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Report No: PAD1776

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF US$9 MILLION

AND RESTRUCTURING

TO

GEORGIA

FOR THE

SECOND REGIONAL DEVELOPMENT PROJECT

MARCH 16, 2016

Social, Urban, Rural and Resilience Global Practice
Europe and Central Asia Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective February 29, 2016)

Currency Unit	=	Georgian Lari (GEL)
GEL 2.5	=	US$1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACHP	Georgia Agency for Cultural Heritage Preservation
AF	Additional Financing
CHF	Georgia Cultural Heritage Fund
CPS	Country Partnership Strategy
CPS-PR	Country Partnership Strategy Periodic Review
CQS	Consultant Qualifications
DA	Designated Account
EA	Environmental Assessment
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
EMF	Environmental Management Framework
EMPs	Environmental Management Plans
EPI	USAID-funded Georgia Economic Prosperity Initiative
FBS	Fixed Budget Selection
FDI	Foreign direct investment
FI	Financial Intermediary
FIRR	Financial Internal Rate of Return
FM	Financial Management
FMM	Financial Management Manual
GACC	Georgian Arts and Culture Center
Ge-eGP	Georgian E-Government Procurement System
GEL	Georgian Lari
GNM	Georgia National Museum
GPN	General Procurement Notice
GNTA	Georgia National Tourism Administration
GRS	Grievance Redress Mechanism
IBRD	International Bank for Reconstruction and Development
IC	Individual Consultants
ICB	International Competitive Bidding
ICOR	Incremental Capital to Output Ratio
IDA	International Development Association
IFAC	International Federation of Accountants
IP	Implementation Plan
IFRs	Interim un-audited financial reports
IRR	Internal Rate of Return

IOC	Incremental Operating Costs
ISA	International Standards on Auditing
LCS	Least-Cost Selection
LSGs	Local Self-Governments
O&M	Operation and Maintenance
MRDI	Ministry of Regional Development and Infrastructure
MDF	Municipal Development Fund Georgia (Project Implementing Entity)
NACHP	National Agency for Cultural Heritage Preservation of Georgia
NCB	National Competitive Bidding
NPV	Net Present Value
OM	Operations Manual
PAS	Procurement Accredited Specialist
PDO	Project Development Objective
PIE	Project Implementing Entity
PP	Procurement Plan
PRAMS	Procurement Risk Assessment and Management System
QCBS	Quality and Cost-Based Selections
RAPs	Resettlement Action Plans
RDP	Regional Development Project
RPF	Resettlement Policy Framework
RVP	Regional Vice President
SAR	Subproject Appraisal Report
SECHSA	Strategic Environmental, Cultural Heritage and Social Assessment
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprises
SORT	Systematic Operations Risk-Rating Tool
SSS	Single-Source Selection
SSR	Subproject Summary Reports
SSWMP	Sustainable Wastewater Management Project
TF	Trust Fund
TOR	Terms of Reference
UNESCO	United Nations Education Social and Cultural Organization
UWC	United Water Company
WB	World Bank
WWTP	Wastewater Treatment Plant

Vice President:	Cyril E. Muller
Country Director:	Mercy Miyang Tembon
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GEORGIA

ADDITIONAL FINANCING FOR THE SECOND REGIONAL DEVELOPMENT PROJECT (P157465)

CONTENTS

ADDITIONAL FINANCING DATA SHEET

Georgia

Second Regional Development Project Additional Financing (P157465)

EUROPE AND CENTRAL ASIA

Basic Information – Parent			
Parent Project ID:	P130421	Original EA Category:	B - Partial Assessment
Current Closing Date:	30-Jun-2017		

Basic Information – Additional Financing (AF)			
Project ID:	P157465	Additional Financing Type (from AUS):	Scale Up
Regional Vice President:	Cyril E Muller	Proposed EA Category:	B - Partial Assessment
Country Director:	Mercy Miyang Tembon	Expected Effectiveness Date:	04-Jul-2016
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez	Expected Closing Date:	30-December-2018
Practice Manager/Manager:	David N. Sislen	Report No:	PAD1776
Team Leader(s):	Rosanna Nitti		

Borrower				
Organization Name	Contact	Title	Telephone	Email
Ministry of Finance	Mr. Nodar Khaduri	Minister	(995-32) 2262423	n.khaduri@mof.ge

Project Implementing Entity				
Municipal Development Fund	Mr.Juansher Burchuladze	Executive Director	(+995-32) 243-7001	jburchuladze@mdf.org.ge

Project Financing Data - Parent (Second Regional Development Project-P130421) (in USD Million)
Key Dates

Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P130421	IDA-51780	Effective	06-Nov-2012	09-Nov-2012	29-Jan-2013	30-Jun-2017	30-Dec-2018

Disbursements

Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P130421	IDA-51780	Effective	XDR	19.80	19.80	0.00	16.20	3.60	81.83

Project Financing Data - Additional Financing Second Regional Development Project Additional Financing (P157465)(in USD Million)

[X]	Loan	[ ]	Grant	[ ]	IDA Grant
[ ]	Credit	[ ]	Guarantee	[ ]	Other

Total Project Cost: 11.25 Total Bank Financing: 9.00

Financing Gap: 0.00

Financing Source – Additional Financing (AF)	Amount
Borrower	2.25
International Bank for Reconstruction and Development	9.00
Total	11.25

Policy Waivers

Does the project depart from the CAS in content or in other significant respects?	No
Explanation	
Does the project require any policy waiver(s)?	No
Explanation	

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit

Rosanna Nitti	Team Leader (ADM Responsible)	Senior Urban Spec.	Urban Development	GSU09
Sandro Nozadze	Procurement Specialist (ADM Responsible)	Procurement Specialist	Procurement Management	GGO03
Galina Alagardova	Financial Management Specialist	Senior Financial Management Specialist	Financial Management	GGO21
Ahmed A. R. Eiweida	Team Member	Lead Urban Specialist	Urban Development	GSU08
Darejan Kapanadze	Safeguards Specialist	Senior Environmental Specialist	Environmental Management	GEN03
Enver M. Kamal	Team Member	Senior Operations Officer	Operations Quality	GTIGE
Ketevan Nozadze	Team Member	E T Consultant	Economist	ECADE
Lisa Fonick Haworth	Team Member	Office Manager	Program Support	GSU09
Michelle P. Rebosio Calderon	Safeguards Specialist	Senior Social Development Specialist	Social Development	GSU03
Militsa Khoshtaria	Team Member	Program Assistant	Program Support	ECCGE
Jose Janeiro	Disbursement Officer	Sr. Finance Officer	Financial Management	WFALA
Ramiro Ignacio Jauregui-Zabalaga	Senior Counsel	Counsel	Legal Services	LEGLE
Jacqueline Beatriz Veloz Lockward	Paralegal	Counsel	Legal Services	LEGLE
Tinatin Lebanidze	Team Member	Consultant	Research Analyst	GSURR

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Georgia	Imereti	Vani	X		
Georgia	Imereti	Imereti		X	

Institutional Data

Parent (Second Regional Development Project-P130421)

Practice Area (Lead)

Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas

Cross Cutting Topics

[ ] Climate Change

[ ] Fragile, Conflict & Violence

[ ] Gender

[ ] Jobs

[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Transportation	Urban Transport	59		
Energy and mining	Energy efficiency in Heat and Power	15		100
Water, sanitation and flood protection	General water, sanitation and flood protection sector	14		
Public Administration, Law, and Justice	Sub-national government administration	10		17
Education	Vocational training	2		17
Total		100		

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Financial and private sector development	Infrastructure services for private sector development	39
Urban development	Cultural Heritage	38
Urban development	City-wide Infrastructure and Service Delivery	11
Urban development	Urban Economic Development	11
Human development	Education for the knowledge economy	1
Total		100

Additional Financing Second Regional Development Project Additional Financing (P157465)
Practice Area (Lead)
Social, Urban, Rural and Resilience Global Practice
Contributing Practice Areas

Cross Cutting Topics

[ ] Climate Change

[ ] Fragile, Conflict & Violence

[ ] Gender

[ ] Jobs

[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Transportation	Urban Transport	59		
Energy and mining	Energy efficiency in Heat and Power	10		
Water, sanitation and flood protection	General water, sanitation and flood protection sector	19		
Public Administration, Law, and Justice	Sub-national Government administration	10		
Education	Vocational training	2		
Total		100		

☒I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Green House Gas Accounting

Net Emissions	0.00	Gross Emissions	0.00

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%

Financial and private sector development	Infrastructure services for private sector development	39
Urban development	Cultural Heritage	38
Urban development	City-wide Infrastructure and Service Delivery	11
Urban development	Urban Economic Development	11
Human development	Education for the knowledge economy	1
Total		100

Consultants (Will be disclosed in the Monthly Operational Summary)
Consultants will be required

I. Introduction

1. This Project Paper seeks the approval of the Executive Directors to provide an Additional Financing (AF) in the amount of US$9 million to Georgia for the Second Regional Development Project (RDP II) (P130421, IDA Credit 5178-GE). The AF comes in response to the Government letter dated September 3, 2015 requesting additional resources. During Appraisal the Project Implementing Entity requested that the Project be extended by 18 months.

2. This AF also includes a Level 1 restructuring because one of the subprojects to be supported by the AF, the rehabilitation of the wastewater treatment plant (WWTP) in Tskaltubo, triggers OP/BP 7.50 (Projects on International Waterways), which was not originally triggered by the parent Project RDP II. The rehabilitation of the Tskaltubo WWTP complements the Supporting Sustainable Wastewater Management Project (SSWMP - P145040), financed by a Swedish International Development Agency (SIDA) grant approved on July 12, 2013. This project already triggered OP/BP 7.50 because the Tskaltubo WWTP will discharge treated wastewater into the Tskaltubostskali River. The river is an "international waterway" as defined in OP 7.50 because it is a tributary of Rioni River, which terminates into the Black Sea. Since the focus of this SIDA-financed intervention was on rehabilitation as foreseen under paragraph 7(a) of OP 7.50, a memorandum seeking an exception from the riparian notification requirement in the policy was prepared and approved by the World Bank's Regional Vice President (RVP) on April 10, 2013. The scope of interventions has been maintained and the exception granted under P145040 covers the RDP II AF.

