



Country Partnership Strategy

August 2019

Georgia, 2019–2023 —Developing Caucasus’s Gateway to the World

Distribution of this document is restricted until it has been endorsed by the Board of Directors. Following such endorsement, ADB will disclose the document to the public in accordance with ADB’s Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 July 2019)

Currency unit	–	lari (GEL)
GEL1.00	=	\$0.34
\$1.00	=	GEL2.96

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	country partnership strategy
EU	–	European Union
FDI	–	foreign direct investment
FTA	–	free trade agreement
GDP	–	gross domestic product
IED	–	Independent Evaluation Department
IMF	–	International Monetary Fund
MSMEs	–	micro, small, and medium-sized enterprises
OCR	–	ordinary capital resources
PBL	–	policy-based lending
PISA	–	Program for International Student Assessment
PPP	–	public–private partnership
RCI	–	regional cooperation and integration
SDG	–	Sustainable Development Goal
SDR	–	special drawing right
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
UNFCCC	–	United Nations Framework Convention on Climate Change

NOTE

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

Vice-President	Shixin Chen, Operations 1
Director General	Werner Liepach, Central and West Asia Department (CWRD)
Country Director	Yesim M. Elhan-Kayalar, Georgia Resident Mission (GRM), CWRD
Team leader	Kenji Takamiya, Principal Economist, CWRD
Team members	<p>Michael Anyala, Senior Road Asset Management Specialist, Sustainable Development and Climate Change Department (SDCC)</p> <p>Ichiro Aoki, Senior Investment Specialist, Private Sector Operations Department (PSOD)</p> <p>Eduardo Banzon, Principal Health Specialist, SDCC</p> <p>Michael Beauchamp, Senior Social Development Specialist (Safeguards), CWRD</p> <p>Gambhir Bhatta, Advisor, and Head, Knowledge Sharing and Services Center, SDCC</p> <p>Kamel Bouhmad, Transport Specialist, CWRD</p> <p>Claudia Buentjen, Principal Public Management Specialist, SDCC</p> <p>Fatima Catacutan, Senior Programs Officer, CWRD</p> <p>Asif Cheema, Principal Investment Specialist, PSOD</p> <p>Nicolas Dei Castelli, Urban Development Specialist (Transport), CWRD</p> <p>Jules Hugot, Young Professional, PSOD</p> <p>Ari Kalliokoski, Senior Transport Economist, Pacific Department</p> <p>Murman Katsitadze, Associate Procurement Officer, CWRD</p> <p>George Kiziria, Senior Project Officer (Infrastructure), CWRD</p> <p>Duncan Lang, Environment Specialist, CWRD</p> <p>James Leather, Chief, Transport Sector Group, SDCC</p> <p>Valerie Lisack, Senior Transport Specialist, CWRD</p> <p>Xianfu Lu, Senior Climate Change Specialist (Climate Change Adaptation), SDCC</p> <p>George David Luarsabishvili, Economics Officer, CWRD</p> <p>Noriyuki Mori, Senior Water Resources Specialist (Dam Optimization), SDCC</p> <p>Akmal Nartayev, Senior Financial Management Specialist, Procurement, Portfolio and Financial Management Department (PPFD)</p> <p>Natalia Nikuradze, Senior Operations Assistant, GRM</p> <p>David Oldfield, Principal Economist, CWRD</p> <p>Brajesh Panth, Chief, Education Sector Group, SDCC</p> <p>Tea Papuashvili, Project Analyst, CWRD</p> <p>Massimo Petrone, Senior Urban Development Specialist, CWRD</p> <p>Tania Melanie Rajadel, Senior Evaluation Specialist, Independent Evaluation Department</p> <p>Nathan Rive, Climate Change Specialist, CWRD</p> <p>Thomas Robinson, Procurement Specialist, PPFD</p> <p>Kristian Rosbach, Economist (Regional Cooperation), CWRD</p> <p>Mary Alice Rosero, Social Development Specialist (Gender and Development), CWRD</p>

Team members	<p>Arghya Sinha Roy, Senior Disaster Risk Management Specialist (Climate Change Adaptation), SDCC</p> <p>Jouko Sarvi, Lead Education Specialist, CWRD</p> <p>Anna Charlotte Schou-Zibell, Chief, Finance Sector Group, SDCC</p> <p>Ramola Naik Singru, Senior Urban Development Specialist, CWRD</p> <p>Priyanka Sood, Senior Financial Sector Specialist, CWRD</p> <p>Sonomi Tanaka, Chief, Gender Equity Thematic Group, SDCC</p> <p>Adnan Tareen, Principal Energy Specialist, CWRD</p> <p>Tamar Tsiklauri, Project Analyst, CWRD</p> <p>Avtandil Tskhvitava, Senior Project Officer, CWRD</p> <p>David Urbaneja-Furelos, Investment Specialist, PSIF1</p> <p>Joris van Etten, Senior Urban Development Specialist, CWRD</p> <p>Michiel Van der Auwera, Unit Head, Project Administration, CWRD</p> <p>Guoliang Wu, Senior Regional Cooperation Specialist, CWRD</p> <p>Zhou Yaozhou, Principal Water Resources Specialist, CWRD</p> <p>Susumi Yoneoka, Energy Specialist (Smart Grids), SDCC</p> <p>Seok Yong Yoon, Principal Public Management Specialist (e-Governance), SDCC-DT</p>
Peer reviewers	<p>David Dole, Deputy Country Director, CWRD</p> <p>Vijay Padmanabhan, Director, Southeast Asia Department</p>

In preparing any country partnership strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
COUNTRY AT A GLANCE	
I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT	1
II. COUNTRY DEVELOPMENT CONTEXT	1
III. COUNTRY STRATEGY FRAMEWORK	4
A. Lessons from Previous Strategy	4
B. National Development Strategy	5
C. Role of Development Partners	6
D. ADB's Strategic Objectives and Focus Areas	7
E. Priorities for Knowledge Support	12
IV. STRATEGY IMPLEMENTATION	12
A. Indicative Resource Parameters	12
B. Implementation Priorities	13
C. Monitoring of Results	13
D. Risks	13
APPENDIXES	
1. Country Partnership Strategy Results Framework	15
2. Country Knowledge Plan	17
3. List of Linked Documents	21

COUNTRY AT A GLANCE

Economic	2014	2015	2016	2017	2018
GDP (\$ billion, current)	16.5	14.0	14.4	15.1	16.2
GDP per capita (\$, current)	4,438.3	3,754.9	3,857.3	4,046.8	4,345.5
GNI per capita (\$, atlas method)	4,500.0	4,110.0	3,830.0	3,760.0	4,130.0
GDP growth (% , in constant prices)	4.6	2.9	2.8	4.8	4.7
Agriculture	1.6	1.6	0.3	(3.8)	1.0
Industry	4.6	4.1	6.0	6.4	0.9
Services	4.6	3.1	2.4	5.1	6.5
Gross domestic investment (% of GDP)	29.8	31.5	32.7	32.4	33.4
Gross domestic saving (% of GDP)	19.0	18.9	19.6	23.6	25.7
Consumer price index (annual % change)	3.1	4.0	2.1	6.0	2.6
Money supply (M3) (annual % change)	13.8	19.3	20.2	14.8	14.7
Fiscal balance (% of GDP) ^a	(2.0)	(1.1)	(1.4)	(0.9)	(0.8)
Augmented fiscal balance (% of GDP) ^b	(2.9)	(2.7)	(3.0)	(2.9)	(2.4)
Merchandise trade balance (% of GDP)	(34.8)	(36.4)	(36.0)	(34.5)	(38.2)
Current account balance (% of GDP)	(10.8)	(12.6)	(13.1)	(8.8)	(7.7)
External debt service (% of exports of goods and services)	20.3	21.4	20.7	21.7	18.3
External PPG debt (% of GDP)	27.3	32.9	35.1	35.7	35.5
Poverty and Social	2010	2017			
Population (million) ^c	4.4	3.7			
Population growth (annual % change)	1.2	(0.2)			[2019]
Maternal mortality ratio (per 100,000 live births)	40.0	36.0			[2015]
Infant mortality rate (below 1 year/per 1,000 live births)	14.8	9.7			
Life expectancy at birth (years)	72.6	73.4			[2017]
Adult literacy (%)	...	99.6			[2014]
Primary school gross enrollment (%)	101.8	102.6			[2016]
Child malnutrition (% below 5 years old)			
Population below poverty line (%)	37.3	20.1			[2018]
Population with access to safe water (%)	91.6	93.3			[2015]
Population with access to sanitation (%)	88.8	84.9			[2015]
Environment	2010	2017			
Carbon dioxide emissions (kt)	6,314.6	8,987.8			[2014]
Carbon dioxide emissions per capita (metric tons)	1.6	2.4			[2014]
Forest area (square kilometer)	28,224.0	28,224.0			[2015]
Urban population (% of total population)	55.5	58.2			
ADB Portfolio (active loans)^d	As of 31 December 2018				
Total number of loans					
Sovereign ^d					18
Nonsovereign					4
Total loan amount (\$ million) ^e					
Sovereign ^d					1,489.3
Nonsovereign ^f					200.3
Disbursements (sovereign)					
Disbursed amount, total (\$ million, 2018)					141.1
Disbursed amount, excluding PBL (\$ million, 2018)					141.1
Disbursement ratio, excluding PBL (%)					20.5

... = not available, () = negative, [] = latest year for which data are available, ADB = Asian Development Bank, GDP = gross domestic product, GNI = gross national income, kt = kiloton, M3 = broad money, PBL = policy-based lending, PPG = public and publicly guaranteed.

