Realizing the Urban Potential in Georgia
National Urban Assessment: Executive Summary

This publication details the rapid assessment of the urban sector in Georgia to understand key urbanization trends and patterns of growth and to analyze challenges and opportunities. It gives a snapshot of the state of urban affairs at the national level with an urbanization profile, governance and urban management profile, capacity needs assessment, urban finance matrix, and a “3E” assessment covering economic, environmental, and social equity profiles. This document is not a strategy but the basis for developing a national urban strategy and road map for integrated investments to maximize development impact.

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Executive Summary
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Acknowledgments

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## Country at a Glance

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>4.4905</td>
<td>(2014)</td>
</tr>
<tr>
<td>Population of capital Tbilisi (million)</td>
<td>1.1752</td>
<td>(2014)</td>
</tr>
<tr>
<td>Average annual population growth rate</td>
<td>0.5%</td>
<td>(2008–2012)</td>
</tr>
<tr>
<td>Share of population under poverty threshold</td>
<td>11.6%</td>
<td>(2014)</td>
</tr>
<tr>
<td>Area (square kilometers)</td>
<td>69.700</td>
<td>(2014)</td>
</tr>
<tr>
<td>Gross domestic product ($ billion)</td>
<td>16.2</td>
<td>(2014)</td>
</tr>
<tr>
<td>GDP per capita ($)</td>
<td>3,604.51</td>
<td>(2014)</td>
</tr>
</tbody>
</table>

* Final results of the population census were awaited at the time this publication was finalized in November 2015.

National Urban Assessments Framework

ADB under its Urban Operational Plan, 2012–2020 supports developing member countries (DMCs) in developing their urban economies, in improving environmental sustainability, and in making pro-poor investments. This provides a critical opportunity for the urban sector to play a potentially integrative role, providing a way to focus ADB operations beyond traditional urban investment sectors to maximize impact. The ADB Manual on Undertaking National Urban Assessments provides a framework and toolbox for conducting rapid urban sustainability assessments at both the national and urban region levels for DMCs. This study on Georgia is based on the National Urban Assessments framework for developing an urban profile, establishing an urban vision, and identifying strategic priorities for targeted investments in the urban sector through a cross-sector understanding of the issues and challenges that affect urban development in the country. This document is not a strategy but the basis for developing a national urban strategy and road map for investments (Figure E1).

The Georgia NUA is a rapid assessment of the urban sector to understand the key urbanization trends and patterns of growth and to analyze challenges and opportunities. The outputs of the assessment are designed to give a snapshot view of the state of urban affairs at the national level with an urbanization profile; governance and urban management profile; capacity needs assessment; urban finance matrix; and a 3E assessment covering economic, environmental, and social equity profiles.

Methodology for Undertaking the Georgia National Urban Assessments

The Georgia NUA was undertaken using the framework outlined in the ADB Manual for Undertaking National Urban Assessments (2015) and is aligned with the methodology used for city development strategies outlined by the Cities Alliance. The framework is articulated through the following three key analytical phases:

1. **Urban profile and analysis.** This phase ensures that the assessments take into consideration the existing urban realities and the future needs of the growing urban population, including the political and legislative dimensions of urban development that are critical in the creation of an enabling environment.
and the governance and institutional structures that are the mechanisms for implementation along with a 3E analysis of economy, environment, and equity.

(ii) **Urban vision and strategic prioritization.** This phase aligns and builds consensus for identifying strategic development priorities at the national and the urban region level.

(iii) **Urban action.** This phase establishes specific objectives for investment programming to support the attainment of the urban vision. The NUA provides recommendations for targeted investments in the urban sector.
The Georgia NUA was undertaken in two stages. The first stage consisted of initiating the process to relate to the existing institutional structures and processes and to establish the parameters of the scope of the assignment. The initial assessment was conducted between late 2012 and March 2013 through numerous consultations with the Government of Georgia—central ministries and local governments, relevant stakeholders, donors, and the civil society. The second stage was conducted from October 2014 to February 2015 covering the urban vision and the SWOT analysis stakeholder workshop, with additional consultations at the Sustainable Urban Integrated Transport Forum, secondary data review, and analysis based on further discussions with government agencies and development partners.

Geographic Profile

Georgia is located in the Southern Caucasus, at the crossroads of Europe and Asia, making it an important nodal point for regional trade flows. It is an important transit corridor for many countries in Central and West Asia, especially Armenia and Azerbaijan. The country has an East–West corridor connecting Azerbaijan to the Black Sea. The main economic activities and accordingly the main infrastructure are concentrated in the midland bordered by the foothills of the North Caucasus and South Caucasus (Map 1). The location of Tbilisi, the capital, at the crossing point of East–West and North–South must be considered an exceptional asset.

Key findings: Tbilisi has not yet taken full advantage of its strategic location as a logistic pole for other urban and rural areas because of inadequate development of transport and logistics infrastructure. The topography of Georgia presents a challenge for transport and communication, which are critical development aspects in the context of its strategic location.

Political System

Georgia is a democratic republic, headed by the president. The Parliament consists of 150 members, elected via a mixed electoral system comprising 84 constituencies. All members are elected for 4-year terms. During most of the 20th century, Georgia was among the former Soviet republics. In 1991, Georgia declared independence. Shortly after independence, the country faced a severe economic crisis and grave social problems. The government has since then liberalized trade and implemented a series of liberal economic reforms, including land and property privatization, an overhaul of the banking system, and the introduction of a new national currency, the lari (GEL), to overcome the crisis.