3. The proposed AF would support the scaling up of Project activities consistent with the existing Project Development Objective (PDO) of the Second Regional Development Project: *to improve infrastructure services and institutional capacity to support increased contribution of tourism in the local economy of the Imereti Region.* In particular, the AF will support (i) scaling up existing activities for the completion and rehabilitation of selected municipal and tourism infrastructure for cultural heritage sites in the Imereti Region that would ensure the full functionality and sustainability of key investments delivered so far under the Project; (ii) new construction (WWTP and the reconstruction of the Vani Museum); (iii) addressing a financing gap resulting from currency depreciation; and (iv) financing a number of cost overruns caused by additional investments needed for a limited number of unforeseen additional works related to cultural heritage sites supported under the original operation. The AF would also finance the necessary technical assistance to carry out detailed designs and supervision activities and increased operating costs for the project extension period.

4. The AF scales up a well performing Project to enhance Project impact by bringing additional investment to respond to the additional needs for municipal infrastructure rehabilitation and integrate cultural heritage preservation activities as per UNESCO recommendations. The results indicators have been revised to reflect the scaling-up of Project activities and support to civil engagement thorough the Project cycle. There are no

changes to the implementation arrangements but further steps will be taken to strengthen local implementation and supervision capacity.

II. Background and Rationale for Additional Financing in the amount of US$9 million

5. **Strategic Relevance and Country Context: The proposed AF is consistent with the Bank's Country Partnership Strategy Progress Report (CPS-PR Report 58287-GE) for FY10-FY13,** in which the Government and the Bank committed to support regional development through a programmatic approach, and recognize the importance of building local infrastructure to promote social welfare and economic growth. The AF is also consistent with the most recent CPS for Georgia (CPS Report 85251-GE), FY2014-FY2017, by supporting private sector led job creation through improved competitiveness. The original Project and the proposed AF respond to the Government's State Strategy on Regional Development for 2010-2017, which aims to reduce the urban and rural development imbalances by improving public services and strengthening transport connections among regions, and building the tourism infrastructure to support the local economy. In recent years, the Government has made significant efforts to build its tourism potential, attract a higher number of visitors to Georgia and encourage private investors by tapping the potential for sustainable tourism in promising regions.

6. The World Bank significantly contributed to the development of the tourism economy in Georgia by financing the infrastructure and touristic attractions along the tourism circuits connecting Kakheti, (Regional Development Project RDP, US$ 60 million), Imereti (RDP II, SDR19.8), and Mtskheta Mtianeti and Samtskhe Javakheti (RDP III, $60 million). In part as a result, tourism sector growth accounted for 11% of total employment, 6% of GDP and 59% of service export revenues in 2014. The number of international visitors has grown from over 560,000 in 2005 to nearly 5,500,000 in 2015. [1] Specific results from the Kakheti RDP include an increase in the number of hotel beds in the targeted areas from 1,610 to 2,511 (exceeding the Project's target of 1,932); an increase in the number of tourism Small and Medium Enterprises (SMEs)/points of sales (souvenirs shops, restaurants, guest-houses and family houses) from 248 at the baseline to well above 3300, including a number of home owners who transformed part of their properties into a productive or service asset (hand-crafts workshop, souvenir shop, café, restaurant or guest-house); and an increase in the hours of water supply from 8 hours per day to 24 hours.

7. **Project Information:** The RDP II builds upon the earlier Bank-supported efforts that focused on the Imereti Region, as well as relevant international experiences and a diagnostic of institutional quality, infrastructure adequacy and the potential for targeted interventions to foster growth in tourism and cultural heritage. The RDP II is financed through an IDA Credit of SDR19.8 million, supplemented with USD 7.5 million equivalent in counterpart funding. The Project comprises two components: (a) infrastructure investments in urban regeneration of Tskaltubo and tourism circuit development; and (b) institutional development. The operation aims to implement an integrated approach to tourism development, focusing on infrastructure, urban regeneration, cultural heritage

[1] Georgia Tourism in Figures 2014, Georgian National Tourism Association: http://gnta.ge/wp-content/uploads/2014/08/eng-4print10.pdf

restoration, skills development, and enabling the environment to attract private sector investments. The activities supported under RDP II are already bringing direct benefits to the residents and tourists of Imereti. The implementation of the Project has improved the access to, quality and reliability of public infrastructure; increased the volume of private sector investment in the region and of small and micro enterprises located in renovated cultural heritage sites and cities (Annex 1 provides the Results Framework with updated values).

8. **Performance:** The Project was approved on November 6, 2012, became Effective on January 29, 2013 and has a current closing date of June 30, 2017. The Project had a fast start and a considerable amount of infrastructure works, park rehabilitation and refurbishment of buildings have been already completed. As a result, 82% of the credit is already disbursed under the Project.

9. **Progress toward achieving the PDO** and overall implementation progress to date has been **Satisfactory** for the past 12 months. The Project is on track to meet its development objectives, as most of the key performance indicators are on track. In several cases, implementation to date has exceeded indicator objectives set at the outset of implementation.

10. A review of the Project Intermediate Results Indicators shows that important community and tourism support infrastructure elements are performing well and ahead of schedule (for example, water supply at 16 hours per day and installation of lighting units). Pivotal tourism facilities have been completed with related increase in the beneficiary access indicator levels for End Targets (for a population of 6,000). The following objectives have already been achieved: (i) increased annual number of visitors at Project sites is 320,000; (ii) increased number of hotel beds in circuit route areas is 4,224; and (iii) the number of people in urban areas provided with access to all-season roads within a 500 meter range under the Project is 6,000. The Project's rating on the compliance with safeguard policies has been Moderately Satisfactory to Satisfactory over the course of implementation. Identified shortfalls in environmental performance were related to waste disposal in Tskaltubo municipality and environmental reporting by the Municipal Development Fund of Georgia (MDF). These issues were rectified by midterm of the Project's life. Only one sub-project has thus far required involuntary resettlement (because of livelihoods impacts) and the implementation of the Resettlement Action Plan has been satisfactory to the Bank. The current Project rating for all applied safeguard policies is Satisfactory.

11. **Implementation Capacity**: The MDF has an overall responsibility for the implementation for the ongoing Bank financed Regional Development program including the proposed AF. The MDF has built a solid knowledge and experience in implementing Bank Projects for the past 18 years, however, there is a continuous need for capacity building and quality supervision due to staff turnover. The latest supervision mission for RDP and RDP II assessed implementing agency risk rating as moderate. Despite the overall moderate risk, following the Bank's latest procurement post-review (April 2015), the performance risk rating for contract administration is rated substantial, due to the recurrence of modifications of scope, variations and extension of intended completion periods of ongoing contracts. To mitigate such risk, a priority area that MDF will address during project implementation is

the strengthening of its contract management capacity. Both the parent Project and the AF will continue to use qualified international consultants for supervision of civil works to guarantee the quality of the work. Ongoing capacity building opportunities for MDF technical staff will continue to be implemented under the WB-financed projects.

12. **Potential Risks and Mitigation**. The overall risk rating of the ongoing Project has been rated Moderate. With the proposed AF, the overall risk will remain Moderate. Risk ratings for the proposed AF are presented in the attached Annex 2: Systematic Operations Risk-Rating Tool (SORT).

Rationale for Additional Financing

13. As requested by the Government, the proposed AF would make available an additional US$9 million to maximize development impact through a set of activities that would scale up selected works; deliver a limited number of new subprojects (the WWTP and the reconstruction of a section of the Vani Museum); and address costs overruns affecting the successful completion of subprojects and support technical assistance within the RDP II components and its implementation structure. It would also address a financing gap due to currency depreciation that affects all project components. The proposed AF would also require an 18 month extension of the current closing date, from June 30, 2017 to December 30, 2018.

14. The AF supports the RDP II which has overall satisfactory performance for the past 12 months and is fully compliant with the legal covenants, including audit and financing management, safeguards, and other provisions of the Loan Agreement. Results achieved to date under the RDP II have made a major contribution to the Government's efforts to upgrade and promote tourism assets in Tskaltubo, and to improve basic tourism infrastructure along the main touristic route of the Imereti Region. However, additional investments are required to establish an efficient mechanism/model of management and operation, and to help the Government increase sustainability and maintain the infrastructure assets delivered throughout the Project.

15. The proposed AF has been determined to be the most appropriate Bank vehicle to scale up and address the financing gap of RDP II as it is fully in line with the PDO and components of the RDP II. Moreover, the implementing agency confirmed that additional funds needed for the AF have not been allocated in the State Budget at this time, but the Government commits to allocate additional funds as necessary in addition to the Bank's financing. A summary of the allocation of the proposed AF is provided below, while Annex 3 provides a detailed breakdown and description of individual activities:

III. Proposed Changes

16. The main changes proposed in the AF are: (i) scaling up existing activities; (ii) new construction; (iii) addressing a financing gap resulting from currency depreciation; and (iv) financing a number of cost overruns. The AF will also support the necessary technical assistance for detailed designs and supervision activities and increased operating costs for

the project extension period. The Results Framework is also revised to (i) reflect the increased scope of the Project and (ii) align some of the target values and dates with the proposed new closing date. Finally, due to the addition of the rehabilitation of the WWTP, Safeguard Policy OP/BP 7.50 is triggered.

17. Proposed Project Components: The Project will continue to have two components. The proposed AF activities will be integrated mostly as part of *Component 1: Infrastructure Investments*. This component supports urban regeneration of Tskaltubo municipality (municipal infrastructure and utility rehabilitation, upgrading public space upgrades, construction of tourism-related infrastructures, like parking areas, toilets, visitors' center.) and tourism circuit development to restore/refurbish cultural heritage sites in Imereti: including Gelati Monastery, Vani Museum and surrounding archaeological site, the Ubisa Church, the Katskhi Church, the Katskhi Column Monastery, and the Motsameta Monastery.