^a Fiscal balance reported according to Government Finance Statistics Manual (GFSM) 2001 of the International Monetary Fund (IMF).

^b Augmented fiscal balance according to the IMF's GFSM 1986 that reflects both capital and recurrent expenditures.

^c Population for the beginning of the year. There was a significant correction in population figures in 2014, as a new census was conducted, and the population growth trend and figures were revised from 2015.

^d Covers Asian Development Fund and ordinary capital resources financing for projects and programs, including PBL.

^e Net of droppages and cancellation.

^f The amount includes \$8.67 million outstanding guarantee under ADB's Trade Finance Program (TFP). TFP works with 3 banks and has supported \$130.6 million in trade between 96 transactions in Georgia.

Sources: ADB. 2019. *Asian Development Outlook 2019: Strengthening Disaster Resilience*. Manila; Ministry of Finance of Georgia; National Statistics Office of Georgia; National Bank of Georgia; and World Bank. *World Development Indicators*. Washington, DC (accessed 29 July 2019).

I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. Georgia is geographically located at the crossroads of Europe and Asia. Its overall development strategy—Freedom, Rapid Development, Prosperity: Government Platform 2016–2020¹ (hereafter, “Government Program 2016–2020”)—recognizes this unique spatial advantage and calls for the country’s closer market integration with the rest of the world, including the European Union (EU). However, Georgia has not yet fully tapped this geographical advantage for international economic integration. It needs to raise its productivity, including through further exposure to international economic integration and by relieving supply-side constraints such as its infrastructure and skills deficits. The country continues to have a sizable population below the poverty line and a high unemployment rate of 12.7%.

2. The ultimate goal of the proposed country partnership strategy (CPS) of the Asian Development Bank (ADB) for 2019–2023 is to expand trade, create more jobs, and combat poverty through development of economic corridors in Georgia. Among the operational priorities under ADB’s Strategy 2030,² the CPS adopts regional cooperation and integration (RCI)—along with balanced economic development, making urban areas more livable, reducing poverty and inequality, and strengthening governance and institutional capacity—as its primary strategic objective to help Georgia make the most of its value propositions, including geographic location and free trade agreements (FTAs) with 32 of its trading partners. ADB operations under CPS 2019–2023 will be fully aligned with Strategy 2030 priorities. All other operational priorities of Strategy 2030 will be addressed as crosscutting themes.

3. Another prominent feature of the Government Program 2016–2020 is its emphasis on market-driven growth. Taking advantage of this enabling business environment, private sector operations are incorporated in the country strategy under the One ADB approach, which leverages all competencies of ADB to meet Georgia’s evolving development needs.

II. COUNTRY DEVELOPMENT CONTEXT

4. Georgia’s GDP growth rate, which had slowed between 2013 and 2016, recovered by 2017 and recorded 4.7% in 2018, when industry grew by 0.9% and services by 6.5%, while agriculture rebounded to 1.0%. Georgia is considered a top reformer in creating an enabling environment for private sector development. It came 9th³ in the World Bank’s Doing Business rankings in 2017,⁴ and 6th in 2018,⁵ placing it above all other actively borrowing developing member countries on record. Georgia continues to attract a significant level of foreign direct investment. Georgia is also an attractive destination for tourism. In 2018, it attracted 7.2 million international tourists nearly double the size of its population.

5. Georgia can take fuller advantage of its geographic location for international economic integration. In 2014, a high-profile Deep and Comprehensive Free Trade Area with the EU came into effect (as per Georgia’s Association Agreement), harmonizing regulatory frameworks, systems, and product standards with those required in Europe. Georgia’s FTA with the European

¹ Government of Georgia. 2016. *Freedom, Rapid Development, Prosperity: Government Platform 2016–2020*. Tbilisi.

² ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

³ Georgia had achieved the ninth rank once before, in 2012. World Bank. 2013. *Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises*. Washington, DC.

⁴ World Bank. 2017. *Doing Business 2018: Reforming to Create Jobs*. Washington, DC.

⁵ World Bank. 2018. *Doing Business 2019: Training for Reform*. Washington, DC.

Free Trade Association came into force in 2017; with the People’s Republic of China in 2018; and with Hong Kong, China in 2019. However, the share of trade in its gross domestic product (GDP) was 53.0% in 2015–2017, less than a third of Singapore’s 160.2% and Hong Kong, China’s 189.2%. In 2017, domestic demand (consumption, investment, and government expenditures combined) accounted for 115.6% of GDP, while net exports accounted for –15.6%. The current account has chronically been in deficit (averaging 11.6% of GDP during 1995–2017), implying that domestic demand was far exceeding supply.⁶ Thus, Georgia needs to raise its productivity, including through further exposure to international economic integration and by relieving supply-side constraints. The World Bank’s logistics performance indicators, which monitor this particular aspect of reforms, show that Georgia could enhance trade-related infrastructure and further advance trade facilitation (Table 1). The World Economic Forum’s Global Competitiveness Report ranks the state of Georgia’s infrastructure in 72nd position (with a score of 66.7), far below Singapore, which is ranked 1st (with a score of 95.7); and Hong Kong, China ranked 2nd (with a score of 94.0).⁷ So, while Georgia has a sound business environment, it still lacks an equivalent level of quality infrastructure.

Table 1: Logistics Performance Index

	LPI Rank	LPI Score	Customs Score	Infrastructure Score
Europe and Central Asia	...	3.24	3.04	3.13
Georgia	119	2.44	2.42	2.38
Hong Kong, China	12	3.92	3.81	3.97
Singapore	7	4.00	3.89	4.06

... = not available, LPI = logistics performance index.

Note: The LPI is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. Performance is evaluated using a 5-point scale (1 for the lowest score, 5 for the highest), and the ranking among 160 countries (the higher, the better) is provided.

Source: World Bank. Logistics Performance Index. <https://lpi.worldbank.org> (accessed 21 September 2018).

6. While gradually diminishing, the unemployment rate in Georgia remains high at 12.7% nationwide (2018). Unemployment is particularly high in the 20–24 age group,⁸ at 30.8%.⁹ In Tbilisi, the overall unemployment rate reached 18.8%, higher than in the rest of the country. Underemployment is another significant feature, particularly in rural areas. A joint study by ADB, the International Monetary Fund (IMF), and the World Bank found that the high rate of unemployment and underemployment is a reflection of the skills mismatch, partly resulting from the poor quality of education, which does not cater to the needs of the labor market. More than 50% of the unemployed have a secondary school diploma and 40% have a higher education degree. However, they lack the skills required in the labor market, i.e., low- and mid-level technical skills, and soft skills such as creative and critical thinking, problem solving, teamwork, leadership, and decision making.¹⁰

⁶ However, it should be noted that Georgia’s current account deficit is at present largely financed by foreign direct investment (FDI). The World Bank’s Doing Business 2013 report presented a cross-country study that confirmed a positive correlation between Doing Business indicators and FDI inflow. World Bank. 2013. *Doing Business 2013. Smarter Regulations for Small and Medium-Size Enterprises*. Washington, DC.

⁷ Klaus Schwab. 2018. *The World Competitiveness Report 2018*. Geneva: World Economic Forum.

⁸ United Nations Development Programme website on the Sustainable Development Goals in Eastern Europe and Central Asia (<http://www.ge.undp.org/content/dam/rbec/docs/undp-rbec-goal-1-no-poverty-infographic.pdf>).

