Report Number: ICRR0022178

1. Project Data

Project ID	Project Name	
P130421	REG DEV 2	
Country	**Practice Area(Lead)**	
Georgia	Urban, Resilience and Land	
L/C/TF Number(s)	**Closing Date (Original)**	**Total Project Cost (USD)**
IBRD-86070,IDA-51780	30-Jun-2017	35,744,916.27
Bank Approval Date	**Closing Date (Actual)**	
06-Nov-2012	31-Dec-2019	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	30,000,000.00	0.00
Revised Commitment	39,000,000.00	0.00
Actual	35,744,916.27	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Project Appraisal Document (PAD) (p. 7) and the Financing Agreement of November 9, 2012 (p. 5), the objective of the project was “to improve infrastructure services and institutional capacity to support increased contribution of tourism in the local economy of the Imereti Region”.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

16-Mar-2016

c. Will a split evaluation be undertaken?

No

d. Components

The project included two components:

Component 1: Infrastructure Investment (appraisal estimate US$41.62 million, actual: US$35.09 million. This component received AF in the amount of US$10.72 million and additional funding from the Borrower in the amount of US$4.93 million): This component had two sub-components:

<u>Component 1.1: Urban Regeneration of Tskaltubo:</u> This sub-component was to finance: a) rehabilitation of municipal infrastructure and utilities in the central area; b) upgrading of public spaces and parks and construction of tourist amenities; and c) restoration of public buildings with historic vernacular architecture.

<u>Component 1.2: Tourism Circuits Development:</u> This sub-component was to finance upgrading and improving the management of the six most attractive cultural heritage sites in Imereti: Gelati Monastery, Vani Museum and the surrounding archeological site, Ubisa Church, Katskhi Church, Katskhi Column Monastery, and Motsameta Monastery. Activities were to include: a) improvement of urban landscaping; b) construction of information kiosks and public toilets; c) restoration and refurbishing of the exterior and interior of Vani Museum; d) improvement of access roads; and e) preservation of selected cultural heritage sites.

The Additional Financing was to support: i) scaling up existing activities for the completion, rehabilitation and reconstruction of selected municipal and tourism infrastructure for cultural heritage sites in the Imereti Region that were to ensure the full functionality and sustainability of key investments delivered so far under the project; ii) new construction of a Wastewater Treatment Plant (WWTP) and the reconstruction of the Vani Museum.

Component 2: Institutional Development (appraisal estimate US$4.88 million, actual US$9.22 million. The component received AF in the amount of US$0.46 million and additional funds from the Borrower in the amount of US$3.32 million): This component was to enhance the institutional capacity of the Georgian National Tourism Administration (GNTA), the National Agency fur Cultural Heritage Preservation of Georgia (NACHP), the Georgian National Museum (GNM), and the project-implementing entity and other local and regional entities to implement the following activities: a) establishment of a Destination Management Office in Tskaltubo; b) sustainable tourism development and promotion; c) preparation of visitor management plans for the sustainability of the project's cultural heritage sites; d) skilled workforce development and capacity building; e) performance monitoring and evaluation; and f) construction supervision support.

The Additional Financing was to support the necessary technical assistance for detailed designs and supervision activities and increased operating costs for the project extension period.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project was estimated to cost US$46.5 million. Actual cost was US$43.24 million. According to the ICR (p. 9), US$2.19 million was not disbursed due to a cancelled investment in the rehabilitation of the Tskaltubo Wastewater Treatment Plant (WWTP) under the Additional Financing.

Financing: The project was financed by a US$30.0 million IDA credit (of which US$28.94 million disbursed) and a US$9.0 million IBRD loan (of which US$6.79 million disbursed).

Borrower Contribution: The Borrower contributed US$7.5 million as planned.

Dates: The project was approved on November 6, 2012 and became effective on January 29, 2013. The project closed on December 30, 2019, 30 months later than originally planned on June 30, 2017. The project was restructured twice.