18. In particular, new works would include:
    (i) the completion of interior works and reconstruction of a section of the Vani Archeological Museum. This section of the museum will replace an existing unfinished structure that was initially thought to be suitable for upgrading, but later assessed structurally unsafe and in need of reconstruction.
    (ii) the rehabilitation & installation works of the Tskaltubo WWTP, as contribution to the Supporting Sustainable Wastewater Management Project SSWMP (P145040) financed by a SIDA grant, approved on July 12, 2013. The AF would co-finance Component 2 (Investment Grants) of the SSWMP, which is aimed to complement ongoing investments under RDP II with a particular focus on Tskaltubo, to support the rehabilitation of wastewater treatment infrastructure. The existing wastewater plant is located in the outskirt of the town, has been out of operation for years, and is extremely dilapidated. The co-financing is required to address a financing gap of \$2.35 million (mostly due to currency depreciation) identified at when the cost estimates for the Tskaltubo WWTP were updated in late 2015.

19. Scale up would include additional activities for the restoration of the Gelati Monastery, a UNESCO World Heritage monument, recommended by experts from UNESCO during the course of performing conservation works, and carried out under the guidance of ACHP.

20. The AF would also support ***Component 2: Institutional Development***, to finance the necessary technical assistance to carry out detailed designs and supervision activities, and increased operating costs for the Project extension period.

Summary of Proposed Changes
The proposed changes include the following revisions to: 1) Component 1, aimed at (i) scaling up existing activities for the completion, rehabilitation and reconstruction of selected municipal and tourism infrastructure for cultural heritage sites in the Imereti Region that would ensure the full functionality and sustainability of key investments delivered so far under the Project; (ii) new construction (WWTP and the reconstruction of the Vani Museum) (iii) addressing a financing gap resulting

from currency depreciation; and (iv) addressing of cost overruns caused by additional investments needed for a limited number of unforeseen additional restoration works related to cultural heritage sites supported under the original operation;

2) Component 2, to support the necessary technical assistance for detailed designs and supervision activities and increased operating costs for the project extension period.

3) Results Framework to (i) reflect the increased scope of the Project and (ii) align some of the target values and dates with the proposed new closing date.

4) Level 1 Restructuring due to the triggering of safeguard Policy OP/BP 7.50 (Projects on International Waterways). In fact, one of the subprojects to be supported by the AF, the rehabilitation of the WWTP in Tskaltubo, triggers OP/BP 7.50, which was not originally triggered by the Parent Project RDP II. The rehabilitation of the Tskaltubo WWTP is a co-financing to the SSWMP, financed by a SIDA grant approved on July 12, 2013. This project already triggered OP/BP 7.50 and was granted exception from the riparian notification requirement in the policy approved by the WB's RVP on April 10, 2013. The scope of interventions has been maintained and the exception granted under SSWMP covers the RDPII-AF.

Change in Implementing Agency	Yes [ ] No [X]
Change in Project's Development Objectives	Yes [ ] No [X]
Change in Results Framework	Yes [X] No [ ]
Change in Safeguard Policies Triggered	Yes [X] No [ ]
Change of EA category	Yes [ ] No [X]
Other Changes to Safeguards	Yes [ ] No [X]
Change in Legal Covenants	Yes [ ] No [X]
Change in Loan Closing Date(s)	Yes [X] No [ ]
Cancellations Proposed	Yes [ ] No [X]
Change in Disbursement Arrangements	Yes [ ] No [X]
Reallocation between Disbursement Categories	Yes [ ] No [X]
Change in Disbursement Estimates	Yes [ ] No [X]
Change to Components and Cost	Yes [X] No [ ]
Change in Institutional Arrangements	Yes [ ] No [X]
Change in Financial Management	Yes [ ] No [X]
Change in Procurement	Yes [ ] No [X]
Change in Implementation Schedule	Yes [ ] No [X]
Other Change(s)	Yes [ ] No [X]

Development Objective/Results

Project's Development Objectives

Original PDO

The Project Development Objective is to improve infrastructure services and institutional capacity to support increased contribution of tourism in the local economy of the Imereti Region.

Change in Results Framework

Explanation:

Selected results indicators and target values would be revised to reflect the increased scope of the Project and the most updated available information, and to ensure alignment with the new closing date. A core indicator for Civic Engagement (*Participants in consultation activities during Project implementation - number by gender*) will be added to the Result Framework.

Compliance

Change in Safeguard Policies Triggered

Explanation:

RDP II AF will contribute to the financing of the rehabilitation of a wastewater treatment plant (WWTP) located in Tskaltubo and the related pumping station, operation building, garages and technical equipment. The costs for such rehabilitation were initially included as part of the Swedish International Development Agency (SIDA) contribution to the Sustainable Wastewater Management Project (P145040), which was approved on July 12, 2013. OP 7.50 was triggered for P145040 because the Tskaltubo WWTP will discharge treated water into the Tskaltubostskali River and this river is an "international waterway" as defined in OP 7.50, therefore it will be triggered also for the AF. However the focus of SIDA-financed intervention was on rehabilitation as defined under paragraph 7(a) of OP 7.50, a memorandum seeking an exception from the riparian notification requirement was prepared and approved by the World Bank's RVP on April 10, 2013. Because the scope of interventions remains the same, the exception granted under P145040 covers RDP II AF.

Current and Proposed Safeguard Policies Triggered:	Current(from Current Parent ISDS)	Proposed(from Additional Financing ISDS)
Environmental Assessment (OP) (BP 4.01)	Yes	Yes
Natural Habitats (OP) (BP 4.04)	No	No
Forests (OP) (BP 4.36)	No	No
Pest Management (OP 4.09)	No	No
Physical Cultural Resources (OP) (BP 4.11)	Yes	Yes
Indigenous Peoples (OP) (BP 4.10)	No	No
Involuntary Resettlement (OP) (BP 4.12)	Yes	Yes
Safety of Dams (OP) (BP 4.37)	No	No
Projects on International Waterways (OP) (BP 7.50)	No	Yes
Projects in Disputed Areas (OP) (BP 7.60)	No	No

Conditions

Source Of Fund	Name	Type

IBRD	Additional Conditions of Effectiveness	Effectiveness
Description of Condition		
The Subsidiary Agreement has been executed on behalf of the Borrower and the Project Implementing Entity		

The Project Operations Manual has been updated and adopted by the Borrower in form and substance satisfactory to the Bank.

The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the Project Implementing Entity and is legally binding upon the Borrower and the Project Implementing Entity in accordance with its terms.

Risk

Risk Category	Rating (H, S, M, L)
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	
OVERALL	Moderate

Finance

Loan Closing Date - Additional Financing (Second Regional Development Project Additional Financing - P157465)

Source of Funds	Proposed Additional Financing Loan Closing Date
International Bank for Reconstruction and Development	December 30, 2018

Loan Closing Date(s) - Parent (Second Regional Development Project - P130421)

Explanation:

The Parent Loan closing date will be extended by 18 months to ensure sufficient time to complete additional works to be financed by the Additional Financing.

Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)
IDA-51780	Effective	30-Jun-2017	30-Jun-2017	30-Dec-2018	

Allocations - Additional Financing (Second Regional Development Project Additional Financing - P157465)

Source of Fund	Currency	Category of Expenditure	Allocation	Disbursement %(Type Total)
			Proposed	Proposed
IBRD	USD	(1) Goods, works, non-consulting services, and consultants' services and Training	8,820,000	100.00
		(2) Operating costs	180,000	100.00
		Total:	9.00	

Components

Change to Components and Cost

Explanation:

The proposed AF does not modify the original Project Components. In addition to addressing the financing gap caused by currency depreciation, the AF would support both the scaling up of selected activities and the financing of a number of cost overruns caused by additional preservation works in relation to cultural heritage sites supported under the original operation Component 1. In particular, new construction would include the completion of interior works and reconstruction of a section of the Vani Archeological Museum (to replace an old unsafe pre-existing structure); and the rehabilitation and construction /installation of the Tskaltubo WWTP. The latter would be a co-financing (about 20%) to the SSWMP financed by a SIDA grant.
It would also support the necessary technical assistance to carry out detailed designs and supervision activities under Component 2 and increased operating costs for the project extension period.

Current Component Name	Proposed Component Name	Current Cost (US$M)	Proposed Cost (US$M)	Action
Infrastructure Investment	Infrastructure Investment	26.46	35.00	Revised
Institutional Development	Institutional Development	3.54	4.00	Revised
	Total:	30.00	39.00	

Appraisal Summary

Economic and Financial Analysis

Explanation:

The cost benefit analysis was revised with updated data. The Fiscal impact and Economic analysis shows that Net Present Value at 5% for the Project is positive and is USD 9,537,933.75. Financial IRR is 15.64%. Economic Internal Rate of Return is 23.61%.
Technical Analysis
Explanation:
Up to 46.5% of works to be financed by the Additional Financing are tender ready and expected to be launched soon after effectiveness.
Social Analysis
Explanation:
No Changes
Environmental Analysis
Explanation:
RDP II AF will finance part of the costs for the rehabilitation of the wastewater treatment plant and related pumping station, operation building, garages and technical equipment. This subproject is included as part of the Swedish International Development Agency (SIDA) contribution for the Sustainable Wastewater Management Project (P145040), which was approved on July 12, 2013. OP 7.50 is triggered because the Tskaltubo wastewater treatment plant will discharge treated wastewater into the Tskaltubostskali River. The river is an "international waterway" as defined in OP 7.50 since it is a tributary of Rioni River which eventually drains into the Black Sea. Since the focus of this SIDA-financed intervention was on rehabilitation as foreseen under paragraph 7(a) of OP 7.50, a memorandum seeking an exception from the riparian notification requirement in the policy was prepared and approved by the World Bank's RVP on April 10, 2013. The scope of interventions has been maintained and the exception granted under P145040 covers the RDP II AF.
Risk
Explanation:
No Changes

IV. Appraisal Summary

A. Economic Analysis

21. Given the narrow nature and complementarity of the proposed AF with respect to RDP II, the methodology of the Project financial and economic analysis remains the same and looks at the whole project cost-benefit analysis rather than sub projects. The analysis revisited the original Project benefit assumptions, revised tax data and adjusted calculations to the 5% discount rate. The key assumptions are that the project will benefit from (i) increase in tourist arrivals, overnight stays and spending, (ii) increase in number and profitability of economic enterprises, (iii) property value appreciation and (iv) temporary job creation. The fiscal impact analysis was conducted for a 15 year period (2012-2026) at 5% discount rate. According to the calculation, the NPV for the project is USD 9,537,933 and FIRR equals

to 15.64% which shows that the tax revenues generated after the project implementation are well above the project costs. In addition to fiscal benefits, the economic analysis looked at the economic benefits from incremental tourist expenditures, temporary job creation and secondary sales (excluding tax payments and calculating shadow prices). Economic IRR is above 23.61% which demonstrates economic benefits well above the total costs.