⁹ National Statistics Office of Georgia (GeoStat). <http://www.geostat.ge/index.php?lang=eng> (accessed 20 May 2019).

¹⁰ F. Painchaud, L. Ersado, and J. Sarvi. 2018. Georgia’s Labor Market and Education System. In IMF. *Georgia: Selected Issues*. Washington, DC. Test results of the Programme for International Student Assessment (PISA) in

7. In the long run, its shrinking labor force is expected to have an adverse impact on Georgian economy as the population ages. This makes the participation of women in the labor market all the more important.¹¹ While the difference in unemployment rates between men and women is not substantial in Georgia, a gap remains. Overall, the unemployment rate among women is lower than among men (or equal, as far as youth unemployment is concerned). Women's share in nonagricultural employment, as of 2017, is 46.4%, slightly below 50%. As regards gender equality in other areas, Georgia achieved near gender parity in educational attainment, but women still account for a significant proportion of the poorest. They figure in the bottom 40% of income distribution, and households headed by women are overrepresented among the poor.¹²

8. Georgia has undertaken extensive measures to nationalize the United Nations' Sustainable Development Goals (SDGs), adapting all 17 goals and their targets to the local context and making them national goals. It anchors the agenda of public institutions to the respective SDGs through a rigorous methodology and an inclusive review process. It also has a national review platform, and all progress is closely monitored through the Prime Minister's Office.¹³

9. As regards SDG 1 (no poverty), in the long run, the share of Georgia's population below the poverty line of \$1.9 per day declined from 19.4% in 2000 to 5.0% by 2017.¹⁴ However, this is substantially higher than an average of regional comparators where data are available (1.5% in 2017). The percentage of the population living below the national poverty line also declined from 34.3% in 2004 to 20.1% in 2018.¹⁵ The growth rate of household income per capita among the bottom 40% of the population was 6.4% in 2011–2016, higher than the 4.3% for the population at large that SDG 10 (reduced inequalities) calls for.¹⁶

10. As in many other countries, substantial regional disparities exist in Georgia. Tbilisi's regional GDP per capita is \$6,556.1, more than twice that of most other regions in the country (Table 3). The average remuneration of employees is also substantially higher in Tbilisi. The unemployment rates vary as well—they tend to be lower in the areas surrounding the capital (3.9% in Kakheti, 15.3% in Kvemo Kartli, 9.7% in Mtskheta-Mtianeti, and 14.5% in Shida Kartli) than in Tbilisi itself (18.8%).¹⁷

2015 indicated that Georgian students had performed somewhat better than during the previous PISA tests in 2009. However, the 2015 results were still far below the Organisation for Economic Co-operation and Development average in key test areas, and much below the results of most developing countries that participated in the 2015 PISA. Organisation for Economic Co-operation and Development. 2018. *PISA 2015: Results in Focus*. Paris.

¹¹ Women's labor force participation rate was 57.3%, compared with 78.4% for men. ADB. 2018. *Country Gender Assessment*. Manila.

¹² ADB. 2018. *Country Gender Assessment*. Manila.

¹³ First Voluntary National Review on Implementation of the Sustainable Development Goals. Georgia. <https://sustainabledevelopment.un.org/content/documents/10680SDG%20Voluntary%20National%20Review%20Georgia-.pdf>.

¹⁴ World Bank. World Development Indicators. <https://data.worldbank.org> (accessed on 12 July 2019). However, the number of households below the extreme poverty line of \$1.25 per day increased by 2.6 percentage points between 2015 and 2017. United Nations Children's Fund. 2018. *The Welfare Monitoring Survey 2017*. Tbilisi.

¹⁵ National Statistics Office of Georgia (GeoStat). <https://www.geostat.ge/en/modules/categories/192/living-conditions> (accessed 29 July 2019).

¹⁶ ADB. 2018. *Key Indicators for Asia and the Pacific 2018*. Manila.

¹⁷ World Bank 2018. *Georgia – From Reformer to Performer: A Systematic Country Diagnostic*. Washington, DC.

Table 2: Regional Disparities

Region	Gross Domestic Product Capita (\$)	Unemployment Rate (%)	Average Monthly Remuneration (GEL)
Abkhazia
Adjara	3,894.1	9.1	848.5
Guria	2,736.2	1.8	596.1
Kakheti	2,711.8	3.9	593.9
Kvemo Kartli	2,853.6	15.3	817.3
Mtskheta-Mtianeti	2,853.0	9.7	950.0
Racha-Lechkhumi and Kvemo Svaneti	2,516.8	12.4	509.6
Samegrelo-Zemo Svaneti	3,013.9	11.9	758.2
Samtskhe-Javakheti	2,851.2	6.8	664.7
Shida Kartli	2,033.0	14.5	564.4
Tbilisi	6,556.1	18.8	1,167.60

... not available.

Source: National Statistics Office of Georgia (GeoStat). <http://www.geostat.ge/index.php?action=0&lang=eng> (accessed 20 May 2019).

11. Apart from physical and human capital, the preservation of natural capital¹⁸ is of critical importance for Georgia's growth. It is encouraging that the country's annual average rate of deforestation was negative during 2000–2015. However, the share of nationally protected areas accounted for only 6.5% in 2014, much smaller than in other Caucasus countries. Georgia's carbon dioxide emissions totaled about 9 million metric tons in 2014. The adverse impacts of climate change could seriously threaten the achievement of inclusive socioeconomic development. The impacts could range from sea level rise damaging assets and infrastructure along the coast to a change in rainfall patterns affecting agricultural productivity and hydropower generation capacity; to an increase in intensity and frequency of extreme weather events causing floods and landslide; to more frequent and intensive heat waves, especially in urban areas, affecting human health. Such impacts would create an extra burden on the development of society and, accordingly, the government recognizes climate change mitigation and adaptation as a main priority.

III. COUNTRY STRATEGY FRAMEWORK

A. Lessons from Previous Strategy

12. The previous CPS (2014–2018) centered on the three strategic agendas of inclusive growth, regional integration, and environmentally sustainable growth. It named transport; urban development (water, sanitation, and transport services); energy; public sector management; and finance as priority areas.¹⁹ The period it covered corresponded with the early phase of Georgia's Socio-Economic Development Strategy, or Georgia 2020,²⁰ and the first 3 years of the Government Program 2016–2020 (footnote 1).²¹

13. At inception, the CPS, 2014–2018 was broadly aligned with the government's development strategy of the day, Georgia 2020, which called for private sector competitiveness, human capital development, and access to finance. In 2016, Georgia 2020 was replaced with the

¹⁸ "Natural capital" is a concept that regards natural resources as a factor of production, such as capital (physical capital) and labor (human capital). D. Helm, 2016. *Natural Capital: Valuing the Planet*. New Haven: Yale University Press.

¹⁹ ADB. 2014. *Country Partnership Strategy: Georgia, 2014–2018*. Manila.

²⁰ Government of Georgia. 2014. *Socio-economic Development Strategy of Georgia "GEORGIA 2020"*. Tbilisi.

²¹ The Government Program 2016–2020 practically replaced Georgia 2020 in 2016.

Government Program 2016–2020, and focused on economic reform, public governance reform, a spatial planning scheme, and education reform. The CPS supported public governance reform mainly through a series of policy-based lending (PBL) operations, which also partially covered the broader economic reforms and fiscal consolidation.²² Through PBL, technical assistance (TA) and private sector operations, the CPS also supported the development of small and medium-sized enterprises (SMEs) and public–private partnerships (PPPs). Close cooperation with the IMF at country and program levels helped ensure successful operations and broader policy dialogue with macroeconomic implications. ADB’s infrastructure-related interventions in transport, energy, and urban development supported spatial development; and its support for institutional and capacity development helped deepen capital markets and undertake pension reforms.²³ CPS (2014–2018) did not feature human capital development and education reform, which Georgia 2020 and the Government Program 2016–2020 both listed as the government’s development priority.

