



## Periodic Financing Request Report

Project Number: 42414-033  
July 2012

### Multitranche Financing Facility Georgia: Sustainable Urban Transport Investment Program – Project 2

## CURRENCY EQUIVALENTS

(as of 23 July 2012)

Currency Unit	–	lari (GEL)
GEL1.00	=	\$0.6023733510
\$1.00	=	GEL1.660100

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
FDI	–	foreign direct investment
EBRD	–	European Bank for Reconstruction and Development
EIRR	–	economic internal rate of return
IEE	–	initial environmental examination
MDF	–	Municipal Development Fund of Georgia
MFF	–	multitranches financing facility
MOF	–	Ministry of Finance
MRDI	–	Ministry of Regional Development and Infrastructure
OCR	–	ordinary capital resources
PAM	–	project administration manual
PFR	–	periodic financing request
PPMS	–	project performance management system
QCBS	–	quality- and cost-based selection
SDP	–	sector development plan
TCH	–	Tbilisi City Hall
TRACECA	–	Transport Corridor Europe Caucasus Asia
VGf	–	viability gap funding
WSS	–	water supply and sanitation

## NOTES

(i) In this report, "\$" refers to US dollars.

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## TRANCHE AT A GLANCE

<b>1. Project Name:</b> Sustainable Urban Transport Investment Program - Tranche 2		<b>2. Project Number:</b> 42414-033	
<b>3. Country:</b> Georgia		<b>4. Department/Division:</b> Central and West Asia Department / Urban Development and Water Division	
<b>5. Sector Classification:</b>			
		<b>Sectors</b>	<b>Primary</b>
		Transport	√
		<b>Subsectors</b>	
		Urban Transport	
<b>6. Thematic Classification:</b>			
		<b>Themes</b>	<b>Primary</b>
		Regional Cooperation and Integration	
		Environmental sustainability	
		Economic Growth	√
		<b>Subthemes</b>	
		Trade and investments	
		Urban environmental improvement	
		Widening access to market and economic opportunities	
<b>6a. Climate Change Impact</b>		<b>6b. Gender Mainstreaming</b>	
Adaptation	Low	Gender equity theme (GEN)	
Mitigation	High	Effective gender mainstreaming (EGM)	
		Some gender benefits (SGB)	
		No gender elements (NGE)	
<b>7. Targeting Classification:</b>		<b>8. Location Impact:</b>	
<b>General Intervention</b>	<b>Targeted Intervention</b>		
	<b>Geographic dimensions of inclusive growth</b>	<b>Millennium development goals</b>	<b>Income poverty at household level</b>
√			
		National	Low
		Urban	High
<b>9. Project Risk Categorization:</b> Complex			
<b>10. Safeguards Categorization:</b>			
		Environment	B
		Involuntary resettlement	A
		Indigenous peoples	C
<b>11. ADB Financing:</b>			
<b>Sovereign/Non sovereign</b>	<b>Modality</b>	<b>Source</b>	<b>Amount (\$ Million)</b>
Sovereign	MFF-Tranche (Loan)	Asian Development Fund	16.0
Sovereign	MFF-Tranche (Loan)	Ordinary Capital Resources	64.0
Total			80.0
<b>12. Cofinancing:</b>			
No Cofinancing available.			
<b>13. Counterpart Financing:</b>			
<b>Source</b>		<b>Amount (\$ Million)</b>	
Government		28.0	
Total		28.0	
<b>14. Aid Effectiveness:</b>			
Parallel project implementation unit		No	
Program-based approach		Yes	

## I. BACKGROUND

1. A framework financing agreement (FFA) for the multitranche financing facility (the facility or MFF) MFF 0043–Georgia: Sustainable Urban Transport Investment Program (the investment program) was signed between the Government of Georgia and the Asian Development Bank (ADB) on 25 June 2010. Subsequently, on 19 July 2010, ADB's Board of Directors approved the facility for financing the investment program in an amount of \$300 million. Following the Board approval of the MFF, the ADB President approved the first tranche on 21 July 2010 of \$85 million equivalent (SDR 57,986.00). Tranche 1 loan was signed on 5 August 2010 and made effective on 29 September 2010. The investment program's executing agency is the Municipal Development Fund of Georgia (MDF). It aims to improve the urban transport systems in Tbilisi and other cities in Georgia.

2. Project 2 will improve the urban transport system in urban areas and comprises two subprojects: (i) the section 1 (km 0-4) and section 3 (km 10.5-17.1) of the international standard Tbilisi-Rustavi Urban Road Link, and (ii) the Mtskheta Bridge both of which are in line with the components of the Investment Program.<sup>1</sup> The Government, through the Ministry of Finance has submitted on 19 March 2012, the periodic financing request (PFR) for Tranche 2, requesting a loan from ADB's ordinary capital resources and ADB's Special Funds resources.<sup>2</sup> These investments will improve the urban environment, strengthen economic and tourism development and regional integration.