- On March 16, 2016, the project was restructured to: i) receive Additional Financing (AF) in the amount of US$9.0 million. In addition to adding new activities (described above under components), the AF was to cover (i) cost overruns caused by additional investments needed for a limited number of unforeseen additional restoration works related to cultural heritage sites supported under the original operation; and (ii) a financing gap resulting from currency depreciation of the loan commitment (XDR) (AF Paper, 2016). The AF (i) triggered a new OP/BP 7.50 (Projects on International Waterways); ii) extended the closing date by 18 months from June 30, 2017 to December 30, 2018; iii) revised targets of indicators in the Results Framework to reflect the increased project scope; and iv) added a new indicator on citizen engagement.
- On March 29, 2018 the project was restructured to: i) extend the closing date by 12 months from December 30, 2018 to December 31, 2019 to allow for the completion of all major works that were delayed due to concerns by local residents, requests for design revisions by the contractor and the Project Implementation Unit (PIU), and the slow mobilization of the contractor; ii) revise the Results Framework to introduce a new PDO indicator “Square meters if new or rehabilitated urban public spaces in selected municipalities”, revise the wording of the third PDO indicator and associated outcome target on the private sector investment, drop the first and second PDO indicator, and revise an intermediate outcome indicator.
- The mid-term review took place on April 18, 2017, which was late in the implementation and only two months before the original closing date.

A split rating will not be applied in the assessment as changes to the outcome indicators reflected (i) a scale up in line with additional financing in 2016 and (ii) dropping of outcome indicators in 2018 that lacked causal linkages to project activities; reduction in the outcome target for private sector investment volume in dollar terms reflected depreciation of local currency, as reported, and it is not indicative of the reduced ambition.

3. Relevance of Objectives

Rationale

The country was recovering from the twin shocks of a war with Russia in August 2008 and the global economic and financial crisis, which resulted in a sharp decrease of economic growth. Georgia's recovery was stronger than other emerging countries in Eastern and Central Europe due to the government's effective counter-cyclical response. Strong exports, foreign direct investment, tourism inflows and high-levels of public investment were the main contributors to the pace of economic expansion. At that time, the government aimed to address two priorities: increasing employment and narrowing the current account deficit. The government supported the private sector to lead economic growth and job creation efforts. The Government developed a regional development framework to focus its efforts on attracting private investors in secondary cities across various sectors, including tourism. However, there were some physical and institutional capacity constraints to attract private investments in regions with high economic development potential.

The project focused on the Imereti region since it has a lot of tourism potential and has several cultural heritage sites. Also, according to the PAD (p. 2), the government had already made substantial investments such as rehabilitation of the airport of the region's capital Kutaisi and other urban renewal of the capital. Tourism, trade, and industry were identified as main drivers of growth in several different strategies such as the Imereti Regional Development Strategy (2010-2014), the Imereti Spatial Economic Analysis 2012, and the Imereti Tourism Development and Marketing Strategy 2012.

According to the PAD (p. 2), the government of Georgia developed the State Strategy on Regional Development (2010-2017), which aimed to create a favorable environment for regional socio-economic development and improve living standards. These were to be achieved through balanced socio-economic development policies, increased competitiveness, and greater socio-economic equality among the regions.

The objective of the project was in line with the Bank's Country Partnership Framework (CPF) (FY19-22), which focuses under Focus Area 1 (Enhance Inclusive Growth and Competitiveness) on infrastructure upgrading, cultural heritage renovation, capacity building, and private-sector attraction. The CPF also emphasized the importance of increasing spatial equity, connectivity, and economic participation in the regions.

The Bank has been supporting Georgia's regional development through a programmatic approach, which has included several projects such as the Regional Development Project (RDP) (with financing in the amount of US$39.0 million) in the Kakheti region. A follow-on project (The Third RDP with a financing amount of US$60.0 million) is going to be implemented in the Mtskheta-Mtianeti and Samtskhe-Javakheti regions.

The ICR's brief discussion of the relevance of the project's objectives is focused solely on the PDO alignment with the strategies of the Government and the Bank. There is no discussion to demonstrate this project as among those with the highest net economic benefits to Georgia, compared to other investment alternatives. Moreover, there is also no discussion on whether the project's design is appropriately pitched to the country's institutional capacity. Finally, a clear delineation of the Bank's role and contribution across the Bank-financed regional development projects in Georgia would have been useful. Taking everything together, the relevance of objective rating is High.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To improve infrastructure services to support increased contribution of tourism in the local economy of the Imereti Region.

