Project Data Sheet

Project 48044-004

Project Name	Improving Domestic Resource Mobilization for Inclusive Growth Program (Subprogram 2)
Project Number	48044-004
Country / Economy	Georgia
Project Status	Closed
Project Type / Modality of Assistance	Loan
Source of Funding / Amount	**Loan 3282-GEO: Improving Domestic Resource Mobilization for Inclusive Growth Program (Subprogram 2)** Ordinary capital resources — US$ 22.00 million **Loan 3283-GEO: Improving Domestic Resource Mobilization for Inclusive Growth Program (Subprogram 2)** Asian Development Fund — US$ 53.00 million
Strategic Agendas	Inclusive economic growth
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development Knowledge solutions Partnerships Private sector development
Sector / Subsector	**Finance** / Finance sector development - Insurance and contractual savings - Money and capital markets **Public sector management** / Public expenditure and fiscal management
Gender	Effective gender mainstreaming
Description	The program enhances inclusive growth options by opening up the fiscal space for the government to meet its planned significant funding of inclusive social and economic services. To achieve this, the program supports fiscal consolidation, improve revenue management, strengthen public expenditure management, enhance the generation of domestic savings, and increase private resource mobilization for investment opportunities, especially for micro, small, and medium-sized businesses. The program impact will be that citizens, particularly women, benefit from higher living standards and more employment opportunities. The outcome will be the effective mobilization of domestic resources for increased public and private investment. The program supports inclusive growth by generating long-term savings and making short-term capital available for small businesses and infrastructure. The outputs are: (i) improved management of debt, cash and fiscal risk; (ii) strengthened revneue and public expendiutre management; (iii) enhanced generation of domestic savings; and (iv) increased mobilization of private resources for investment.

Project Rationale and Linkage to Country/Regional Strategy	The proposed program aims to improve domestic resource mobilization (DRM) to help achieve inclusive growth in Georgia. The program supports improved debt and fiscal risk management, more efficient revenue and public expenditure management, generation of domestic savings, and mobilization of private resources for investment. The programmatic approach and policy-based loan will finance three subprograms implemented from 2014- 2016. The Georgian economy grew at an annual average of 5.8% during 2004 2014. The growth reflected reforms to liberalize the economy and remove bureaucratic barriers, while strengthening transparency and accountability. Consequently, governance and the business environment improved, although significant barriers to business operations and private sector competitiveness remain. The World Economic Forum's Global Competitiveness Report for 2014 2015 ranks Georgia 69th out of 144 countries; constraints to private sector development include an inadequately skilled workforce, limited access to finance, and gaps in infrastructure. Economic activity in the region has been decelerating as a result of the economic slowdown in the Russian Federation and a significant fall in oil prices. The economic contraction in the Russian Federation has also led to a sharp drop in remittances, erasing any gains from lower oil prices in Georgia, which is a net importer. Overall, the outlook in the region has not been this weak since the global financial crisis of 2008 2009. In February 2015, the Georgian government cut gross domestic product (GDP) growth projections by more than half, to 2.0%. The fiscal deficit is expected to rise in Georgia, necessitating fiscal consolidation measures in the short and medium term. The current economic environment is also pressuring the country's financial system. Currency depreciation is increasing credit and solvency risks, and slowing economic growth is heightening credit risks. The continuation of structural reforms to increase domestic resource mobilization supports more inclusive economic growth, while guaranteeing social assistance to the poor and vulnerable during the slowdown and thereafter is essential. Social expenditures and fiscal pressure. Georgia's generally strong growth performance has not been matched by commensurate reductions in unemployment and poverty. Despite a decline in the unemployment rate from 16.9% in 2009 to 12.4% in 2014, further reduction is needed. The percentage of the population living below the national poverty line (60% of median consumption) was 21.4% in 2014, down from 24.6% in 2004. Beginning in 2012 the government has sought to accompany better economic performance with improved social outcomes. Social spending on health, education, and social assistance increased to 11.7% of GDP in 2014, from 11.2% in 2013, an increase of nearly 31% over 2012 budgeted expenditure. Growth in social expenditure is pressuring public finances. Pension financing is the largest social spending item in the state budget; in 2014 it represented 55% of all social benefits and about 19.9% of public expenditure (4.5% of GDP). These costs are expected to continue to increase due to the growing number of pensioners and the rising costs of pension benefits. Domestic savings and access to finance. The fully government-financed universal pension system (pillar zero) is the largest component of the current pension system in Georgia, accounting for almost 84% of total pension expenditures. The system entitles all citizens to receive pension benefits (at 60 years of age for women and 65 for men), making it an important instrument of poverty reduction and income security for the elderly. The flat rate pension has more than doubled over the last 5 years, but is still only marginally above the subsistence level. In the absence of additional opportunities to save, public pressure to raise the universal pension rate will increase the government's financial burden and challenge long-term fiscal sustainability. Development and implementation of a multi-pillar pension system will help achieve key fiscal and social objectives. Incorporating contributory elements in the pension system will (i) increase old-age income from sources outside of the state budget; and (ii) reduce expectations placed on the pillar zero system, and (once the new pension system matures) spread the burden of financing future pensions more fairly across stakeholders and generations. There is limited domestic funding capacity in Georgia, with a long-term investment horizon that limits economic growth, producing an overreliance on foreign inflows. Pension fund assets have long-term investment objectives, with a primary focus of maintaining real asset values. This can stabilize bond markets and security exchanges, and help finance infrastructure needs. A defined contributory pension system is expected to improve the overall savings rate in the country. Public debt and capital markets. Georgia's public debt to GDP ratio was 35.5% in 2014, 75% of which is denominated in foreign currency (largely in dollars). This exposes Georgia to foreign exchange risk, creating a source of vulnerability. Additionally, the multilateral concessional windows are closing, raising the average external borrowing rate. A challenging transition from external sources of finance to local currency-denominated government securities will be needed over the medium term. The shift is needed not only to manage the country's foreign exchange exposure, but to support the development of the Georgian bond and capital markets and to sustain public investment plans. Development of the domestic government yield curve is essential for market infrastructure and information, as it is the basis for pricing and/or evaluating all forms of credit in the domestic economy for small and medium-sized enterprises (SMEs) and capital markets. The SME sector represents nearly 95% of registered businesses and employs 37% of the workforce in Georgia, but accounted for only 16.9% of business turnover in 2014. Firms cite limited access to bank credit, high interest rates, and expensive financial services as major constraints to growth. Underdeveloped securities and capital markets as well as reliance on a fully publicly funded pension scheme prevent higher savings rates and limit the funds available for lending. Increased access to finance, especially for small businesses managed by women, is important for diversification of the economy. Private finance and fiscal risks. The government is seeking to mobilize private infrastructure investment, highlighting the need to manage fiscal risks. The policy to implement public projects with private sector participation needs to be streamlined, because many projects with public private partnership (PPP) characteristics are being implemented. Existing contracts for PPP-type projects, as well as projects currently under development, contain contingent liabilities for the government. The lack of a framework for fiscal risk means that the contingent liabilities of existing and future PPP contracts are not transparent, and are not well understood or managed by the government. This exposes ministries, state-owned enterprises (SOEs) and local governments to the risk of entering into new contracts without an accurate assessment of the affordability or fiscal risk. It also makes the market less transparent for the private sector. The program is consistent with the country assistance to Georgia from the Asian Development Bank (ADB) and with government policy.
Impact	Citizens, particularly women, benefit from higher living standards and more employment opportunities