### A. Sector Policy, Strategy, and Road Map

3. The government envisions the cities as the engine of economic growth and job creation. The government emphasizes city cluster development and the delivery of quality infrastructure and urban services. These are considered essential to increase quality of life, attract investment and increase productivity and competitiveness. The strategic vision is shared by all municipalities. In this regard, the Government has been working out an urban and regional renewal strategy and has been supporting the business plan to attract private investments.

4. In line with the urban transport sector roadmap prepared for the MFF, development plans are prepared for various regions with the support of international development partners. Urban transport, together with other urban services, constitutes the core of this strategy. The MFF policy framework outlined in 2010 is being implemented and rolled out. It promotes competition, private sector, efficiency, fairness, transparency, environmental sustainability, value for money with regard to capital investment, maintenance, and service provision.

5. The urban transport sector roadmap priorities approved on 25 June 2010 are to (i) complete and upgrade the road network, (ii) develop public transport and nonmotorized transport to reduce pollution, noise, and traffic accidents, and (iii) improve living conditions. These strategic objectives are fully consistent with the Interim Operational Strategy of Georgia<sup>3</sup> and in line with ADB's sustainable transport objectives.<sup>4</sup>

6. As part of this MFF, the government, (including the MDF,<sup>5</sup> Tbilisi and the other municipalities) is requesting ADB for a second tranche to help them tackle the urban transport

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<sup>1</sup> Mtskheta Bridge had complied with the selection criteria and approval procedures set in the schedule 4 of the FFA.

<sup>2</sup> On 16 March 2012, Government sent a PFR for a loan of \$103 million with \$87 million OCR and \$16 million ADF. After further discussions, including subproject readiness for one of the three proposed subprojects, it was agreed that one of the subprojects will be moved to next tranche. Thus, the proposed amount is now \$80 million with \$64 million OCR and \$16 million ADF. The changes in the PFR will be reflected in the minutes of the loan negotiations.

<sup>3</sup> ADB. 2007. *Interim Operational Strategy 2008–2009*. Manila. Country Partnership Strategy is under preparation.

<sup>4</sup> ADB. 2010. *Sustainable Transport Operational Plan*. Manila.

<sup>5</sup> Set up in 1997 for a World Bank project, MDF channels development partners funding for municipal projects and has implemented more than 930 projects. Development partners include: United States Agency for International

problem within the framework of the urban renewal strategy. The policy reform framework has been particularly actively implemented in Tbilisi under Tranche 1 and is extensively rolled out in other secondary cities during tranche 2.

7. The long-term urban transport investment plan (2010–2020) prepared in 2010 draws from the Government priorities and is estimated at approximately \$1.4 billion, comprising physical and nonphysical investments to address medium-term (2010–2015) and long-term (2016–2020) needs (Table 1).

**Table 1: Sustainable Urban Transport Investment Plan Estimates**  
(\$ million)

Item	2010–2015	2016–2020	Total	Share of Total (%)
Urban transport infrastructure	288.00	1040.00	1328.00	93.20
Institutional capacity	13.00	32.00	45.00	3.20
Program management	19.00	33.00	52.00	3.60
<b>Total</b>	<b>320.00</b>	<b>1105.00</b>	<b>1425.00</b>	<b>100.00</b>

Note: Figures have rounded for clarity

Source: ADB, MRDI and Tbilisi Municipality estimates.

8. For two years, the Ministry of Regional Development and Infrastructure (MRDI), MDF and Tbilisi Municipality have been implementing a large number of projects which were listed in the investment plan of the sector roadmap. Achievements include:

- (i) **Urban infrastructure rehabilitation, modernization and expansion.** The government and the municipal governments have invested and mobilized a lot of funding to improve the urban infrastructure particularly in Tbilisi, Batumi, Anaklia, Mestia, and other cities in the Kakheti region. ADB, World Bank and Kreditanstalt für Wiederaufbau (KfW) have been the main financiers for the urban sector. In Tbilisi, the Municipality constructed a new road link to bypass Vake district and a new 2x2 lane tunnel is being added to link Vake and Vazha-Pshavela districts relieving at least two road bottlenecks. Several other projects promoting non motorized transport have been implemented: construction of a pedestrian footbridge over the Mtkvari Bridge; creation of a recreational public park on the left bank of Mtkvari in the old city; upgrade of a cable-car system to connect the old city and the upper part of Tbilisi; and renovation and beautification of all major avenues in Tbilisi, Batumi and Kutaisi.
- (ii) **Improved institutional framework and increased private sector involvement.** As planned in the policy reform framework prepared under the MFF, Tbilisi Municipality successfully awarded the concession on the management of the city parking to a private company. The city entered into an agreement with the Ministry of Interior and the Traffic Police to set up an integrated traffic control and management center coordinating traffic signals. These investments listed as eligible expenses under the MFF were eventually funded by the Municipality and ADB essentially provided policy advisory. Similarly, Tbilisi also restructured the bus network and reformed the microbus network with introduction of new and high-capacity vehicles and innovative financial incentives for drivers. Given the success of this reform, it is expected to be rolled out in secondary cities in tranche 2.
- (iii) **Improved governance and management capacity.** The capacity of MDF and Tbilisi Municipality to prepare and appraise project feasibility, engineering design, environmental and social safeguards, has been significantly improved through ADB training and on-the-job training. Since 2005, the MDF's objective has been to identify, assess, prepare, finance and implement projects with and on behalf of local government. In 2010, MDF was incorporated with MRDI. Its organization was restructured with

strengthened monitoring and safeguards divisions to comply with the development partners' expectations.

