



Report and Recommendation of the President to the Board of Directors

Project Number: 46375-002
March 2017

Proposed Loan Georgia: Secondary Road Improvement Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 17 February 2017)

Currency unit – lari (GEL)

GEL1.00 = \$0.38

\$1.00 = GEL2.64

ABBREVIATIONS

ADB	– Asian Development Bank
EMP	– environmental management plan
km	– kilometer
LARP	– land acquisition and resettlement plan
m	– meter
MRDI	– Ministry of Regional Development and Infrastructure
PAM	– project administration manual

NOTE

In this report, “\$” refers to United States dollars.

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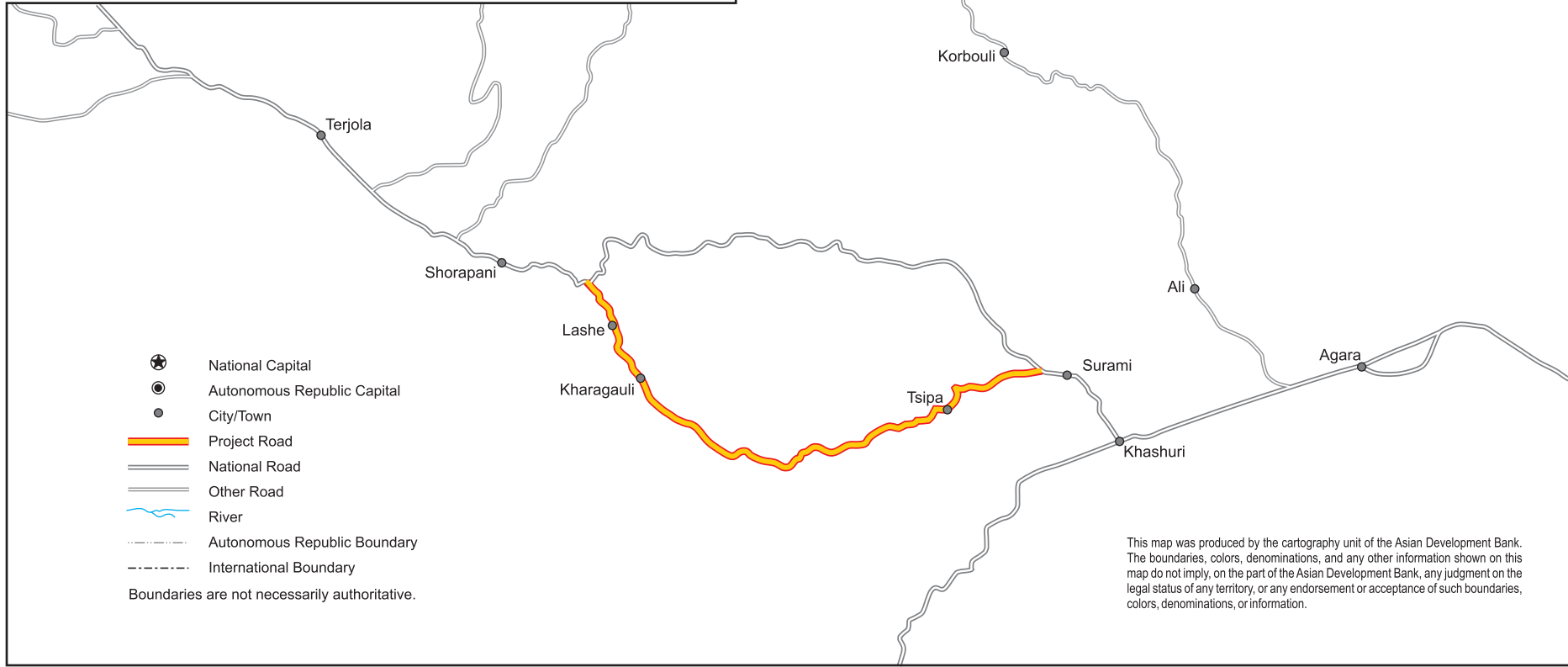
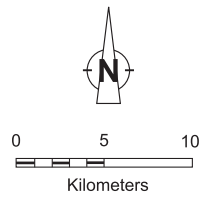
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PROJECT AT A GLANCE

