SECTOR OVERVIEW

A. Background

1. Supporting Georgia’s efforts to develop an efficient and sustainable transport network in line with making the country an international gateway is a key priority of the Asian Development Bank (ADB). Transport is a key sector for Georgia’s Climate Strategy and Action Plan, which was prepared for parliamentary consideration in 2020 alongside Georgia’s updated nationally determined contribution to the Paris Agreement. Georgia ratified the Paris Agreement in 2017.

B. Transport Sector

2. The transport system comprises five modes—road, rail, sea, air, and pipelines. All provinces, cities, towns, and neighboring countries are connected either directly or indirectly by at least one mode. Since the mid-2000s, Georgia has radically transformed the infrastructure and service delivery of its transport system by building roads, railways, port terminals, and airports, and by improving institutions and regulations. The transformation has helped draw private capital and financing to railways (modernization projects through capital market financing), aviation (airports and airlines), maritime services (ports and shipping), road transport (some freight and intercity passenger), and pipelines (oil and gas from Azerbaijan and Kazakhstan).

3. The government aims to leverage Georgia’s transit and trade potential to boost private sector participation and inclusive economic growth and integrate Georgia into regional and international transport systems. The strategic directions are to improve transport to link all parts of the country and to connect ports and airports to neighboring countries and beyond. Key to the strategy is streamlining transport infrastructure and developing logistics centers, and mobilizing public–private partnerships, where feasible. Road and rail network development is a top priority. Railways serve as a greener and more competitive alternative to connect Georgia with neighboring countries. Railways also move bulk cargo, consignments that require a higher level of safety and security, and crude oil on routes not served by a pipeline, and, potentially, ease increasingly containerized traffic. Railways are owned and operated by state-owned Georgian Railway. It has raised capital in the external financial market, leaving the road network as the only physical asset owned and operated in a traditional, public sector manner. Transport system use has risen, mainly because of increased supply that followed reforms.

4. The Central Asian Regional Economic Cooperation (CAREC) Program is an ADB-supported partnership created in 1997 to promote development through cooperation, leading to accelerated economic growth and poverty reduction. Members are Afghanistan, Azerbaijan, the People’s Republic of China (PRC), Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. Georgia joined CAREC in October 2016 and has since been an active member. In 2017, the 11 CAREC member countries approved the CAREC railway strategy to expand the role of railway transport. The strategy aims to accelerate the identification, preparation, and financing of feasible railway investment projects and, at the same time, advance railway commercialization. Georgia’s mainline railway network forms a key segment of CAREC Railway Corridor 2: Mediterranean–East Asia and CAREC Railway Corridor 6: Europe–Middle East–South Asia.

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2 United Nations Climate Change. The Paris Agreement.
C. Railway Sector

5. Georgian Railway is the sole national rail company operating in the Georgian leg of the Caucasus Transit Corridor and is wholly owned by the government. As Georgia’s only vertically integrated rail operator, Georgian Railway owns and operates the national freight and passenger railway network, including the tracks, terminals, other infrastructure, and rolling stock, as well as the land adjoining the tracks.

6. In 2020, Georgia imported $8 billion of goods and exported about $3.4 billion. Its largest trade partners reflect its geographical and historical ties with countries of the Commonwealth of Independent States (CIS) as well as growth in trade with major regional and global economies (Turkey and the PRC). The freight transport market served by Georgian Railway is competitive. For longer-distance traffic, there is competition from crude oil pipelines and alternative regional corridors, and for shorter-distance traffic, from road transport. Georgia has few market entry barriers for road transport operators and no regulation of tariffs, so there are many truck operators and there is considerable competition from road transport.

7. (Confidential information deleted.)

8. Although rail transport in Georgia is a statutory monopoly, Georgian Railway’s pricing policies are not subject to direct government regulation. Under the Railway Code, the government has the power to establish tariff policies through a rail transport authority. To date, however, the government has not established any such authority. Hence, the company’s tariff policy is driven by a strategic choice to maintain the Caucasus corridor’s competitiveness. Accordingly, the company is not subject to any mandatory tariffs and, pursuant to the Railway Code, sets its own tariff policies independently. Tariffs for freight transport are based on the international rail transit tariffs decided among the signatories to the Tariff Agreement, although base tariffs established under it are not binding and the parties may vary them during the year. Other parties to the Tariff Agreement include the railway companies of CIS members Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan, as well as the railway companies of Estonia, Latvia, and Lithuania.

9. Georgian Railway is not subject to government regulation in establishing prices for passenger transport and luggage services. However, passenger transport tariffs are often not determined by market forces because of the significant social importance to the government of providing affordable passenger transport services. (Confidential information deleted.)

10. The government is harmonizing certain business and other standards with European Union (EU) standards to further integrate Georgia into the EU internal market. Georgia, among other things, is required to establish a single national regulatory body for the railway sector, which shall be a stand-alone authority and comply with several independence criteria. No such regulatory body has been established and no final decision taken as to the scope of such authority’s activities or powers. Parliament adopted an amendment to the Railway Code recognizing railway passenger transport services as a public service obligation. Accordingly, Georgian Railway and the government are expected to enter into a public service contract for compensation of the passenger business.

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6 The Tariff Agreement regulates tariff levels among Georgian Railway and railway companies of certain CIS member and other states.
D. ADB Sector Experience and Assistance Program

11. In 2007, Georgia became a member of ADB, which quickly emerged as one of the country’s largest multilateral development partners. As of 31 December 2020, ADB’s cumulative development assistance to Georgia totaled $3,923 million, including $3,540 million of sovereign lending, $383 million of nonsovereign lending, and $28.89 million of technical assistance grants. ADB’s key development priorities in Georgia are to expand trade, create more jobs, and combat poverty by developing economic corridors, improving public services, and supporting foreign direct investment.

12. The Ministry of Finance, with support from ADB, the International Monetary Fund, and the World Bank, is working on a framework for fiscally responsible state-owned entity management, including performance monitoring and corporate governance. The sector reforms will aim to establish regulatory frameworks to govern railway services and competition and the institutional division of responsibilities for financing rail track and rolling-stock investments as well as operation and maintenance (O&M). Such reforms envisage setting up a regulatory framework for passenger tariffs, enabling the introduction of performance-based service-level agreements between fiscal and sector authorities and Georgian Railway for O&M of rail track and rolling stock, and enabling the introduction of performance-based public service obligations for passenger services. These reforms aim to establish fiscal oversight of state-owned entity financial performance to resolve the absence of a railway sector authority, as part of integrating with the EU.

13. (Confidential information deleted.)

14. Georgian Railway’s successive bond issuances support some of the first private sector railway initiatives to finance the development of an efficient, sustainable, and climate- and disaster-resilient transport network to make the country an international gateway. This objective is a key priority of ADB and in line with recent CAREC railway sector assessment findings. In parallel, ADB sovereign operations technical assistance will help boost efficiencies, traffic, and revenue of Georgian Railway and the government by formulating a long-term business strategy for rail passenger services and finalizing a fair and transparent public service obligation. (Confidential information deleted.) As Georgian Railway is changing with the assistance of development financial institutions and ADB will continue to engage in dialogue with Georgian Railway, the government, and other institutions to support the ongoing process.