

ADB

Development
Effectiveness
Brief

Georgia▶

A Country at an Ancient Crossroads Looks to the Future



Asian Development Bank



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Georgia

Development Indicators

Item	2009
Non-Millennium Development Goals	
Population (million) (2009)	4.4
Annual population growth rate (%) (2007–2009)	(0.1)
Percent of population in urban areas (2008)	52.7
Millennium Development Goals	
Population living on less than \$1.25 a day (2005)	13.4
Population living below na national poverty line (%) (2008)	22.1
Under-5 mortality rate per 1,000 live births (2008)	30.0
Population using an improved drinking water source (2006)	99.0
Income and Growth	
GDP per capita (\$, current prices)	2,450.3
GDP growth (% , in constant prices)	(3.9)
Agriculture	(5.7)
Industry	(4.2)
Services	(3.6)
Savings and Investment (current and market prices, % of GDP)	
Investment	14.4
Gross national savings	2.6
Money and Inflation (annual % change)	
Consumer price index (period average)	1.7
Broad money	8.2
Government Finance (% of GDP)	
Revenues and grants	29.3
Expenditure and onlending	38.5
Fiscal balance	(9.2)
Balance of Payments	
Merchandise trade balance (% of GDP)	(22.3)
Current account balance (% of GDP)	(11.9)
Merchandise export growth (annual % change)	(22.0)
Merchandise import growth (annual % change)	(31.4)
External Payments Indicators	
Gross international reserves (\$ million)	2,110.4
(in month's of merchandise imports)	5.9
External debt service (% of exports)	26.2
External PPG debt (% of GDP)	31.5
Memorandum Items	
GDP (in million laris)	17,948.6
Exchange rate (laris/\$, period average)	1.7

() = negative, GDP = gross domestic product, PPG = public and publicly guaranteed.

Sources: *Asian Development Bank and Georgia Fact Sheet, 2009*; *Asian Development Outlook 2010*; National Statistics Office; IFS Online; *IMF Country Report No. 06/171* (May 2006); *IMF Country Report No. 07/299* (Aug 2007); *IMF Joint Needs Assessment* (Oct 2008); *IMF Country Report No. 09/1* (Jan 2009); 09/331 (Dec 2009); 10/83 (Mar 2010); 10/219 (Jul 2010); *IMF World Economic Outlook* (Oct 2010).

Georgia and ADB: A Partnership for Prosperity

Tucked between Asia and Europe, and strategically located in the South Caucasus, Georgia is a land of ancient cultural traditions and young, modern perspectives. Considered by some to be one of the world's most beautiful countries, it is a land of stunning architecture, famous cuisine and wine, and dramatic landscapes. Amid this spectacular cultural backdrop, the country has endured conflicts and hardship, and today is addressing development challenges with a progressive, forward-looking development strategy. Underpinning this strategy are investments, trade, and reform, and Georgia's position as an important link in oil and gas transit from the Caspian Sea. It also has plentiful natural resources such as forests, water, and mineral deposits. And most important, it has an educated labor force to help the country reach its full economic potential. The small nation was affected by the global economic downturn and conflicts along its border. The government is working to overcome these difficulties through continued efforts to reform and liberalize the investment climate, while reducing poverty through increased economic

growth and the strengthening of social safety nets. The administration that assumed office in 2004 set in motion far-reaching structural and institutional reforms that have catapulted Georgia into the upper echelons of reformers around the world. According to the Doing Business Report 2011 (DB2011) prepared by the World Bank Group, Georgia leads the global ranking of countries in terms of the 5-year measure of cumulative change in Doing Business indicators between DB2006 and DB2011.

Government reforms include mainstreaming anticorruption measures, strengthening property rights and the rule of law, improving public resource management. These measures are part of a broader government's development

The government's development strategy aims to halve the overall poverty incidence to 15% and reduce extreme poverty to less than 4% by 2015

ADB Loan, Grant, and Technical Assistance Portfolio in Georgia

	2007	2008	2009	as of September 2010
Approvals (\$ million)	0	111	230	1
ADF loans	–	110	229	–
TA projects	0.1	0.6	1.0	0.85
Contract Awards (\$ million)	–	70	111	30
Disbursements (\$ million)	–	70	111	14
Disbursement Ratio ^a (%)	–	63.5	41.7	6.0

– = not available, ADF = Asian Development Fund (concessional loans and grants), TA = technical assistance.

^a The ratio of total disbursement in a given year over the net loan amount available at the beginning of the year, plus loans that have become effective during the year, less cancellations made during the year.