Rationale
The project's theory of change envisioned that project activities such as urban regeneration and infrastructure rehabilitation were to result in the outputs of improved infrastructure and improved urban environment. Also, project activities such as rehabilitation of cultural heritage, provision of tourism services facilities, and improved access to heritage sites were expected to result in project outputs such as rehabilitated tourist attractions with improved access and facilities. These outputs were to result in outcomes that would signal the achievement of the project's objective of improved infrastructure and services. The project's theory of change envisioned that improved infrastructure and services were to result in an increased contribution of tourism in the local economy of the Imereti region. As the ICR itself indicates, however, attribution of increased tourism to the project's interventions has not really been established, thus raising issues about the robustness of the theory of change.

Outputs

- The number of hotel beds in circuit route areas increased from 2,661 beds in 2012 to 4,809 beds in 2019, surpassing the original target of 3,193 beds and the revised target of 4,400 beds.
- 813,664 square meters of urban public spaces in selected municipalities were rehabilitated, surpassing the target of 584,296 square meters.
- Revenue from tickets sold at Vani museum did not increase as planned since the museum was rehabilitated but not yet open by the time of project closing. According to the ICR (p. 12), the target value is expected to be reached by October 2020. However, due to the Covid-19 pandemic it is highly uncertain if this target value will be reached.
- 14 buildings were restored and constructed in Tskaltubo and Vani, surpassing the original target of nine buildings and the revised target of 11 buildings.
- Two parks were upgraded in Tskaltubo, achieving the target of two parks.
- Five tourism facilities were constructed at cultural heritage sites along the tourist circuit, not achieving the original target of six facilities and achieving the revised target of five facilities.
- 2,301 street lighting posts and bulbs were replaced, surpassing the original target of 1,448 and the revised target of 1,800 street lighting posts and bulbs.
- 6,164 piped household water connections benefited from the rehabilitation works undertaken by the project, surpassing the target of 5,000 piped household water connections.

- 6,252 people in urban areas were provided with access to all-season roads within a 500-meter range, surpassing the target of 6,000 people.
- 10.3 kilometers of roads were rehabilitated, surpassing the target of 5.1 kilometers.
- The project benefited a total of 22,546 residents, surpassing the target of 20,000 residents. 53 percent of the beneficiaries were female, surpassing the target of 50 percent being female.

Outcomes

The ICR reports the following project outcomes:

- The number of international visitors increased from 140,617 people in 2015 to 345,773 people in 2018 (a 146 percent increase).
- At appraisal, the average annual growth rate of tourists in the Imereti region was projected at 5 percent. The actual annual growth rate from 2012 to 2018 was significantly higher at 21 percent.
- The average number of nights spent by international visitors in Imereti increased by 9 percent between 2015 and 2018.
- The average daily spending by tourists increased between 2012 and 2018 by 19 percent.
- The number of visitors at project sites increased from 740,000 visitors in 2012 to 953,646 visitors in 2018, surpassing the target of 903,000 people.
- In Tskaltubo municipality, where most of the investments under the project were made, the number of visitors staying in hotels increased from 9,097 visitors in 2012 to 44,495 visitors in 2018 (an increase of 389 percent).
- The M&E consultant conducted a survey, in response to which 92 percent of the registered businesses (and 86 percent of the unregistered businesses) stated that the infrastructure investments under the project had a positive impact on their enterprises, and 50 percent of interviewed enterprises stated that they had expanded their businesses or started new business activities during the time of project implementation.

The project achieved its targets for an increase in the number of international visitors and an increase in the number of visitors at project sites. The project team consequently included the data for 2019 that was not available at the ICR stage, which confirmed the positive trend. Also, the survey conducted by the M&E consultant found a positive impact on registered businesses. Taking everything together, the achievement of the first objective is rated Substantial.

