I. Introduction and Context

Country Context

Following four years of rapid growth, backed by far-reaching reforms and strong FDI inflows, Georgia experienced a sharp economic downturn resulting from the August 2008 conflict and the global financial crisis. Economic recovery is underway, with growth of an estimated 6.3 percent in 2010. The authorities responded to the downturn with a countercyclical fiscal stimulus coupled with a marked reallocation of public expenditures toward social and infrastructure investments. As economic recovery takes hold, driven by higher exports and private investment, the authorities are winding down the stimulus and implementing fiscal adjustment to safeguard sustainability. There is, however, uncertainty regarding the pace of economic recovery. Georgia will need to refinance a public debt amortization spike in 2013. The authorities are addressing these vulnerabilities through well designed fiscal, monetary and debt management policies. Infrastructure projects are considered by the Government as part of the physical stimulus package.

The Government refocused efforts in the past six years by launching several initiatives to attract private investors in selected regions (Tbilisi, Adjara and Imereti) on various sectors. Georgia, however, has not yet fully tapped its potential to promote sustainable tourism in promising regions, such as Kakheti, or transform the rural economy through investment in agriculture supply chains for both export and import substitution. There is also a need for skills development in order to provide the skilled labor needed for a growing economy and increased productivity.

In the framework of the CPS-PR for the period of FY12-FY13 presented to the Board in April 2011, the Government has asked the Bank to support regional development in Kakheti by applying a vertical programmatic approach. The proposed program of interventions will emphasize tourism and agriculture as two key pillars and drivers of economic growth. The proposed initial project will focus on support for the tourism sector and enabling the environment for the private sector to invest in Kakheti. A follow up intervention will likely focus on agriculture, benefitting from a planned ESW to provide a roadmap to support regional development in Kakheti. The ESW will identify the targeted outcomes in terms of future economic growth, what needs to be done and what impediments need to be overcome.

Sectoral and Institutional Context
while the number of overnight visitors to the country is growing rapidly, at nearly 20 percent per year, the vast majority are coming from fairly low spending markets and coming for business or to visit friends and relatives (VFR);

- need for urban regeneration and improve quality of municipal infrastructure in key cultural centers (Telavi, Kvarieli, and Tusheti);

- low quality municipal infrastructure (water, sanitation, access roads and solid waste disposal);

- limited hotel capacity;

- seasonality, particularly in the winter;

- lack of investor information exchange, communication and cooperation between key investors to achieve a competitive edge; and

- inadequate skills and foreign languages proficiency.

The proposed tourism development vision for the region envisages developing Kakheti as a high quality geotourism destination...
Relationship to CAS

The proposed regional development program supports both pillars of the Country Partnership Strategy for Georgia for the period of FY10-FY13 approved by the Board in September 2009. The program supports the following CPS Results: Preserve economic growth and create jobs, Improve social services, and Accelerate business growth. The program is included in the CPS Progress Report, presented to the Board in April 2011.

The rationale for Bank involvement lies within the large opportunities for Kakheti success due to the following reasons: Largest impact potential, especially in tourism and agriculture, which are priority growth sectors for the government; proximity to Tbilisi (part of Tbilisi hinterland) with reasonably good external and internal connectivity due to the Bank financed East-West highway and Secondary and Local Road Projects; significant public and private investments already being made in new attractions, e.g. urban regeneration of Signagi, and infrastructure; moderately sized and populated region, suitable for piloting new vertical development approaches; and comparative advantages for tourism development.

There is a very strong client ownership of the program. A steering committee has been established to act as a counterpart weight to the Bank team during identification and preparation, which includes all Ministers concerned as well as the Governor of Kakheti. Regular meetings are also held with the Prime Minister. Meantime, Ministry of Finance is leading donor coordination effort, facilitated and hosted by the World Bank Tbilisi Office.

The program is viewed by the government as a catalyst, leveraging additional financial resources from donor agencies, IFC and state budget. Under such a framework, SIDA has agreed provisionally to co-finance this project in the amount of $8.0m, while the IFC has prepared a $2.0m investment in Tbilvino company, which will help support the construction of a grape collecting and crushing facility near Kvareli. The IFC has also provided a $400,000 performance based grant to MobyPay, a fast growing mobile financial services provider, to expand their product offering in Kakheti. This has put Kakheti at the top of their priority list, rather than at the bottom. More IFC investments are envisaged to come under the program.