1. Basic Data		Project Number: 46375-002	
Project Name	Secondary Road Improvement Project	Department /Division	CWRD/CWTC
Country Borrower	Georgia Georgia	Executing Agency	Ministry of Regional Development and Infrastructure of Georgia
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		80.00
		Total	80.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	9.00
Environmentally sustainable growth (ESG)	Disaster risk management	Climate Change impact on the Project	Medium
Regional integration (RCI)	Global and regional transboundary environmental concerns		
	Pillar 2: Trade and investment		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Civil society organizations		
Private sector development (PSD)	Implementation		
	Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	Yes	Rural	High
Household Targeting	No	Nation-wide	Low
SDG Targeting	Yes	Regional	Medium
SDG Goals	SDG9		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B	Involuntary Resettlement: B	Indigenous Peoples: C
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		80.00	
Sovereign Project loan (Regular Loan): Ordinary capital resources		80.00	
Cofinancing		0.00	
None		0.00	
Counterpart		13.80	
Government		13.80	
Total		93.80	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	



GEORGIA SECONDARY ROAD IMPROVEMENT PROJECT



- National Capital
 - Autonomous Republic Capital
 - City/Town
 - Project Road
 - National Road
 - Other Road
 - River
 - Autonomous Republic Boundary
 - International Boundary
- Boundaries are not necessarily authoritative.

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Georgia for the Secondary Road Improvement Project.¹
2. The proposed project will rehabilitate a road which extends for about 50 kilometers (km) from Dzirula to Chumateleti in Central Georgia to two-lane all-weather standard. The present condition of the road is very poor, and this is suppressing the development of one of the poorest areas of the country.

II. THE PROJECT

A. Rationale

3. Georgia is located in the Southern Caucasus, at the crossroads of Europe and Asia. It is an important transit corridor for many countries in Central and West Asia, especially Armenia, Azerbaijan, Turkey, and Russia. As a result of economic and institutional reforms and sound macroeconomic policies, Georgia's economy expanded by 9.6% annually, on average, during 2003–2007, and withstood the effects of the 2008 armed conflict with the Russian Federation and the global financial crisis. Despite these challenges, Georgia's gross domestic product per capita rose from \$916 in 2003 to \$4,428 in 2014, although it subsequently declined to \$3,789 in 2015. Even though the International Monetary Fund's forecast suggests real gross domestic product growth of only 2.7% in 2016, its forecast is that growth will accelerate to 4.0% in 2017 and 5.0% in 2018.²
4. **Economic growth.** Georgia's strong growth, as a result of broad economic and institutional reforms since 2003, has not delivered commensurate declines in unemployment and poverty. Infrastructure gaps, agricultural stagnation, and an entrenched skills mismatch in the labor market have dampened the impact of growth on poverty reduction. The official unemployment rate rose from 11.5% in 2003 to 16.9% in 2009, before moderating to 12.4% in 2014. The percentage of the population living below the relative poverty line declined from 24.9% in 2004 to 21.4% in 2013. The Gini coefficient in 2014 remained high at 0.41, reflecting the concentration of income growth in urban areas and among the top 10% of income earners. Georgians living in small towns and engaging in smallholder agriculture have gained little from the overall improvement in the economy since 2003.
5. Despite recent slower growth, the economic outlook is positive. Key areas contributing to the economy are services (led by trade, tourism, and transport), manufacturing, construction, and mining. The government's "Socioeconomic Development Strategy of Georgia (Georgia 2020)" targets inclusive economic growth by ensuring macroeconomic stability and effective public administration, improving private sector competitiveness, developing human capital, and increasing access to finance.³

¹ The design and monitoring framework is in Appendix 1.

