

Chair's Summary of Meeting of the Board of Directors

19 March 2008

Georgia: Interim Operational Strategy (2008–2009)

1. The Board of Directors endorsed the Georgia Interim Operational Strategy (IOS) for 2008–2009. Directors noted the exceptionally strong performance of the Georgian economy in recent years, underpinned by effective implementation of structural and sectoral reforms. They observed that the IOS is selective, focusing on a small number of sectors that are also of high priority for the Government and other stakeholders. Directors stressed the need for ADB to join other development partners in Georgia in implementing the Paris Declaration principles of donor coordination and harmonization.

2. Some Directors noted that Georgia's unemployment rate is high and that the rate of new job creation needs to pick up if a dent is to be made on persisting poverty incidence. One Director inquired about the factors underlying Georgia's remarkable fiscal revenue performance which as a share of GDP had almost doubled in the space of a few short years. He also expressed concern that the widening current account deficit may become unsustainable, particularly if foreign direct investment flows decrease.

3. Several Directors appreciated the focused approach taken in selecting the proposed areas of ADB engagement in Georgia. Some others however felt that ADB support in future for the lagging agriculture sector and more broadly the rural economy is merited given the imperative of boosting employment generation. Noting that economic diversification is a key development challenge, one Director felt that to support this goal, ADB could consider analytical work to deepen understanding of the challenges facing small economies. On the operational side, a more strategic approach should be taken with respect to private sector operations, an approach that will help small and medium enterprise development, which is key to diversification. The Chair noted that the pursuit of economic diversification needs to be balanced with the goal of economic efficiency. In certain country situations, specialization may be a practical alternative.

4. Two Directors commented on the absence of a design and monitoring framework which they considered should be an integral part of all country strategies, including for new countries. Some Directors suggested that the section on risks needed to be more comprehensive, covering political (domestic and regional) and program implementation risks. One Director inquired about the role that the resident mission soon to be set up in Tbilisi will play in program implementation and donor coordination.