

COUNTRY PARTNERSHIP STRATEGY FORMULATION

1. **Analytical inputs.** Several thematic and sector studies were undertaken to inform the country partnership strategy (CPS), 2014–2018. These included detailed assessments for the energy, transport, and water and other urban infrastructure (including water supply, sanitation, and urban transport) sectors, and a comprehensive environment study and a private sector assessment. Sector assessments for finance and public sector management drew on studies financed under regional technical assistance and the World Bank’s 2014 Public Expenditure Review. A governance risk assessment and risk management plan was prepared for the national level and for the transport and water supply sectors. Thematic assessments of poverty, gender, and macro-economic conditions were prepared based on existing ADB knowledge products, government reports, and studies prepared by other development partners and national research institutes. A self-evaluation of ADB assistance during the previous interim CPS period was prepared and has been validated by the Independent Evaluation Department. The studies and the self-evaluation were discussed with the government and stakeholders in the private sector, academia and non-government organization (NGO) community between October 2012 and August 2014.

2. **Consultations.** Preliminary consultations were initiated in October 2012 as part of the retrospective review of the ADB-government partnership. Separate discussions were undertaken with key stakeholders including government representatives, private sector organizations, civil society organizations, NGOs, academia, and development partners. Following the change in government in October 2012, supplementary consultations were undertaken in February 2013. The discussions focused on Georgia’s economic and social development achievements, development assistance requirements, partnership opportunities, and options for future ADB support. Discussions intensified during the formal CPS Consultation Mission and related transport policy missions in April 2014, when roundtables were organized with civil society organizations, NGOs, business associations, development partners, and government.

3. **Government priorities.** The CPS has been guided by ongoing dialogue with the Ministry of Finance, key line ministries, and agencies. It has been informed by the government’s Socio-economic Development Strategy of Georgia (Georgia 2020) approved in June 2014.¹ The government reiterated its priority for fostering inclusive growth, social development and environmental sustainability. These policy goals are fully consistent with ADB’s Midterm Review of Strategy 2020.² The government also expressed concerns about overly centralized planning and decision-making impacting on public service delivery. The government is undertaking comprehensive self-government reforms to improve democratic governance and increase the efficiency of public service delivery. The discussions have also flagged the importance of a well-conceptualized decentralization process where it may entail the devolution of service delivery responsibilities. Ensuring that public investments are efficient and that projects are well-prepared and justified is also of importance. These discussions also highlighted the government’s preference for ADB to (i) continue its focus on the development of economic and social infrastructure, including investments in roads, municipal infrastructure services, and power; and (ii) expand its support for policy reform programs in public sector management and finance.

¹ Government of Georgia. 2014. *Socio-economic Development Strategy of Georgia (Georgia 2020)*. Tbilisi.

² ADB. 2014. *Midterm Review of Strategy 2020: Meeting Challenges of a Transforming Asia and Pacific*. Manila.

4. *Transport.* In the transport sector, the government emphasized the importance of completing the country's main East-West Highway, which would allow Georgia to play a growing role as a regional trade and logistics hub. Improving domestic connectivity, by upgrading secondary roads and improving the rail system, is a complementary priority.

5. *Urban infrastructure and services.* Support for water supply and sanitation remains a high priority, with an emphasis on ensuring improved service delivery to consumers in the secondary cities and small towns having growth potential. The government has also signaled a growing emphasis on solid waste management and wastewater treatment in sensitive areas. Improving urban transport, in the cities and between cities and towns, continues to be a high government priority.

6. *Power.* In the energy sector, the government is focused on improving transmission and distribution networks, encouraging hydropower development, and facilitating regional power trade.

7. *Finance and public sector management.* The government has requested medium-term support for its program of reforms in the finance sector and in public sector management. This support would help Georgia to meet the requirements of the European Union Association Agreement, and to varying degrees support all four prongs of its national development strategy (macroeconomic stability and fiscal efficiency, human resource development, private sector competitiveness and access to finance). Extensive consultations were made with key development partners active in policy-based lending and technical assistance to these reform areas, including the International Monetary Fund, the World Bank Group, the European Union and the United States Agency for International Development.

8. *Policy, planning and capacity.* In all sectors, the government emphasized the need for improvements in sector policy, planning and institutional arrangements, including greater attention to operations and maintenance and to improving cost recovery. Significant capacity gaps were identified in policy-setting, planning and management of economic infrastructure and municipal development, and in the technical, engineering and financial skills required to support infrastructure development.

9. **Maintaining focus.** The government requests ADB to maintain its assistance of at least \$180 million per annum in the CPS period, in line with 2013–2014 levels, and confirmed that a high priority is attached to mobilizing concessionary sources of external finance. The government stressed the need for ADB to support its goals of achieving inclusive growth and social development, and ensuring environmental sustainability. The government expressed its commitment to the goals and objectives of the ongoing multitranches financing facilities and agreed that any new subprograms would be prepared and implemented expeditiously. The government also has requested the CPS to include policy-based lending under the finance and public sector management sectors that would support key areas of Georgia 2020 (fiscal efficiency, private sector competitiveness, and access to finance). Priorities for technical assistance were identified, and ADB was encouraged to continue to explore opportunities for expanding nonsovereign assistance. The government also stressed the need for timely project processing and implementation through greater use of country systems.

10. **Views of academia and civil society.** Representatives of academia and civil society/NGOs stressed the importance of ensuring inclusive and environmentally sustainable growth, addressing regional income disparities, and promoting gender equality. Some felt that more attention should be accorded to enforcing safeguards, strengthening environmental

regulation, to improving road safety, and to increasing access of the poor to health and finance. They also stressed the need for continued attention to raising productivity in agriculture and to creating productive employment opportunities. Civil society organizations also relayed concerns over corruption, procurement, and budget transparency.

11. **Private sector.** Consultations with private sector representatives focused on the need to address infrastructure gaps, reduce trade costs, eliminate monopolistic practices, improve competition in the banking sector, develop capital markets, and strengthen the policy and regulatory environment for private sector development. Improved judicial processes are also a high priority. In terms of priorities for ADB support, the private sector emphasized the importance of infrastructure development, financial market development (including access to equity finance), and improving the policy and regulatory environment.

12. **Development partners.** The development partners broadly supported the strategic thrusts of the new CPS. They observed strong complementarities with ADB's work, particularly in relation to infrastructure investments, private sector development, social inclusion, employment, and regional trade facilitation. The development partners requested that ADB continue to strengthen its consultations and exchange of information, particularly with respect to ongoing projects, and encouraged parallel financing on major segments of the East-West Highway. They emphasized the importance of ADB support for policy and institutional reform in water supply and sanitation, and encouraged ADB to collaborate in preparing knowledge products and in policy dialogue in the different infrastructure subsectors.

13. These key messages from the consultations significantly contributed to the design of the CPS. A lending program comparable to that in the recent past has been included with a pipeline of projects that seek to address the key constraints to robust and inclusive growth. Ensuring the growth process is inclusive and fosters environmentally sustainable development has been integrated into sector and thematic strategies. Greater emphasis will be accorded to supporting policy reform and capacity development to ensure that ADB's extensive investment in infrastructure assets contributes to improved and sustainable service delivery. ADB will maintain a high level of selectivity in its sectors, while also working, in partnership with other development partners, to support private sector competitiveness, financial inclusion, environmental sustainability, and gender equality.