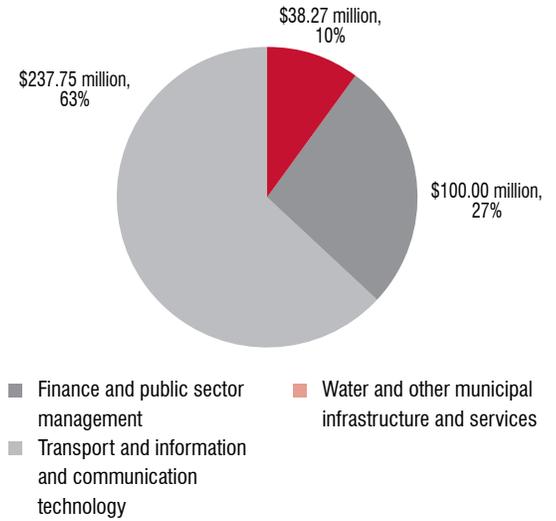
Source: ADB.

strategy aims to halve the overall poverty incidence to 15% and reduce extreme poverty to less than 4% by 2015 through strengthening the social assistance system, improving access to affordable basic services, and raising net job creation rates. The government hopes to generate sustained high growth of more than 7% per year through adherence to macroeconomic prudence, economic diversification, infrastructure development, and creation of conditions conducive to the development of private enterprise.

The Asian Development Bank (ADB) has become a trusted partner behind Georgia's development goals. Georgia is the newest of ADB's 67 members, having joined in 2007 as a developing member country with access to the Asian Development Fund and ordinary capital resources. ADB's office in the country opened December 2008. In August that year, following the conflict between Georgia and the Russian

ADB Loan and Grant Assistance to Georgia (as of 30 September 2010)

Total = \$376.02 million



Source: ADB.

ADB has been helping Georgia deal with the impact of the global economic crisis. ADB approved a program loan of \$80 million in 2009

Federation, ADB and other development partners participated in a post-conflict needs assessment. The conflict and the global economic downturn precipitated a decline in domestic and foreign investment, and led to a sharp fall in economic growth in 2008, down from



Georgia is a land of stunning architecture, famous cuisine and wine, and dramatic landscapes.

9.0% to 2.3%. Around 120,000 people were internally displaced, and 100,000 became newly unemployed. Based on the assessment, ADB provided an emergency loan of \$70 million for post-conflict recovery in 2008. The government used the ADB emergency assistance to help meet a budget financing gap arising from revenue shortfalls, a decline in privatization proceeds, new social and rehabilitation expenses, and other essential social expenditures.

A loss of investor confidence and a slump in foreign direct investment, sparked by the conflict, were exacerbated by the global economic crisis, resulting in falling growth and employment. ADB has been helping Georgia deal with the impact of the global economic crisis. ADB approved a program loan of \$80 million in 2009 for this purpose. Another \$100 million loan was extended in 2010, this time to ensure that government funding for essential social services and social protection is maintained and improved. ADB is also working to modernize municipal infrastructure, reduce

road transport constraints to economic activity, and upgrade and develop energy assets. This will have a major impact on income and non-income development goals. The private sector is seen as an important partner in these efforts and ADB is working with the government to build key partnerships that will spur inclusive economic growth.

The country's economic contraction bottomed in mid-2010 and a recovery is apparently under way, as reported in ADB's *Asian Development Outlook*. Aided by strong and well-calibrated fiscal consolidation and sizable external inflows, the outlook is for strengthening growth on the assumption that exports, foreign investment, and credit to the private sector continue to pick up. The country's recent economic performance and the government's commitment to reform have been impressive, but with high unemployment, low net job creation, and about one-third of its population still living in poverty, Georgia faces significant challenges to achieve higher inclusive economic growth.

ADB's Contribution to Development and Poverty Reduction

ADB's support to Georgia is closely aligned with the government's development agenda, focusing limited resources on a small number of priority areas and complementing the work of other development partners. The joint needs assessment carried out with other partners, culminated in ADB pledging \$300 million in assistance to Georgia over 2008–2010. As of September 2010, ADB had provided Georgia with \$523 million in loans and \$5.46 million in technical assistance grants. The ADB work is focused and is seen by the government as timely and creating value.

ADB has been particularly active in supporting inclusive growth transactions, most recently with a \$100 million loan to ensure that government funding for essential social services and social protection is maintained and improved. ADB in September 2010 approved the Social Services Delivery Program, which implies release of funds following the achievement of key reform milestones by the government. With ADB support, Georgia has been maintaining adequate spending on health, education, and other key social services, despite the global economic crisis and conflict, which have weighed on its revenues in the past 2 years, threatening service delivery and sustainability. The loan helps the government finance essential spending on social services by providing a revenue cushion as the economy recovers. It also supports ongoing reforms to improve access, quality, and delivery of social protection programs. It supplements

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ADB's ongoing and planned projects to promote municipal services, including water supply and sanitation, investments that target vulnerable groups.