9. The financing plan for the urban sector is summarized in Table 2.

**Table 2: Sustainable Urban Transport Financing Plan 2010-2020**  
(\$ million)

Source	Investment Plan	Share of Total (%)
Asian Development Bank	300.00	21.00
Cofinanciers <sup>a</sup>	500.00	35.00
Government	625.00	44.00
<b>Total</b>	<b>1425.00</b>	<b>100.00</b>

<sup>a</sup> Under discussion with World Bank, European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), Japan International Cooperation Agency (JICA) and other development partners.

Source: MOF, MRDI and ADB estimates. Numbers have been rounded.

10. World Bank approved a \$60 million loan in April 2012 to sustain urban, economic and tourism development in the Kakheti Region with the rehabilitation of tourism and community infrastructure particularly in Telavi and Kvareli. The project's purpose is to address urban regeneration needs in a holistic manner. The European Investment Bank approved a \$170 million loan for the new Samtredia-Grigoleti section of the East-West highway E60 corridor. USAID is also contributing to develop local management capacity, stimulate private investment, and support the tourism industry. Co-financing opportunities are sought for subsequent tranches.

## II. ASSESSMENT OF MFF IMPLEMENTATION

### A. Impact, Outcome, and Output

11. **Impact.** The investment program will improve the urban environment, the local economy, and living conditions within urban areas. This will expand economic growth, job opportunities and environmental sustainability.

12. **Outcome.** The investment program will improve the efficiency, reliability, and affordability of urban transport infrastructure and services.

13. The outputs of the investment program include: (i) road and bridge construction, and urban habitat and waterfront improvement; (ii) public transport network and infrastructure rehabilitation and extension; and (iii) multimodal facilities including parking and traffic management.

### B. Assessment of Investment Program Implementation

#### 1. Component A: Urban Transport Infrastructure

14. Project 1 focused on the extension, rehabilitation, and improvement of urban transport infrastructure in Anaklia, Mestia and Tbilisi. It comprised (i) the upgrading of 20 kilometers (km) of the Mestia urban area road network to allow year-round accessibility to this United Nations Educational, Scientific and Cultural Organization (UNESCO) heritage site; (ii) the completion of a 1.5 -km Tbilisi metro extension to the university district serving 150,000 inhabitants; and (iii) a 2.5-km coastal improvement project in Anaklia to limit erosion and open up the city for tourism development. MDF successfully commissioned in December 2011 the \$20 million Mestia Road Project in Svaneti region at a cost below engineer's estimate, yielding approximately \$1million in loan savings. By end of 2012, the two other civil works contracts - Anaklia Coastal Improvement (under procurement) and Tbilisi Metro extension (being designed) are expected to begin and be completed respectively by April 2013 and in 2014.

15. During the first 18 months of implementation, the project experienced changes in terms of subprojects and implementation schedule. More specifically, two subprojects, the Kutaisi Non motorized Transport and the Gorgasali Tunnel Construction and Urban Redevelopment, have been removed from the scope of Tranche 1.<sup>6</sup> In February 2012, Government informed ADB of their decision to remove the above mentioned subprojects to avoid overlaps with the past and ongoing activities in the same locations. Concurrently, the Anaklia Coastal Improvement Project Phase 1 and Phase 2 (initially planned in tranche 2) have been front-loaded as detailed design and bidding documents are ready. Consequently, Tranche 1 outputs, contract awards and disbursements have been updated during a midterm review fielded in April 2012.

## **2. Component B: Institutional Effectiveness**

16. The MFF policy framework included the reorganization and reforms at the Tbilisi Municipality, other municipalities and urban transport service providers. Under Project 1, workshops and seminars were organized to raise public awareness of urban transport issues, and attract possible private investors and other cofinanciers. In particular, the sector roadmap prepared for the Program enabled Tbilisi to benefit subsequently from a grant from the Government of France.<sup>7</sup> This grant financed three key activities originally scoped under Project 1's institutional component: (i) a transport household survey (ii) the establishment of an urban planning transport unit at the Tbilisi Municipality, and (iii) a feasibility study for a light rail system.

## **3. Component C: Program Management Facility**

17. This included detailed engineering design, construction supervision, and preparation of projects to be financed under the subsequent tranches thereby ensuring project readiness before approval. This component will run through the period of Project 1 and overlap with subsequent projects. As of today, MDF recruited six Engineering, Project and Construction Management (EPCM) consultants for Tranche 1 and Tranche 2 subprojects. The consultant for the Tbilisi Metro Extension is currently being recruited and detailed design and bidding documents are expected by end of 2012. Designs and bidding documents for the Tbilisi-Rustavi Road are completed. Mtskheta Bridge's bidding documents are being finalized. The management of these consultants has strengthened the capacity of MDF and of Tbilisi Municipality to prepare and appraise project design and environmental and social safeguards. Additional international consultants will be recruited to provide specific technical expertise particularly on metro, bridge and coastal improvement.