Key findings: Georgia is progressively maturing as a democracy. The political transition shows a positive trend in this path. Georgia is in the process of decentralizing authority, streamlining bureaucracy, and combating corruption.
Map 1: Map of Georgia

Source: ADB. 2015. This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and 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 area, or any endorsement or acceptance of such boundaries, colors, denominations, and information. This applies to all maps and graphs used in this publication.
Urban Profile

Stable Urbanization

- Georgia had a population of 4.4905 million in 2014, with 53.70% classified as urban population (Table E1).
- Since the mid-1970s, Georgia’s population has had more than 50% urban population and has been experiencing a stable growth in urbanization with marginal fluctuations in the past two years. Georgia’s urban population is not expected to reach 60% before 2030 (Figure E2).
- Georgia predominantly consists of small urban settlements and one large city, Tbilisi, where almost half of the urban population is located.
- Rustavi, a big city-municipality, is part of the Tbilisi urban area, with functional links through mobility, economic connections, cultural exchange, and a commuting population for work, studies, and services.
- The Tbilisi–Rustavi agglomeration includes the city-municipalities of Mtskheta and Gardabani.
- The Tbilisi–Rustavi–Mtskheta–Gardabani urban area dominates the current national urban hierarchy with only the city-municipalities of Kutaisi and Batumi having more than 100,000 inhabitants; all other settlements are much smaller in size.
- The population of Georgia by municipalities reflects the uneven distribution of population across the country.

### Table E1: Population of Georgia (million)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>2.3104</td>
<td>2.3089</td>
<td>2.3038</td>
<td>2.3091</td>
<td>2.3505</td>
<td>2.3713</td>
<td>2.3917</td>
<td>2.4108</td>
<td>2.4117</td>
</tr>
<tr>
<td>Rural</td>
<td>2.0909</td>
<td>2.0858</td>
<td>2.0783</td>
<td>2.0763</td>
<td>2.0859</td>
<td>2.0979</td>
<td>2.1059</td>
<td>2.0730</td>
<td>2.0788</td>
</tr>
</tbody>
</table>

Urban Hierarchy and Population Densities by Regions

- Urban growth and development has been uneven, concentrated in the Tbilisi–Rustavi urban area, Kutaisi, and Batumi, leading to a disproportionate distribution in the national urban system.
- Urban settlements differ significantly by their population, economic profiles, and infrastructure provision.

Key findings: Lack of large cities and underrepresentation of medium-sized cities emphasize wide gaps observed in the existing urban hierarchy.

The uneven spatial distribution of the population highlights the need for a flexible and differentiated approach to the decentralization process, given the varying capacities of the local government. This is highlighted in the lack of adequate coverage of regions and the entire territory by hierarchical systems of commodities, services, and labor markets that should attract the population and businesses, and thereby ensure the economic development of urban places. Growth prospects will remain uncertain for Georgia’s secondary cities unless concrete measures are taken to support their growth and development.
Migration

The 1990s (1992–1996) saw dramatic population outflows from Georgia (Figure E3), the majority of which were urban dwellers. In the absence of precise migration data, it is estimated that more than 1 million people migrated from Georgia between 1990 and 2006.1

According to the population census of 2002, around 64.5% of Georgian emigrants tried to settle in the Russian Federation.2 Since then, the migrant flow from Georgia has shifted mostly to the European Union, Turkey, and the United States. These outflows resulted in loss of human capital in the urban areas. Urban–urban migration from the smaller towns and cities to Tbilisi was larger than rural–urban migration in the early 1990s. One reason for this was land reforms implemented since 1992, which granted small agricultural plots (around 1 hectare [ha]) to almost 800,000 rural households, providing a base for subsistence farming. This retained many rural families, while urbanites preferred to migrate during the severe economic downturn.

The past 2 decades saw an influx of internally displaced persons (IDPs) into the larger cities because of ethnic and political conflicts. Tbilisi accounts for almost 38% of the registered Georgian IDPs. The total number of IDPs amounts to more than 250,600 or more than 87,000 families, of which 92.5% were displaced in 1992–1993 during the ethno-political conflicts, and the remaining 7.5% after the 2008 conflict.3 Another major

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IDP concentration is found in the Samegrelo–Zemo Svaneti region, adjacent to the Abkhazia (almost 85,000 IDPs), with Zugdidi municipality alone accommodating nearly 50,000 IDPs.

Key findings: Prevalent positive annual addition from the mid-2000s, including rural–urban migration, could neither balance the deficit in qualified urban labor nor compensate for the huge losses incurred through international migration in the 1990s. The long-term consequences on demographic and socioeconomic development persists and, twinned with a stagnant natural growth of the population in the past 2 decades, are likely to affect the future demographics of the country.

Land Use

Georgia’s topography is predominantly mountainous, which means very scarce land resources for economic activities. Only 43% of the entire territory is usable for agriculture, of which only 35% is arable and usable for cultivation (Figure E4).

Since independence, the most radical changes were seen in land reforms and land market development through privatization of state-owned agricultural and nonagricultural land. Land was distributed to rural households free of charge on equity basis according to predefined norms: up to 1.25 ha to the farming households in villages and up to 5 ha of pastureland to the farmers engaged in animal breeding in the highlands. Former state land has undergone heavy fragmentation with over three million smaller agricultural land parcels being created and distributed among rural households. This process allowed newly emerged landowners to create small subsistence farms with limited economic potential.

The civil code, adopted in November 1997, declared that nonagricultural land parcels attached to individual houses and apartment buildings, including urban sites, came
under the purview of private ownership. The ownership rights for industrial land could be obtained by applying with a one-off symbolic payment equal to the annual land tax. As a result of these processes, over half of the urban land has been privatized, giving a strong push for the establishment and the relatively quick development of urban land markets. There is room for improvement in the introduction of transparent systems to regulate the privatization processes both in rural and urban areas.