Rating
Substantial

OBJECTIVE 2

Objective
To improve institutional capacity to support increased contribution of tourism in the local economy of the Imereti Region:

Rationale

The project’s theory of change envisioned that project activities such as public-sector capacity building for tourism promotion and management were to result in outputs such as the operationalization and establishment of a Destination Management Organization (DMO) for coordination efforts, site management, and M&E plans being prepared. Also, the project activity of training employees of the tourism industry was expected to result in the output of employees being trained. These outputs were to result in outcomes that measure the achievement of the project’s objective of improved institutional capacity. The project's theory of change envisioned that improved institutional capacity was to result in an increased contribution of tourism in the local economy. However, this causal and direct link is rather vague. Also, as much as other investment financing sources were already contributing to tourism growth, the incremental value-added of this project has not been clearly demonstrated in the project's theory of change.

Outputs:

- 5,500 people participated in consultation activities during project implementation, surpassing the target of 5,000 participants.
- All grievances were responded to and/or resolved within one month of being filed, achieving the target of all grievances being resolved within one month of being filed.
- All grievances related to delivery of project benefits were addressed, achieving the target.
- The Imereti Destination Management Office was established and is operational, achieving the target.
- 93,250 maps based on geo-tourism database were produced and distributed, surpassing the original target of 10,000 maps and the revised target of 15,000 maps.
- The project financed a contract for sustainable tourism development, marketing, promotion, and destination management for the Imereti and the Kakheti region. Six visitor management plans were developed for the cultural heritage sites. For the Gelati Monastery a management plan was developed in accordance with the requirements of the World Heritage Committee.

Outcomes:

- US$25 million in private sector investment was mobilized by the Imereti Destination Management Office in Tskaltubo, slightly below the original target of US$26 million and surpassing the revised target of US$13 million. According to the ICR (p. 16), the target was revised to reflect a 35 percent currency devaluation of the Georgian Lari in 2018; it is not indicative of the reduced ambition.

The evidence that establishes clear and direct attribution of private investment outcomes to project activities is weak or absent. Therefore, the achievement of Objective 2 is Modest.

Rating

Modest

OVERALL EFFICACY

Rationale

The achievement of the first objective was Substantial given the increase in the number of international visitors and an increase in the number of visitors at project sites. However, the evidence that establishes clear and direct attribution of private investment outcomes to project activities is weak or absent. Taking everything together, the project's outcome rating is Substantial, with moderate shortcomings.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic efficiency:

Both, the PAD and the ICR conducted a cost-benefit analysis. The PAD (p. 15) identified the benefits of the project as increase in tourists (overnight stays and spending), increase in number and profitability of economic enterprises, property and rental value appreciation, and temporary job creation. The analysis used a 20-year time period, from 2012-2031, including four years of project implementation. For the economic analysis, financial costs were corrected and conversion factors were applied. The analysis assumed a 12 percent discount rate. The analysis calculated a Net Present Value (NPV) of US$10.45 million, with a Financial Internal Rate of Return (FIRR) of 19.10 percent, and an Economic Internal Rate of Return (EIRR) of 31.05 percent. However, as stated in the efficacy section, it is questionable to what extent the benefits (increase in overnight stays, spending etc.) can be traceable to causality chains intrinsic to the project and attributable to the project.

The ICR used a discount rate of 5 percent and calculated an NPV of US$18.26 million, with an FIRR of 16 percent and an EIRR of 27.95 percent. The ICR (p. 19) stated that the returns on investment at project closing were higher than at appraisal due to several reasons: i) a lower discount rate was used according to the most recent guidelines (5 percent at closing versus 12 percent at appraisal); ii) the average annual growth rate between 2012 to 2018 was 21 percent, which was significantly higher than the assumed 5 percent at project appraisal; and iii) actual loan disbursement was lower.

The ICR also benchmarked unit costs of investments completed under the project with other municipal, urban, and regional infrastructure projects in Georgia. Under this project, road construction was 10 percent more expensive per kilometer, municipal buildings were 17 percent more expensive and water and sewage supply networks were 20 percent more expensive than the average comparator project. However, some of the investments in infrastructure under this project were complex such as rehabilitation of the municipal buildings, which were cultural heritage assets and required specific materials and techniques. Therefore, it is important to emphasize that the works are not easily comparable. Also, the ICR did not provide any evidence to assess if the other infrastructure projects performed better and were more cost-effective.