Project Outcome

Description of Outcome	Effective mobilization of domestic resources for increased public and private investment
Progress Toward Outcome	

Implementation Progress

Description of Project Outputs	1. Debt, cash, and fiscal risk management improved 2. Revenue and public expenditure management strengthened 3. Generation of domestic savings enhanced 4. Mobilization of private resources for investment increased
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide

Safeguard Categories

Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects	This is a program loan that will support increased domestic resource mobilization. It has no direct investment or project component which may trigger any of the safeguards.
Involuntary Resettlement	This is a program loan that will support increased domestic resource mobilization. It has no direct investment or project component which may trigger any of the safeguards.
Indigenous Peoples	This is a program loan that will support increased domestic resource mobilization. It has no direct investment or project component which may trigger any of the safeguards.

Stakeholder Communication, Participation, and Consultation

During Project Design	Stakeholders including relevant government departments, private sector, banks, insurance companies are being consulted.
During Project Implementation	The same set of stakeholders will be consulted during implementation
Responsible ADB Officer	Niazi, Tariq H.
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, CWRD
Executing Agencies	*Ministry of Finance* *Nodar Khaduri* *16 Gorgasali St., 0114* *Tbilisi* *Georgia*

Timetable

Concept Clearance	-
Fact Finding	20 Apr 2015 to 01 May 2015
MRM	07 Jul 2015
Approval	22 Sep 2015
Last Review Mission	-
Last PDS Update	15 Sep 2015

Loan 3282-GEO

Milestones

Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
22 Sep 2015	06 Oct 2015	06 Nov 2015	31 Dec 2015	-	18 Dec 2015

Financing Plan		Loan Utilization			
	Total (Amount in US$ million)	Date	ADB	Others	Net Percentage
Project Cost	22.00	Cumulative Contract Awards			
ADB	22.00	17 Jun 2022	21.37	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	17 Jun 2022	21.37	0.00	100%

Loan 3283-GEO

Milestones

Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
22 Sep 2015	06 Oct 2015	06 Nov 2015	31 Dec 2015	-	18 Dec 2015

Financing Plan		Loan Utilization			
	Total (Amount in US$ million)	Date	ADB	Others	Net Percentage
Project Cost	53.00	Cumulative Contract Awards			
ADB	53.00	17 Jun 2022	52.39	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	17 Jun 2022	52.39	0.00	100%