I. Introduction and Context

Country Context

Over the last 5 years, Georgia has achieved significant economic progress; its GDP grew by 28 percent and GNI per capita income increased by 60 percent. Despite significant setback in 2008 and 2009 due to the double shock caused by the global economic crisis and the August 2008 conflict with Russia -resulting in a 3.8 percent economic decline the following year-the economy rebounded and grew by 6.4 percent in 2010. This rebound was largely the result of the concerted efforts of donors pledging US$ 4.5 billion of assistance in 2008 and the government’s commitment to address economic recovery through the accelerated reforms and renewed efforts to attract Foreign Direct Investment.

To address the effects of the double shock, the Government, reverted to increased public investments in infrastructure, particularly focusing on the road network. The purpose of the increased public investments was boosting economic recovery by improved local connectivity and creating local employment. In 2008 the donors undertook a Joint Needs Assessment (JNA) which identified total short and mid-term investment needs at US$ 700 million. Part of the total donor pledge was used to finance improvements to the road network.

In addition the Government refocused efforts on new sources of growth, which include tourism and agriculture, by launching new initiatives to attract private investors in selected regions. In June 25, 2010 the Government approved (Government resolution no. 172) the State Strategy on Regional Development of Georgia for 2010-2017, prepared by the Ministry of Regional Development and Infrastructure (MRDI). The Government has identified Kakheti region as first region to create favorable environment for regional socio-economic development and improve living standards.

Sectoral and Institutional Context
Georgia’s Transport Sector.
Georgia occupies a strategic location between Europe and Asia. Trading with its neighbors, both transit and bilateral, is important to Georgia’s economy. The current Transport Corridor Europe-Caucasus-Asia (TRACECA) initiative seeks to emulate the historical east-west “Silk Road” and is one of the driving factors of the Georgia transport sector development. The Government recognizes the importance of the transport sector development. In order to maximize benefits from transport the Government has focused on the rehabilitation and modernization of the neglected and aging infrastructure.

Transport Sector Governance.
Several government entities are responsible for the transport sector; the Ministry of Economic Development (MoED) is the main institution responsible for transport policy. The Ministry of Regional Development and Infrastructure (MoRDI), established in February 2009, is in charge of policies and decisions pertaining to all transport infrastructure investments in the country, including roads. The MoRDI is working towards improving the efficiency and effectiveness of public investments. Within the MoRDI, the Roads Department (RD) is responsible for managing and administering the road network.

Georgia’s Road Network.
Georgia’s road network consists of: 1,455 km of international roads, out of which 82 percent is in good condition; 5,488 km of secondary roads out of which 29 percent is in good condition; and 15,000 km of local roads, which mostly are in poor or damaged condition. The often challenging topography, relatively low design standards, inadequate and sometimes neglected maintenance has resulted in the poor state of Georgia’s secondary and local road network. While international roads remain mostly in good condition, secondary and local roads require significant improvement.

Road improvements are one of the most successful means of stimulating economic growth and trade. Rehabilitation of roads has been the Government’s priority since the Rose Revolution of 2003. Starting from 2004, the Government increased the budget for road rehabilitation fivefold to about US$ 90 million in 2010. World Bank financing also increased to meet the US$ 700 million need for roads identified by the JNA. From 2003, the Bank has financed five road projects with total financing of US$ 369 million. The primary focus of the investments has been the East-West highway, which accounts for 70 percent of the total investments into the roads. Other financial institutions, such as the Asian Development Bank (ADB), the Japanese International Cooperation Agency (JICA), and the European Bank for Reconstruction and Development (EBRD) have also financed roads along the East-West highway.

It is essential for Georgia to also improve the secondary and local road network in parallel with the improvements on the international roads. This will improve local connectivity and reduce the overall cost of transportation. The Bank is supporting the US $ 90 million Secondary and Local Roads Project (SLRP), which has rehabilitated parts of the secondary roads network and some local roads. About 800 km of roads throughout the country have been rehabilitated. However, about 48 percent of the Secondary roads and a very large percentage of the local roads still remain in poor condition.

In addition, Georgia has to increase its funding allocations for the road network as a whole to ensure that efficient road maintenance is undertaken. Delays of and failure to undertake timely routine and periodic maintenance, will lead to accelerated deterioration and loss of the initial rehabilitation value.

Relationship to CAS
The proposed Secondary and Local Roads Project II (SLRP II), is in line with investment priorities identified in the current 2010-2013 Country Partnership Strategy (CPS). The CPS identifies two strategic pillars: (i) meeting post conflict and vulnerability needs; and (ii) strengthening competitiveness for the post crisis growth. Direct job-creation is the expected result from the first strategic pillar of the CPS. The ongoing Secondary and Local Roads Project has shown that investments into the secondary and local roads create substantial local employment. It is estimated that every US$ 3,000 investment into the roads directly creates one person month of employment. It is therefore anticipated that the SLRP II will create about 12,000 person-months of direct employment.