Given the lack of evidence that support project attribution of the reported stream of benefits, the validation of project worth is cast into doubt.

Operational efficiency:

With the AF, the project closed 30 months later than originally planned. According to the ICR (p. 20), the project experienced several implementation delays as a result of the retendering of contracts including investments in Tskaltubo and Vani Museum (totaling US$ 9 million). The need to retender these major contracts also resulted in additional costs for the investments. The Additional Financing was to finance the rehabilitation of the WWTP in Tskaltubo, which did not take place, since it ended up being financed by the Swedish International Development Cooperation Agency (SIDA) and resulted in US$2.3 million remaining undisbursed.

Also, the ICR (p. 22) stated that the project experienced inefficiencies in contract management due to coordination issues among MDF, the supervision consultant, and contractors. Also, the project faced the challenge finding high-quality and reliable contractors.

According to the ICR (p. 22) the project experienced delays related to several designs prepared by government agencies requiring adjustments. The insufficient designs resulted in frequent variation orders of contracts throughout implementation, and the need for remediation works of several sub-projects experiencing insufficient quality. This resulted in construction delays and additional costs. The ICR (p. 20) stated that contract variation orders decreased throughout implementation due to higher design quality and improved contract management and supervision.

However, significant delays and remediation works indicate an inefficient use of project resources. Therefore, taking together shortcomings related to economic, financial and operational criteria, the project's Efficiency rating is Modest.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	31.05	90.00 ☐ Not Applicable
ICR Estimate	✓	27.95	81.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of the objective is rated High. Efficacy is rated Substantial, with moderate shortcomings, and Efficiency is rated Modest. In line with Appendix H, page 38, of the Bank's Guidance for the preparation of ICRs (dated September 27, 2018), these sub-ratings lead to an overall outcome rating of Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The risk to development outcome can be categorized in the following broad areas:

Financial: According to the ICR (p. 28), investments made under the project will require a budget for operation and maintenance in order to ensure their sustainability. When the project closed, assets were handed over to the municipality or church. Some of the investments made under the project were leased to the private sector. The Municipal Development Fund (MDF) developed for each finalized sub-project financial agreements and handover agreements, which were signed between the municipality and any other relevant stakeholders. These agreements ensure the maintenance of the investments. Ensuring sufficient financing will also be important for the sustainability of the DMO and its role in coordinating the promotion of the tourism industry.

Technical: While the project built institutional capacity in the tourism sector of the Imereti region, additional capacity will be necessary when the tourism in the region continues to grow.

Political: According to the ICR (p. 28), the government is implementing the DMO model also in other regions of Georgia, indicating a political commitment by the government to improve destination management in the regions. The project is being followed by the Bank's Third RDP (US$60 million), which also focuses on infrastructure and cultural heritage development as well as capacity building.

Economic: The COVID-19 pandemic has had a negative impact on tourism in Georgia. According to the ICR (p. 29), the number of international travelers coming to Georgia has already decreased, which will affect the tourism-related economy and the overall economy of Georgia.

8. Assessment of Bank Performance

a. Quality-at-Entry

According to the ICR (p. 21), the project was based on analytical studies such as different analyses of regional development in Georgia and economic development and tourism potential in the Imereti region. Also, the Bank conducted consultations with various stakeholders. The ICR stated that there was no sufficient time to take lessons from RDP1 into account, given the long delays in RDP1's start-up, which was only 8 months into implementation while the project under review had already been launched. However, throughout the implementation of this project, some lessons were incorporated such as reducing the number of contracts, focusing investments in new areas of the region only, and delivering equipment as well as rehabilitated buildings to ensure the fully functioning of assets. According to the Bank team (September 4, 2020), some additional lessons from RDP1 could have been taken into consideration for the design and implementation of RDP2. For example, the contract management capacity of the PIU could have been better assessed during project preparation and more capacity training could have been provided to the PIU regarding the management of complex contracts and coordination with stakeholders as well as safeguards compliance. In addition, packaging of contracts and the use of designs by government agencies, which were also challenges during the implementation of the RDP, could have been adequately mitigated.