22. The sensitivity analysis showed that the NPV and FIRR are most sensitive to the Private Investment Leverage Factor variable. A 10% increase or decrease in Private Investment Leverage Factor will increase or decrease NPV by USD $1,630,983.85 and FIRR 3.17% and 2.57% accordingly. The Economic Internal Rate of Return (EIRR) is also most sensitive to the Private Investment Leverage Factor – 10% increase or decrease in Private Investment Leverage Factor will increase or decrease EIRR 4.74% and 3.61% accordingly. At the minimum possible level of the Secondary sales multiplier (that is 1.0), and with other assumptions unchanged NPV will still be positive at USD 3,776,261 and FIRR will be 9.60%. If the average remains the same, 3.8 days on average, and other assumptions remain the same, NPV will be still positive at USD 4,623,706, with FIRR of 11.15% and EIRR of 17.85%.

B. Technical

23. The proposed AF will have the same implementation, procurement and financial management arrangements as the ongoing Project. Both the international supervision company and the implementing agency (MDF) have continuing capacity building needs to deliver high quality designs, provide successful implementation and ensure quality control. The systems are currently being strengthened under the parent Project to boost the quality of construction, supervision, and maintenance of infrastructure investments. The AF will continue to ensure the quality and sustainability of infrastructure sub-projects during the Additional Financing stage. Particular attention will be given to contract management.

C. Financial Management

24. **Financial Management Arrangements.** The financial management arrangements of the original Project implemented by MDF have been reviewed periodically as part of the Project supervision and have been found satisfactory. The last Financial Management (FM) supervision was performed in October 2015. According to the results of this mission, the rating of the financial management arrangements of the Project are confirmed to be Satisfactory, with good internal control procedures. Financial management functions under the AF, including the flow of funds, staffing, accounting, reporting and auditing, will be handled by MDF. Particularly, all funds are flowing through MDF, which verifies all the payment supporting documents before processing the payments. There would be no changes in financial management arrangements for the additional financing. The overall FM risk for the Project remains moderate, consistently with the current FM risk rating of the parent project.

25. Similar audit arrangements to the original Project will be adopted for the additional financing: the Project audit will be conducted by independent private auditors and on terms of reference acceptable to the Bank, and procured by MDF. The annual audited Project

financial statements will be submitted to the Bank within six months of the end of each fiscal year and also at the closing of the Project. There are no overdue audits under the original loan. The cost of the audit will be financed from the proceeds of the loan. Project management-oriented Interim Un-audited Financial Reports (IFRs) will be used for the additional financing monitoring and supervision. The existing formats of the IFRs will be used and MDF will produce a full set of IFRs every semester throughout the life of the Project and will submit them to the Bank no later than 45 days after the calendar semester end. **Conclusion:** No complementary changes to Financial Management Arrangements of the original Project are assumed.

26. **Disbursement**. The proposed AF will follow the flow of funds and disbursement arrangements established under the original Project, i.e., reimbursement, direct payment, advances, and special commitments including the use of Statement of Expenditure procedures.

D. Procurement

27. Procurement arrangements will remain the same as in the ongoing Project. The procurement unit of MDF, with adequate capacity will undertake and be responsible for all procurement related aspects under the Project. Generally, the procurement arrangements will be similar to those under ongoing RDPs and the Second Regional and Municipal Infrastructure Development Project. It is yet to be decided which packages would be included in the scope of AF, however all packages will be tendered out either with Shopping or with NCB procurement method under modified Georgian E-Government Procurement System (Ge-eGP). For further details, please see Annex 6.

28. A relatively low level of competition for civil works contracts has been observed throughout the implementation of the RDP II. These issues were discussed during the preparation of the AF and agreed measures to improve competition were as follows: (i) better packaging of NCB contracts in order to increase values and attract the participation of medium level contractors; and (ii) re-assessment of cost estimates for the upcoming tenders to ensure they are up to date, realistic and are based on current market prices. The size of procurement packages under the proposed AF is expected to be of comparable size to those already implemented under RDP II. The Project Procurement Plan (PP) will be updated and re-disclosed to reflect the AF. MDF submitted to the Bank the PP and the Bank approved it for disclosure on February 26, 2016.

29. Procurement Risk Assessment. No separate procurement assessment has been undertaken as procurement arrangements remain unchanged, however assessment in PRAMS (Procurement Risk Assessment and Management System) was finalized at the end of February 2016.

30. The "Implementing Agency Risk Rating" is rated Moderate. A review of past projects under RDP and RDP II identified main risks, and relevant mitigation measures were agreed with the Implementing Agency as follows:

- Risks. The risk of frequent changes of scope and revisions of detailed designs, which happened during the sub-projects' implementation phase, often resulting in the request for variation orders and time extensions. This was largely due to the quality of detailed designs prepared by the stakeholders and time limitations that the Implementing Agency was allowed to rectify.
- Mitigation Measures under Implementation. The Implementing Agency will mobilize detailed design consultants to prepare tender ready designs with inputs from beneficiaries. When the final designs are ready, the Implementing Agency will submit the documents to the Beneficiaries for their review and approval. This approach will help the Implementing Agency to streamline the process, maintain higher control over the process, work closely with the consultant and as a result obtain more accurate and complete documents, which, later, will improve the implementation phase and result in lower number of -variation orders and requests for time extensions. Moreover, MDF is in the process of assessing its needs and preparing a training plan to further strengthen both procurement and contract management capacity.

31. **The following supplementary actions have been agreed,** in addition to the above mentioned mitigation measures related to contract management and upstream improvement of quality of designs, and MDF will continue implementing those actions:

Actions agreed	Deadline	Responsibility	Status
MDF to identify potential knowledge gaps, and prepare and roll out a procurement & contract management training program for staff (to be approved by management) that would ensure strengthening of in-house capacity.	Procurement and contract management Training Plan by end April 2016 – Roll out throughout the Project	MDF	Ongoing
Closely monitoring of contractual deadlines and minimize frequency of contract amendments. Submitting to the Bank amendments, if any, at least two weeks prior to expiry of intended completion date for civil works.	N/A – Throughout the Project	MDF	Ongoing

E. Social (including Safeguards)

32. The social impacts of the Project are expected to be positive. The AF will improve municipal and tourism infrastructure and promote the creation of local jobs that will improve living standards for beneficiaries. The Project will also improve the experience of tourists arriving to Georgia and create opportunities for the creation and expansion of microenterprises in the country.

33. **Safeguards**. The construction of the training center and auditorium for Vani museum will be carried out on the same location of an existing dilapidated structure. The works to complement the rehabilitation of the Tskaltubo WWTP will be carried out on the location of the preexisting dilapidated plant form soviet era. The RPF prepared for the original

Project does not require any revisions. All Project financed activities, including those supported from the AF, will follow procedures set forth in this framework document.

34. The current Project rating for social safeguards is Satisfactory. Only one sub-project has thus far required involuntary resettlement (because of livelihood impacts) and the implementation of the RAP has been satisfactory to the Bank. However, the Client's capacity to manage social safeguards has declined over time due to continuous changes of staff in the Project management team, hence the risk is foreseen that Project rating for social safeguards might decline to Moderately Satisfactory at the time of the next ISR, if due mitigation measures are not taken by the MDF.

35. **Gender**. The AF is fully gender-informed. The original Project supports effective participation of women in the consultation process and access to the benefits of the Project. Around 50% of the project beneficiaries are women. Key areas of the gender role inclusion include: i) systematic and meaningful participation of women in community consultations across all components; ii) specific support to female entrepreneurs and skill development training. Under the RDP II Component 2: Institutional Development component provides Skill Development Training which supports women entrepreneurs to learn and succeed in tourism business. Such training was already successfully conducted under the RDPI, where over 60% of participants were women entrepreneurs (over 200) who provided preliminary feedback about the benefits of the project and skill training, particularly with regard to the acquired expertise to professionally manage tourism related business like travel services, sales of handicrafts, management of agro-tourism, B&B and similar initiatives. Similar results are expected from RDP II and a Monitoring and evaluation consultancy is under way to capture progress and results in this direction. To facilitate monitoring of gender impacts, all indicators are disaggregated by gender whenever possible as part of the Project quarterly reports, as well as in key indicators related to participation as part of the Results Framework. The AF will integrate gender-sensitive consultations and gender analysis as part of the ongoing Social Monitoring technical assistance.

36. **Citizen engagement**. The AF would rely on participatory decision-making, beneficiary feedback mechanisms and entry points for citizen engagement in the current Project to mitigate social risks and help improve Project outcomes. In particular, all stages of project planning and implementation include consultations. For example, at sub-project development stage, both project designs and EMPs are discussed with local communities at workshops. Attendance of workshops is documented and reportedly an average of 20 to 25 citizens representatives attend such workshops, including community leaders, men and women, youth and senior citizens. The Operational Manual will be updated to reflect the lessons learned to date. The communication strategy of MDF will continue to include outreach activities and coverage of all stakeholder groups to improve the overall sustainability of Project outcomes. MDF will be leading this activity and will be responsible for reporting back to communities regarding the impact of their feedback.

F. Environment

37. Because the AF will support physical activities of the same category[2] and magnitude as the original RDP II, the environmental category remains unchanged (B). The Project's current rating on OP/BP 4.01 Environmental Assessment and OP/BP 4.11 Physical Cultural Resources is Satisfactory. Environmental compliance was Moderately Satisfactory in 2013 and 2014 due to insufficient quality of reporting on the outcomes of environmental monitoring and weak integration of safeguards work into overall Project management. Also, temporary storage of excess material and final disposal of construction waste in Tskaltubo municipality were not performed in line with procedures detailed in the EMF and site-specific EMP. These issues have been addressed according to the Bank's recommendations and Project's rating on environmental performance was upgraded to Satisfactory at Mid Term Review.