² International Monetary Fund. World Economic Outlook Database, October 2016. Commonwealth of Independent States.
<http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/weoselco.aspx?g=901&sg=All+countries+%2f+Emerging+market+and+developing+economies+%2f+Commonwealth+of+Independent+States> (accessed on 17 February 2017).

³ Government of Georgia. 2014. "Socioeconomic Development Strategy of Georgia (Georgia 2020)". Tbilisi.

6. **ADB Assistance and Government Sector Strategy.** The proposed project was included in the country partnership strategy, 2014–2018 and is fully aligned with Georgia 2020, with transport as one of the priority sectors.⁴ The project is designed to address internal and regional market connectivity issues by improving social conditions and providing economic opportunities in smaller towns and cities, stimulating investment, job creation, and incomes where these are needed the most. The Asian Development Bank (ADB) provided project preparatory technical assistance for the Secondary Road Improvement Project (TA 8411-GEO), which was completed in 2015.

7. Road transport is the country's principal means of transport. In 2009, ADB approved the multitranche financing facility for the Road Corridor Investment Program of \$500 million, mainly to assist the government in upgrading two key sections of the country's principal road corridor, the East–West Highway.⁵ This is the main international transport corridor that traverses all the major cities of Georgia. The East–West Highway constitutes a portion of the Central Asia Regional Economic Cooperation program road corridors (Georgia joined the program in 2016). The government has prioritized East–West Highway Corridor investments to ensure improvements in connectivity to global markets. About half of the country's population relies on secondary roads as they live in villages and smaller towns, and 75% of these people derive their livelihoods from agriculture. A reliable transport network, both primary and secondary, is needed to alleviate the poverty disparities among the country's regions, particularly in the rural areas served by the secondary road network. Improved secondary roads lead to reduced costs of access to markets and services and increased access for the poor and isolated regions, and generate direct employment opportunities linking jobs with people.

8. **Improvement Needs.** There is a need to improve connectivity to remote poor areas. The proposed project has been designed to address these challenges. It will focus on about 50 km of a secondary road in central Georgia that provides access to about 23,000 people living in the municipality of Kharagauli, and an additional 7,000 people in the 13 villages along the road alignment. The project road connects Kharagauli to the East–West Highway, which is subject to occasional closure because of landslides, in which event the project road provides an alternative road for traffic using the highway. In future, the project road could serve as an alternative route, as required by Georgian legislation, in the event that the parallel section of the East–West Highway is to be tolled.

9. The project road has deteriorated considerably and many sections of it are now irreparable and impassable during rain and snow. This clearly suppresses the development of the poor region that the road serves. Villages along the road are not accessible during winter and are suffering from substantial out-migration and lack of employment opportunities. The poor condition of the road also prevents emergency vehicles from accessing the villages during most adverse weather conditions.

10. This area has the highest regional poverty level of any region in the country. The project will help alleviate isolation of rural communities in this area, strengthen domestic trade, and expand opportunities for more inclusive economic growth. Upgrading of the road to an all-weather standard will provide better opportunities of the local population to sell their products and better access to social facilities such as schools and medical services. The improved road

⁴ ADB. 2014. *Country Partnership Strategy: Georgia, 2014–2018*. Manila.

⁵ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to Georgia for the Road Corridor Investment Program*. Manila.

will also facilitate access to the nearby Borjomi–Kharagauli National Park and Nunisi Health Resort, resulting in new opportunities for tourism development in the region.

11. Preservation of Road Assets and Sustainability of the Secondary Road Network.

The existing road will be improved to two-lane all-weather standard to the extent possible within the existing road formation to minimize land acquisition and resettlement. Because the existing road is located on a narrow bench between a cliff face, a river, and a railway, substantial widening and realignment would be both difficult and expensive. The railway is located in the same corridor for almost the entire length of the project road, which provides the opportunity for the road and the railway to act together as a multimodal transport corridor through the project area. The project will also improve connectivity and reliability of the transport network by reviving the road's role as an alternative in the event that the parallel section of the East–West Highway is closed.