14. The CPS final review, conducted in 2018, concluded that the ADB program was successful overall. It was highly relevant, efficient, effective, and likely sustainable, with development impacts deemed satisfactory. Its validation by ADB’s Independent Evaluation Department (IED) assesses the ADB program as relevant and upholds the overall assessment of a successful program. IED also recommends that the new CPS (2019–2023) and ADB’s assistance program focus on RCI, implement measures to minimize regional disparities, invest in education and training, and support the promotion of information technology-based economic activities.²⁴

B. National Development Strategy

15. In November 2016, Georgia launched the next phase of major reforms in the form of the Government Program 2016–2020, which lists economic reform, education reform, infrastructure development through spatial planning, and public governance reform as key priorities. The current government, which took office in mid-2018, confirmed that the Government Program 2016–2020 remains the country’s overall development strategy, and has deepened the focus on regional development, education, and business development through the use of high and digital technology. The core thrust is inclusive development through (i) education—vocational education and training, in particular; (ii) SME development and finance; and (iii) enabling infrastructure in the regions to both create decentralized economic centers throughout Georgia and to link these with the country’s key economic corridors and eventually with global value chains. One important theme that cuts across the Government Program 2016–2020 is its emphasis on international economic integration to make the most of Georgia’s geographical advantage at the crossroads of Europe and Asia. The government envisages to establish business relations with other countries and further increase cooperation to facilitate the country’s integration with global value chains and markets around the world (footnote 1).

16. Under this development strategy, the government is committed to developing the country into a regional transport and logistics corridor for trade between Europe and Asia. It is currently implementing an ambitious program aimed at upgrading and modernizing the strategic East–West and South–North international road corridors as part of the broader goal of facilitating integrated

²² The 3-year Improving Domestic Resources Mobilization Program supported key reforms of public financial management, pensions, capital markets, and small and medium-sized enterprises (SMEs).

²³ ADB supported the government’s preparation of a policy document called Georgian Pension Reform – Reform of the Universal Pension Benefit and Introduction of a Supplementary Pension Scheme. It was approved by the cabinet and guided the pension reform. On 21 July 2018, Georgia’s Parliament adopted the Pension Savings Law prepared with ADB support, and the private pension scheme became operational on 1 January 2019.

²⁴ IED. 2018. *Validation Report: Country Partnership Strategy Final Review for Georgia 2014–2018*. Manila: ADB.

multimodal transport infrastructure with seamless connections between the Caucasus, Central Asia, the EU, and the Russian Federation. In parallel, the government is investing in secondary road connectivity to provide efficient access between the local centers of economic activity, major tourist destinations, and the rural population engaged in agricultural production. Georgia's urban vision is also to leverage its strategic location to become a logistics corridor and develop competitive, well-connected, and livable urban areas based on integrated urban planning through an inclusive and adaptive approach.²⁵ The government envisions that cities along transport corridors will drive economic growth and job creation. The state policy in the energy sector sees Georgia's emergence as a regional platform for the generation and trade of clean energy. Georgia's Association Agreement with the EU includes an obligation to become a member of the European Energy Community through continuous reforms and legal approximation with the EU member states.²⁶ The government awarded a concession in 2016 to Anaklia Development Consortium LLC, comprising Georgian and American investors. The concession covers the development, financing, and operation of the Anaklia Deep-Sea Port and Special Economic Zone; situated on the Black Sea, it connects the Caucasus and Europe.

17. Another prominent feature of Georgia's development strategy is the use of market forces as a driver of growth. The government recognizes that the private sector holds the key to ensuring the most efficient allocation of precious resources and has been improving its investment climate, as demonstrated in the country's high ranking and scores in the World Bank's Doing Business report. The Government Program 2016–2020 states that economic development in the country will be based on the principles of a free market, a prerequisite for a stronger private sector (footnote1).

18. In the area of human capital development, the 2018 National Education and Science Strategy will pursue comprehensive reforms at all levels of the education system. The authorities also submitted legislation to increase education spending from the present level of 3.8% of GDP to 6% of GDP in 2022.²⁷

C. Role of Development Partners

19. Development partners have been supporting the government's priority of deepening Georgia's integration in the global economy by helping boost its economy, connectivity and sharing the roles of meeting necessary investment needs. The World Bank financed many road improvements and was the first development partner to finance key four-lane sections in the East–West international corridor. While the World Bank continues to extend financing for capital expenditures in the road subsector, it does so at a smaller scale and now places more emphasis on institutional support, capacity-building measures, and the development of knowledge products. ADB, in 2017, started project cofinancing in Georgia and partnered with the Asian Infrastructure Investment Bank in its first project, the Batumi Bypass Road. In 2018, ADB entered into a cofinancing agreement for \$1.1 billion with the European Investment Bank, the Japan

²⁵ Government of Georgia. 2014. *Social-economic Development Strategy of Georgia "GEORGIA 2020"*. Tbilisi; and ADB. 2016. *Realizing the Urban Potential in Georgia: National Urban Assessment*. Manila.

²⁶ Official Journal of the European Union. 2014. Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part. L261/4, Volume 57, 30 August. The EU's Third Energy Package comprises legislation related to the opening of the EU's gas and electricity market. It was proposed by the European Commission in September 2007 and adopted by the European Parliament and the Council of the European Union in July 2009.

²⁷ International Monetary Fund. 2019. *Georgia: Fourth Review Under the Extended Fund Facility Arrangement and Request for Modifications of Quantitative Performance Criteria-Press Release; Staff Report; and a Statement by the Executive Director for Georgia*. Washington, DC.

International Cooperation Agency, and the World Bank. In 2019, another flagship road project of the government—the North–South corridor—will be cofinanced with the European Bank for Reconstruction and Development. To comply with European Energy Community membership requirements in the energy sector, ADB, the European Bank for Reconstruction and Development, the EU, the International Finance Corporation, the IMF, German development cooperation through KfW, and the World Bank have been supporting the related reform agenda. Past and present key development partners in the education sector include the Millennium Challenge Corporation, the EU, the United Nations Children’s Fund (UNICEF), the United States Agency for International Development, German development cooperation through GIZ and KfW, and the World Bank. ADB has been working closely with Agence Française de Développement on urban development, the United States Agency for International Development on governance, and Swedish International Development Cooperation Agency on gender.

20. The country has implemented several IMF programs to date. The latest Extended Fund Facility arrangement for SDR210.4 million (about \$285.3 million) was approved on 12 April 2017. Its fourth review was successfully completed on 19 June 2019, bringing total disbursements under the arrangement to SDR150 million (about \$207.2 million).