The government has carried out agreed reform actions to support the program's objectives, including administering a medical insurance program for the poor and adopting a landmark law on gender equality in 2010. This ensures equal access to health care and social assistance, as well as providing support for maternity care, family planning, and protection of women's reproductive rights. The government has also amended the Non-State Pension Insurance and Provision Law to enable private pension funds to diversify their investment options. In the health sector, it has adopted revised minimum service standards for hospitals, outpatient care, and medical laboratories. Vouchers to finance training and improve professional standards for about 12,000 teachers have been disbursed and at least 50,000 textbooks will be provided to school children from families below the poverty line.

Urban Development: Making Georgia's Cities More Livable

ADB's work in the urban sector has focused on improving service delivery in municipal infrastructure. In the initial years of transition after independence in 1991, the quality and reliability of municipal services deteriorated sharply



ADB supported the upgrading of municipal infrastructure in the town of Adigeni, including improvement of the road and sewage pipes.

due to an inefficient policy and institutional environment. In recent years, a more positive policy environment has reversed the deteriorating trend of service quality, coverage, and continuity, particularly among the larger municipalities.

In 1997, with World Bank support, the government laid the groundwork for financing municipal infrastructure by establishing the Municipal Development Fund. This oversees all donor assistance in the urban sector. The fund provides the legal and operational structure for municipalities to take out soft loans and receive grants for municipal infrastructure investments.

The investment costs of improving municipal services, including piped water, sewerage networks, waste treatment, and municipal heating, are significant. Many municipalities still are unable to deliver adequate service, as they lack financing for infrastructure investment and rehabilitation. Water and sewage pipe failures can lead to outbreaks of waterborne diseases.

In the small southwestern town of Akhaltsikhe, Paata Lekishvili saw these problems first hand. The road in front of his home had deteriorated to the point that vehicles could no longer use it. Worse, the sewer pipes along the road were damaged and sewage flowed into the street.

"It was very unhealthy," recalled Lekishvili. "The place smelled bad and it was dreadful for the

kids to play outside. It was a sure way for them to get sick."

Under phase 1 of the Municipal Services Development Project, ADB supported the upgrading of the town's infrastructure, including the improvement of the road and sewage pipes near Lekishvili's home. Today, in front of his house there is a smooth, modern road that has changed the lives of the people in the area. It also allows them to reach schools, markets, and other places faster and more safely.

In nearby Adigeni, the situation is similar. The town's principal passage, Ude Road, was in such bad condition that cars could just barely pass.

"This is the main access road for us to come and go," said Teimuraz Geladze, a worker on the road, who also lives in the town. "The road was so bad that if you had four people in a car, you couldn't pass. The passengers had to get out of the car and walk." The only alternative

ADB supported the upgrading of Akhaltsikhe infrastructure, including improvement of the road and sewage pipes.... Today, it is a smooth, modern road that has changed the lives of the people in the area

was a much longer route. ADB support for municipal infrastructure has brought a new road to the area, and has reopened the town of Adigeni to the outside world.

ADB is working with other development partners to support municipal infrastructure in line with the government's development agenda, which includes an urban investment program estimated at \$1.1 billion between now and 2020. By focusing on municipal infrastructure, ADB is stimulating local economic development and improving the quality of life for people.

For Nino Kurtanidze, a 27-year-old supermarket teller, the ADB municipal infrastructure project that improved the road near her workplace has made her trading days much busier and the area around the store healthier. Improved water services, also supported by the ADB project, has meant that the store receives 24-hour access to piped water, which has improved cleanliness in

ADB is stimulating local economic development and improving the quality of life for people in the municipalities covered

the small shop. The road has brought in more business and helped keep shelves well stocked. The road has been a means for her to make ends meet. It has contributed to the family's financial independence and welfare.

"The improvements to the road and water system have really helped our business," she said, as a line formed in front of her cash register. "We are seeing more customers."

Transport: Keeping Georgia on the Move

Georgia's road network was built during the Soviet era. Inadequate maintenance and a sharp increase in passenger and freight traffic have left many routes in poor condition, causing long travel times, high transport costs, and a high rate of traffic accidents. Difficult terrain and congestion have led to slow traffic, increased vehicle operating costs, and reduced road safety. Road maintenance costs are also high because of the terrain and difficult weather conditions. About 10% of the



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ADB assistance to expand mass transit will promote inclusive growth by increasing people's mobility and reducing travel times.

main roads, 30% of the secondary roads, and 50% of the local roads are in poor condition and need rehabilitation. Given the country's location, transport sector development is critical to reducing the costs of business and realizing Georgia's full potential as a transit economy.