## **4. Contract Awards and Disbursement**

18. Based on the updated projections, as of end April 2012, \$22.81 million (27%) worth of contracts have been awarded. Disbursement amounts to \$25.10 million (30%). The civil works contract for the Anaklia Coastal Improvement Phase 2 amounting \$10 million is expected to be awarded by end of 2012. Tranche 1 has been rated on track.

19. Tranche 1 loan has achieved a physical progress of 35% against an elapsed period of 36%. It has been confirmed that all undertakings in the framework financing agreement and the covenants in the loan and project agreements, due at the time of processing the second tranche of the facility, have been complied with.

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<sup>6</sup> A minor change in scope was approved by DG CWRD on 7 March 2012 to remove these two projects and include the Anaklia Phase 1 and Phase 2 subprojects.

<sup>7</sup> MINEFI. 2011-2012. FASEP-899 GEO: Preparing Tbilisi long term LRT masterplan. This \$1,000,000 grant-financed TA was provided as a separate arrangement and granted to the City of Tbilisi. Taking into account the activities under this TA, the need for a change in scope will be considered once the outputs of this TA are reviewed by ADB.

### III. PERIODIC FINANCING REQUEST

#### A. Impact and Outcome

20. Project 2 of the Investment Program will improve urban environment, local economy and living conditions within urban areas. The outcome of Project 2 is improved efficiency, reliability and affordability of urban transport infrastructure and services in relevant cities.

#### B. Outputs

##### 1. Infrastructure Improvement

21. The first component<sup>8</sup> will support the construction of two strategic urban infrastructures to improve the connection between Tbilisi and its neighboring cities: (i) the construction of two sections (of an approximately 10.6 km) of a four-lane urban link between Tbilisi and the city of Rustavi, and (ii) the construction of a 151 m two-lane bridge over the Aragvi River to connect the touristic city of Mtskheta and the East-West highway. These subprojects will benefit 145,000 persons and estimated 120,000 tourists on top of the 1.3 million inhabitants of Tbilisi. As these road sections are part of the Transport Corridor Europe Caucasasia Asia (TRACECA), this will improve connectivity with neighboring countries and help Georgia reduce congestion, gas emissions and improve road safety in line with STI orientations<sup>9</sup>.

##### 2. Project Implementation Support

22. A detailed engineering and construction supervision firm was recruited under Project 1 to oversee the construction of the Tbilisi -Rustavi urban link and a second firm will be recruited to supervise the construction of the Mtskheta Bridge. This component will also strengthen MDF's management capacity and safeguards unit, and finance consulting services and technical expertise needed for Tranche 2 subprojects. Detailed design and due diligence for two projects to be financed under subsequent tranches (Batumi Coastal Improvement and Tbilisi Boulevard) are also included. A Bridge Laboratory will also be developed in Georgia Technical University to increase local bridge expertise.

##### 3. On going implementation of institutional capacity development

23. On-going consulting services financed under Tranche 1 will continue strengthening the institutional and monitoring management capacity of MDF, Tbilisi Municipality and other municipalities, but this will not be financed under tranche 2. This will be undertaken through funding from tranche 1 and occur in parallel with \$1.400,000 capacity development technical assistance financed through a Spanish Grant, approved in 2010 and expanded in 2011 to cover urban transport at the government request.<sup>10</sup> This includes modeling tools and GIS system to be implemented in 9 secondary cities including Mtskheta, Rustavi, Anaklia, Mestia, Gori and others.

#### C. Investment and Financing Plans

24. Project 2 is estimated at \$108 million, inclusive of taxes, duties, interest and other charges on the loan during construction, land acquisition and resettlement cost, and provision for recurrent cost for maintenance. The government is requesting a loan equivalent to \$80

<sup>8</sup> In the PFR dated 16 March 2012, Government requested ADB to finance a third project, the Mtkvari Bridge, but as bidding and safeguards documents were still under preparation, it was agreed to move it to the next tranche.

<sup>9</sup> Road safety measures include: guardrails, overhead bridges, protected crossings, and bus shelters

<sup>10</sup> ADB. 2010. TA 7551-Georgia: Developing a Geospatial Urban Water Supply and sanitation Utility Management System, financed through a total grant of \$1.4 million received from the Spanish Cooperation Fund (\$800,000 in 2010 and an additional \$600,000 in 2011 to cover urban transport)

million from ADB's ordinary capital resources and ADB's special funds resources. Government financing will cover taxes, duties, land acquisition and resettlement cost and provision for recurrent cost for maintenance. The detailed cost estimates and financing plan are provided in Table 3.