38. RDP II AF will finance part of the costs for the rehabilitation of the Tskaltubo WWTP and related pumping station, operation building, garages and technical equipment. This subproject is included as part of the SIDA contribution for the Sustainable Wastewater Management Project (P145040), which was approved on July 12, 2013. All the applicable safeguards instruments to the rehabilitation of the plant will be covered also by the parallel project. In particular, OP 7.50 is triggered because the Tskaltubo wastewater treatment plant will discharge treated wastewater into the Tskaltubostskali River. The river is an "international waterway" as defined in OP 7.50 since it is a tributary of Rioni River which eventually drains into the Black Sea. Since the focus of this SIDA-financed intervention was on rehabilitation as foreseen under paragraph 7(a) of OP 7.50, a memorandum seeking an exception from the riparian notification requirement in the policy was prepared and approved by the WB's RVP on April 10, 2013. The scope of interventions has been maintained and the exception granted under P145040 covers the RDPII AF. The Task Team confirms that the proposed rehabilitation works on the Tskaltubo wastewater treatment plant (i) will not adversely change the quality or quantity of water flows to the other riparians; (ii) will not be adversely affected by the other riparians' possible water use; and (iii) that the works will not exceed the original scheme, change its nature, or so alter or expand its scope and extent as to make it appear a new or different scheme. The EMF used for the purposes of RDP II has been updated to include references to the triggering of OP 7.50 and re-disclosed on February 25, 2016.

39. The Government has been satisfactorily implementing the Strategic Environmental, Cultural Heritage and Social Assessment (SECHSA) of regional development plans and other documents for Imereti region performed in the early stage of RDP II implementation. SECHSA recommendations on the improvement of environmental aspects of regional development were in fact those to be implemented at the national scale, due to nature of these activities. Along those recommendations, the Ministry of Environment is enhancing financing and institutional capacity of its Environmental Supervision Inspection unit, which is charged with the responsibility to oversee adherence to the terms of resource use

[2] E.g. (1) the rehabilitation of municipal infrastructure and utilities; the upgrading of public spaces, parks, and construction of tourism amenities; and the restoration of public buildings with vernacular architecture in Tskaltubo; and (2) tourism circuit development.

licenses and environmental permits nationwide, including Imereti. On forest management aspects, the Government moves quickly towards adoption of the new Forest Code, which will significantly improve forest management practices. Supported from the Bank-administered FLEG Program, the Ministry of Environment delivered the draft Code to the Parliament last week, with the purpose of introducing draft law to the environmental committee of the Parliament prior to formally submitting it for voting. On water pollution aspects, MDF has tendered design and building of a waste water treatment plant in one of the major spa resorts of Imereti under Sustainable Waste Water Management Project (SIDA-financed, Bank-administered). The new Water Code is developed and undergoes stakeholder consultations.

40. The national Tourism Development Strategy for the period until 2025 was developed by the Georgia National Tourism Administration (GNTA) using TA from the WB. This document sets forth a pathway for organizing infrastructure, administration, standardization, private sector involvement and other important aspects of the tourism sector to move from the current unregulated pattern towards organized and planned management towards better service delivery and growth. This responds well to SECHSA recommendations. UNESCO has been involved in advising on the design and methodology for restoration of cultural heritage sites under RDP II, so that any potential loss of historic value and authenticity of these sites is avoided – as recommended by SECHSA.

41. Lack of basic infrastructure or its dilapidated condition was noted among hindrances for regional development in Imereti. The SECHSA recommended that the MDF develop this project portfolio with consideration of the regional needs of Imereti. This recommendation was implemented. MDF prepared, financed and is supervising a number of priority infrastructure development investments in Imereti. SECHSA warned about possible loss of traditional life style and authenticity of cuisine/crafts due to influx of tourists into rural areas of Imereti. Such tendency is not being observed. Government eagerly supports preservation of traditions in their authentic way. A grant agreement is signed with the WB to Empower Poor Communities and Micro Enterprises in Tourism Sector in the regions of Imereti (RDP II target region) and Kakheti (RDP target region). Most of this support goes to supporting traditional small businesses (bread baking, crafting of souvenirs, agro-tourism).

42. The only area where SECHSA recommendations remain not addressed is the improvement of spatial planning. That is a very acute issue at the national level raised long ago, but the prevailing goal of facilitating investment prevents tangible progress in regional and urban planning viewed as tools of imposing restrictions that may limit opportunities for private investment.

E. Implementation Arrangements

43. Implementation arrangements during the Additional Financing will remain the same as that of the original Project. The MDF will be responsible for Project implementation. Due to the Project's multi-sectoral nature, a multi-agency Working Group was established to act as a counterpart to the Bank team during identification and preparation. It will continue to function during implementation. The Working Group includes core agencies involved—

the MDF, GNTA,[3] National Agency for Cultural Heritage Preservation of Georgia (NACHP),[4] National Museum, United Water Company (UWC), Imereti Regional Administration and Local Self Governments (LSGs) and Ministry of Regional Development and Infrastructure.

44. All agencies in the Working Group and LSGs in Imereti have been actively involved with the MDF in Project preparation activities, and will be involved in various aspects of bid evaluation and supervision. MDF prepared Subproject Appraisal Reports (SARs) and Subproject Summary Reports (SSRs), which also cover feasibility and safeguards issues, and analyze sustainability elements like responsibility and funding for O&M of the new/restored assets. All SSR/SARs for RDP II were reviewed, appraised and approved by the Bank.

45. The Project has strong client ownership. MDF Supervisory Board has been working closely with the Bank to identify and prepare the Project. The Board's functions include: (i) overall supervision of Project implementation; (ii) inter-agency coordination to achieve the Project objectives; and (iii) review and approval of the annual work programs, budgets and reports for the MDF operations. The Supervisory Board met several times during Project preparation and endorsed its design, cost, implementation arrangements and procurement plan. The Supervisory Board therefore endorses also the Project Additional Financing.

V. World Bank Grievance Redress

46. Communities and individuals who believe that they are adversely affected by a WB-supported Project may submit complaints to existing Project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address Project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

[3] Website of GNTA: http://www.gnta.ge
[4] Website of NACHP: http://heritagesites.ge

Annex 1: Results Framework and Monitoring

Georgia: Second Regional Development Project

Indicator description	Baseline	Actual (previous)	Actual (current)	End target	End target (After additional financing)
Increased number of hours per day of piped water services in Tskaltubo (Number, Custom)	8.	12	16	18	16[5]
Increased energy efficiency of street lighting in Tskaltubo (Percentage, Custom)	0.	20	30	30	30
Increased number of hotel beds in circuit route areas (Number, Custom)	2661	3943	4224	3193	4,400
Increased revenues from tickets sold at Vani museum (Number, Custom)	10,519	0	0.00[6]	88,989	90,000
Increase volume of private sector investment in Tskaltubo mobilized by the Tskaltubo Destination Management and Development Office. (Amount(USD), Custom)[7]	0	0	2,600,000	20,000,000	20,000,000

[5] The United Water Company Supply of Georgia confirmed that the water supply in Tskaltubo is available 16-18 hours/day. To ensure the realism of the indicator, the value of 16 hours/day was preferred over 18, as it already represents a positive improvement of 200% over the baseline.
[6] Vani Museum is under construction and civil works are still ongoing. Thus, there are no ticket sales and revenues at this point.
[7] As of the time of appraisal two former large scale hotels have been privatized in Tskaltubo. These are Meshakhte Hotel, sold for 2,500,000 USD and expected to leverage about 40,000,000 USD in investment to upgrade it into a five star hotel; and Hotel Iveria, sold for $100,000 and expected to leverage a minimum investment of 6,400,000 EURO. Since 2012, five new hotels started operations in the town of Tskaltubo. These are small to mid-size hotels - Tskaltubo Plaza, Orion, Argo, Imereti, and Tskaltubo. Overall, the visitor's number has increased from about 4.5 thousands in 2012 to 20.1 thousands in 2015. Number of privately rented beds have increased approximately by 25% (there is no formal mechanism for statistics).

Number of buildings restored and constructed in Tskaltubo and Vani (Number, Custom)	0	0	9	9	11
Number of Parks upgraded in Tskaltubo (Number, Custom)	0	1	1	2	2
Number of tickets sold at Vani museum (Number, Custom)	5215	0	0	15645	16500
Number of tourism facilities constructed at cultural heritage sites along the tourist circuit (Number, Custom)	0	0	0	5	5
Increased annual number of visitors at Project sites (Number, Custom)	740,000	269,518	320,000	903,000	903,000
Production and distribution of new maps based on geotourism database (Number, Custom)	0	14,500	13,800	10,000	15,000
Number of street lighting posts and bulbs replaced (Number, Custom)	0	1,765	1,765	1,448	1,800
Tskaltubo destination management development and office is established and operationalized (number)	0	0	0	1	1
Piped household water connections that are benefiting from rehabilitation works undertaken by the project (Number, Core)	0	2000	2000	5000	5000
Number of people in urban areas provided with access to all-season roads within a 500	0	0	6000	6000	6000

meter range under the project (Number, Core)					
Roads rehabilitated, Non-rural (Kilometers, Core)	0	0	5.10	5.10	5.10
Direct project beneficiaries (Number, Core)	0	0	10,000	20,000	20,000
Female beneficiaries (Number, Core Supplement)	0	4500	5,000	10,000	10,000
Participants in consultation activities during project implementation (Number by gender)	0				5,000
Grievances responded to and/or resolved within one month of being filed (Percentage)	0				100%
Grievances registered related to delivery of Project benefits addressed (Percentage)	0				100%

Annex 2: Systematic Operations Risk-Rating Tool (SORT)	
Georgia: Second Regional Development Project Additional Financing (P157465)	
Risk Category	**Rating**
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability*	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	
OVERALL	Moderate

*Based on current risk rating of Parent Project, mostly to account for (i) need to further strengthen contract management capacity of project implementing entity, (ii) inconsistent/poor upstream quality of designs prepared by beneficiary agencies and (iii) poor downstream standards and capacity for operation and maintenance by beneficiary agencies.