Key finding: Fragmentation of agricultural land led to subsistence farming in small parcels of land, which is insufficient to tap the economic potential. Large-scale privatization limited to a great extent the land resources available to the state and the local communities for implementing spatial development projects in keeping with the interests of the public.

Urban Governance

Since the early 1990s, the government has undertaken a series of reforms to improve municipal service delivery systems. The first phase of reforms culminated in 2005 with the adoption of the “Georgian Law of Local-Self Government.” In February 2014, the new “Local Self-Government Code” was adopted, giving seven more cities the self-governing status (equal to municipality status), raising the total to 12. The new code defines the responsibilities of self-governing bodies, covering spatial-territorial planning and approval of urban planning documents, including the land-use master plan, the regulation plan for landscaping, and the regulation procedures for the use and landscaping of urban areas. Municipalities are also responsible for the improvement of the municipal area and the development of the relevant engineering infrastructure, issuance of building permits, and supervision of constructions within the municipal area. The collection of income tax is reassigned to the central government, while local governments continue to collect property taxes, fees, charges, and income from the rent, lease, or sale of public real estate. A newly created “equalization transfer” was introduced to equalize fiscal disparities between the rich and the poor municipalities, such that the central government can guarantee a minimum of 70% of the expenditure of poor municipalities from the incomes of the wealthier ones.

Key finding: The UN-Habitat urban review (2013) states, “Urban and community management in Georgia still shows relatively strong vertical but weak horizontal vectors. Less attention is paid to governance efficiency and enhanced services provision associated with local self-governance.” It is expected that reforms in the system of self-governance based on the new code would gradually strengthen the role of local governments versus the central government, and would increase their credibility and trust among local citizens. The Georgia National Urban Assessment (NUA) analyzed the institutional, financial, and socioeconomic situation and the living conditions.

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conditions linked to the level of urban infrastructure. It revealed and confirmed the gulf between urban institutions in terms of local capacity and the human, technical, and financial means.

Institutional Structure

At the central government level, currently, the Spatial Planning and Construction Policy Department of the Ministry of Economy and Sustainable Development (MoESD) of Georgia is the principal responsible entity for urban development issues at the national level (Figure E5). It has 20 permanent staff and comprises two structural units: Division of Urban Development and Division of Construction. The tasks of the department as prescribed by the Charter of the Ministry are to define, implement, coordinate, manage, and monitor the policies, regulatory legislation, strategies, and technical standards for spatial planning and construction. It includes a large number of issues that are difficult to be undertaken, given the limited human and financial resources of the small department. According to the head of the department, the capacities of the units need substantial improvement.6 The Ministry of Regional Development and Infrastructure (MRDI) is responsible for regional development policy, water supply systems, and secondary road networks.

Key findings: The local self-government code decentralized infrastructure planning and implementation responsibilities. There is a lack of commensurate financial and human resources as well as capacity to implement the spatial planning and urban development mandates at both the national and local levels.

Key Urban Development Framework

The existing system of spatial planning in Georgia is based on the 2005 Georgian law on “territorial arrangement and urban planning.” It defines the general principles and conceptions of urban planning and development, including the definition of planning types and hierarchy, balancing public and private interests in planning and construction processes; citizens’ participation; types and compatibility of planning documentation; general rules of land-use planning in settlements; and fixing principles and parameters of land-use (functional) zoning and building regulations. The creation of “space of equal opportunities,” guaranteeing equal conditions for housing and business activities is also one of the main objectives. Priority of public over private interests, and protection and maintenance of natural environment and cultural heritage are not sufficiently clarified to enable incorporation into practice.7 “The Local Self-Government Code” defines the responsibility of local self-governments to prepare spatial planning documents for the territories under their jurisdiction. After independence, Georgia neither prepared nor adopted regulatory norms for construction and development. To address this gap, a decree on the “Prolongation of the Terms and Validity of Construction Norms and Rules and

6 Interview with David Gigineishvili, the head of the Spatial Planning and Construction Policy Department, on 22 January 2015.
“Other Normative Acts” was issued on 5 February 2002 by the minister of urbanization and construction of Georgia. However, compliance with this decree has been slow.

**Key findings:** Most cities in the country need to prepare or update master plans but have insufficient funding and capacity to do this. Insufficient regulatory norms exist in the construction industry, with limited compliance with existing decree for standards and norms. There are no clear procedures to aid citizens’ right of participation in the urban development process.
Urban Finance Matrix

In June 2006, the government adopted a new law on local budgets, introducing a formula-based equalization grant system and created a subnational fiscal database that enabled the Ministry of Finance to monitor budget execution, thus strengthening central and local capacity to implement an integrated system of municipal budgeting, monitoring, and financial reporting. The government’s second phase of reforms articulated in the Main Principles of the Strategy on Decentralization and Self-Government Development of the Government of Georgia for 2013–2014, adopted in April 2013, set out a preliminary framework for the public financing of municipal and regional development.

The Urban Finance Matrix provides a snapshot of the entities involved in the urban sector in relation to Asian Development Bank (ADB) investments (Figure E6). Local self-governments are supported by legal entities of public law created under the various ministries to provide specific public services. They charge service fees retained for their needs. Their operations are not integrated with the national budget. Urban finance needs are presently met through the budgets made available to (i) the local self-government

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**Figure E6: Urban Finance Matrix**

- **ADB investment priorities**
  - Transport Infrastructure
  - Water supply, and other municipal infrastructure and services
  - Energy

- **Cross-cutting priorities**
  - Enhance private sector competitiveness;
  - Improve public sector management, including domestic resource mobilization for investment;
  - Finance priority infrastructure essential for connectivity and broader access to economic activity.