D. ADB’s Strategic Objectives and Focus Areas

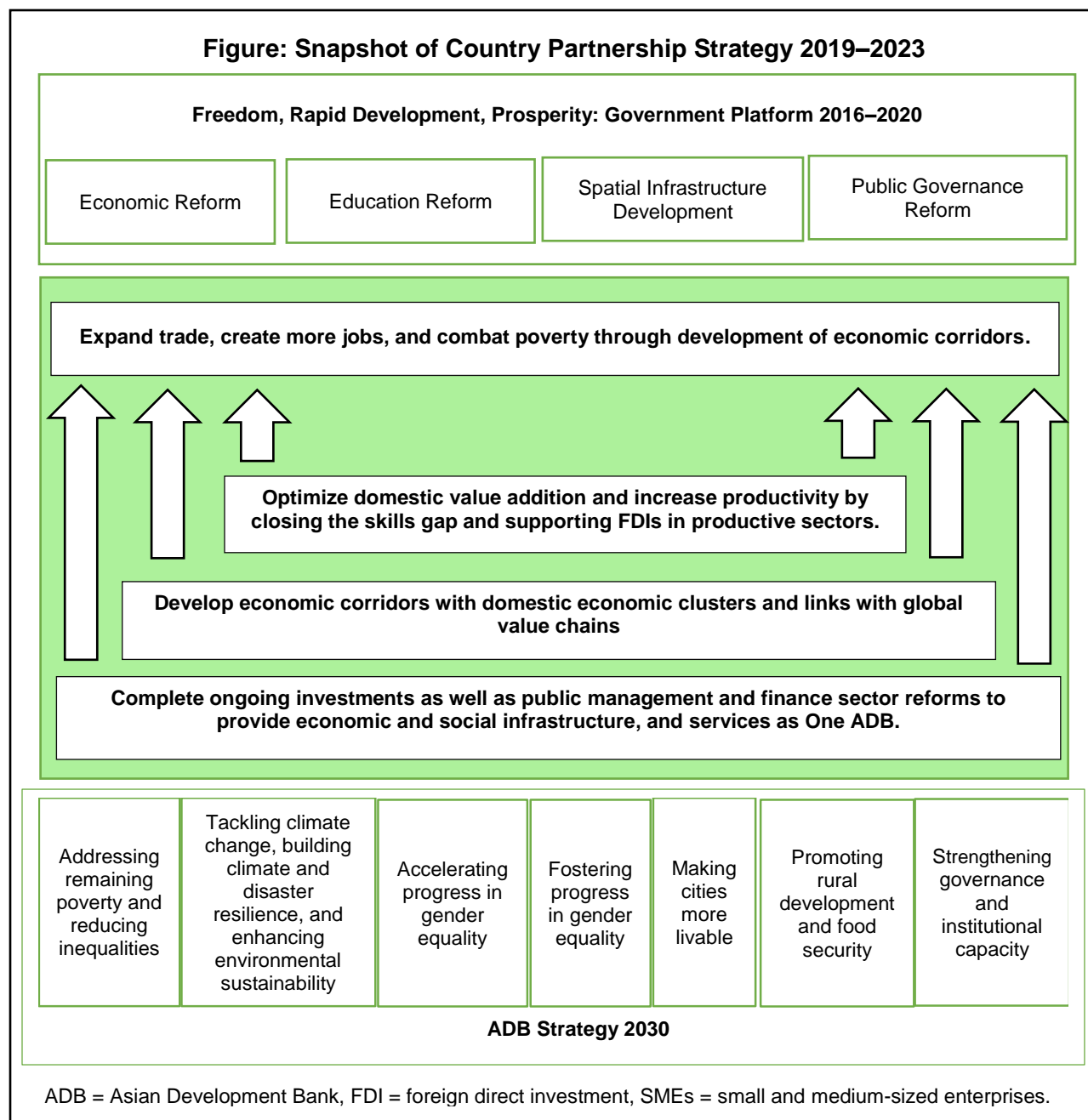
1. Strategic Objective

21. The ultimate goal of the CPS, 2019–2023 is to expand trade, create more jobs, and combat poverty through development of economic corridors. The strategic approach underlying it involves (i) completing ongoing investments as well as public management and finance sector reforms to provide economic and social infrastructure and services as One ADB; (ii) developing economic corridors with domestic economic clusters and links with global value chains; and (iii) optimizing domestic value addition and increasing productivity by closing the skills gap and supporting foreign direct investment (FDI) in productive sectors. The CPS will also help reduce regional disparity by integrating local economies across Georgia to economic corridors.

22. Among the seven operational priorities of Strategy 2030, fostering RCI will feature most prominently in ADB’s future operations in Georgia, along with making cities more livable, reducing remaining poverty and inequality, and strengthening governance and institutional capacity. These priorities correspond to SDGs 1 (no poverty), 6 (clean water and sanitation), 7 (affordable and clean energy), 8 (decent work and economic growth), 9 (industry, innovation, and infrastructure), 10 (reduced inequalities), and 11 (sustainable cities and communities). Georgia, with its unique location between Asia and Europe, and with market access to both regions through the Deep and Comprehensive Free Trade Area and other FTAs, is well placed to achieve closer integration with global value chains through interregional trade and FDI. The exposure to international competition, coupled with the pursuit of economies of scale, is likely to stimulate its productivity and boost its GDP.²⁸ At the same time, Georgia can serve as a gateway for trade with Europe for other Caucasus countries, and complement the key RCI initiatives pursued by these neighboring economies. Georgia joined the Central Asia Regional Economic Cooperation (CAREC) Program in 2016 and is an active member, fostering regional cooperation in line with the CAREC 2030

²⁸ World Bank. 2018. *Georgia – From Reformer to Performer: A Systematic Country Diagnostic*. Washington, DC; D. Taglioni and D. Winkler. 2016. *Making Global Value Chains Work for Development*. Washington, DC: World Bank; and World Bank. 2009. *World Development Report 2009: Reshaping Economic Geography*. Washington, DC.

Strategy.²⁹ By the end of 2018, total CAREC investments in Georgia amounted to \$745 million, of which \$414 million were financed by ADB.



23. ADB's sovereign and nonsovereign operations will be aimed at strengthening Georgia's supply-side responses by enhancing connectivity at and behind borders. While ADB will continue to be active in its present areas of operations (transport, urban, energy, finance, and public

²⁹ CAREC countries adopted a new long-term strategy in October 2017: ADB. 2017. *CAREC 2030: Connecting the Region for Shared and Sustainable Development*. Manila. CAREC 2030 envisages to focus on five operational clusters: (i) economic and financial stability; (ii) trade, tourism, and economic corridors; (iii) infrastructure and economic connectivity; (iv) agriculture and water; and (v) human development. Integrating the use of information and communication technology across the spectrum of CAREC operations will be a crosscutting priority.

finance), the strategic thrusts are proposed to be reoriented for closer alignment with the RCI theme and to ensure a high degree of selectivity of ADB's operations in the future. At the same time, urban operations will focus on making cities more livable, and education sector interventions will focus on human capital development. ADB will continue its support to key structural and public finance management reforms to maximize resource mobilization for necessary investments.

2. Focus Areas

24. **Regional development initiative.** Fostering RCI is a primary Strategy 2030 operational priority. In September 2018, ADB introduced a new modality and signed a memorandum of understanding with private sector counterparts to develop a \$3 billion regional initiative anchored in Georgia's Anaklia Deep-Sea Port and Special Economic Zone—a flagship project for the country and ADB. The initiative leverages all of ADB's competencies (including sovereign and nonsovereign financing, the mobilization of large-scale financing as lead syndication agent, transaction advisory services, PPPs, trade facilitation, regional connectivity and cooperation, TA, capacity development, knowledge solutions, and the mobilization of development partnerships to deliver for the client) to provide—as One ADB—an integrated development solution that will serve Georgia and the other regional countries. An interdepartmental Anaklia Regional Development Initiative Task Force has been formed and design works are underway. ADB will further develop and implement this major regional development initiative during the CPS period.

25. **Transport corridor development leading to the border.** A transport network within and leading to borders with neighboring trading partners is a backbone of economic integration. Good transport infrastructure reduces trade costs, which in turn increases trade flows.³⁰ ADB will support Georgia's efforts to develop an efficient, sustainable, and climate- and disaster-resilient transport network in line with making the country an international gateway, and to promote inclusive growth by reinforcing, for instance, the corridors that cut across Georgia: East–West (linking Tbilisi to Azerbaijan on the east and to the Black Sea on the west) and North–South (connecting Armenia through Georgia to the Russian Federation). Enhancement of these corridors will be pursued in close coordination with initiatives of the neighboring Caucasus countries. ADB also plans to finance improvements to international and secondary roads along the two corridors to enable the connectivity of small economic centers along the regional roads program. It will pursue the dialogue on supporting road asset management and road safety to ensure the sustainability of infrastructure investments.

26. **Urban development around and along the way.** Making cities more livable and reducing remaining poverty and inequality are primary Strategy 2030 operational priorities. ADB will support the integrated development of resilient urban area clusters with proximities to transport networks, turning transport corridors into economic corridors. The livable cities program will mainstream integrated development action plans for pilot urban area clusters and prioritize multisector investments to achieve more balanced regional development to reduce poverty and inequality. The clusters' development builds on commercial and human resources; natural, cultural, and tourism assets; and a solid understanding of climate change and disaster risk to support inclusive growth and local economic development. The program will effectively meet the needs for sustainable tourism, SME development, and agribusiness. Projects from the investment plans will be linked with project preparatory activities under a \$15 million Project Readiness

³⁰ For example, total intraregional trade in Eastern Europe and Central Asia could be increased by 30% through upgrading roads in just Albania, Hungary, and Romania. B. Shepherd and J.S. Wilson. 2006. Road Infrastructure in Europe and Central Asia: Does Network Quality Affect Trade? *Policy Research Working Paper*. No. 4104. Washington, DC: World Bank.

Facility in 2019, to prepare procurement-ready projects for the follow-on, 5-year investment program starting in 2020. Urban transport, water treatment, supply and sanitation, housing finance and technical and vocational education are areas particularly suited for not only sovereign but also nonsovereign operations. The development of urban clusters is also expected to help tourism and labor migration from rural areas.

27. Trade facilitation at the border. In support of the government's ongoing efforts to enhance the business environment for private sector development and improving cross-border connectivity, the CPS will prioritize trade facilitation, including through CAREC initiatives.³¹ The 2017 CAREC Customs Cooperation Committee Meeting, held in Dushanbe, Tajikistan endorsed a pilot project of the CAREC Advanced Transit System and Information Common Exchange with participation of Azerbaijan, Georgia, and Kazakhstan. A prototype was developed for such an architecture to provide a single electronic transit system incorporating a comprehensive risk-based transit guarantee mechanism which is compatible with the European Union Newly Computerized Transit System. To enable the pilot testing, a trilateral agreement between the three countries was drafted and is anticipated to be signed in 2019. ADB will continue to support this endeavor through the CAREC program.

