 3: Skills Building and Institutional Strengthening (US\$7 million)**

In order to ensure the long-term sustainability of both investments and opportunity outcomes, capacity-building activities under the Project will target both local entrepreneurs, to enable them to take full advantage of emerging economic opportunities, and government agencies, to secure the sustainability of investments and initiatives beyond the life of the Project. Therefore, activities under this component will be twofold: (i) the building of the innovation capacity of small and medium enterprises (SMEs) (e.g., through targeted training sessions, small grants for start-up and upscaling, and incentives to innovate), to be carried out in partnership with Enterprise Georgia under the Ministry of Economy; and (ii) institutional strengthening of both local and central government agencies, including the Municipal Development Fund (MDF), National Agency for Cultural Heritage Preservation of Georgia (NACHP), Georgia National Tourism Administration (GNTA), Mountain Resorts Development Company (MRDC), as well as regional and local entities. The component will support the following activities, without being limited to: (i) improvement of tourism management

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<sup>21</sup> The proposed Project aims at aligning with the UN definition of “preparedness,” meaning “the knowledge and capacities developed by governments, professional response and recovery organizations, communities and individuals to effectively anticipate, respond to, and recover from the impacts of hazard events or conditions.”



with a focus on lagging areas; (ii) destination management, branding, marketing, and promotion; (iii) training for skilled workforce development and capacity building; (iv) construction supervision; (v) sustainable management of natural and cultural assets; (vi) potential establishment of a local services office in the selected UCCOs, functioning both as service office for local residents and communities from satellite settlements (where, for example, they get updates on job opportunities, attend training courses, and connect with other actors) and as tourist centers; (vii) prioritization of investments through the development of “Local Strategies for Opportunity Development” by LSGUs; (viii) Project implementation and regional planning; and (ix) performance monitoring and evaluation. The component will promote and foster stronger coordination among agencies to maximize economic opportunities and development.

#### **Component 4: Project Management (US\$2 million)**

The component will support the costs related to overall Project implementation, including: staff salaries, contracting of local and international experts and consultants to assist in the implementation of investments, external consultants and specialists for technical issues, and training of staff and consultants associated with Project implementation, procurement, social and environmental management, and monitoring and evaluating.

#### **Lessons Learnt and Project Innovations:**

This section summarizes key lessons learnt both from past experience implementing the Georgia Regional Development Projects and international practices, and highlights how they are innovatively reflected in the proposed Project concept.

- **Successful tourism development depends on concentrated investments in transformative improvements of core tourist hubs.** The Project will target *lagging areas*, as opposed to administrative regions. Different from previous Regional Development Projects, this Project will align with best practices emerging in the rest of Europe in a place-based approach to address the specific challenges of lagging areas. The Project will specifically target mountainous areas, which present the most challenges, by supporting SMEs in niche tourism to reduce poverty, generate income, and ultimately reduce poverty. The Project will maintain a strong gender focus, increasing job opportunities for women.
- **Connections between core centers and secondary attractions and any supplementary tourist infrastructure/services in peripheral locations should be carefully assessed and ranked.** The Project will apply *the endowment framework approach designed for the European Union to integrate and prioritize interventions in selected lagging areas to support cohesion*. This will be done by leveraging the potential of a spatially and economically integrated system of UCCOs, and support forward and backward linkages with economic hubs along corridors and lagging satellite centers and mountain regions. The support to the niche tourism industry and integration of related value chains will create job and economic opportunities in targeted lagging areas. *Evidence-based decision making* will be ensured through a series of further studies carried out during Project preparation in partnership with the Ministry of Regional Development and Infrastructure (MRDI), financed by the Third Regional Development Project, to sharpen the selection of target areas and the overall upstream quality of Project design.
- **Securing local governments’ participation and ownership is critical to ensure sustainability.** Component 3 of the project will specifically *strengthen capacities and support municipalities (local self-governing bodies)* to systematically develop local strategies for opportunity development, set priorities, and build local ownership for future sustainability.
- **Building strong partnerships, and leveraging and crowding in private sector investments are important for the long-term success of the tourism industry.** *Subcomponent 1.3 (Provision of Public Infrastructure to Attract Private Investments)* will aim to *leverage private sector investments for adaptive reuse of historic buildings and villages, and for landscape restoration in the proposed areas of intervention*. In particular, international best practices will be adapted and piloted, including the use of the innovative “dispersed hotel” approach, to address



the challenge of restoring key facades of heritage buildings under private ownership. Moreover, *skill building is given priority to complement investments and develop strong SME ecosystems* that deliver improved quality, efficiency, and profitability of services to support the tourism industry. This approach will be expected to strengthen or establish tourism enterprise clusters, expanding to related sectors such as handicrafts, textiles, and agribusinesses, among others, that are either interconnected or vertically integrated.

- **It is important to account for climate change, resilience, and environmental sustainability.** Building on past experience and ongoing technical assistance focusing on disaster risk management, the Project will target complementary activities aimed to increase the resilience of Project areas to natural disasters and climate change, and increase environmental sustainability by building on international best practices for the management of parks and fragile mountain landscapes.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	TBD
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Environmental, cultural and social sensitivity of the area targeted for the project intervention is high, while scale of the proposed physical works is modest and institutional capacity of the project implementing entity is adequate. Environmental and Social Management Framework and Resettlement Policy Framework to be developed for the project will carry detailed instructions for anticipating, preventing and minimizing negative impacts on the natural, cultural and social environment.

**Note** To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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