

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. A large number of multilateral and bilateral development agencies have operations in Georgia and comprehensively support the country's economic development. The World Bank provides policy and project lending to develop human resources (education, health, and social protection) as well as for improved business competitiveness and public financial management. The International Finance Corporation and the European Bank for Reconstruction and Development (EBRD) have supported a wide array of private sector investments, and together with KfW are assisting in access to finance. Major grant financiers for education, health, and social protection include the European Union and the United States. The International Monetary Fund (IMF) has supported external balance of payments sustainability of Georgia.

Major Development Partners

Development Partner	Project Name	Duration	Amount (million)
Public Sector Management			
World Bank	Competitiveness and Growth DPO Series	2012–2017	\$332.7
EU	Support to Public Finance Management (budget support)	2011–2015	\$13.7
Finance			
KfW	Senior Loans to Rural Development Program	2014	\$41.2
MCC	South Caucasus Financial Sector Advisory	2013–2019	\$16.0
EBRD	Georgia Agricultural Finance Facility	2011–2016	€40.0
EBRD	Local Currency Inaugural Bond Issue	2014	€20.7
IFC	Banking Finance Investment Projects	2009–2013	\$225.2
IFC	Local Currency Bond Issue	2015	\$15.0
ADB	Improving Domestic Resource Mobilization for Inclusive Growth	2014–2016	\$200.0
ADB	Georgian Lari Bond Issue	2015	\$48.5
ADB	Emergency Assistance for Post-Conflict Recovery	2008	\$70.0
ADB	Growth Recovery Support Program	2009	\$80.0
ADB	Social Services Delivery Program	2010	\$100.0
ADB (non-sovereign)	Adjaristsqali Hydropower Project	2014	\$75.0
ADB (non-sovereign)	Promoting Financial Sector Growth and Service Diversity	2013	\$50.0
ADB (non-sovereign)	Senior Loan to Bank of Georgia	2010	\$50.0
Education			
Millennium Challenge Corporation	STEM (Science, Technology, Engineering and Math) for Education	2014	\$140.0
EU	Support for Vocational Education and Training Sector	2009–2016	\$23.3
World Bank	Education System Realignment and Strengthening Project	2006–2011	\$23.7
Health and social protection			
World Bank	Health Sector Development Project	2003–2011	\$24.8
USAID	Family Planning, Maternal and Child Health Services Project	2009–2014	\$10.5
Multisector			
IMF	Stand-By Credit Arrangement and Stand-By Credit Facility	2012–2014	\$387.0
IMF	Stand-By arrangement (SBA)	2014–2017	\$155.0

ADB = Asian Development Bank, DPO = development policy operation, EBRD = European Bank for Reconstruction and Development, EU = European Union, IFC = International Finance Corporation, IMF = International Monetary Fund, MCC = Millennium Challenge Corporation, USAID = United States Agency for International Development.

Sources: Development partner websites. ADB investments discussed in more detail in Sector Assessment Summary (available from the list of linked documents in Appendix 2 of the RRP).

2. Under the Improving Domestic Resource Mobilization for Inclusive Growth Program, Subprogram 1, the Asian Development Bank (ADB) disbursed a \$75 million equivalent loan in 2014 as part of a three subprogram financing cluster to support reforms aimed at strengthening

public finances and supporting inclusive growth. ADB previously provided budget support in a series of three program loans amounting to \$250 million (see table), with the goal of ensuring continuity in maintaining key public expenditure items by the government.

3. In July 2014 Georgia entered into a 3-year standby arrangement with the IMF that provides a \$155 million cushion against external shocks and sets a framework to provide increased discipline for macro-fiscal policies. This follows the IMF's \$387 million, 2-year Stand-By Arrangement and Stand-By Credit Facility (April 2012), a precautionary arrangement to provide a macroeconomic safety net in case of increased external pressures, which ended in April 2014.

4. In April 2014, the World Bank approved the \$60 million Inclusive Growth Programmatic Development Policy Operation (DPO), part of a series of three DPOs over 2015–2017 aimed at strengthening the fiscal oversight of public institutions and upgrading the quality and coverage of social services and monitoring of outcomes. Another DPO of \$60 million in programmatic private sector competitiveness supports reforms in the business environment to allow firms to innovate and export abroad and to enable greater finance sector deepening and diversification.