Annex 3: Additional Financing Activities and Estimated Costs

Detailed justification for the request of additional funding and closing extension under Regional Development Program (RDPII)

In September, 2015, the Municipal Development Fund of Georgia (MDF) initiated the request for additional financing of USD 9 million for the scale up of activities and extensions under the RDP II. The request was processed through The Ministry of Regional Development and Infrastructure. The Ministry of Finance submitted the official request for additional financing to the World Bank in September 2015.

Additionally, with this request the MDF would like to extend the project closing date by 18 months (until December 30, 2018) to implement supplementary projects and scale up activities for sustainable development in the tourism area. Below is the justification for the requested amount by sub projects:

1. **EXPANSION OF CURRENT SUB PROJECTS:**

#	Item	Description
1.1	Vani Archeological Museum Expansion - Reconstruction of Vani Archaeological Museum (3 Phase) Sub project	New expansion- training center, auditorium, interior works not included in the initial PP.
1.2	Supply of showcases for Vani Archaeological Museum and Supply of furniture for Vani Archaeological Museum	Additional furniture cost; Georgian National Museum (GNM) provided new revised cost of Museum showcases and furniture, which exceeds the original estimation.
1.3	Preservation measures for Gelati Monastery Cultural Heritage Site	Based on the recommendation of UNESCO stone conservation which was needed.
1.4	Supervision Services ***(Component 2)***	Due to the time extension

2. **SCALE UP FOR SUSTAINABLE TOURISM DEVELOPMENT THAT SUPPLEMENT PROJECT OBJECTIVES:**

#	Item	Description
2.1	Preparation of detailed design documentation for Train Station second floor in Tskaltubo Town	The rehabilitation of the building is now in progress. In particular, the works are undertaken on facades and internal works of the first floor. This particular project concerns the second floor of the building and covers preparation of the rehabilitation plan and the concept of the functional adaptation of the space. Taking into account the historical-architectural value of the station the rehabilitation process should be conducted according to restoration principles. Georgian Arts and Culture Center, (GACC) NGO, which also works on preservation of Gelati Monastery, submitted their proposal and WB has already provided informal No objection. In case of funding, the MDF will prepare justification for Single Source (SS) contract.
2.2	Restoration and Internal Repairing works of Train Station second floor in Tskaltubo Town	This is the civil works part of the sub project - Second floor restoration of the Train Station in Tskaltubo.
2.3	Rehabilitation of Road to Vani Museum	The current condition of the road, leading from the town center to the museum requires rehabilitation.
2.4	Rehabilitation works of park fountain in Tskaltubo Town	This Fountain is located in the central part of town and its current condition is very incompatible with the rehabilitated environment, therefore the local government requested its rehabilitation.

2.5	Tskaltubo Waste water treatment plant Sub project	Originally, this subproject was to be fully funded through SIDA's TF of the WB. The updated estimates show that the project would require additional funding for completion. Given that the scope of this subproject aligns with the scope of RDP II, the MDF requests additional funding with RDP II.
2.6	Preparation of detailed design documentation for arranging tourist infrastructure in Motsameta Monastery territory ***(Component 2)***	The implementation phase of this SP is included in the current procurement plan.

3. Currency depreciation:

#	Item	Detailed description
3.1	Result of depreciation (Original/Current loan amount)	Original Approved Amount for RDP II was USD 30,000,000. Taking into account the currency of Loan commitment (XDR) and current XDR rate, the WB financing is decreased up to USD 27,196,488 (Based on Client connection XDR and USD rate, as of 27.11.2015 which is 1.3735)

4. Variation orders due to unforeseen civil works that occurred during the construction period:

#	Item	Description
4.1	Integrated Revitalization of Cultural Heritage Site in Ubisa Monastery	Due to the redesign of water and sewage project within sub project and arrangement of outdoor lightings along the road by the Monastery.
4.2	Integrated Revitalization of Cultural Heritage Site in Gelati Monastery	To repair St. David spring and wall along the road which is damaged and poses a threat to the sub project.
4.3	Integrated Revitalization of Cultural Heritage Site in Katskhi Monastery	The tender failed a few times. The MDF proposes to increase the estimated sub project cost by 300,000 to meet the increased market prices and to attract more potential contractors to apply to the tender competition for this sub project civil works. Sub project site is located in the mountainous area and requires a specific approach.
4.4	Restoration and internal repair works of train station and LSG building and restoration of small size pedestrian bridges in Tskaltubo	The sub project requires additional wall injection materials which are critical. This is the estimated price.

5. Unallocated amount and operational costs:

#	Item	Detailed description
5.1	Unallocated amount	About 7% of the requested amount, for possible contracting price difference vs. estimation during tendering.
5.2	Operational costs	To support implementation of AF works (2%)

Annex 4

List of investments by component and subcomponent

Component A: Infrastructure Investment

Provision of financing for Investment Subprojects for:

(1) the urban regeneration of Tskaltubo which includes:

(a) the rehabilitation of municipal infrastructure and utilities;

- Restoration and Internal Repairing works of Train Station second floor in Tskaltubo Town
- Construction and installation of Tskaltubo Waste water treatment plant Sub project
- Restoration and internal repair works of train station and LSG building and restoration of small size pedestrian bridges in Tskaltubo

(b) the upgrading of public spaces, parks, and construction of tourism amenities; and

- Rehabilitation works of park fountain in Tskaltubo Town

(c) the restoration of public buildings with vernacular architecture; and

(2) tourism circuit development which includes:

(a) improving urban landscaping and public parking;

(b) the construction of info kiosks, cafes and public toilets;

(c) the reconstruction, restoration and/or refurbishment of the exterior arid interior of the Vani museum;

- Vani Archeological Museum Expansion - Reconstruction of Vani Archaeological Museum (3 Phase) Sub project
- Supply of showcases for Vani Archaeological Museum and Supply of furniture for Vani Archaeological Museum

(d) improving access roads; and

(e) the preservation of selected cultural heritage sites, through the carrying out of works and provision of goods and consultants' services.

- Preservation measures for Gelati Monastery Cultural Heritage Site
- Preparation of detailed design documentation for Train Station second floor in Tskaltubo Town
- Preparation of detailed design documentation for arranging tourist infrastructure in Motsameta Monastery territory
- Integrated Revitalization of Cultural Heritage Site in Katskhi Monastery
- Integrated Revitalization of Cultural Heritage Site in Gelati Monastery
- Integrated Revitalization of Cultural Heritage Site in Ubisa Monastery

Annex 5: Cost Benefit Analysis

A. Fiscal Impact Analysis

Fiscal impact analysis is usually carried out to understand whether the government revenues from tourism related activities in the form taxes, direct fees, and other sources cover the added costs for infrastructure.

Fiscal impact analysis, as well as economic analysis was done over 15 years period (2012-2026). 5% discount rate has been used for calculation of Net Present Value (NPV).

The primary monetary benefits of the Project are expected to come from the following streams and related assumptions:

1. Increase in tourist arrivals, overnight stays and spending

2. Increase in number and profitability of economic enterprises

3. Property value appreciation

4. Temporary job creation

All Key assumptions for financial and economic analysis are presented below:

KEY Assumptions (RDP2)

Macroeconomic Indicators

Average exchange rate USD/GEL 2012-2014	1.70
Average exchange rate USD/GEL 2015-2018	2.50
Discount rate, %	5%
Operation and Maintenance costs, % of investment	2%
GDP growth rate, %	4%
Inflation, %	2%
Incremental Capital Output Ratio - ICOR	2.0
Private Investment Leverage Factor	2.0

Tourism Indicators

Total Tourist Arrivals in 2011	740,000
Share of Imereti (average of GNTA, Geostat, Survey)	92,500
Number of Beds in Imereti	2,661
Tourist arrivals growth rate forecast in 2013-2017	5%
Tourist arrivals growth rate forecast after 2017	2%
Current Average stay, days	3.80
After Project Average stay, days from 2020 (source: GNTA)	5.50
Average daily spending per tourist, GEL (source: survey)	118.50
Local share in tourist spending	90%
Hotel occupancy rate	60%
Secondary Sales Multiplier factor	1.50

Breakdown of the tourist spendings

Personnel Salary (net)	20%
Food, utilities & other (local)	30%
Food, liquor (Imported)	10%
Taxes	20%
Investor Profits	20%

Taxes

VAT	18%
Corporate Income Tax (CIT)	15%
Personal Income Tax (PIT) before Jan 1, 2014	20%
Property Tax	1%

Disbursement of Project Funds

	GEL	USD
Year 2012	0.00	0
Year 2013	19,091,300.99	11,230,177
Year 2014	14,902,323.02	8,766,072
Year 2015	19,611,026.16	7,844,410
Year 2016	30,000,000.00	12,000,000
Year 2017	22,273,350.33	8,909,340
Year 2018	0.00	0
Total	105,878,000.48	48,750,000.01

Project Indicators

Share of Labor costs in Capital Expenditures (Public)	30.00%
Share of Labor costs in Leveraged Capital Expenditures	25.00%

Increase in number and spending of Tourists

Year	% increase	No. of Tourists	% increase	Tourist Spending, USD
2012	0%	92,500	0%	265
2013	5%	97,125	5%	278
2014	5%	101,981	5%	292
2015	5%	107,080	5%	209
2016	5%	112,434	5%	219
2017	5%	118,056	5%	230
2018	2%	120,417	2%	234
2019	2%	122,826	2%	239
2020	2%	125,282	2%	353
2021	2%	127,788	2%	360
2022	2%	130,343	2%	367
2023	2%	132,950	2%	375
2024	2%	135,609	2%	382
2025	2%	138,321	2%	390
2026	2%	141,088	2%	398

Assumptions used in fiscal impact

When calculating ***Tax Revenues from Increase in Tourist Arrival, overnight stays and spending*** the following approach was used:

- Tourist spending was calculated by multiplying number of additional tourists by the average tourist spending, that is calculated by multiplying average stay and average daily spending. Average daily spending was taken as 118.5 GEL[8]. Average stays will increase from current 3.8[9] days to 5.5[10] days in 2020.
- It is assumed that both domestic and international tourist arrivals and spending are expected to increase by 5% during the 5 years starting from 2013, after 2017 growth will be 2%.
- It is calculated that 20% of the tourist spending from direct sales will flow to the government, in the form of VAT, PIT, CIT and dividend taxes.