- **Proposed firm lending**
  - $516.0 million (2015–2017) include
    - $9.2 million (2015–2017) technical assistance grants
    - $10 million (2017) preparation of demonstration projects for sustainable cities
    - $50 million (2015) policy-based lending operations
    - $75 million (2016) public sector management and finance sector reforms

- **Ministry of Regional Development and Infrastructure (MRDI)**
  - Government finance (as % of GDP) 2013
    - Revenue = 24%
    - Expenditure and onlending = 30.5%
    - Fiscal deficit = 2.7%
  - Multilateral and bilateral institutions – budget support

- **Entities under MRDI**
  - United Water Supply Company
  - Solid Waste Management Company
  - Municipal Development Fund

- **Local Self Governments**
  - Own Revenues
    - Local taxes and duties,
    - Transfers and other revenues
  - External revenues
    - Special and target transfers
  - Revenues only for O&M
  - Significant gap for CAPEX in the urban financing needs

- **Capital Markets**

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CAPEX = capital expenditure, O&M = operations and maintenance.
through the MRDI, (ii) the projects directly handled by the MRDI, and (iii) the national companies with specific mandates, such as the United Water Supply Company of Georgia, Solid Waste Management Company of Georgia, and the Municipal Development Fund (MDF), which are also entities under the MRDI. External funding assistance from the multilateral and bilateral funding organizations is being sought for budget support such as the Development Policy Operations of the World Bank, for specific projects directly implemented by the ministries and for projects implemented by the national companies with specific mandates. Budgets of the local self-governments include own revenues (local taxes and duties, transfers, and other revenues) and external revenues (special and target transfers).

Urban investment initiatives are implemented through either the national companies or demand-driven projects that are funded by the MDF. The initiatives of the national companies are identified through preparation studies, followed by preparation of plans and designs, and detailed project reports, and finally by implementation.

Key findings: Revenues of the local self-governments are enough to meet only the operation and maintenance costs. For capital investments to meet the urban needs, the local self-governments are dependent on other financial sources through the national ministries or the national companies established by these ministries. The MDF supports demand-driven projects that are presented for funding by the local self-governments.

Enabling Environment

Creating an enabling environment is key to developing urban competitiveness in a global economy. The Doing Business Report 2015 ranked the economy of Georgia 15th of 189 economies surveyed worldwide for “ease of doing business.” The World Bank Urbanization Review 2014 states that Georgia’s land registration system is highly rated and its planning legislation is gradually progressing, intergovernment fiscal transfers are regular and transparent, and the government is in the process of financing several highway infrastructure projects to improve intercity connectivity and reduce regional disparities.

Business Environment

Georgia has successfully implemented reforms in each of the diagnostic pillars of urban development and has made significant progress in streamlining administrative procedures and urban planning processes. In the Doing Business Report 2015 rankings, Georgia consistently ranks number 1 among all 189 economies surveyed in terms of registering property, and number 3 in terms of getting a construction permit (Figure E7). Georgia’s ranking dropped to number five worldwide in “starting a business.” Tbilisi has implemented a “single window” mechanism for residents to submit planning applications, which allow applicants to submit applications to a single place, avoiding potential delays or the hassle of having to interact with multiple agencies.9

Global Competitiveness

Georgia became more globally competitive by moving from position 72 to 69 worldwide in the Global Competitiveness Report 2014–2015.\(^\text{10}\) The Global Competitiveness Index is defined by the World Economic Forum.

Georgia ranked 48th for basic requirements constituting the pillars of institutions, infrastructure, macroeconomic environment, and health and primary education, with a score of 4.88 out of 7, improving by nine places (Figure E8). On the downside, the challenge lies in meeting the physical infrastructure and institutional needs while improving labor market efficiency if Georgia is to improve its competitiveness within the region.

Competitiveness of Cities

The competitiveness of cities in Georgia is linked to their geographic proximity to the national markets of the five main cities, connectivity to transport networks, and proximity to international borders. The World Bank Urbanization Review 2014 stated that the “economic performance of cities in Georgia is closely linked to market access indicators.

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“Competitiveness” is defined as a set of institutions, policies, and factors that determine national competitiveness based on the level of productivity of a country, conditions of public institutions, and technical conditions. The level of productivity, in turn, sets the level of prosperity that can be reached by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. Thus, a more competitive economy is one that is likely to grow faster over time.
thus allowing greater opportunities for producers, extending the market for their products and opens new job opportunities for workers.”

**Economic Profile: Competitive Base**

- Georgia is classified as a lower-middle-income economy. Georgia’s gross domestic product (GDP) recovered to an estimated 4.6% in 2014 from 3.3% in 2013, although the current account deficit widened to 9.5% of GDP.11
- Recovery reflected mainly gains of 8.5% in industry, particularly in construction, and 5.4% in services, particularly for financial intermediation and tourism, until the end of the third quarter of 2014.
- The weight of industry, including construction and trade, represented about 43.1% of GDP in 2013.
- Agriculture grew by 1.3% in the third quarter of 2014. The agriculture sector in 2011 accounted for 53% of employment and contributed to 8.8% of the GDP.
- Tbilisi alone contributes almost 70% of total GDP of Georgia, which is in line with its share of urban population.
- Fragmented municipalities operate within administrative directives as best as they can, as they are reliant on financial transfers from the center.12

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Constrained Economic Growth in Medium-Sized Cities and Rural Areas