12. Looking at the secondary road network more generally, the proportion of Georgia's secondary roads in good and fair condition increased from 30% in 2004 to around 60% in 2015 as a result of major rehabilitation efforts since 2004. About one-third of the rehabilitated secondary roads were financed by the World Bank during 2004–2015 and the remaining portion was financed by the government. While the annual state budget for 2015 allocated about \$300 million for improvement of the country's international and secondary roads, there is still a secondary road rehabilitation backlog and also a need to preserve the recently improved road assets. Generally, routine maintenance, including winter maintenance, remains underfunded. Expenditure on routine maintenance for both international and secondary roads averages \$17 million per year, which represents less than \$2,500 per km per year and is less than the international comparator range of \$4,000–\$8,000 per km. Ensuring that recent improvements in implementation of maintenance are sustained is a major challenge for the government. The World Bank is continuing its support to the Roads Department with integrating a road asset management system,⁶ road safety, and climate resilience planning practices in a multiyear programming and annual planning process.⁷

13. Development Coordination. The proposed project will complement the work being done by development partners and ADB under the 2009 multitranches financing facility to develop the capacity of the Ministry of Regional Development and Infrastructure (MRDI) and Roads Department for effective sector management, and in particular operation and maintenance of the country's road network. Institutional capacity will be strengthened through consultancy services financed by the project and continuous cooperation with other development partners. The government is committed to providing the funding required to maintain the road in a sustainable manner. Development partners have jointly conducted policy dialogue to improve road maintenance and enhance the sustainability of road networks. Such efforts have been focused on three main areas: (i) increasing the fiscal budget allocation for road maintenance, (ii) reconstructing and rehabilitating international and secondary roads in poor condition and thereby reducing overall demand for road maintenance funding, and (iii) spending the fiscal budget allocated for road maintenance more efficiently. Further, in the event that the East–West Highway is tolled, the revenues from the tolling can be used for maintenance of the project road to ensure the sustainability of the project. Future projects programmed for the sector will continue this development, reflecting the intention of the

⁶ The road asset management system is a tool for the analysis, planning, management, budgeting, and appraisal of road maintenance meeting the targets set, such as the average condition of the road network as an example.

⁷ This process will be carried out under the World Bank's Secondary Road Asset Management Project, which was approved on 18 March 2016 and will be implemented during 2017–2022.

government and ADB that all operations in the transport sector exist within a common framework.

14. **Lessons Learned.** The programs implemented under previous ADB country strategies have been found to have addressed the country's needs. Operations that were completed have been successful, and ongoing operations are likely to achieve their goals. Responding to the recommendations provided by the country strategy final review and ADB's Independent Evaluation Department's Validation Report of the Final Review of Country Operations, the country partnership strategy, 2014–2018 includes a sharper focus on infrastructure for inclusive growth, for example by targeting secondary roads and smaller towns in poorer regions.⁸ Additionally, lessons from earlier operations include the need to address in future operations (i) a lack of preparedness before project start-up; (ii) poorly defined terms of reference for detailed design and construction supervision consultants; and (iii) weak project management capacity of the government agencies responsible for the operation, including in the critical areas of contract management and safeguards.

15. These lessons have been reflected in the project design by (i) conducting advance contracting actions and undertaking a careful review of the terms of reference for detailed design and construction supervision consultants; (ii) providing guidance and practical support to the executing and implementing agencies on ADB policies, guidelines, and procedures on environmental protection, land acquisition and resettlement, and procurement; and (iii) preparing technical designs that are much closer to final designs so cost estimates and contract periods are more reliable, and subsequent contract prices and overall project costs are less subject to unexpected and often large cost increases. For this project, adverse impacts arising from delays in land acquisition have been minimized by designing the road to the extent possible to follow the existing alignment, and also through the extensive consultation with communities in the project area. The consultations will continue during the detailed design and project implementation activities.

B. Impact and Outcome

16. The project impact will be aligned with the increased economic activity in the Kharagauli municipality and surrounding regions and national connectivity. The outcome will be increased mobility and accessibility of the residents of Kharagauli municipality and tourists visiting the project area by reducing vehicle operating costs and providing time savings for road users.