**Table 3: Investment Plan**  
(\$ million)

Item	Investment Program	Project 1	Project 2 <sup>a</sup>
<b>A.</b>	<b>Base Cost<sup>b</sup></b>		
1.	Component 1: Infrastructure Improvement	286.47	87.98
2.	Component 2: Institutional Effectiveness	12.73	0.00
3.	Component 3: Project Implementation Support	19.10	6.71
	<b>Subtotal (A)</b>	<b>318.30</b>	<b>94.69</b>
<b>B.</b>	<b>Contingencies<sup>c</sup></b>	<b>26.00</b>	<b>11.36</b>
<b>C.</b>	<b>Financing Charges During Implementation<sup>d</sup></b>	<b>5.70</b>	<b>1.95</b>
	<b>Total (A+B+C)</b>	<b>350.00</b>	<b>108.00</b>

<sup>a</sup> Includes taxes and duties of \$14.46 million to be financed from government resources.

<sup>b</sup> In mid-2012 prices for project 2.

<sup>c</sup> Physical contingencies computed at 10% and price contingencies computed at 2%.

<sup>d</sup> Includes interest and commitment charges. Interest during construction for ADB loan has been computed for ADF at 1% per annum, and at the 5-year forward London interbank offered rate plus a spread of 0.4% for OCR. Commitment charges for an ADB loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Municipal Development Fund of Georgia and Asian Development Bank estimates.

25. The government has requested a loan in various currencies equivalent to \$16 million from ADB's Special Funds resources to help finance the project. The loan will have a 32 -year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan and project agreements (the interest and other charges during construction to be capitalized in the loan). The government has requested flexibility in the use of ADF resources in line with paragraph 15 of the Report and Recommendation of the President to the Board of Directors for the Sustainable Urban Transport Investment Program.

26. In addition, the government has requested a loan of \$64 million from ADB's ordinary capital resources to help finance the project. The loan will have a 30-year term, including a grace period of 7 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility,<sup>11</sup> a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan), and such other terms and conditions to be set forth in the draft loan and project agreements. The financing plan is in Table 4.

**Table 4: Financing Plan**

Source	Investment Program (\$ million)	Share of Total (%)	Project 1 (\$ million)	Share of Total (%)	Project 2 <sup>12</sup> (\$ million)	Share of Total (%)
Asian Development Bank	300.00	85.71	85.00	85.00	80.00	74.08
Government	50.00	14.29	15.00	15.00	28.00	25.92
<b>Total</b>	<b>350.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>108.00</b>	<b>100.00</b>

Sources: Municipal Development Fund of Georgia and Asian Development Bank estimates.

<sup>11</sup> The interest includes a maturity premium of 20 basis points. The average loan maturity is tentatively 18.75 years. This is based on the above loan terms and the government's choice of repayment options and dates.

<sup>12</sup> The Government share of financing includes taxes and duties, land acquisition and resettlement cost and provision for recurrent cost for maintenance over the 20-year life-span of the infrastructure.

## D. Implementation Arrangements

27. The Executing Agency will be the Municipal Development Fund of Georgia (MDF). The MDF supervisory board chaired by the Prime Minister includes representatives of Ministry of Finance (MOF); Ministry for Regional Development and Infrastructure (MRDI); and Ministry of Economy and Sustainable Development (MESD). Other ministries and municipalities are invited to attend as appropriate. The board is providing guidance and reviewing program performance. The implementation arrangements are summarized in Table 5 and described in detail in the PAM.

**Table 5: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	July 2012– July 2018		
Estimated completion date	31 July 2018		
Management			
(i) Oversight body	MDF Supervisory Board/Ministry of Regional Development and Infrastructure		
(ii) Executing agency	Municipal Development Fund of Georgia		
(iv) Implementation unit	Technical Division of Investment and Loan Dept in the Municipal Development Fund of Georgia comprising 12 full time staff and 2 consultants.		
Procurement <sup>a</sup>	International competitive bidding	2 works contracts	\$74.0 million
Consulting services <sup>a</sup>	Batumi Coastal Improvement Project EPCM	(24 person-months international, 30 person-month national) QCBS 90:10	\$1.0 million
	Tbilisi Boulevard Project EPCM	(27 person-months international, 33 person-month national) QCBS 90:10	\$1.1 million
	Construction supervision for Mtskheta Bridge	(20 person-months international, 40 person-month national) QCBS 90:10	\$1.0 million
	Project Management for Tranche 2	(24 person-months international, 25 person-month national) QCBS 80:20	\$1.0 million
	Development of a Bridge laboratory at the Georgia Technical University	(36 person-months international, 45 person-month national) QCBS 90:10	\$1.5 million
	Financial audit and safeguards monitoring	6 packages contracts (CQS, lump sum)	
Retroactive financing and advance contracting	Retroactive financing is available for up to 20% of the loan amount of advance contracts for eligible expenditures that will include civil works and consulting services		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

<sup>a</sup> All amounts are inclusive of taxes and duties. EPCM: Engineering, procurement, construction management, QCBS: Quality Cost based selection, CQS: consultants qualification selection.