To calculate ***Tax Revenues from Increase in number and profitability of economic enterprises (Secondary sales)*** the following approach was used:

- Tax payments (20%) which consists of VAT, PIT, CIT and expenditure on imported food and liquor (10%) are deducted from tourist spending and as the remainder is paid to Personnel (20%), Local food and wine producers, utilities, etc. (30%) and 20% is left to investors, then they will spend it locally and that will create secondary economic effects in the region. We used slightly lower number (1.5) than the widely used National Park Service Money Generating Model[11] sales multiplier that equals to 2. This implies that each dollar of direct sales generates another dollar in secondary sales in this region[12]. We assumed that the tax payments for the secondary sales is same and equals to 20%.

To calculate ***Tax Revenues from Property Value Appreciation*** the following approach was used:

- Leveraged Capital attracted by the Public expenditures on infrastructure improvements will construct assets and because mainly this will be commercial assets and/or belong to wealthy individuals, whose income is higher than GEL 40,000/year (threshold for

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[8] Survey
[9] GNTA
[10] GNTA
[11] http://35.8.125.11/mgm2_new/
[12] Multipliers are used to capture the secondary effects of visitor spending in a region. There are two basic kinds of secondary effects:

Indirect effects are the changes in sales, jobs and income within backward-linked industries in the region, i.e., businesses that supply goods and services to tourism-related firms. For example, hotels purchase a variety of goods and services in the local area in order to produce a night of lodging. Each business that provides goods or services to hotels benefits indirectly from visitor spending in hotels. These indirect effects are captured by **Primary sales multiplier.**

Primary sales multiplier = (direct sales + indirect sales)/ direct sales

Induced effects are the changes in sales, jobs and income in the region resulting from household spending of income earned either directly or indirectly from visitor spending. Employees in tourism firms and backward linked industries spend their income in the local region creating additional sales and economic activity. These impacts are most readily seen when there is a significant drop in tourism activity. Reduced income in the area results in reduced spending that will affect retail stores and other businesses that depend on household spending. **Secondary sales multipliers** capture both indirect and induced effects.

Secondary sales multiplier = (direct sales + indirect sales + induced sales)/direct sales.

paying property taxes) it is assumed that on these assets property taxes (1% of the value of the assets) will be paid.

- The leverage factor for the private investments attracted by the public expenditures will equal 2 to 1 - Some of the already ongoing/planned private sector investments with planned investment figures are described in the Table below:

Description	Planned investment, USD
Holiday Inn (former "Miner" Sanatorium)	20,000,000.00
Tskaltubo Plaza (Hotel & Shopping Center)	6,000,000.00
Baths # 5, 6 and 9	5,000,000.00
New Restaurant "Stalactida"	2,000,000.00
3 New boutique Hotels (25 rooms each) in the town center	1,500,000.00
New Hotel (former Pharmacy Building)	500,000.00
Bath # 2	500,000.00
Total	35,500,000.00

To calculate ***Tax Revenues from Temporary Job Creation*** the following approach was used:

- There will be two sources for Temporary Job Creation – Construction activities during Project implementation (Public funding) and during the construction of assets by Leveraged Capital
- Analysis of the infrastructure projects conducted by Municipal Devlopment Fund (MDF) during last 5 years showed that on average infrastructure works have 25% labor component (including production and transportation), with around 20% labor component for general infrastructure and around 30% in case of restoration of buildings;
- Due to the specific nature of conservation/restoration works (large proportion of labor intensive facade restoration) labor component for the project activities will be 30% of the expenditures;
- Proportion of Labor component during construction activities funded by Leveraged Private Capital will be 25% - it is assumed that most of the assets created will be buildings and recreational areas;
- PIT from labor expenditures (20%) will be flowing to the government.

Fiscal impact analysis shows that the tax revenues generated after the project implementation are well over the project costs - NPV for the project at 5% discount rate equals to USD 9,537,933.75 and FIRR equals to 15.64%.

Detailed calculation of fiscal impact is provided below:

Fiscal Impact (RDP2)

Year	Costs, USD		Tax Revenues, USD							Net Benefits
	Capital Expenditures (Public)	Total Expenditures	Tax Revenues from Increase in Tourist Arrival, overnight stays and spending	Tax Revenues from Increase in number and profitability of economic enterprises (Secondary sales)	Tax Revenues from Property Value Appreciation	Tax Revenues from Temporary job generation by Leveraged Capital Expenditures	Tax Revenues from VAT during Project Implementation	Tax Revenues from Temporary Job generation during Project Implementa-tion	Total Tax Revenues	
2012	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2013	-11,230,177.05	-11,230,177.05	257,266.99	90,043.44	0.00	4,549,173.42	2,386,888.48	673,810.62	7,957,182.95	-3,272,994.10
2014	-8,766,072.36	-8,766,072.36	553,767.19	193,818.52	224,603.54	3,551,002.19	1,863,161.82	525,964.34	6,912,317.60	-1,853,754.76
2015	-7,844,410.46	-7,844,410.46	608,032.32	212,811.31	399,924.99	3,177,651.02	1,667,269.61	470,664.63	6,536,353.88	-1,308,056.59
2016	-12,000,000.00	-12,000,000.00	872,872.34	305,505.32	556,813.20	4,861,016.95	2,550,508.47	720,000.00	9,866,716.28	-2,133,283.72
2017	-8,909,340.13	-8,909,340.13	1,174,984.31	411,244.51	796,813.20	3,609,037.78	400,920.31	534,560.41	6,927,560.50	-1,981,779.63
2018	-975,000.00	-975,000.00	1,309,211.83	458,224.14	975,000.00		43,875.00		2,786,310.97	1,811,310.97
2019	-1,014,000.00	-1,014,000.00	1,450,597.31	507,709.06	994,500.00		45,630.00		2,998,436.37	1,984,436.37
2020	-1,054,560.00	-1,054,560.00	2,315,014.60	810,255.11	1,014,780.00		47,455.20		4,187,504.91	3,132,944.91
2021	-1,096,742.40	-1,096,742.40	2,541,798.16	889,629.36	1,035,871.20		49,353.41		4,516,652.12	3,419,909.72
2022	-1,140,612.10	-1,140,612.10	2,780,408.91	973,143.12	1,057,806.05		51,327.54		4,862,685.63	3,722,073.53
2023	-1,186,236.58	-1,186,236.58	3,031,377.99	1,060,982.30	1,080,618.29		53,380.65		5,226,359.22	4,040,122.64
2024	-1,233,686.04	-1,233,686.04	3,295,259.02	1,153,340.66	1,104,343.02		55,515.87		5,608,458.57	4,374,772.53
2025	-1,283,033.48	-1,283,033.48	3,572,629.12	1,250,420.19	1,129,016.74		57,736.51		6,009,802.56	4,726,769.07
2026	-1,334,354.82	-1,334,354.82	3,864,089.80	1,352,431.43	1,154,677.41		60,045.97		6,431,244.61	5,096,889.78

NPV	**$9,537,933.75**
FIRR	**15.64%**

B. ECONOMIC IMPACT ANALYSIS

The economic analysis is based on the financial analysis. Hence, all the assumptions made in financial analysis are valid in the economic analysis.

Financial costs, both - investments costs and operation and management costs were adjusted in order to correctly assess costs associated with the Project globally, from the point of view of the economy as a whole. In order to achieve this payment of taxes were excluded from the financial costs as tax payments represent just transfer of funds from the point of view of the country. Also, shadow prices have also been considered along with the inefficiency characteristic for a transitional economy. The assumptions made for the economic analysis are discussed below in detail.

Financial costs discussed above were corrected for conducting economic analysis as follows:

- Personal income tax (PIT), which is included in labor cost and makes up its 20% (Starting from January 1, 2014 PIT will be 15% and this figure was used for the rest of the analysis), has been deducted out of the labor costs reflected in the financial costs;
- Value Added Tax (VAT) at the current rate of 18% has been deducted out of the operations and maintenance as well as capital costs used in the financial analyses.

Identification of conversion factors required for the economic analysis was carried out in the following two stages:

1. Total project costs were broken down into three components: Foreign Procurement; Local Procurement and Local Labor Force;
2. Then appropriate conversion factors were applied to each group.

Conversion factors applied to the mentioned cost items are given in the table below:

Capital Costs Conversion Factors

Type of Work	Foreign Purchases		Local Procurement			
			materials		Labor force	
	Share in total costs, %	Conversion factor	Share in total costs, %	Share in total costs, %	Conversion factor	
Construction works	0%	1.0	80%	0.9	20%	0.85
Materials	15%	1.0	75%	0.9	10%	0.85

After the application of the conversion factors the resulted capital expenditures (both Public and Leveraged) were used for the economic analysis.

The primary economic benefits of the Project are expected to come from the following streams and related assumptions:

1. Economic Benefits from Incremental Tourist Expenditures
2. Economic Benefits from Temporary Job Generation
3. Economic Benefits from Secondary Sales

Assumptions made during Economic Analysis

To calculate ***Economic Benefits from Incremental Tourist Expenditures*** the following approach was used:

- Tourist spending was calculated by multiplying number of additional tourists by the average tourist spending, that is calculated by multiplying average stay and average daily spending. Average daily spending was taken as 118.5 GEL[13]. Average stays will increase from 3.8[14] days to 5.5[15] days in 2020.
- It is assumed that both domestic and international tourist arrivals and spending are expected to increase by 30%[16] during the 5 years starting from 2013, after 2017 growth will be 5%.
- Tax payments (20%) in the form of VAT, PIT, CIT and expenditure on imported food and liquor (10%) is deducted from tourist spending to calculate economic benefit

To calculate ***Economic Benefits from Temporary Job Generation*** the following approach was used:

- There will be two sources for Temporary Job Creation – Construction activities during Project implementation (Public funding) and during the construction of assets by Leveraged Capital
- It is assumed that in the first case labor component will be 30% and in the second – 25%
- The PIT will be deducted from these payments to calculate economic benefits.