The SLRP II will also improve local connectivity and reduce transport cost, which directly contributes to the CPS second pillar of strengthening competitiveness. The Socio-economic Survey in 2004 showed that reduced transport cost, is thought to increase the competitiveness of local produce. The local subcontracting industry could further support business growth through medium term contracts to be issued to local contractors in different parts of the country, while the improved local roads network will lead to lower costs for local small businesses.

II. Proposed Development Objective(s)
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The Project Development Objective (PDO) is to: (i) improve local connectivity and travel time for the selected secondary and local roads; and (ii) increase the capacity of the Roads Department and local governments to manage the road network in a cost effective and sustainable manner.

Key Results
The key expected results from the implementation of the project and the respective monitoring indicators are:

Result 1: Improved connectivity and travel time for the targeted secondary and local roads.
This will be measured through:
- Indicator 1: Length of the targeted roads rehabilitated.
- Indicator 2: Twenty percent reduction of the transit time and respective reduction of vehicle operating cost for the targeted roads.

Result 2: Increased capacity of the Roads Department and local governments to manage the road network. The capacity of the RD will be increased by deploying consultants for contract management and the RD staff is trained in the application of various contracting methods for road maintenance.
This will be measured through:
- Indicator 1: RD hires additional staff for contract management.
- Indicator 2: RD conducts workshops for the staff and road contractors on the application of various contracting methodologies for cost effective and sustainable road network management practices.

III. Preliminary Description

Concept Description
The proposed project follows the successful implementation of the ongoing Secondary and Local Roads Project (SLRP). The SLRP has rehabilitated 45 road sections with total length of about 800 km of secondary and local roads throughout the country.

The proposed SLRP II builds on the ongoing SLRP concept and incorporates the following lessons learned:

(i) The ongoing SLRP did not trigger the Involuntary Resettlement Safeguard (OP/BP 4.12) as no land was acquired and all works were conducted within the right-of-way of the road. The implementation of the SLRP showed that land acquisition is required to improve geometric standards of existing right-of-way, to provide adequate space for drainage, and to add road safety solutions such as sidewalks, road crossings, guardrails, and safety barriers. The rehabilitation of secondary roads and in particular of local roads require small scale land acquisition therefore proposed project triggers the Involuntary Resettlement Safeguard to enable the project handle land acquisition, if such need arises.

(ii) The SLRP showed that the RD and the supervision consultant require additional staff to supervise the large number of small contracts. Therefore the SLRP II would include a provision for additional consultants to the RD. In addition, the terms of reference of the supervision engineer has been modified to allow one more field based engineer for every two sections of roads in order to improve on-site supervision of the rehabilitation works.

(iii) The implementation of the SLRP has also showed that road safety measures are not always adequately incorporated into the designs. Some of the safety measure such as road crossings, sidewalks in the heavily populated areas, and guardrail designs were added during the rehabilitation works. The SLRP II will introduce road safety audit during the design stage in order to avoid modifications during the rehabilitation works.

Government is continuing to review different modalities of more efficient management of the road network such as application of micro enterprises for road maintenance, Design-Build contracts, rehabilitate-maintain contracts, and performance based contracts (PBC). Under the ongoing Kakheti Regional Roads Investment Project (KRRIP) Government is applying project savings to pilot a Design-Build contract on a secondary road. Government is also exploring possibilities to pilot PBC for the road network in the Eastern part of Kakheti region. The proposed SLRP II will provide support to the Government to explore the potential for implementation of PBC for road maintenance in future.

The proposed project would consist of two components totaling $50 million, of which $40 million would be from the proposed IDA credit:

Component 1: Improvement of Secondary and Local Roads (about US$ 48 million). This component will finance the rehabilitation of roads in the same manner as under the ongoing SLRP and will cover identified priority sections.

Component 2: Capacity Building and Advisory Services (about US$ 2 million). The aim of this component is to increase the Roads Department (RD) capacity in application of different contracting methodologies for road management. It will build on the good progress made with institutional strengthening supported under the ongoing transport projects. This component will include: consultancy services to the RD to conduct workshops on the cost efficient and sustainable road management, ad hoc individual advisers to the RD on as needed basis, and individual consultants to the RD to help with the management of a large number of contracts.

IV. Safeguard Policies that might apply

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V. Tentative financing

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VI. Contact point

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