28. Support to institutional reforms and other interventions for resource mobilization. This support is aligned with Strategy 2030 operational priority for strengthening governance and institutional capacity and will help mobilize resources for international economic integration. PBL operations will continuously support the creation of an enabling environment to mobilize private sector financing for long-term investments in infrastructure development; catalyze access to financial services for SMEs; and further strengthen debt and public financial management to generate and mobilize domestic savings. These objectives will be pursued partly through measures to deepen capital markets and other finance sector areas, including pension system reform. Various commercial banks in Georgia already participate in ADB's Trade Finance Program as both issuing and confirming banks, and ADB's nonsovereign operations remain active in the finance sector. ADB will also support a comprehensive PPP program for upstream project pipeline development and downstream project facilitation and financing. Georgia is naturally positioned as a regional power corridor, with an advanced electricity grid and interconnections with Armenia, Azerbaijan, the Russian Federation, and Turkey. ADB will support the government in reforming the energy resource sector, boosting cross-border electricity and gas trades, improving the efficiency of the transmission and distribution system, and promoting private sector involvement through nonsovereign operations, among other interventions.

29. Human resources development. Apart from helping mobilize financial resources, ADB will assist the government in developing human resources through policy and budgetary support to enhance education sector management, and improve quality of education starting with secondary education, and vocational education and training. These interventions are consistent with Strategy 2030 operational priority of reducing remaining poverty and inequality and are expected to boost labor productivity and help redress the skills mismatch, creating employment.

³¹ The CAREC Integrated Trade Agenda (CITA) 2030 aims to assist CAREC members to integrate further into the global economy. It seeks to enhance the growth potential of CAREC members and improve the living standards of its people. CITA 2030 comprises three pillars including (i) trade expansion from increased market access; (ii) greater diversification; and (iii) stronger institutions for trade. For the purpose of CITA, market access is understood to be a broad concept including trade facilitation. ADB. 2019. *CAREC Integrated Trade Agenda 2030 and Rolling Strategic Action Plan 2018-2020*. Manila.

3. Crosscutting Themes

30. Besides RCI, livable cities, poverty reduction, and institutional reforms, the new CPS will also cover other operational priorities of ADB's Strategy 2030, such as accelerated progress in gender equality; climate change mitigation and adaptation; and stronger environmental sustainability. These correspond to SDGs 5 (gender equality) and 13 (climate action). Use of information and communication technology will also be explored in all ADB operations.

31. ADB is committed to promoting gender equality through a twin-track strategy that promotes gender mainstreaming in all areas of its work—from lending and TA operations to knowledge products—while retaining a specific focus on women and girls in projects where special assistance is needed to ensure their full participation (footnote 12). Between 2014 and 2016, 14,000 micro, small, and medium-sized enterprises (MSMEs) were supported through sovereign and nonsovereign operations, 40% of which were headed by women entrepreneurs.³² Gender-responsive actions outlined in gender action plans in ADB's ongoing transport and urban transport program include ensuring that the specific needs of women are met, facilitating effective outreach to beneficiaries (in particular, on road safety), creating employment opportunities along transport corridors and taking steps to create gender parity in the urban transport systems. The requirements that ADB set for the implementing agency resulted in a more gender-sensitive approach to urban transport. In 2018, all new ADB operations were in the effective gender mainstreaming category, with commensurate support for gender equity and economic opportunities. Gender equality will be further promoted through targeted interventions under education, MSME, private sector development, transport, and urban development programs.

32. ADB's support for infrastructure development will also promote improvements in climate change and disaster resilience. Under the United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement, Georgia committed to (i) reduce its annual greenhouse gas emissions in 2030 by up to 25% compared with business as usual, particularly in the sectors of agriculture, energy, trade and industry, and forestry; and (ii) strengthen the resilience of infrastructure and agriculture to climate change and disaster impacts.³³ ADB will help meet the latter commitment as part of investment operations for infrastructure development. Opportunities for the preservation of water resources in connection with hydropower, agriculture, and drinking water will be explored as well.

³² Gender responsiveness has been an intrinsic aspect of ADB-funded projects for the development of MSMEs. The gender action plan sets numerical targets for the allocation of funding and training opportunities for women entrepreneurs under public sector loans. The two implementing agencies for MSME development—the Enterprise Development Agency and the Georgia Innovation and Technology Agency—responded by allocating up to 40% of grants and loans to women entrepreneurs to support innovation. For the Enterprise Development Agency alone, this amounted to GEL2 million (\$754.7 million) in 2016. Of its 4,876 beneficiaries between 2015 and 2016, 40% were women entrepreneurs. ADB. 2018. *Country Gender Assessment*. Manila.

³³ Government of Georgia. 2015. *Georgia's Intended Nationally Determined Contribution Submission to the UNFCCC*. Tbilisi; and OECD. 2016. *Financing Climate Action in Georgia*. Paris. Georgia has been developing a policy and planning framework for mitigation action, including the National Energy Efficiency Action Plan, the Low Emission Development Strategy, the Nationally Appropriate Mitigation Actions, and the climate action plan anticipated for 2021-2030. Mitigation activities are expected to include (i) improving energy efficiency technology and standards in industry, transport, energy, and buildings sectors; (ii) scale up of low-carbon energy generation particularly in rural areas; and (iii) afforestation and reforestation programs. Adaptation needs are estimated at \$1.5 billion–\$2.0 billion. Adaptation activities are expected to include (i) modernizing irrigation and water resources management through innovative technologies and methods and provision of support to farmers on adaptive management; (ii) improved coastal management and protection measures against Black Sea level rise; and (iii) strengthening climate adaptive planning and emergency response.

33. Progress in science and technology has the potential to expand the production frontier by stimulating innovations, and this could be initiated at the project level. As recommended by IED's CPS final review validation, the promotion of information technology-based economic activities will be pursued in all areas of operations.

4. Special Emphasis on Private Sector Operations

34. By taking advantage of Georgia's market-oriented development strategy and enabling business environment, ADB's private sector operations will be expanded and broadened within the strategic objective of the CPS. ADB will continue to promote private sector participation in connectivity-enhancing infrastructure through project and corporate financing. Areas of focus include renewable energy, hydropower, and upgrades of existing power utilities; transport and logistics (urban transport, in particular); water treatment, and water supply and sanitation; tourism; and information and communication technology for remote areas and populations. ADB will also explore sub-sovereign financing opportunities without recourse to sovereign guarantees. This will bring value addition for state-owned enterprises through private sector participation and expertise. ADB has been a strong partner in Georgia's finance sector development. Given the importance of a well-developed banking subsector to support SMEs and agriculture, among others, and to improve the level of financial intermediation in rural areas, ADB will continue to explore opportunities to widen access to finance in Georgia by providing capital and debt funding to eligible financial institutions. At the same time, the private sector plays an important role in human capital development in Georgia, and ADB will explore the possibilities of providing debt or equity financing to eligible companies in the country. The One ADB approach across the Central and West Asia Department, the Private Sector Operations Department, and the Office of Public–Private Partnership will continue to be implemented, e.g., under the Anaklia Regional Development Initiative. ADB's Georgia Resident Mission will remain a catalyst for such cross-departmental coordination.

E. Priorities for Knowledge Support

35. The country knowledge plan aims at providing critical analytical support aligned to the strategic thrust of the CPS (Appendix 2). ADB's priority areas for knowledge support include (i) economic corridor development—spatial planning, sustainable infrastructure sector and asset management, regional complementarities, comparative advantages for cross-sector development, and integration into national and regional value chains; (ii) education—strategy support for medium- and long-term approaches to the development of vocational education and training, and general education; and (iii) SME development—business development support, integration into value chains, strengthening of the finance sector, and greater gender equality. The country director at the Georgia Resident Mission is ADB's knowledge custodian for Georgia and facilitates the One ADB approach by ADB departments to the provision of integrated development solutions that can meet Georgia's evolving development needs.

IV. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

36. Georgia is a group C country with access to regular ordinary capital resources (OCR).³⁴ At present, the regular OCR allocation for sovereign operations in Georgia is \$200 million

³⁴ ADB. 2014. *Georgia: Review of Classification under ADB's Graduation Policy*. Manila.

(excluding regional set-aside) for 2019 and \$640 million for the 3-year period of 2020–2022.³⁵ Given Georgia’s high demand for external financing, the level of firm lending for the 5-year CPS period is proposed to be over \$2 billion.³⁶ The use of OCR savings to augment the country allocation for Georgia, and mobilization of additional cofinancing are assumed. Where feasible, ADB will also explore the underwriting of investments to mobilize resources from private financiers.