5. The International Finance Corporation (IFC) has supported projects with private firms in the finance sector, with an emphasis on access to finance. IFC's equity and loans to TBC Bank, Bank Republic, and Bank of Georgia helped strengthen the capital bases of these banks and expand their lending to small and medium-sized enterprises. IFC has invested \$665 million in 51 projects in Georgia to date.

6. In March 2014, the EBRD issued the first-ever local currency 2-year bond totaling GEL50 million (€20.7 million.) The bond encouraged borrowing in local currency and helped develop and strengthen local capital markets, thereby increasing the supply of locally sourced finance. ADB and IFC also issued bonds denominated in local currency in February 2015 in the amounts of \$48.5 million (ADB) and \$15.0 million (IFC). During the EBRD's annual meeting and business forum in Georgia in May 2015 the Government of Georgia and the EBRD set up the Investors Council, To create a platform for meaningful dialogue between the private and public sectors. The EBRD also supported the agribusiness sector directly and through provision of credit lines to local partner banks. The Georgian Agriculture Financing Facility, a €40 million framework launched in 2011, made credit lines available to local commercial banks, multilateral finance institutions, and leasing companies for onlending to farmers and other agricultural entities. To date, the EBRD has invested a total of €2.29 billion for 175 projects in various sectors of the Georgian economy.

7. The United States (US) through the United States Agency for International Development (USAID) has administered the US pledge of \$1 billion dollars disbursed entirely in the form of grants after the conflict with Russia in 2008. The US has also provided loan portfolio guarantees for microfinance organizations and selected local banks to extend commercial credit and for activities that contribute to improved technology or increased employment in Georgia. The Millennium Challenge Corporation supported the \$16 million South Caucasus Financial Sector Advisory Project, to provide an initial investment through competitive grants to privately financed technical and vocational educational programs. The Millennium Challenge Corporation also approved a new \$140 million compact (as part of its second compact building on the success of the \$395 million first compact) for implementation of educational projects in general, with vocational and higher education in 2013.

8. In December 2014 the European Parliament ratified the European Union (EU) Association Agreement with Georgia, including provisions for the Deep and Comprehensive Free Trade Area, which builds on the European Neighborhood and Partnership Instrument, with cumulative financing of €452 million (2007–2013) and further allocations of up to €410 million in 2014–2017. The Association Agreement is regarded as a major step in Georgia’s long-range pursuit of EU membership.

9. KfW funded senior loans to the Rural Development Program in the amount of \$41.2 million, providing credit lines to financial institutions for rural development projects.

B. Institutional Arrangements and Processes for Development Coordination

10. The Government of Georgia takes ownership of the development assistance program. In many respects Georgia works in line with the principles of the Paris Declaration, based on ownership; accountability; alignment; results orientation; and policy-coherent, context-based approaches. The government’s public financial management (PFM) capacity has been strengthened, with appropriate institutional and human resource capabilities. During previous program loans, progress in PFM and action plans complemented support to program budgeting. Macroeconomic risks of slower growth and capacity constraints were mitigated by anchoring PFM in emerging positive trends, and the risk of reversal was minimized. ADB’s program lending support was aligned with and designed to reinforce the IMF’s support for macroeconomic stabilization, and to align with budget support provided by the World Bank and the EU. Establishment of the resident mission in Tbilisi in December 2008 (and its operationalization in 2009) has also strengthened coordination efforts, and the office has been very active in policy coordination, ensuring gaps and overlaps with other donors are promptly identified and addressed. Development partners have been cooperating in providing consolidated budget support and in coordinating sector policy dialogue and capacity building. ADB conducts regular policy discussions with the IMF and World Bank on sector policy and related capacity-building issues.

C. Achievements and Issues

11. While aid coordination is strong it remains largely informal, limiting its overall impact. Informal arrangements do exist, with different donors taking the lead to coordinate assistance to key sectors or, as in 2008, to undertake a joint needs assessment. With respect to ADB the government plays a strong role in setting project priorities, and in that sense helps avoid duplication and overlap. ADB contributes to infrastructure improvements but may do more to promote policy reforms.

D. Summary and Recommendations

12. The Improving Domestic Resource Mobilization for Inclusive Growth Program benefited from close consultations with development partners in defining the policy areas and in ascertaining the development financing needs of the government. It is important to continue effective coordination with stakeholders and support the government’s ownership of the reforms through the Georgia Resident Mission and visiting ADB missions.