C. Output

17. The project's output will be about 50 km of improved road between Dzirula and Chumateleti, including several short access roads to the nearby national park and to Kharagauli and other railway stations.

D. Investment and Financing Plans

18. The project is estimated to cost \$93.8 million (Table 1).

⁸ Independent Evaluation Department. 2013. *Georgia: Validation Report of the Final Review of Country Operations, 2008–2012*. Manila: ADB.

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
Output: About 50 km of improved road between Dzirula and Chumateleti	77.2
Subtotal (A)	77.2
B. Contingencies^c	14.6
C. Financing Charges During Implementation^d	2.0
Total (A+B+C)	93.8

^a Includes taxes and duties totaling \$12.6 million equivalent to be financed by the government, provided as an exemption for civil works and consulting services contracts.

^b In June 2016 prices.

^c Physical contingencies computed at 10% of base costs. Price contingencies computed for foreign exchange costs and local currency costs based on projected annual rates of 1.5% for foreign costs and 3.0%–4.0% for local costs over the project's implementation period. The price contingencies include provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank estimates.

19. The government has requested a regular loan of \$80 million from ADB's ordinary capital resources to help finance the project. The loan will have a 24-year term, including a grace period of 13 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; 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 set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 18.75 years, and the maturity premium payable to ADB is 0.20% per year. The government will contribute \$13.8 million to cover taxes, land, and resettlement costs. The financing plan is in Table 2.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	80.0	85.3
Government	13.8	14.7
Total	93.8	100.0

Source: Asian Development Bank estimates.

20. Climate adaptation is estimated to cost \$9.0 million. ADB will finance 83.1% of such costs.

E. Implementation Arrangements

21. The executing agency will be the MRDI, which is responsible for planning, designing, and maintaining of all international and secondary roads in the country. It is currently the executing agency for the ongoing multitranchise financing facility and has a sound understanding of ADB policies and procedures. The Roads Department, an agency under the MRDI, will be the implementing agency. In order to improve the project readiness, the detailed design of the proposed project has been divided into two sections (one design for both civil works contracts) which will expedite the procurement of the first civil works contract. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).⁹

⁹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	April 2017–August 2021		
Estimated completion date	31 August 2021 (estimated loan closing date: 28 February 2022)		
Management			
(i) Oversight body	Ministry of Finance Deputy minister (chair)		
(ii) Executing agency	Ministry of Regional Development and Infrastructure of Georgia		
(iii) Implementing agency	Roads Department		
Procurement	International competitive bidding	2 civil works contracts	\$70.00 million
Consulting services: construction supervision	Quality- and cost-based selection	1 contract: 547 person-months	\$4.00 million
Consulting services: safeguards	Individual consultants selection	100 person-months (national)	\$0.10 million
Consulting services: project support	Individual consultants selection	100 person-months (national)	\$0.35 million
Consulting services: financial audit	Least-cost selection	National	\$0.05 million
Retroactive financing and/or advance contracting	Advance contracting and retroactive financing will be applied for civil works and consulting services for construction supervision. Any approval of advance contracting will not constitute a commitment by ADB to finance the project.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

22. The technical due diligence is based on the project's feasibility study. For the main road alignment, the completed road's cross section will typically be traffic lanes of 2.0 meters (m) by 3.0 m with 0.5 m surfaced shoulders and 0.5–1.0 m unpaved shoulders on both sides. This complies with the Georgian standard for roads of this category. The national park and railway station access roads will be designed to a standard appropriate for their intended purpose, with gravel pavements, considering the terrain through which they pass.

23. The project road's main alignment will follow the existing alignment for most of its length because of terrain considerations and also to minimize land acquisition. The design speed will typically be 40 km per hour, which is appropriate for a road of this class in the terrain through which it passes. Appropriate lane widening will be applied on low radius curves to allow the safe passage of the larger trucks and buses that are expected to use the road.