According to the ICR (p. 21), implementation arrangements for procurement, safeguards, and financial management were based on existing structures and mechanisms. However, since RDP1 became effective just 8 months before the RDP 2, there was not sufficient time to assess whether the existing structures and mechanisms were actually working.

Furthermore, additional design shortcomings included a weak theory of change that did not sufficiently demonstrate key links between project activities and outcomes. Also, the project had complex institutional arrangements with frequent coordination between various stakeholders such as the Ministry of Regional Development and Infrastructure, the Georgian National Museum, the National Agency fur Cultural Heritage Preservation, the Georgian National Tourism Administration, the United Water Company, as well as the municipality of Tskaltubo and other stakeholders. This complex structure also resulted in implementation delays.

Finally, the project's Results Framework had several shortcomings (see section 9a for more details).

Given these shortcomings, the Quality at Entry rating is Moderately Unsatisfactory.

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

According to the ICR (p. 27), the Bank provided close supervision throughout implementation. While the first Task Team Leader (TTL) was based in the country, which had a positive impact on addressing any early implementation bottlenecks, the second TTL was based in headquarters and conducted supervision missions on a bi-annual basis. The Bank team included local cultural heritage specialists who conducted regular field visits to project sites. The ICR (p. 28) stated that the Bank discussed implementation issues and compliance with safeguards in Implementation Status Reports and Aide-Memoires. When implementation progress was downgraded to "Moderately Unsatisfactory" in October 2018, the Bank addressed implementation issues such as delays with the works at Vani Museum by increasing supervision onsite and conducting bi-weekly calls. The Bank team upgraded the Implementation Progress as well as the Development Objective ratings in July 2019 to 'Moderately Satisfactory' when it assessed that the construction works in Vani museum could be completed on schedule by December 2019 and the envisioned project development objectives could be reached until the project closing.

The ICR (p. 23) stated that the Bank team coordinated with the MDF and the municipality to repair some initial investments, which were damaged due to operation and maintenance issues during the initial phase of the project.

However, according to the ICR (p. 22), the Bank team did not adequately address the PIU's insufficient capacity for managing multiple contracts at a high quality, coordinating with stakeholders frequently, and ensuring safeguard compliance, which resulted in significant implementation delays of several sub-projects requiring two extensions of the closing date. These shortcomings were not adequately addressed during project preparation.

Also, the Bank only revised the Results Framework five years into project implementation (two months before the original project closing date) (see section 9b for more details). The outcome target for volume of the private sector investment was reduced only in 2018, when the Additional Financing Restructuring Paper reported the exchange rate GEL2.50: USD 1 in 2016; the same rate as reported in 2018 to justify the target adjustment.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The project's development objective was clearly specified. The indicators were set to measure the outputs and outcomes related to improved infrastructure and institutional capacity. However, the theory of change and how key activities and outputs were to lead to the intended outcomes were not sufficiently sound or well reflected in the project's results framework and underlying assumptions. The selected indicators did not sufficiently measure outcomes that were attributable to the achievement of the objective. Also, the M&E design was far too one dimensional given the variety of project activities. Furthermore, the Results Framework included two PDO indicators ("increased number of hours per day of piped water services in Tskaltubo" and "increased energy efficiency of street lighting in Tskaltubo") that were dropped during the second project restructuring in April 2018 since the cause-effect relationship between project activities and the indicators was not clear (Project Restructuring Paper, 2018). In addition, these indicators would not be expected to contribute to the increased tourism in the local economy of the Imereti region.

Also, the ICR (p. 25) stated that the Results Framework did not capture the increased volume of all private-sector investments mobilized in Tskaltubo related to project activities instead of only those mobilized by the DMO.

All indicators had a target and a baseline when possible and were sufficiently specific. The revised Framework was relatively extensive and included four PDO indicators and 16 intermediate outcome indicators. According to the PAD (p. 45), the Municipal Development Fund (MDF) was to be responsible for the project's M&E. The MDF was to produce quarterly progress reports to assess implementation and suggest any need for adjustments. The MDF capacity in data collection and analysis was to be strengthened by an international M&E consulting firm whose services were to be obtained through Component 2.

b. M&E Implementation

According to the ICR (p. 25), M&E data was adequately collected and analyzed. The Bank team stated (July 23, 2020) that the M&E data was found to be reliable and of good quality. The Imereti Tourism Development and Marketing Strategy provided baseline data. The MDF reported implementation progress of each sub-project in its quarterly progress reports.