- Corresponding to the urban population distribution, contribution to Georgia’s GDP is very uneven at the regional level and is influenced by the urban–rural variation.
- General trends in employment confirm a decrease of unemployment during the past 3 years. In 2014, unemployment rate fell from 15.1% in 2011 to 12.4 at the national level, and Tbilisi was ranked last with an unemployment rate of 22.5%, which was much more than in the Autonomous Republic of Adjara, which was ranked second to last with 15.8%.
- Labor retrenchment in the public sector exceeded job creation in the private sector.
- The unemployment rate rose from 11.5% in 2003 to 16.9% in 2009, before moderating to 12.4% in 2014.\(^\text{13}\)
- Unemployment in 2013 was about four times lower in rural areas (6.5%) than in urban areas (25.6%).\(^\text{14}\) However, an estimated one-fifth of the labor force is underemployed.
- The low rate of employment per enterprise suggests that self-employment, represented by individual enterprises, is the most widespread activity in Georgia.
- The agriculture sector is declining because of underinvestment.
- The manufacturing sector has the potential to grow.
- Medium-sized cities in rural areas are unable to capitalize on market opportunities because of lack of infrastructure and industrial growth.

Environment Profile: Resilience Base

Vulnerability to Negative Impacts of Climate Change

- Changes in the absolute minima and the absolute maxima of air temperature demonstrated a warming tendency during both the warm and the cold periods of the year. The process of reverse changes in temperature and precipitation will be sharpened in summer when both tendencies are more distinct than in the other seasons.
- Three priority areas of the Black Sea coastal zone, as well as the Dedoplistskaro and Kvemo Svaneti regions will be affected. Rise in sea level, particularly in the R. Rioni Delta; desertification; and landslides and floods are the key implications.
- Extreme weather events, such as drought, high winds, and thunderstorms significantly affect agriculture.
- The energy sector and the use of fuel for transport account for the major part of greenhouse gas (GHG) emissions.


Urban Environmental Challenges

• Except for areas where infrastructure rehabilitation works in water supply and sanitation (WSS) and solid waste management (SWM) have been completed, urban infrastructure is outdated and partly functional.
• On the whole, quality, continuity, and coverage of services still remain suboptimal. Municipalities and water companies lack sufficient capacity or incentives to ensure proper road maintenance, to rationalize tariffs to ensure cost recovery, or to deliver WSS in a commercially viable manner.
• Sufficient water resources and water supply is a challenge because of the deficient pipeline network. The situation is being progressively improved with donor-supported projects.
• Maintenance of the sewerage collection and treatment network has been a major problem since 1991. This has resulted in the release of untreated wastewater in natural bodies, causing major environmental issues.
• Solid waste management is identified as an acute problem of national, regional, and local concern in Georgia, where on average about 2,100 tons of waste is generated every day. Fifty-four landfills have been legally identified and are progressively being improved. New state-of-the-art facilities are being planned. There is no segregation of waste at source and no formal system to process the recyclables separately.
• Air pollution is a phenomenon found only in Tbilisi, and this is because of its large vehicle population.

Land Fragmentation

• The land reforms postindependence resulted in land fragmentation and mass privatization.
• Unregulated and unplanned land conversions, as well as inefficiencies in legal and regulatory processes, have reduced the efficiency of land use.
• Subsistence farming in small parcels of land is unable to tap the economic potential.

Equity Profile: Inclusive Base

• The human development index (HDI) 2014 places Georgia in the “high human development” group; Georgia is ranked 79th HDI (human development index = 0.744) worldwide. Georgia recorded a positive trend over the past decade and has moved up from the “medium human development” level because of its points in education and healthcare.\(^{15}\)
• The relative poverty level, referring to people living under 60% of the median consumption level, is 21.4% at country level in 2013.

The government’s statistical database Geostat 2014 shows an increase in the registered poverty level in Georgia over the past 8 years (Table E2).

- The Gini coefficient by total consumption expenditure equaled 0.40 in 2013.
- Rural areas are characterized by underemployment contributing to hidden poverty.
- Infrastructure gaps, agricultural stagnation, and an entrenched skills mismatch in the labor market have dampened the impact of growth on poverty reduction.

### Key Recommendations

The Georgia NUA recommends the following:

**Spatial planning and sustainable urban development will require:**

(i) developing a national urban strategy for a regionally balanced urbanization approach to stimulate economic growth of medium-sized urban settlements and to enable the development of smaller cities for a sustainable urban system;

(ii) building the capacity of local government through peer-to-peer learning for improved urban management to develop and implement integrated urban master plans;

(iii) increasing the efficiency and effectiveness of public sector management, particularly in interagency coordination for urban planning and implementation of projects;

(iv) strengthening decentralization further through commensurate fiscal devolution and decision-making power to the local governments;

(v) building the capacity of local self-governments in urban infrastructure planning and financial management to meet the responsibilities placed on them by the local self-government code to better support the decentralization process;

(vi) strengthening the regulatory framework with the adoption of the new code on planning and construction and tightening the oversight for compliance during implementation; and
(vii) supporting cities through structuring urban management programs that build capacity through peer-to-peer learning in developing urban master plans and implementing urban infrastructure.

**Building regional competitiveness will require**

(i) improving transport and logistical infrastructure and services to strengthen urban–rural linkages of production sites in the rural areas and the medium-sized cities with Tbilisi, as well as larger markets within the country and transborder to balance regional disparities and to take advantage of Tbilisi’s strategic location and access to international markets;

(ii) developing a clustered economic development approach to optimize spatial spillovers of regional economic corridors in the country;

(iii) extending market opportunities and productivity and stimulating the economic growth of medium-sized urban settlements;

(iv) introducing measures to address underemployment for potentially supporting investments in export-oriented sectors to cater to employment demand in these sectors;

(v) increasing access to finance for private sector development, particularly for the development of small and medium-sized enterprises (SMEs), providing financial support to public–private partnerships (PPPs), and developing a pipeline of bankable PPP projects; focusing economic policy on resources that enhance the potential of small investors who continue to be the backbone of regional development in the poorest regions;

(vi) improving access to credit, lowering logistic costs, and promoting SMEs, including those for agrarian–based winemakers; and

(vii) modernizing farming techniques and improving market access.