24. The road's main alignment will have a flexible pavement with asphaltic concrete surfacing. The pavement structure will be designed using an appropriate internationally recognized design method based on traffic projected to use the road over a 20-year period following project completion, from 2020 to 2039, assuming a mid-period asphaltic concrete overlay to provide the additional strength required for traffic loading for the latter part of the

road's service life.¹⁰ The pavement design, under the detailed engineering design contract, will take into account the harsh climatic conditions that prevail in the project area, specifically heavy snowfalls. The design will give particular attention to drainage and to pavement damage arising from the operations of snow-clearing equipment.

B. Economic and Financial

25. **Economic.** The project has an economic internal rate of return of 12.6%, with a net present value of \$2.3 million at a 12.0% discount rate. The principal benefits are reduced vehicle operating costs, reduced travel time, and reduced maintenance costs compared with the without-project situation, together resulting in increased regional and local trade and road safety. Additional benefits from the road providing a bypass for when the parallel East–West Highway is closed, which have not been evaluated, would improve the economic merit of the project.

26. With respect to maintenance, the project's economic and financial analysis has assumed that maintenance costs will be \$1,300 per km on average.¹¹ This is assessed to be adequate for the road type and traffic loading. In addition, the analysis assumes asphalt overlays at appropriate intervals during the road's service life.

27. **Financial.** The MRDI is a general government sector unit and the project is nonrevenue generating. The financial management assessment undertaken during project preparation, and as described in the financial management assessment, assessed the MRDI's financial capacity to sustainably maintain the project. These analyses concluded that the MRDI has sufficient financial management capacity, within the government's budgetary procedures, for the recurrent expenditures required for maintaining and operating the project in a sustainable manner.

C. Governance

28. The above-referenced financial management assessments revealed that both the MRDI and the Roads Department have a current and adequate understanding of ADB's financial management policies and implementation procedures as a result of the extensive ongoing ADB-supported operations in the country. The project financial statements will be audited annually by an independent auditor. Public disclosure of the project financial statements, including the annual audit reports on the project financial statements, will be guided by ADB's Public Communications Policy 2011.

29. A procurement risk assessment was prepared in accordance with the Guidelines for Assessing Country, Sector, and Procurement Risks.¹² The Roads Department is fully staffed and functional and is currently implementing projects financed by ADB, European Investment Bank, Japan International Cooperation Agency, and World Bank. The Roads Department strictly follows ADB Procurement Guidelines (2015, as amended from time to time) and bidding procedures in procurement of works contracts and ADB Guidelines on the Use of Consultants (2013, as amended from time to time) in recruiting consulting services financed by ADB. The assessment concluded that the Roads Department has adequate capacity to ensure successful procurement and implementation of the project. ADB's fiduciary risks have been

¹⁰ The feasibility study pavements were designed using the internationally recognized American Association of State Highway and Transportation Officials' design method.

¹¹ Economic and Financial Analysis (available from the list of linked documents in Appendix 2).

¹² ADB. 2015. *Guide on Assessing Procurement Risks and Determining Project Classification*. Manila.

identified and assessed *low*, with limited impact on the proposed project. Overall, there is no expected immediate risk to the proposed project's procurement that would require mitigation.

30. ADB's Integrity Principles and Guidelines,¹³ and Anticorruption Policy (1998, as amended to date), were explained to and discussed with the government, the MRDI, and the Roads Department. The specific policy requirements and supplementary measures are described in the PAM.

