

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Focus and Key Activities

1. Numerous 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) and to strengthen 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, with German development cooperation through KfW, are helping to broaden 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 the external balance-of-payments sustainability of Georgia.

Major Development Partners

Development Partner	Project Name	Duration	Amount (million)
Public Sector Management			
EU	Support to Public Finance Management (budget support)	2011–2015	\$13.7
World Bank	Competitiveness and Growth DPO Series	2012–2017	\$332.7
Finance			
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	Improving Domestic Resource Mobilization for Inclusive Growth	2014–2016	\$200.0
ADB	Georgian Lari Bond Issue	2015	\$48.5
ADB (nonsovereign)	Senior Loan to Bank of Georgia	2010	\$50.0
ADB (nonsovereign)	Promoting Financial Sector Growth and Service Diversity	2013	\$50.0
ADB (nonsovereign)	Adjaristsqali Hydropower Project	2014	\$75.0
BSTDB	Local Currency Bond Issue	2015	GEL45.0
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
KfW	Financial Sector Support Program	2015	€5.0
MCC	South Caucasus Financial Sector Advisory	2013–2019	\$16.0
Education			
EU	Support for Vocational Education and Training Sector	2009–2016	\$23.3
MCC	STEM (Science, Technology, Engineering and Math) for Education	2014	\$140.0
World Bank	Education System Realignment and Strengthening Project	2006–2011	\$23.7
Health and social protection			
USAID	Family Planning, Maternal and Child Health Services Project	2009–2014	\$10.5
World Bank	Health Sector Development Project	2003–2011	\$24.8
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, BSTDB = Black Sea Trade and 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.

Note: ADB investments are discussed in more detail in Sector Assessment Summary (accessible from the list of linked documents in Appendix 2 of the main text).

Sources: Development partner websites.

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. Subprogram 2, comprising single-tranche loans in the aggregate amount of \$75 million equivalent, was disbursed in November 2015. ADB previously provided budget support in 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 more discipline for macro-fiscal policies. The First Review under the program was approved by the Executive Board in December 2014; discussions for the Second and Third Reviews are ongoing in 2016. This follows the IMF's \$387 million, 2-year standby arrangement and standby 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 the 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 (SMEs). To date, IFC has invested \$665 million in 51 projects in Georgia.

6. In November 2015, Black Sea Trade and Development Bank issued a GEL45 million 3-year floating-rate bond to support the development of the country's capital market and provide funding to SMEs. In March 2014, the EBRD issued the first 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 industry 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 €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), administered the US pledge of \$1 billion disbursed entirely in the form of grants after the conflict with Russia in 2008. The US also provided loan portfolio guarantees for microfinance organizations and selected local banks to extend commercial credit, and for activities that contribute to technology updates or more 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. In November 2015, the EU allocated €100 million to support a set of reforms relating to the EU–Georgia Association Agreement in the key areas of agriculture, energy, transport, electronic communications, environment, and climate change. The support includes public administration reform focused on modernizing the Georgian civil service, and support of local government reform to decentralize responsibilities between the central government and local municipalities. The Association Agreement is regarded as a major step in Georgia’s long-range pursuit of EU membership.

9. In September 2015, KfW approved an assistance program amounting to €140 million to finance Georgia’s critical infrastructure needs, particularly power transmission and solid waste management. Of this, €5 million will be used for funding the financial sector support program.

B. Achievements and Issues

10. The government’s capacity for and reporting on aid coordination, interagency coordination, debt management, and external project financing are sound, and Georgia has a well-defined legal framework for public borrowing. The government maintains a comprehensive donor database; an electronic aid information management system (eAIMS) designed for registering and managing aid flows encompasses all aid commitments, disbursements, and related activities, and fulfills the basic tenets of the Paris Declaration on Aid Effectiveness. The process of procuring grants, technical assistance, and loans for financing investment projects is clearly defined, and stakeholder feedback is continuously sought and reflected in official data and reports. The government takes stock of donor coordination efforts, reviews aid consistency with country priorities and development needs, and gives a detailed breakdown of ongoing and planned assistance by bilateral and multilateral development partners. The Ministry of Finance has a dedicated department that oversees public debt management functions and provides up-to-date information on external and domestic borrowing and external project financing. Both the debt management and financial analysis system (DMFAS) of the United Nations Conference on Trade and Development and an in-house project management system (DMNAT) are operational. 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.

C. Summary and Recommendations

11. 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.