Sources: Municipal Development Fund of Georgia and Asian Development Bank estimates.

## E. Project Readiness

28. The subprojects in this loan have been prepared under PFR1 by the EA. The detailed engineering designs, drawings, and bidding documents for the two sections of the Tbilisi-Rustavi urban road link have been prepared. Bids for the civil works package are expected end of July 2012. The detailed design and drawings for the Mtskheta Bridge have been financed by MRDI and the bidding documents will be submitted to ADB by end of July 2012.

29. Both tranche 2 subprojects entail land acquisition and resettlement (LAR) impacts. For involuntary resettlement, the tranche has an overall categorization of A. Overall, three LAR Plans (LARP) have been prepared and approved by ADB and the Government: two are for each section of the Tbilisi-Rustavi Road and one is for the Mtskheta Bridge. The three LARPs have been already disclosed and approved by the Government. Initial environmental examinations (IEE) have been conducted for the subprojects which are categorized as B for environment. The three IEEs have been approved by ADB and posted on the ADB and MDF websites.

## **F. Advance Contracting and Retroactive Financing**

30. The government's PFR requested retroactive financing of advance contracting actions for civil works and consulting services not exceeding an amount equal to 20% of the loan amount, incurred before loan effectiveness but not earlier than 12 months before the signing of the loan agreement.

## **IV. DUE DILIGENCE**

### **A. Technical**

31. The Government identified the two subprojects as critical for the proper functioning of the road network in the metropolitan area of Tbilisi. The design proposed for the two projects are relatively conventional and do not require over-sophisticated technology. The two sections of the Tbilisi-Rustavi urban road link totaling 10.6 km are designed according to the Georgian standards and are compliant with the standards developed for the Transport Corridor Europe Caucasus Asia (TRACECA) network. The Mtskheta Bridge is a 151m long two-lane road bridge, although structural parameters could accommodate a four-lane bridge in the future. The design proposes an arched bridge over the river Aragvi designed according to Georgian State Standards. Bridge will be constructed in two stages to avoid any contamination of river from concrete. The first stage will be carried out from a single-embankment of the river. Bidding documents and BOQ will be reviewed by independent experts.

### **B. Economic and Financial**

32. The economic internal rate of return (EIRR) and financial internal rate of return (FIRR)<sup>13</sup> for tranche 2 investments were calculated (see Linked document 7).<sup>14</sup> The major economic benefit is savings in travel time. The benefits also include savings in vehicle operating costs per kilometer and a reduction in traffic accidents. The Tbilisi-Rustavi Road sections 1 and 3, are viable economically with both having an EIRR of 19.2% and a net present value (NPV) of \$13 million and \$14.23 million respectively. Sensitivity analysis shows that with a reduction of traffic or cost increase by 15%, the EIRR is still above 12%. Even if economic benefits due to economic development and tourism are completely disregarded, the Mtskheta Bridge subproject is still economically viable at the base case scenario with EIRR at 20.2%, and an estimated economic net present value of \$7.08 million at a 12% discount rate. Sensitivity analysis confirmed this economic viability. For the worst case scenario (Capital Costs +20% and Traffic growth rate -20%), the EIRR value remains above 15%.

### **C. Governance**

33. Both the financial management systems and the procurement capacity at MDF are considered sound and reliable and are confirmed by the other development partners working with MDF. Procurement training on international and national competitive bidding was delivered in 2011 including a presentation of the ADB's Anticorruption Policy. The specific policy requirements and supplementary measures pertaining to governance are described in the PAM. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government and MDF.

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<sup>13</sup> Based on the 1997 ADB Guidelines for the Economic Analysis of Project.

<sup>14</sup> As the two subprojects are not revenue-generated, no financial analysis has been carried out. Counterpart funding includes a provision for maintenance of the two projects for the service- life of the infrastructure.

## D. Poverty, Social and Gender Dimensions

34. Tranche 2 will directly benefit 1.45 million urban residents essentially located in the metropolitan area of Tbilisi. It will stimulate economic development and improve urban environment of participating municipalities. The potential beneficiaries are local residents, commuters, and road and public transport users. Businesses will benefit from greater people mobility and connectivity. The poor and socially excluded will benefit from (i) better access to the city and other activity centers, (ii) affordable transport alternatives, (iii) employment opportunities from road construction and maintenance, and (iv) development of business activities after project completion. Employment targets for local unskilled workers, women, and vulnerable groups and core labor standards have been included in the Poverty Reduction and Social Strategy and Gender Action Plan and they will be monitored.

35. **Health.** Health hazards from car pollution and traffic accidents will be reduced. Reductions in congestion, noise, and gas emission will benefit health and quality of life. Shorter travel times and better transport services will improve lives—especially of the women, the elderly, and children—as they will have better access to social services such as schools, universities, and hospitals. Awareness training on HIV/AIDS and sexually transmitted infections will be included in all civil works bidding documents and monitored during the implementation.