D. Poverty and Social

31. Based on the social impact assessment undertaken during the project's feasibility study, the project promotes inclusive growth by targeting two regions—one (Shida Kartli) with the highest poverty rate in the country (59.4%) and the other (Imereti) significantly poverty affected (19.1%); the national average is 9.4%.¹⁴ All residents (approximately 30,000) along the project road will benefit from an all-weather road, shorter travel times, reduced vehicle operation costs, and improved traffic safety with improvement of the project road. This will be particularly beneficial for the project area, which is subject to harsh weather conditions, including heavy snowfalls during winter. Access to markets for the producers of agricultural goods will be enhanced, as will access to the nearby Borjomi–Kharagauli National Park and the health resort at Nunisi. The project will also provide job opportunities for the local communities during construction. However, there are also adverse impacts such as physical and economic displacement of households because of acquisition of land, but these are relatively minor.¹⁵

32. The project is categorized as *some gender elements*. The land acquisition and resettlement plan (LARP) includes households headed by women as a vulnerable group and additional assistance will be afforded to these affected persons. Provisions in the construction contract will ensure equal pay for equal work. The entrepreneurship training for 100 persons of whom 50% are women will be provided during the project implementation. In addition, road safety awareness campaigns for communities with 50% of women and girls will be organized during the project implementation. It is also likely that benefits to women and girls will be realized after project completion through outcomes such as increased access (i.e., greater public transport frequency, travel speed, days per year accessible) to schools, medical facilities, and markets. Two focus group (each with at least 8 women) discussions towards project end will be conducted to assess whether the project has reduced women's time, poverty and/or improved the quality of their lives.

E. Safeguards

33. ADB's Safeguard Policy Statement (2009) applies to the project.

34. **Resettlement.** The project is classified *category B* for involuntary resettlement. Based on the detailed inventory prepared during the feasibility study, 305 land parcels comprising 803 people will be affected by mostly small-scale land acquisition. Total private land to be acquired is 7.2 hectares. There are 15 uninhabited households to be physically relocated or dismantled, and 50 households, comprising 135 people, will be severely affected (physically displaced and/or losing 10% or more of income-producing assets). The project's draft LARP was prepared in 2015. Given that civil works will be implemented in two separate contracts, two final LARPs (one for each contract) will be prepared during the detailed designs of the project. Community

¹³ ADB. 2015. *Integrity Principles and Guidelines (2015)*. Manila.

¹⁴ World Bank. 2009. *Georgia Poverty Assessment*. Washington, DC.

¹⁵ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in the Appendix 2).

consultations have been conducted during project preparation and will be continued throughout LARP implementation. A grievance redress mechanism will be established once the first final updated LARP is available following the completion of the detailed design process. The Roads Department, which is experienced in implementing land acquisition under ADB-financed projects and has the required technical capacity, will be responsible for planning, implementing, and monitoring the LARPs.

35. **Environment.** The project is not anticipated to cause significant adverse environmental impacts and has been classified *category B* for the environment in accordance with ADB's Safeguard Policy Statement. An initial environmental examination has been prepared to meet the requirements of the Safeguard Policy Statement, and this includes an environmental management plan (EMP). The recommended environmental mitigation measures and monitoring activities set out in the EMP cover the preconstruction, construction, and operation stages of the project. The Roads Department has a division for resettlement and environmental protection, managed by a division head. The division has two safeguards units, one for environment and the other for resettlement. Both units are well staffed with several specialists for ongoing donor-funded projects. The environment unit has one specialist dedicated to ADB projects. The Roads Department will be assisted by the construction supervision consultant's environmental specialists during project implementation. The EMP, which also defines the institutional arrangements and responsibilities for implementation of the plan, will be included in the bidding documents and in the ensuing contracts. The contractors will be required to prepare site-specific EMPs before commencing construction. The initial environmental examination will be updated during the detailed design of the project.

36. **Indigenous peoples.** There are no indigenous peoples as defined in the Safeguard Policy Statement in the project area, and the project is classified *category C* for indigenous peoples.

F. Risks and Mitigating Measures

37. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁶

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Delayed procurement of detailed design may affect timeliness of procurement of civil works.	Detailed design and procurement documentation is being prepared under separate financing, and will be completed by November 2017. Procurement of supervision consultant will commence in March 2017. Procurement of civil works contractors will commence in July 2017. When the project becomes effective, the supervision contract will be ready to be awarded. Civil works contracts will be awarded shortly after. Advanced contracting action is to be taken for consultants and civil works.
Safeguards complaints may delay progress in project implementation.	Extensive and effective consultations with nongovernment organizations and local residents were conducted during project preparation, and will be continued during the detailed design process and project implementation. A grievance redress mechanism will be established once the final updated LARP is available following the completion of the detailed design process.