The project hired a M&E consultant to conduct M&E activities. Although the M&E consultant's work products were of high quality, the consultant was hired too late and the concomitant revision of the Results Framework occurred only a year before the project's closing date, that in itself had already been extended 2.5 years. Thus, the goals set at the M&E design stage did not really materialize, which hampered the tracking of implementation progress.

c. M&E Utilization

According to the ICR (p. 25), M&E was used to track implementation progress. Also, M&E data was used to inform the MDF and Bank about implementation bottlenecks that required additional supervision such as the establishment of the DMO and the rehabilitation of the Vani Museum. However, as stated above, the M&E consultant was hired late and the Results Framework was revised only one year before the project closed. Therefore it is questionable to what extent the project's M&E could be used to assess implementation progress.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was classified as category B and triggered the Bank's safeguard policies OP/BP 4.01 (Environmental Assessment), OP/BP 4.11 (Physical Cultural Resources), OP/BP 4.12 (Involuntary Resettlement). The Additional Financing in 2016 triggered OP/BP 7.50 (International Waterways).

According to the ICR (p. 26), the project prepared an Environmental Management Framework (EMF), which was approved by the Bank. Each sub-project was screened in terms of environmental, social, and cultural heritage impacts. Also, environmental screening reports, environmental reviews and/or Environmental Management Plans (EMPs) were prepared. The project faced noncompliance issues in regards to waste disposal, which was addressed by strengthening the environmental monitoring and reporting capacity of the MDF greatly.

Also, compliance with health and safety standards for onsite workers was an issue. The ICR (p. 26) stated that the management of safeguards improved throughout implementation since the Municipal Development Fund (MDF) improved its safeguard monitoring and reporting capacity as well as close supervision.

The ICR (p. 26) stated that the project complied with OP/BP 4.11 (Physical Cultural Resources). The PIU coordinated with the Ministry of Culture, the National Agency of Cultural Heritage Preservation and the church to ensure compliance with the safeguard policy. However, six months before project closing the safeguard policy rating was downgraded to “Moderately Satisfactory” due to significant delays in the works at the Vani Museum, which resulted in the inaccessibility of the museum to the public longer than planned.

Also, the ICR stated that the project complied with OP/BP 4.12 (Involuntary Resettlement). The project prepared a Resettlement Policy Framework (RPF), which was accepted by the Bank. Resettlement took place under one sub-project at Gelati Monastery due to livelihood impacts. The project prepared an abbreviated Resettlement Action Plan for this sub-project in accordance with the Bank.

OP/BP 7.50 (International Waterways) was triggered due to the planned rehabilitation of the wastewater treatment plant (WWTP) in Tskaltubo. The EMF was updated and redisclosed. However, according to the Bank team (July 23, 2020), the construction of the WWTP in Tskaltubo was not financed under the project in the end.

The project developed a Grievance Redress Mechanism (GRM), which included a unified phone and email address managed by one person at the MDF. The ICR (p. 26) stated that three grievances were recorded and addressed appropriately.

The project also conducted a Strategic Environmental, Cultural Heritage, and Social Assessment to assess the tourism development vision and action plan defined in the Imereti Tourism Development and Marketing Strategy in terms of environmentally and socially sustainability.

b. Fiduciary Compliance

Procurement:

According to the ICR (p. 27), the project’s procurement rating was Satisfactory. However, during the first year the project faced the challenge of contracts having to be amended due to incomplete designs. According to the Bank team (July 23, 2020), Tskaltubo, where most of the construction works were implemented, had a very specific and sensitive context with a rich network of thermal and mineral water boreholes. This specific context was not appropriately considered in the designs for the construction of underground infrastructure, roads, etc. Other designs did not take into consideration the specific requirements of cultural heritage works and the sensitive nature of cultural heritage sites. Also, the project faced the challenge of low participation of bidders in procurement processes. This issue was addressed by better packaging of contracts to increase values of contracts and attracting participation of medium-size contractors, and reassessing cost estimates to ensure that they reflected current market prices. Furthermore, the MDF coordinated with the Bank to offer trainings for contractors and potential bidders.