**Creating resilient cities will require**

(i) **building climate change resilience:**

   (a) preventing and/or reducing the negative impacts of climate change in the coastal cities, particularly Poti and Batumi; considering riverside cities, such as Tbilisi, for investments resilient to urban climate change;

   (b) undertaking GHG inventories at the city level and introducing GHG emission reduction priorities in the energy and transport sectors;

   (c) introducing integrated transport and urban planning for sustainable urbanization adopting the avoid–shift–improve of ADB’s Sustainable Transport Initiative conceptual framework;

   (d) developing and adopting traffic management systems in the main cities and enhancing integrated mobility systems, including transit system and nonmotorized transport;

   (e) introducing modern asset management systems;

   (f) improving urban infrastructure standards resilient to climate change and implementing coastal reinforcement works to protect urban infrastructure, wherever applicable;
(g) undertaking GHG inventories and introducing GHG emission reduction priorities in transport sector, such as introduction of low-emission technologies (clean buses and transit systems, cable cars);
(h) improving investment planning, funding, and financing mechanisms; and
(i) improving and/or modernizing early warning systems relevant to climate-induced events.

(ii) **urban environmental infrastructure:**
(a) expanding infrastructure and services, particularly modernizing water and sanitation systems, expanding sewage treatment plants, and improving SWM systems;
(b) expanding water abstraction and treatment to address gaps in the big cities (particularly outside of Tbilisi) as well as towns;
(c) strengthening water demand management (meters, system efficiency, and wastewater treatment);
(d) rehabilitating and expanding existing sewage treatment plants, such as Gardabani and Khashuri;
(e) establishing new sewage treatment plants in cities and towns where no such plants exist;
(f) rehabilitating and reconstructing water and sanitation systems, and establishing public toilets in cities;
(g) improving landfills by providing fencing, installing weigh bridges, and streamlining management systems;
(h) establishing new state-of-the-art landfills to progressively close down the existing landfills;
(i) setting up new recycling and recovery centers to promote recycling culture;
(j) improving enforcement of environmental regulations; and
(k) establishing a land management system and transparent processes for enabling infrastructure planning and sustainable urban development.

(iii) **enabling inclusive urban growth:**
(a) making parallel improvements in the education system along with the creation of job opportunities;
(b) undertaking vocational measures to address the existing between the competencies required for available jobs and labor skills;
(c) rehabilitating and regenerating the housing stock to meet demands and prevent hollowing out of inner city areas;
(d) instituting citizen awareness programs to support participatory planning; and
(e) building sustainable road transport networks, ensuring improved maintenance and road safety.

**Urban Vision and Strategic Prioritization**

Georgia’s vision is to leverage its strategic location and develop as a transport and logistics hub. The urban vision for Georgia is to develop regionally competitive, well connected, and livable cities based on integrated urban planning through an inclusive and adaptive approach:
(i) to respond to the requirements of the cities by building on their individual assets, strengths, and opportunities;
(ii) to support knowledge transfer through replication of transformational global good practice and experience;
(iii) to strengthen resilience of the cities and meet international emissions standards through technological innovation;
(iv) to enable inclusive urban development for the provision of affordable housing and shelter for the urban poor;
(v) to strengthen institutions at all levels and to build capacity of stakeholder groups, including SMEs, and citizens through peer-to-peer learning and community awareness programs; and
(vi) to build partnerships between development partners to harmonize approaches.

The strategic urban priorities from the assessments and discussions with stakeholders are outlined in the following.

### Enabling Environment: Improving Urban Governance and Management

(i) Improving systems for urban planning and spatial planning using geospatial data
(ii) Developing a national urban strategy and spatial development plan based on a balanced regional urbanization approach to realize the potential of the medium-sized cities and rural economies for increased urban–rural integration and reduction of regional disparities
(iii) Developing integrated urban plans and programs for cities including smaller towns covering all sectors
(iv) Strengthening urban governance and management through the establishment of an institutional mechanism for coordination across different sectors in major cities to deal with urban infrastructure and service delivery
(v) Developing the capacity of local self-governments for technical and management skills through training courses and capacity building for integrated urban planning, heritage conservation, building regulations, and financial management
(vi) Developing an enabling framework for investments in the urban sector, including legislative reforms, revision of planning and building codes, and environmental standards and regulations
(vii) Strengthening tax revenues to ensure adequate resources for social and physical infrastructure development for sustainable economic growth

### Economy: Building Regional Competitiveness

(i) Investing in transport and tourism infrastructure to improve access and economic prospects of rural communities and small towns dependent on agribusiness, such as horticulture, nuts, fruits, cheese, and wine making
(ii) Developing integrated transport system for main cities and improving regional connectivity
(iii) Consolidating and developing smaller towns and cities through clustered development to stimulate economic growth

(iv) Building on existing transport investments such as the East-West Highway to link tourism development through clustered development as a pilot initiative

(v) Promoting industrial development, including SMEs and agroindustries, such as cheese, nuts, and wine; supporting the development of logistics for export-oriented horticulture and agribusiness

(vi) Providing incentives to investors to promote growth in regional centers and address regional disparities, and urban imbalance