To calculate ***Economic Benefits from Secondary Sales*** the following approach was used:

- There will be two sources for Secondary sales - Economic Benefits from Incremental Tourist Expenditures and Economic Benefits from Temporary Job Generation.
- These payments can be spent locally to create secondary economic effects in the region. We used widely used National Park Service Money Generating Model sales multiplier that equals to 2. This implies that each dollar of direct sales generates another dollar in secondary sales in this region.

Economic analysis shows that the total economic benefits are well over the total costs and Economic IRR equals to 23.61%.

Detailed calculation of economic impact is provided below:

[13] Survey
[14] GNTA
[15] GNTA
[16] GNTA

Economic Impact (RDP2)

Year	Economic Costs, USD		Economic Benefits, USD				
	Capital Expenditures (Public)	Total Expenses	Economic Benefits from Incremental Tourist Expenditures	Economic Benefits from Temporary Job Generation	Economic Benefits from Increase in number and profitability of economic enterprises (Secondary sales)	Total Economic Benefits	Net Benefits
2012	0.00	0.00	0.00	0.00	0.00	-	0.00
2013	-9,552,388.60	-9,552,388.60	463,080.57	6,109,216.32	525,783.75	7,098,080.64	-2,454,307.96
2014	-7,456,421.15	-7,456,421.15	996,780.93	4,768,743.37	461,241.94	6,226,766.24	-1,229,654.91
2015	-6,672,455.54	-6,672,455.54	1,094,458.17	4,267,359.29	428,945.40	5,790,762.86	-881,692.68
2016	-10,207,200.00	-10,207,200.00	1,571,170.22	6,528,000.00	647,933.62	8,747,103.83	-1,460,096.17
2017	-7,578,284.71	-7,578,284.71	2,114,971.75	4,846,681.03	556,932.22	7,518,585.00	-59,699.71
2018	-829,335.00	-829,335.00	2,356,581.29			2,356,581.29	1,527,246.29
2019	-862,508.40	-862,508.40	2,611,075.16			2,611,075.16	1,748,566.76
2020	-897,008.74	-897,008.74	4,167,026.28			4,167,026.28	3,270,017.54
2021	-932,889.09	-932,889.09	4,575,236.69			4,575,236.69	3,642,347.60
2022	-970,204.65	-970,204.65	5,004,736.05			5,004,736.05	4,034,531.40
2023	-1,009,012.83	-1,009,012.83	5,456,480.38			5,456,480.38	4,447,467.54
2024	-1,049,373.35	-1,049,373.35	5,931,466.24			5,931,466.24	4,882,092.89
2025	-1,091,348.28	-1,091,348.28	6,430,732.41			6,430,732.41	5,339,384.13
2026	-1,135,002.21	-1,135,002.21	6,955,361.64			6,955,361.64	5,820,359.42

EIRR **23.61%**

Sensitivity analysis

The sensitivity analysis of the different factors is presented below:

		Private Investment Leverage Factor	Tourist arrivals and spending growth rate forecast after 2017	Secondary Sales Multiplier factor	After Project Average stay
+10%	**NPV**	$11,168,917.60	$10,394,666.65	$11,266,435.51	$11,127,830.74
	Δ NPV	$1,630,983.85	$856,732.90	$1,728,501.77	$1,589,897.00
	FIRR	18.81%	16.28%	17.30%	16.84%
	Δ FIRR	3.17%	0.64%	1.66%	1.20%
	EIRR	28.36%	24.40%	25.47%	25.10%
	Δ EIRR	4.74%	0.79%	1.85%	1.49%
-10%	**NPV**	$7,906,949.90	$8,706,359.82	$7,809,431.98	$7,948,036.75
	Δ NPV	-$1,630,983.85	-$831,573.93	-$1,728,501.77	-$1,589,897.00
	FIRR	13.07%	14.98%	13.92%	14.33%
	Δ FIRR	-2.57%	-0.65%	-1.72%	-1.31%
	EIRR	20.00%	22.81%	21.96%	21.97%
	Δ EIRR	-3.61%	-0.81%	-1.66%	-1.64%

The NPV and FIRR are most sensitive to Private Investment Leverage Factor variable. 10% increase or decrease in Private Investment Leverage Factor will increase or decrease NPV by USD $1,630,983.85 and FIRR 3.17% and 2.57% accordingly. EIRR is also most sensitive to the Private Investment Leverage Factor – 10% increase or decrease in Private Investment Leverage Factor will increase or decrease EIRR 4.74% and 3.61% accordingly.

At the minimum possible level of the Secondary sales multiplier (that is 1.0), other assumptions unchanged NPV will still be positive and equals to USD 3,776,261.19 and FIRR equals to 9.60%.

If average stay remains the same - 3.8 days on average, and other assumptions remain unchanged, NPV will be still positive and equal USD 4,623,706.67, FIRR – 11.15%, EIRR – 17.85%.

Annex 6: Procurement Arrangements

1. Prior review thresholds shall be agreed in the procurement plan and in subsequent updates based on the capacity and identified risks. There is no need for publishing a Supplemental General Procurement N (GPN) as the same has been published for original Project.

2. Procurement of goods and non-consulting services. Goods and non-consulting services estimated to cost US$1M equivalent and more will be procured through ICB. Goods and non-consulting services estimated to cost less than US$1M may be procured through NCB, and less than US$100,000 through shopping.

3. Procurement of works: Works contracts estimated to cost more than US$10 million equivalent will be procured through ICB. Those estimated to cost US$10 million or less may be procured though NCB, and less than US$200,000 through shopping. (NCB and SH using Georgian E-Government Procurement System)

4. Selection of consultants. Consulting services will be procured according to the Bank's Consultant Guidelines mentioned above the WB's Standard RFP (revised in October 2011) will be used to select all consulting firms. Consultant selection methods will include Quality and Cost-Based Selections (QCBS), Fixed-Budget Selection (FBS), Consultant Qualifications (CQS), Least-Cost Selection (LCS), Single-Source Selection (SSS), Quality Based Selection (QBS) and Individual Consultants (IC). The latter will be selected according to Section V of the Consultant Guidelines. This method will require comparing at least three qualified and available candidates.

5. Short lists composed entirely of national consultants. Short lists of consultants for services estimated to cost less than US$300,000 equivalent per contract may be composed entirely of national consultants, according to the provisions of paragraph 2.7 of the Consultant Guidelines.

6. Prior Review Threshold for goods and works and services other than consulting services:

Expenditure Category	**Method**	**Procurement Method Thresholds**	**Prior Review Thresholds**
1. Goods	ICB	>$ 1 Mln	As agreed in PP
	NCB*	≤ $1 Mln	As agreed in PP
	SH*	≤ $ 100 K	As agreed in PP
	DC		As agreed in PP
2. Works	ICB	>$10 Mln	As agreed in PP
	NCB*	≤ $10 Mln	As agreed in PP
	SH*	< $ 200 K	As agreed in PP
	DC		As agreed in PP

- Using modified Government E-Procurement (Ge-GP) System

For consulting services:

Expenditure Category	Method	Procurement Method Thresholds	Prior Review Thresholds
3. Cons. Services firms	QCBS		As agreed in PP
	FBS		As agreed in PP
	QBS		As agreed in PP
	LCS		As agreed in PP
	CQS	≤ $300 K	As agreed in PP
	SSS		As agreed in PP
4. Cons. Services individuals	IC		As agreed in PP
	SSS		As agreed in PP

7. **Incremental Operating Costs**: These are reasonable and necessary incremental expenses towards recurrent expenditures, incurred by the Borrower with respect to Project implementation, management and monitoring, including the costs of support staff salaries (excluding salaries of the Borrower's civil service staff), communication, editing, printing and publication, translation, vehicle operation and maintenance, bank charges, local travel costs and field trip expenses, office rentals, utilities, equipment and supplies. Such costs would be disbursed on the basis of annual budgets to be prepared by MDF and agreed with the Bank at the beginning of the year. Procurement of goods/supplies under IOC will be following State Procurement Law of Georgia with the use of e-procurement system. Mentioned system has been assessed by the Bank and found to be adequate to undertake procurement under IOC.

8. In addition to the Bank's customary prior review supervision to be carried out by the Bank, the capacity assessment recommends to visit the MDF and Project sites once every year to carry out post review of procurement actions during supervision missions and/or regular post-reviews by PAS (Procurement Accredited Specialist). Such reviews will be done together with representatives from State Audit Office as part of capacity building program. As part of above initiative the Bank's procurement specialist delivered one week training in March 2015 to officials from State Audit Office (SAO) as part of capacity building program. As part of above initiative the Bank's procurement specialist delivered one week training in March 2015 to officials from SAO, with subsequent joint post review conducted for projects implemented by MDF and Roads Department of Georgia. Mentioned initiative will continue with training planned towards April 2016 and respective post reviews. At least one out of five procurement packages not subject to Bank prior review will be examined ex-post, however PAS reserves the right to increase or decrease the number of packages to be examined based on risk during implementation.

9. Summary of the Procurement Packages (will be finalized following review and approval of draft procurement plan)

1	2	3	4	5	6	7
Ref. No.	**Description**	**Estimated Cost US$ million**	**Packages**	**Domestic Preference (yes/no)**	**Review by Bank (Prior / Post)**	**Comments**
	Summary of the ICB (Works)	2.94	1		prior	Current ICB Package entails rehabilitation of 2WWTPs and is financed under two projects. SIDA Grant and RDP II AF. Overall estimated cost for both contracts is US$ 12.9 Mill.
	Summary of the ICB (Goods)	0.18	1			Current allocation from RDP II AF is bridge the financing gap for ICB contract under RDP II for supply of showcases for Vani Museum estimated at around US$ 1 Mill.
	Summary of the NCB (Works)	2.9	4		post	
	Summary of the NCB (Goods)					
	Shopping Goods					
	Shopping - Works	0.45	5		Post	These are allocated cost for ongoing contract under RDP II, which would finance minor additional works and variations.
	Summary of the ICB (Non-Consultant Services)					

1	2	3	4	5	6
Ref. No.	**Description of Assignment**	**Estimated Cost** US$ million	**Packages**	**Review by Bank (Prior / Post)**	**Comments**
	Summary of number of contracts that will be let under QCBS				
	Summary of number of contracts that will be let under other methods	0.2	3	post	