Financial Management:

According to the Bank team (July 23, 2020), the project complied with the Bank's financial covenants; the external auditor's opinion was unqualified and provided on a timely basis.

c. Unintended impacts (Positive or Negative)

NA

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Modest	Modest	
Quality of ICR	---	Modest	

12. Lessons

The ICR (p.29-30) included several lessons, which were adapted by IEG:

- **Cultural heritage projects that include retrofitting, restoration, and adaptive reuse require specialized workers and time, which need to be taken into account in the project design.** In this project, these factors were not sufficiently taken into account when preparing the project, resulting in delays during implementation. Also, several designs prepared by government agencies had to be adjusted to the actual situation, also resulting in delays in construction and the necessity to revise works for several sub-projects due to poor quality resulting in additional costs.

- **Designing a Results Framework that measures the impact of project activities needs to be put in place before project implementation starts.** In this project, major changes in M&E such as hiring an M&E consultant and revising the Results Framework only took place one year before project closure. This makes the extent to which the project's theory of change was accurate and operational questionable as well as to what extent reliable data was collected.

- **Learning from previous projects, especially if the current project is a follow-on project, is critical and helps to develop mitigation measures to ensure that previous**

issues do not materialize again. In this project, the first RDP was only effective for eight months before this project became effective, not allowing to learn from the first RDP's implementation experience. Therefore, the Bank team could not take previous lessons learned into account, which resulted in several implementation issues (similar to the ones of the first RDP) such as the PIU not having the necessary capacity to perform its procurement functions resulting in implementation delays.

13. Assessment Recommended?

Yes

Please Explain

Yes. There are many design and implementation aspects of this project that need to be assessed in the field in consultation with stakeholders and beneficiaries. Questions to discuss could include:

- What are the lessons from RDP 1 that could have informed and improved the performance of RDP 2?
- What lesson-learning is occurring across the three regional development projects? Are they strategically consistent?
- What is the relative significance of the three regional development projects vis-à-vis other similar or related projects funded by other donors and the private sector?
- How could/should the theory of change and the Results Framework be designed when multiple lines of causality and attribution are present?
- What are the appropriate indicators for these kinds of projects, especially when they finance infrastructure components like water supply, electricity distribution, street lighting, etc.?
- Beyond just procurement and implementation aspects, what sector-wide lessons can be derived from the first two projects, and are there specific lessons that the Third project should be focusing on deriving?

14. Comments on Quality of ICR

The ICR provides an adequate overview of project preparation and implementation. Also, the ICR is internally consistent and points out implementation bottlenecks that resulted in delays. While well presented, the cost-benefit analysis possibly overstated project benefits. Also, the ICR does not report whether the external auditor's opinions were unqualified and timely. Most importantly, the ICR would have benefitted from a stronger discussion of the counterfactual. The lack of analysis on attribution issues meant that contribution versus attribution of outcomes was not well articulated, thus raising doubts in IEG whether the achievements were as legitimate as claimed. While it is understandable that more recent data as 2018 was not available when the ICR was written, it would have been important to ensure that the reader understands why that was the case and why the presented data is still relevant for project achievements.

Finally, the ICR made a factual error in describing the AF project restructuring. It says in para 19 that the AF mainly aimed to finance a number of cost overruns as well as “to address a financing gap resulting from the national currency devaluation (there was a 35 percent exchange rate devaluation of the Georgian Lari with respect to the US$).” As per the Additional Financing Restructuring Paper (2016), the currency depreciation was in the loan commitment (XDR)- not the local currency- that led to a financing gap (page 23). While there was a depreciation of the local currency at that time, a 35 percent exchange rate devaluation of the Georgian Lari with respect to the US dollar was reported in the Project Restructuring Paper of 2018 to justify the adjustment of the outcome target; the exchange rate was however the same as in 2016 (GEL2.50: USD 1).

a. Quality of ICR Rating

Modest