(vii) Enhancing credit finance to foster entrepreneurship for SME development and support social infrastructure

(viii) Improving the domestic investment climate and legislation to encourage the domestic banking sector and the private sector to invest in infrastructure to attain long-term development goals

(ix) Improving investment planning, funding, and financing mechanisms; increasing the capacity of the MDF to support cities in developing bankable projects for PPP

**Equity: Inclusive Growth**

(i) Providing services at affordable prices with explicit service obligations and cost-recovery tariffs where affordable

(ii) Promoting public and community awareness programs, including mechanisms for community participation through schools

(iii) Developing a robust industry sector to create more productive job opportunities for unskilled labor; linkinging education, vocational training, and skills development to employment creation with provision of supporting infrastructure facilities

(iv) Ensuring strategic investments in cross-sector initiatives, such as agricultural and cultural tourism, are supported alongside skills development

(v) Introducing inclusive urban development policies to enable affordable housing and shelter for the urban poor; ensuring the protection of rights and promoting compliance of regulations by all agencies the responsible for delivery of housing, including the private sector

(vi) Promoting urban renewal as a mechanism for rejuvenating old and dilapidated building stock through a participatory planning process for mixed-use developments

**Environment: Green Resilient Cities**

(i) Targeting investment in urban environmental infrastructure for climate change adaptation and mitigation; infrastructure with environmental considerations with improvements in water supply and water quality; sanitation and solid waste management; education and roads; sustainable public transport, mobility, and transport management; and public space management

(ii) Improving the managerial, operational, and financial capacity of the utilities; strengthening the institutional and regulatory environment to facilitate sustainable investments; and upgrading service quality norms
(iii) Developing a national policy and program for WSS and SWM to improve services by concentrating on comprehensive system improvements in urban growth centers as opposed to scattered investments; improving the planning process, management, and monitoring practices (management contracts); introducing structure alternative modes of financing, including PPPs; and applying up-to-date technological solutions for upgrading WSS and SWM systems

(iv) Undertaking GHG inventories and introducing GHG emission reduction priorities in the power and transport sectors; expanding and renovating the existing monitoring stations for air quality, measurement methodologies, and data-processing systems

(v) Reviewing land-use and land conversion policies and establishing transparent and accountable systems that enable organizational reforms to bring in good governance in the real estate and construction market

(vi) Consolidating data on urban land use; developing a centralized land-use database system with geographic information system (GIS) mapping to aid government in tapping land value and increasing efficiency in property tax collection

(vii) Enhancing energy efficiency and technological support for renewable energy, waste-to-energy options, and others; developing and expanding district heating systems across the different regions

(viii) Developing national strategy, policies, programs, and operational plans to tackle flood events; investments to prevent and/or reduce the negative impact of floods and flash floods from river basins, including the modernization of early warning systems

Policy and Programming

The government works closely with ADB and other international financing institutions. The country operations business plan, 2015–2017 of ADB is consistent with the country partnership strategy (CPS), 2014–2018 for Georgia, the findings from the recent Midterm Review of ADB’s Strategy 2020, and the Socio-economic Development Strategy of Georgia (Georgia 2020) approved by the government in June 2014.16

The CPS 2014–2018 and Georgia 2020 share a common goal of fostering inclusive economic growth through measures to (i) enhance private sector competitiveness; (ii) improve public sector management, including domestic resource mobilization for investment; and (iii) finance priority infrastructure that is essential for connectivity and broader access to economic activity.

The strategic thrust of the country operations business plan, 2015–2017 is consistent with the CPS priorities. The plan will support the government to (i) improve internal and regional market connectivity to enhance private sector competitiveness and to broaden community access to economic opportunities; (ii) make essential drinking water, sewerage, and sanitation services more accessible and reliable, particularly in smaller towns and secondary cities that are potential hubs for agribusiness and tourism; (iii) improve the security and

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stability of power systems, especially for communities in lagging regions; (iv) strengthen public sector management for domestic resource mobilization and investment in business and infrastructure; and (v) increase access to finance and promote financial inclusion, particularly for micro, small, and medium-sized enterprises.

**Strategic Urban Infrastructure Investment Plan**

Meeting the challenges and opportunities identified under the national urban assessments will require the government to adopt and support multiple strategies, new initiatives, and innovative funding mechanisms. The key challenge for the government is the lack of institutional coordination among agencies. Building on ongoing investments under the multitranché financing facility, ADB can support the government to develop livable cities (competitive, socially inclusive, and environmentally resilient) through investments for infrastructure and improved policy and institutional arrangements for delivering urban services. The national urban assessments have identified some key investment areas that ADB could target:

- **Integrated urban planning.** City development plans or integrated urban plans for towns to focus on integrated transport and land-use planning, urban environmental infrastructure, reducing environmental degradation; preserving cultural heritage; fostering financially sustainable development; and strengthening institutional, organizational, and technical capacities of the urban development agencies.

- **WSS and SWM services.** To be provided in a professional, businesslike manner, with a focus on providing quality services to consumers.

- **Sustainable urban transport.** To strengthen urban transport systems, Georgia needs to streamline policy and regulatory frameworks, rationalize and improve public transport, reinforce network structures, optimize technologies and services, and develop links with diversified supply elements (public and private service providers).