36. **Gender.** The MFF is categorized as some gender benefits (SGB). In line with the GAP prepared under Tranche 1, gender-specific actions have been listed in a new Gender Action Plan. Recommended measures include gender targets for recruitment, capacity building activities, consultation participation. More statistics will be disaggregated by sex. Women will have greater representation at the decision-making level in the sector agencies.

## E. Safeguards

37. **Environment.** Due diligence for environment has been carried out for subprojects<sup>15</sup> and B-category was confirmed as they will not have significant irreversible environmental impacts during construction and operation. The environmental impacts for the Tbilisi-Rustavi Road subprojects will be largely associated with the construction phase. Special health and safety measures will need to be taken in sections that pass through residential areas, and in the construction of the three interchanges. For Mtskheta Bridge, the main environmental concerns include: construction activity and disposal of spoilt materials near a UNESCO World heritage site, transportation of construction materials through the busy local roads in the town, transport disturbance and other construction nuisance, soil erosion and water quality in the Aragvi River. These impacts can be short-term and mitigable by an appropriate technical design, with chance-finds procedure, well-designed EMP, and effective construction supervision. Consultations were undertaken. MDF, with support from international environment specialists, will require the contractor to refine and implement the environmental management plan (EMP) prepared in the IEEs, which will also form an integral part of construction contracts.

38. **Involuntary resettlement.** As this will be the first LARPs prepared by MDF, CWRD gave intensive guidance to the LARP preparation process.<sup>16</sup> The LARPs for the two Tbilisi-Rustavi road sections are categorized as A for resettlement, while the one for Mtskheta Bridge is categorized as B; the whole tranche is therefore categorized as A. All LARPs have been posted on the ADB and the EA website. A pamphlet in Georgian summarizing each LARP has been sent to all relevant affected household (AH).<sup>17</sup> Each LARP has also been prepared based on a thorough information and consultation campaign directly involving the AH through

<sup>15</sup> Initial Environmental Examinations have been prepared in accordance with the EARF approved in 2010

<sup>16</sup> During LARP implementation, capacity building assistance was and will be provided to MDF through RETA-7433-REG: *Mainstreaming Land Acquisition and Resettlement Safeguards in the Central and West Asia*.

<sup>17</sup> LARPs have been prepared in accordance with the requirements of the LARF approved in 2010.

community meetings or personal communication. The main figures on affected assets and AHs for each LARP are: (i) Tbilisi-Rustavi Road Section 1: 105 AHs (57 severely affected), 142,718 sqm of land, 15 major buildings, and 48 adult trees; (ii) Tbilisi-Rustavi Road Section 3: 144 AHs (17 severely affected), 290,120 sqm. of land, 19 major buildings, and 180 trees; and (iii) Mtskheta Bridge: 7 AHs and 22,269 sqm. affected land.

39. **Indigenous peoples.** The investment program area does not include communities that may be defined as indigenous peoples under ADB's Safeguard Policy Statement (2009). Consequently, the indigenous peoples' impact classification for the whole tranche is C.

**F. Risks and Mitigating Measures**

40. The MFF has limited technical risks. Road and bridge engineering are standard projects. With the consultants supporting MDF, works can be closely monitored. Civil works will be procured through international competitive bidding and appropriate performance guarantees will be required from the contractors. Major risks and mitigating measures are summarized below.

**Table 6: Summary Risks and Mitigation Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Unexpected hydrological disturbances may compromise the completion of the Mtskheta Bridge	Hydrological assessment was undertaken and monitoring is planned. Prevention and corrective measures will be taken to control the risks during work completion and operation.
Limited interest of contractors due to capacity constraints.	The improved economic climate in Georgia and the use of ICB will make the projects attractive for bidders.
Possible cost overruns due to inflation and the fluctuations in construction costs.	The investment program plan includes price contingencies of 10% and 2% to cover these extra costs.
Insufficient fund is allocated to cover the maintenance and operation cost of the infrastructure	Counterpart funding include provisions to cover the maintenance cost for the first 20 years.
MDF capacity for implementing large and sophisticated works is limited.	Specific expertise for Bridge and road will be recruited under Tranche 2 to conduct thorough review of design and conduct random checks during construction

ICB = international competitive bidding; MDF = Municipal Development Fund.  
Source: Asian Development Bank.

**G. Risk Categorization**

41. Project 2 is complex only because of its category A for resettlement but it should be emphasized that: (i) the loan amount does not exceed \$200 million, (ii) there exists a sound record of ADB's previous experience in the sector in the concerned country, and (iii) there is reasonable executing agency capacity in terms of externally financed project administration.

**V. ASSURANCES AND CONDITIONS**

42. The government and MDF have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents. The government and MDF have agreed with ADB on certain covenants for the project, which are set forth in the loan agreements and project agreement.

**VI. RECOMMENDATION**

43. On the basis of the approval of ADB's Board of Directors for the provision of loans under the multitranchise financing facility in an aggregate principal amount not exceeding \$300,000,000 equivalent to Georgia for the Sustainable Urban Transport Investment Program, it is recommended that the President approve the proposed tranche as described in paragraphs 25 and 26 of this report and the draft loan agreements and project agreement for the proposed tranche substantially in the forms attached to this report.