B. Implementation Priorities

37. Given the strong infrastructure focus, investment lending (including multitranche financing facilities) will be a primary modality of operations, while PBL and results-based lending will be used selectively. ADB will ensure the high quality of its interventions through project processing and implementation, and will work closely with all development partners, including the IMF on policy-based support.

38. The 2018 CPS final review for Georgia found that the enhanced capacity of the implementing agencies—through systematic and targeted training conducted and facilitated by ADB during 2016-2018—to manage projects, contracts, and procurement helped improve portfolio performance. Capacity improvements will continue to be supported through on-the-job training, and technical and advisory support. Furthermore, as demonstrated in several ongoing projects, advance contracting has substantially reduced the time between project approval and the first contract award and disbursement. Advance contracting and retroactive financing may continue to be considered for future projects. The procurement and design readiness of projects, as well as timely preparation and implementation of land acquisition and resettlement plans, are instrumental in starting civil works on time. In particular, prospective projects categorized A for involuntary resettlement will continue to require close attention to ensure timely implementation.

C. Monitoring of Results

39. Georgia needs to sustain the growth rate of 5% to double its GDP per capita and eradicate extreme poverty by 2030 (footnote 17). The CPS results framework features the country’s openness to the global economy as a means to drive growth (Appendix 1). It seeks to monitor Georgia’s progress on regional connectivity, logistics performance, exports and foreign direct investment, and skills generation. For domestic resources mobilization, the results framework also adopts indicators relating to expansion of public pension and the capital market. The results framework will be updated through annual country programming during CPS implementation and will be presented in respective country operations business plans.

D. Risks

40. In the past decade, Georgia has significantly reformed its public financial management and public procurement systems; these show notably improved performances and transparency, and low-level corruption in the public sector was virtually eradicated.³⁷ However, some systems- and capacity-related challenges remain, and these leave potential fiduciary risks, including weak

³⁵ To sustain Georgia’s fiscal consolidation efforts pursued under the IMF’s Extended Fund Facility, the present country cost-sharing limit of 99% is maintained for both loans, grants, and TA funds; and no restriction should apply to specific sectors and ADB’s financing of recurrent costs, tax, and duties. Local taxes and duties are considered reasonable. No taxes and duties are targeted specifically at ADB projects.

³⁶ Georgia’s gross national income per capita is \$4,130 in 2018, far below the threshold for graduation from regular ADB assistance.

³⁷ World Bank. 2012. *Fighting Corruption in Public Services: Chronicling Georgia’s Reforms*. Washington, DC.

project appraisal and selection procedures for public investments, inadequate institutional and regulatory setup for monitoring state-owned enterprise performance, limited analysis of expenditure and revenue implications of policy changes, some performance variations between procuring entities, and limited availability of information on subcontracting.

41. ADB is proposing concrete mitigation measures to minimize these risks, and specific procedures are in place to mitigate financial management- and procurement-related risks in ADB-financed operations when using country systems. In the short and medium term, ADB will help strengthen Georgia's public financial management systems through a series of capacity-building events for project executing and implementing agencies, while continuing to support Georgia's private auditor quality assurance program. For the long term, ADB will participate in discussions with donors and the government to outline a road map strategy for public financial management strengthening. ADB will also work with other development partners to develop procurement capacity in government agencies, mainstream procurement capacity in project design, and encourage the use of TA, loans, and project readiness financing to front-load capacity building for future projects and for limited project start-up activities.

42. The mismatch between the pace of and appetite for growth, and the pace of capacity development (institutional, human resources, and absorptive capacity) remains a risk, which ADB will address through its continued institutional and capacity-development support as well as upcoming vocational education and training programs.

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Impact Indicators with which the CPS is Aligned				
<ol style="list-style-type: none"> 1. Real GDP growth rate: 5% on average in 2019–2023, from 4.7% in 2018. 2. Trade as share of GDP: 54.2% in 2021–2023, from 53.0% in 2015–2017. 3. The ratio of merchandise exports to imports from 31.2% on average in 2015–2017 to 35.0% in 2021–2023. 				
CPS Strategic Objective	Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Expand trade, create more jobs, and combat poverty through development of economic corridors	Complete ongoing investments as well as public management and finance sector reforms to provide economic and social infrastructure and services as One ADB	<p>Public and private infrastructure investments for transport connectivity and basic urban infrastructure facilitated</p> <p>Transport and logistics network to accelerate domestic and international economic integration developed</p> <p>Deeper capital market developed</p> <p>Public management reforms on PPP facilitation further advanced</p> <p>Urban clusters and trade hubs around and along economic corridors developed</p>	<p>Georgia's logistics performance, as measured by the World Bank's international logistics performance index score for infrastructure, improved to 2.46 in 2023 (2018 baseline: 2.38)</p> <p>Non-banking assets increased to 15% of total finance sector assets in 2023 (2018 baseline: 10%)</p> <p>Number of PPP projects reaching financial closure increased to 18 in 2023 (2018 baseline: 14)</p> <p>Public pension fund assets increased threefold by 2023 (April 2019 baseline: GEL150 million)</p>	<p>Ongoing portfolio: As of 31 December 2018</p> <p>Sovereign loan projects Number: 18 Amount: \$1,489.3 million</p> <p>Nonsovereign projects Number: 4 Amount: \$200.3 million^a</p> <p>Planned operations and contribution (indicative 3-year pipeline as per latest COBP):</p> <p>Sovereign Lending (\$1,130 million of OCR)</p> <p>Technical assistance Nonlending (\$2.3 million per year)</p>
	Develop economic corridors with domestic economic clusters and links with global value chains	<p>MSMEs supported and integrated into the economic corridor</p> <p>Energy sector reformed through corporatization of transmission company and improvement of energy sector</p>	<p>The contribution of the regions (outside Tbilisi) to GDP increased to 60.0% in 2023. (2017 baseline: 49.9%) [source geostat.ge]</p> <p>Contribution of MSMEs to GDP increased to 25% in 2023 (2013 baseline: 20.6%)</p> <p>Energy exports increased by 20% in 2023 (2017 baseline: 560 million kilowatt-hours)</p>	

CPS Strategic Objective	Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
	Optimize domestic value addition and increasing productivity by closing the skills gap and supporting foreign direct investment (FDI) in productive sectors	<p>management to facilitate power trade</p> <p>Export growth facilitated</p> <p>FDI attracted</p> <p>Skills in demand by the private sector developed</p>	<p>Exports of goods and services increased to 60.0% of GDP in 2023 (2017 baseline: 54.8%)</p> <p>FDI growth rate increased to 15.0% between 2021 and 2023 (2015–2017 baseline: 13.7%)</p> <p>Number of students graduated from private and public vocational education programs increased by 20% in 2023 (2018 baseline: 6,026 women and 5,929 men)</p> <p>Youth unemployment rate declined to 20.5% by 2023 (2018 baseline 30.8%)</p>	

ADB = Asian Development Bank; CPS = country partnership strategy; FDI = foreign direct investment; GDP = gross domestic product; MSMEs = micro, small, and medium-sized enterprises; OCR = ordinary capital resources; PPP = public–private partnership; TA = technical assistance.

^a The amount includes \$8.67 million outstanding guarantee under ADB’s Trade Finance Program (TFP). TFP works with 3 banks and has supported \$130.6 million in trade between 96 transactions in Georgia.

Sources: Asian Development Bank; Central Intelligence Agency <https://www.cia.gov/library/publications/the-world-factbook/geos/gg.html>; EU4Business <http://www.eu4business.eu/georgia/>; International Monetary Fund. 2019. *Georgia: Third Review Under the Extended Fund Facility Arrangement-Press Release; Staff Report; Staff Supplement*. Washington, DC; World Bank. 2017. *World Development Indicators 2017*. Washington, DC; World Bank, 2018. *Connecting to Compete: Trade Logistics in the Global Economy – The Logistics Performance Index and Its Indicators*. Washington, DC; World Bank. Human Capital Index. <http://www.worldbank.org/en/publication/human-capital> (accessed 10 February 2019); National Bank of Georgia <https://www.nbg.gov.ge/>; National Statistics Office of Georgia <http://www.geostat.ge/>; PPP Knowledge Lab <https://pppknowledgelab.org/>; World Trade Organization. Trade Profile: Georgia. https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/_GE_e.pdf (accessed 3 February 2019); and World Bank. World Bank Open Data. <https://data.worldbank.org> (accessed 12 April 2019).