**Targeted 3E Program**

Targeted investments require a geographical focus to identify urban strategic areas or locations for ADB interventions. These are based on government policy documents, other donor agency reports, and ADB sources. The 3E (economy, environment, and equity) framework provides the platform for ADB to leverage the drivers of developing cities and to apply these to highlighted urban priorities. Cities must become more competitive, inclusive, and environmentally responsive, incorporating the current sectors of focus in the CPS—transport, energy, water supply and other municipal services, and public sector management—if they are to become more economically dynamic and livable places. Table 3 outlines recommendations for investments.
<table>
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<tr>
<th>ADB Sector Focus</th>
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<th>Competitive Cities</th>
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| **Urban Development**     | **Policy:** Target investment in urban environmental infrastructure for climate change adaptation and mitigation  
Prioritize strategic investment in urban infrastructure with holistic approach toward water management, especially water, wastewater (sanitation); solid waste management; and storm water management to reduce flood risks  
Address issues of utility service provision | **Policy:** Develop smaller towns and cities near major growth centers to stimulate economic growth to capture benefits of urbanization  
**Institutions and regulatory systems**  
Diversify export-oriented agribusiness and support development of robust industry sector to create more productive job opportunities for unskilled labor  
Establish vocational education  
Enhance local outlets for credit finance investment in SME promotion through industry associations and e-governance to reduce transaction costs and support SME development | **Policy:** Provide incentives to promote growth in medium-sized cities and towns to address urban imbalance  
**Human resource development**  
Link education, vocational training, and skills development to employment creation in small towns and medium-sized cities  
Provide vocational education and supply chain capacity development for agroindustries  
Introduce local revenue-generating activities |
| **Land Management**       | Address urban renewal through targeted investments for rehabilitation of housing stock and provision for low-income communities  
Review land-use and land conversion policies  
Establish transparent and accountable systems that enable organizational reform to bring in good governance in the real estate and construction market | Consolidate data on urban land use  
Develop a centralized land-use database system with GIS mapping for transparent and efficient land-use and infrastructure planning  
Ensure an integrated transport and land-use planning to facilitate land optimization | Empower communities to increase accountability and transparency in monitoring and implementation of housing rehabilitation and upgrading strategies for poor urban communities  
Ensure protection of rights and promote compliance of regulations by all agencies, including private sector, responsible for delivery of housing  
Address housing affordability |
| **Solid Waste Management**| Operationalize the existing landfills and the new state-of-the-art landfills so that there are no harmful impacts on the environment | Increase efficiency through involving the private sector in waste management  
Exploit cross-sector synergies, such as waste recycling (material reuse) and recovery (waste-to-energy options) | Improve access of urban population to adequate solid waste collection and disposal  
Encourage urban community initiatives to reduce and segregate waste-at-source |
| **Water Supply and Municipal Services** | Ensure water recycling and waste recovery  
Develop a watershed plan with a combination of restoration and protection measures, as a superset of the land-use plan | Improve planning process, management, and monitoring practices  
Strengthen institutional and regulatory environment to facilitate sustainable investments  
Structure alternative modes of financing, including PPPs | Improve access of urban population to piped water on premises  
Provide services at affordable prices with explicit service obligations and cost-recovery tariffs, wherever applicable |

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### ADB Sector Focus

**Transport and Tourism**
- Establish public transport, land-use and/or transport synergies
- Incorporate greenhouse gas inventories and emission reduction priorities in transport sectors
- Measure and reduce infrastructure bottlenecks
- Increase densities and growth among corridors

**Competitive Cities**
- Invest in transport and tourism infrastructure to improve access and economic prospects of geographically dispersed regions
- Establish intercity connectivity through proper linkages with the national road investment program
- Develop and adopt traffic management systems in the main cities
- Introduce modern asset management systems
- Enhance integrated mobility systems
- Improve investment planning, funding, and financing mechanisms

**Inclusive Cities**
- Promote strategic investments in cross-sector initiatives, such as agricultural tourism and cultural tourism, alongside alternative livelihood opportunities

**Energy**
- Address climate change
- Mitigate greenhouse gas emissions
- Enhance energy efficiency in urban services
- Plan energy-efficient building construction
- Provide reliable and secure electricity services at competitive rates that are essential to improve the investment climate and distribution management
- Invest in clean production technology
- Increase technological support for renewable energy
- Consider waste-to-energy options, and others

**Competitive Cities**
- Provide reliable and secure electricity services at competitive rates to improve the investment climate

**Inclusive Cities**
- Provide affordable electricity
- Provide rural electrification
- Provide renewable energy for community-led development

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Establish governance mechanisms for coordination of planning and implementation of projects
Establish building codes and certification

Strengthen tax revenues to ensure adequate resources to develop social and physical infrastructure to facilitate sustainable economic growth
Strengthen property rights
Promote PPPs
Improve the domestic investment climate to encourage the domestic banking sector and the private sector to invest in infrastructure to attain long-term development goals
Ensure regional planning and coordination
Provide innovative financing alternatives
Facilitate capacity development of local self-governments to develop technical and management skills

Address project partnerships
Reform local government institutions
Encourage microfinance
Address climate change and facilitate adaptation
Ensure asset management and community-based budgeting

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ADB = Asian Development Bank, GHG = greenhouse gas, GIS = geographic information system, PPP = public–private partnership, SMEs = small and medium-sized enterprises, SWM = solid waste management, WSS = water supply and sanitation.

Realizing the Urban Potential in Georgia
National Urban Assessment: Executive Summary

This publication details the rapid assessment of the urban sector in Georgia to understand key urbanization trends and patterns of growth and to analyze challenges and opportunities. It gives a snapshot of the state of urban affairs at the national level with an urbanization profile, governance and urban management profile, capacity needs assessment, urban finance matrix, and a “3E” assessment covering economic, environmental, and social equity profiles. This document is not a strategy but the basis for developing a national urban strategy and road map for integrated investments to maximize development impact.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to the majority of the world’s poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.