## DESIGN AND MONITORING FRAMEWORK FOR TRANCHE 2

Design Summary	Indicative Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Improved urban environment, local economy and better living conditions within urban areas</p>	<p><b>By 2021</b> -At least 1.45 million people in urban areas will benefit -At least 6,000 additional tourist visits in Mtskheta compared to 120,000 in 2010</p>	<p>Multiple Indicators from Municipal departments, Municipal companies and NGO reports Surveys by Tourism Department or other entities as appropriate Statistical surveys (MRDI) Surveys by Tbilisi Municipality or other entities as appropriate</p>	<p><b>Assumptions</b> Government continues its focus on infrastructure in the implementation of its national strategy Political and economic stability. <b>Risk</b> Vulnerability of the economy to exogenous shocks</p>
<p><b>Outcome</b> Efficient, reliable and affordable urban transport services provided in relevant cities</p>	<p><b>By 2018</b> -Average travel time at peak hours of 22 minutes when entering Tbilisi from Rustavi and Mtskheta compared to 25 minutes in 2012 -At least 400 accidents less in the Tbilisi metropolitan area compared to 2009 base line of 1650</p>	<p>NGO and international or national transport associations reports Municipal statistics Metro, bus companies or other agencies statistics as appropriate MRDI data base Ministry of Internal Affairs data base and annual report</p>	<p><b>Assumptions</b> Prompt decision-making by GoG and releasing counterpart funds <b>Risk</b> Weak coordination among state entities undermines sustainable operations. Rising energy costs increase operation cost and tariff increases not supported by consumers</p>
<p><b>Outputs:</b> Urban transport infrastructure extended, rehabilitated and improved by MDF and relevant municipalities</p>	<p><b>By 2018</b> -A 10.6 km long Tbilisi – Rustavi urban link completed (Sections 1 and 3) -A 151 m long Bridge constructed and in operation in Mtskheta</p>	<p>Participating city website and other municipal communication and media materials Press release reports and press review Municipal transport statistics Municipality reports</p>	<p><b>Assumptions</b> Sustained support from newly-elected national and municipal government for urban transport investments <b>Risks</b> Capacity of domestic contractors is exhausted due to large number of ongoing externally- funded projects</p>
<p>Subprojects for subsequent tranches ready for implementation</p>	<p><b>By 2014</b> -Design and due diligence for Batumi coastal improvement Project ready for procurement -Design and due diligence for Tbilisi Boulevard project ready for procurement</p>	<p>Bidding documents with safeguards documents</p>	
<p>Establishment of skilled and experienced units to oversee the management and the implementation of the Project in MDF and relevant municipalities</p>	<p><b>By 2014</b> - Project and safeguards due diligences for subsequent projects timely prepared by MDF in compliance with ADB guidelines - At least 15 persons trained on financial management, gender sensitization, procurement, safeguards - 20% of professional staff hired by MDF are qualified women</p>	<p>MDF annual report and communication</p>	

Indicative Activities with Key Milestones	Inputs <sup>1</sup>
<p><b>1. Construction, improvement and rehabilitation of urban transport infrastructure:</b></p> <ul style="list-style-type: none"> <li>• Bidding documents completed by month 18 from loan effectiveness (MDF, PM)</li> <li>• Urban infrastructures constructed in phases by month 36 (MDF, PM, Contractors)</li> </ul> <p><b>2. Program Management Facility</b></p> <ul style="list-style-type: none"> <li>• MDF Safeguards unit strengthened with 50% of women recruited by month 12 (MDF)</li> <li>• A bridge laboratory set up in Georgia Technical University by month 24 (MRDI, Georgia Technical University)</li> <li>• Training plan carried out by month 48, with at least 30% of women (MDF, PM)</li> <li>• Support provided to the Program development, implementation and management for the whole duration of the Program (MDF, PM).</li> </ul> <p><b>Tranche III: to be approved by end of 2013</b></p>	<p>ADB: \$80.00 million with \$16.00 million equivalent (ADF) \$64.00 million (OCR)</p> <p>Government: 28.00 million with : \$14.49 million (Taxes and duties) \$8.57 million (Land and resettlement) \$3.55 million (Recurrent costs for maintenance \$1.38 million (Contingencies on LAR and recurrent cost for maintenance)</p>

ADB = Asian Development Bank, MDF = Municipal Development Fund, MRDI = Ministry of Regional Development and Infrastructures, NGO = non-government organization, O&M = operation and maintenance, PM = Participating municipalities, PPMS = project preparation and monitoring system, TM = Tbilisi Municipality.  
Source: Asian Development Bank.

<sup>1</sup> Tranche 2 will benefit from the institutional components financed under tranche 1 overlapping on tranche 2, and from the additional \$700,000 provided from the Government of Spain for the TA 7551-GEO: Developing a Geospatial Urban Water Supply and sanitation Utility Management System