COUNTRY KNOWLEDGE PLAN

A. Knowledge Needs

1. The country knowledge plan (CKP) for Georgia aims at providing critical analytical support aligned to the strategic thrust of the country partnership strategy (CPS). It will therefore support regional connectivity and the creation of economic corridors with integrated development solutions to achieve inclusive and sustainable growth. The CKP provides a platform for knowledge sharing and helps design essential knowledge products and services to support the government's reforms and priorities. This includes strategic and sector studies, policy advice, and capacity building.

1. Economic Corridor Development

2. One of the main directions of the partnership of the Asian Development Bank (ADB) with Georgia is a sustained effort to upgrade Georgia's East–West and North–South international corridors to reinforce its connectivity with Central Asia, the European Union, and the Russian Federation. This will support the government's key development goal of transforming Georgia into a transport and economic corridor between Asia and Europe. The country's transport sector continues to make significant advances as various key transport infrastructure projects, financed by ADB and other development partners, are under implementation. ADB's assistance aims to (i) provide the financing needed to modernize strategic transport infrastructure and (ii) extend technical assistance (TA) that will build the capacity of agencies involved in project implementation and the formulation of Georgia's transport policy. Capacity building support will continue to facilitate more effective and sustainable infrastructure sector and asset management. A rapid increase in the project portfolio has brought new challenges related to the sustainability of further large-volume investments and the funding of operational costs for maintaining current assets. In addition, expanding the project portfolio requires stronger institutional and technical capacity of government agencies for efficient project implementation. The government is exploring new policy measures such as the introduction of tolling and wider adoption of performance-based maintenance contracts to ensure the sustainability of capital expenditures and asset maintenance in the transport sector. Ongoing institutional restructuring serves to narrow the capacity gaps, particularly in the areas of procurement, social and environmental safeguards, road safety, asset management, and overall project implementation.

3. Additionally, the Central Asia Regional Economic Corridor (CAREC) Program is expanding knowledge products and services in tandem with the country's evolving development needs. The extension of CAREC transport corridors to Georgia makes it possible to develop a middle corridor for CAREC countries to Europe. Georgia has the potential to develop an important transit route for regional trade flows and can capitalize on new regional development dynamics, including the Belt and Road Initiative, to strengthen infrastructure and reduce poverty. More knowledge solutions are needed to further promote regional cooperation and integration and to support international trade.

4. In September 2018, ADB signed a \$3 billion memorandum of understanding with Anaklia Development Consortium LLC and Anaklia City JSC to develop a transformative, greenfield project for the region under the Anaklia Regional Development Initiative, anchored in Georgia's Anaklia port. This initiative, that will mobilize all of ADB's competencies in sovereign, non-sovereign and knowledge areas, will require knowledge solutions for regional integration, connectivity, and smart city development in addition to physical infrastructure and institutional development. An interdepartmental Task Force has been formed and design works are underway.

2. Education Sector

5. ADB's Strategy 2030 prioritizes human development and social inclusion to help reduce poverty and inequalities.¹ Georgia's Government Program 2016-2020 also specifies education as one of the priority reform areas. Extensive support to the education sector will pursue reforms at different levels of the education system. Since the sector is a new addition to the CPS, 2019–2023, comprehensive knowledge solutions are needed to support sector wide policy development and reforms.

3. Small and Medium-Sized Enterprises

6. The government recognizes the role of private sector development as a key pillar of economic growth, especially the development of small and medium-sized enterprises (SMEs). SMEs are a priority area in Georgia's economic policy, particularly in the context of the Deep and Comprehensive Free Trade Area with the European Union, which offers various opportunities to businesses to maximize their export potential and attract foreign direct investments. SMEs are concentrated in low value-adding sectors, typically offer low-paid jobs, and face high bank lending interest rates and collateral requirements. Despite the intensive support by international financial institutions to the development of the SME market, it is still underserved. ADB supports SME development and financial inclusion with lending and TA through its public and private sector operations in urban and rural areas, with strong emphasis on knowledge solutions and capacity development.

B. Scope of ADB's Planned Knowledge Operations

7. ADB provides knowledge products and services to strengthen the institutional capacity of the government and the private sector. To boost the development impact of operations, and given the increased volume of development work, knowledge products and services should be geared toward fulfilling the government's aspiration to transform Georgia into an efficient and effective corridor connecting Europe, the Caucasus, and Central Asia. ADB's advantage in delivering development assistance is reflected in the indicative list of knowledge publications and events prepared annually. Key knowledge products and services are translated into Georgian to increase their accessibility in the country and effectiveness. It is possible that demand for additional knowledge products and services arises during the CPS implementation period, so the areas covered by this document are not exhaustive and subject to further adjustment.

8. Equally important are opportunities for sharing knowledge and experience between Georgia and other countries through various regional knowledge solution and transaction TA projects. Regional TA projects already in place include the CAREC Advanced Transit System and Customs Information Common Exchange, CAREC Common Agenda for Modernization of Sanitary and Phytosanitary Measures for Trade Facilitation, Strengthening International Food Safety Standards in Agricultural Value Chains in the CAREC Member Countries, and Supporting Knowledge Solutions in Central and West Asian Countries, among others.

9. Gender mainstreaming continues to be an integral part of all operations in the urban, transport, energy, finance, and education sectors during the CPS implementation period, and is thoroughly supported through ADB development assistance and partnership with the government.

¹ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

Table A2: Planned Knowledge Support during the Country Partnership Strategy, 2019–2023

Economic corridor development	<p>(i) ADB will contribute to stronger knowledge and understanding of spatial planning, sustainable infrastructure management, regional complementarities, comparative advantages for cross-sector development, and integration into national and regional value chains.</p> <p>(ii) To further support private sector participation and its contribution to economic growth, ADB provides assistance in creating an enabling environment for public–private partnerships. Intensive training and workshops are planned under the capacity development program.</p> <p>(iii) The livable cities program will mainstream integrated urban development plans for selected urban area clusters. This will include knowledge sharing on master planning for future multisector investments. To meet knowledge needs effectively, integrated solutions are explored.</p>
Education sector	ADB will provide strategy formulation support for medium- and long-term approaches to education sector development (covering both vocational education and training, and general education).
Small and medium-sized enterprises	ADB knowledge products and services on developing the private sector, and particularly small and medium-sized enterprises, will be tied to trade and investment facilitation, strengthening of the finance sector, business development support, integration into economic corridors and regional value chains, and the achievement of greater gender equality.

ADB = Asian Development Bank.
Source: Asian Development Bank.

C. Areas of Collaboration with Partners

10. ADB works closely with the government, development partners, academic institutions, and civil society organizations to use in-house expertise to generate awareness on key development issues and produce knowledge solutions.

11. ADB co-chairs joint coordination meetings and works closely with the International Monetary Fund on reform areas, including education, energy, public-private partnerships, public sector management, and public finance. Regular consultations are held with other donor organizations to avoid duplication in knowledge products and services. There is scope for further coordination to introduce innovative technologies, create an enabling environment for public–private partnerships, promote road safety, and strengthen financial management.

12. ADB's Georgia Resident Mission has started a knowledge-sharing series in November 2015, and has conducted and facilitated over 100 workshops, seminars and information sessions in Georgia and for the region. To address key capacity gaps among ADB's executing and implementing agencies, Georgia Resident Mission has also organized targeted courses on the International Federation of Consulting Engineers guidelines, contract management, gender mainstreaming, safeguards, and project management during this period. The resident mission's work on knowledge sharing will continue throughout the CPS period. The country director acts as ADB's knowledge custodian for Georgia.

D. Resource Allocation

13. It is estimated that ADB would contribute about \$5 million to Georgia's CKP through TA and staff consultancy during 2019–2024, which will complement current CPS development outcomes and carry forward the knowledge work to the next CPS. In addition, Georgia will be supported through regional TA packages. Trust funds, cofinancing from development partners, and cost sharing with the government will be also explored to support knowledge products and services.

E. Knowledge Competence or Expertise

14. Georgia is an internationally recognized good practice leader in sharing knowledge on public administration reforms. Successful reforms in customs and public service development supported and delivered an effective public administration system. The Georgian model of public service halls, which facilitate over 400 public services and payments within 1-3 days, is an excellent example for transparent service delivery and has been adopted by other countries in the region.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=GEO-2019>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Indicative Country Operations Business Plan