¹⁶ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigating Measures
An inadequate road maintenance budget may jeopardize the sustainability of large investments in the road network, and preservation of road assets.	Apart from the joint policy dialogue by development partners to increase the fiscal budget for road maintenance, efforts are also being exerted to (i) reduce the maintenance backlog, particularly for secondary roads, and thereby use limited maintenance resources more productively; and (ii) introduce PBM contracts to spend limited road maintenance resources more efficiently.

ADB = Asian Development Bank, LARP = land acquisition and resettlement plan, PBM = performance-based maintenance.

Source: Asian Development Bank estimates.

IV. ASSURANCES AND CONDITIONS

38. The government and the MRDI have assured ADB that implementation of the project will conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

39. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

40. With respect to land acquisition and resettlement, the government and ADB have agreed that no civil works contract will be awarded until not less than 50% of all land acquisition and resettlement required for that contract, based on land area as set out in the project’s approved LARP, have been completed, and all project-affected people in this part of the LARP have been compensated in accordance with the provisions of the LARP. This condition is reflected in the project’s loan agreement.

V. RECOMMENDATION

41. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$80,000,000 to Georgia for the Secondary Road Improvement Project, from ADB’s ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility; for a term of 24 years, including a grace period of 13 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

8 March 2017

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Increased economic activity in the Kharagauli municipality and surrounding regions and national connectivity "Socioeconomic Development Strategy of Georgia (Georgia 2020)". ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Improved efficiency and increased mobility and accessibility of the residents of the Kharagauli municipality and tourists visiting the project area	By 2022: a. Number of visitors to the Borjomi–Kharagauli National Park from the Kharagauli entrance increased by 30% (2014 baseline 2,500 visitors) b. Average journey time by road between Dzirula and Chumateleti reduced to at most 2 hours (2014 baseline: 4 hours) c. Traffic using the project road increased to 46,000 average daily vehicle-km (2014 baseline: 19,000 average daily vehicle-km)	a. Borjomi–Kharagauli National Park visitor statistics b–c. Roads Department of Georgia statistics and National Statistics Office of Georgia, project performance management system and project completion report	An inadequate road maintenance budget may jeopardize the sustainability of large investments in the road network, and preservation of road assets
Output Dzirula–Chumateleti road section improved and open to traffic	a. 50-km road section between Dzirula and Chumateleti improved to two-lane all-weather standard with IRI of less than 6 m/km by 2021 (2014 baseline 15 m/km) b. Entrepreneurship training for 100 persons of whom 50% are women provided by 2021 (2014 baseline: 0) c. Average annual usability of the entire road increased to 330 days by 2022 (2014 baseline: 270 days)	a–b. Executing agency's project completion reports c. Executing agency's statistics and National Statistics Office of Georgia, project performance management system and project completion report	Delayed procurement of detailed design may affect timeliness of procurement of civil works Safeguards complaints may delay progress in project implementation
Key Activities with Milestones 1. Dzirula–Chumateleti road section improved and open to traffic 1.1 Recruit construction supervision consultant by September 2017 1.2 Complete detailed design by November 2017 1.3 Complete civil works procurement by February 2018 1.4 Complete project road construction, including access to the national park and railway stations and open to traffic by September 2020			
Inputs ADB: \$80.0 million (OCR loan) Government: \$13.8 million			
Assumptions for Partner Financing Not Applicable			

ADB = Asian Development Bank, IRI = International Roughness Index, km = kilometer, OCR = ordinary capital resources.

^a Government of Georgia. 2014. "Socioeconomic Development Strategy of Georgia (Georgia 2020)". Tbilisi.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46375-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Transport
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Economic and Financial Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Initial Environmental Examination
10. Resettlement Plan
11. Risk Assessment and Risk Management Plan