II. Proposed Development Objective(s)

Proposed Development Objective(s)

The Project Development Objective is to increase tourism in the Kakheti region. In doing so, the project will increase the local population's and private sector's access to municipal services and infrastructure. This will be achieved through:

- Improving the quality and reliability of municipal infrastructure;
- Supporting the tourism development; and
- Enabling the environment to attract private sector investments.

Key Results

The key results expected from the project are to:

- Transformation of 3 key centers of economic activities.
- Increase number of private sector investments (economic density) by 20%.
- Increase tourism arrival by 20%.
- Increase real domestic and international tourism spending by 20%.

III. Preliminary Description

Concept Description
Building on the successful experience of the Regional and Municipal Infrastructure Development Project (RMIDP), the Regional Development Project is a repeater in the sense of implementation arrangements, procurement, safeguards, financial management and disbursement arrangements. The Project is comprised of the same two components, but with a shift in activities from social infrastructure to economic infrastructure and enabling the environment for private sector investments.

Component 1: Infrastructure Investment (WB: $45m; Borrower: $10m; SIDA: $8m)
Component 1.1: Provision of financial resources to local-self governments to carry out Investment Subprojects for the following activities:
- Urban regeneration: Integrated approach to urban transformation of Telavi, Kvareli, and Dartlo (heritage village revitalization), which will help improve urban habitat and hospitality in a culturally-informed manner, enhance attractiveness for visitors, and revitalize infrastructure and attract increased volume of private sector investments in tourism and food processing.
- Tourism circuits development: Integrated revitalization, including road rehabilitation/safety measure, urban landscaping, parking, info kiosk, cafe, and public toilet. Four main circuits: a) golden path from Ujarma-Shuamta-Ikalto-Telavi-Alaverdi, b) Signagi-Bodbe-Kvreli-Nekrsi; c) Telavi-Omalo-Dartlo; and d) Dedoplistskaro-Vashlovani. These circuits combine rich and varied experience of culture heritage, nature/protected areas, wine tourism and adventure, thus increase night stays in Kakheti.
- Rehabilitation of a regional Telavi-Akhmeta solid waste landfill and collection system. The technical study of the landfill is already prepared by GIZ.

Component 1.2: Provision of financial resources to local self-governments to provide public infrastructure to private sector investments in tourism and food processing.
Private sector investments will be selected competitively using a Call for Investment Proposal method. A committee chaired by Prime Minister will select investors based on the following five valuation criteria: economic viability of proposed project, number of jobs to be created, time to start operation, governance and financial health of the company, and successful experience in past similar project(s) in Georgia or worldwide. A package of incentives will be provided to domestic and international investors to locate in Kakheti, including transparent and competitive selection, streamlined business start up procedures, provision of public infrastructure, and possible credit provided by IFC to a selected number of investments that pass the IFC standard criteria. Also free tourism zone for large resort investment around the lake between David Gareji and Vashlovani.

The following are possible areas for private sector investments in the tourism sector based on the value chain analysis:
- Free Tourism Zone in the under-utilized strip from David Gareji to Vashlovani protected areas, including 2 lakes;
- Boutique hotels: vernacular architecture lodging around the 4 circuits and in the buffer zone of Tusheti and Lagodekhi protected areas;
- Ujarma-Alaverdy Golden Path: trip circuits, cafes, souvenir shops, old village replica in the golden path: Alaverdi, Gremi, Nekresi, Shuamta (new and old), Ikalto, Ujarma;
- Ikalto Academy: revival of its archaeological site, famous for its qvevri wine and cultural heritage; and
- Culture and cuisine entrainment, especially in Signagi, Telavi, Kvareli, and Tusheti: folk dance clubs, art galleries, culinary restaurants and cafes.

Component 2: Institutional Development (WB 5.0 m; Borrower: $2.5m)
Enhancing the institutional capacity and performance of the Georgia National Tourism Agency, the Project Implementing Entity and other local and regional entities to carry out the following activities:
- Production of Kakheti tourism circuits and geotourism maps;
- Rehabilitation of visitor centers in Telavi, Tusheti, Kvareli, and Signagi;
- Establishment of Destination Management Office in each visitor center to carry our promotional, branding, PPP and information exchange activities;
- Provision of training, artisan and skills development;
- Preparation of feasibility studies and engineering designs; and
- Construction supervision and monitoring & evaluation activities.

IV. Safeguard Policies that might apply

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V. Tentative financing

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VI. Contact point

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