ADB's role in the transport sector involves financing improvements to the highway network, resulting in lower transport costs, better road safety, and reduced traffic congestion and vehicle pollution. These are high-return, in-demand operations that are a high priority for the government. ADB's assistance includes support of mass transit, which promotes inclusive growth by increasing people's mobility and reducing travel times. This is especially beneficial to women, the elderly, and students who rely on this form of transport to access health and education services.

In July 2010, ADB approved a \$300 million program for an urban transport overhaul across the country. This will ease traffic, improve the environment, and boost growth and jobs. The capital, Tbilisi, and several secondary cities make up the backbone of the economy, but they are blighted by rising traffic jams, road accidents, and pollution,

as well as poor infrastructure and inefficient public transport systems. The government has formulated a strategic sector road map and wide-ranging reforms to solve the problems, as well as to help urban centers unlock their potential as engines for investment, growth, and job creation. ADB's support will improve the efficiency, reliability, and affordability of urban transport services, resulting in more jobs and greater environmental sustainability in the cities. The funds will be used to extend a metro rail in Tbilisi, and to build roads and pedestrian and cycle paths to stimulate tourism in cities, including Mestia, which is a United Nations Educational, Cultural and Scientific Organization (UNESCO) World Heritage Site. Other urban centers that will benefit from ADB assistance include Batumi, Kutaisi, Poti, and Rustavi as well as Anaklia, which, along with Mestia, has significant tourism potential.

ADB's role in the transport sector involves financing improvements to the highway network, resulting in lower transport costs, better road safety, and reduced traffic congestion and vehicle pollution

In 2009, ADB pledged up to \$500 million to overhaul vital link roads between Central Asia and the Caucasus. The funds support Georgia's 7-year Road Corridor Investment Program, which will cost an estimated \$3 billion and is being financed by other development partners, including the Japan International Cooperation Agency, the Millennium Challenge Corporation, and the World Bank. Georgia is the shortest land link connecting Central Asia to Europe, and its main highways—in addition to railways and pipelines—play an essential role in transporting oil and other exports from landlocked Central Asian countries for shipment out of the Georgian ports of Poti and Batumi on the Black Sea. The program targets both infrastructure upgrades and improvements in the planning and management capabilities of oversight agencies. It also focuses on improving road safety. It will improve the efficiency of road

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traffic through Georgia; increase trade flows and competitiveness; lower transport costs; increase mobility and access to markets, jobs, and social services; and improve governance. Road investment is the top priority of the government, and ADB is its leading partner.

Energy: Bringing Power to the People

In recent years, Georgia has made impressive progress in energy sector reforms. These were crucial to solve the chronic power shortages of the past and improve the poor financial condition of electricity and gas companies. The reliability of electricity services has improved dramatically due to investments in energy infrastructure and maintenance.

The government's priorities for the future are to develop and utilize the country's considerable hydropower potential, diversify its supply



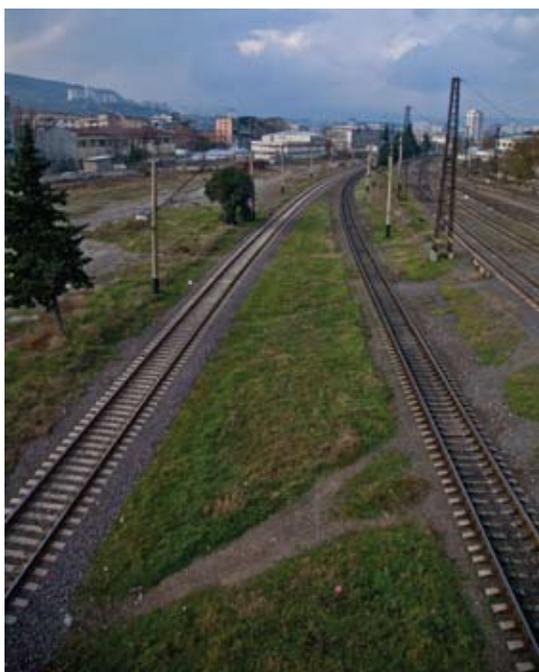
Electricity services have become much more reliable, thanks to investments in energy infrastructure and maintenance.

sources for natural gas, and participate in the Eurasian energy corridor, particularly the East–West and North–South transmission lines. The country's energy infrastructure, particularly its hydropower assets, needs rehabilitation and expansion. Georgia has a special interest in energy efficiency and clean energy.

ADB will support the government's renewable energy initiatives, including exploring opportunities with private sector players to participate in privately led hydropower development. ADB is also in the initial stages of assisting with high-voltage power transmission. ADB will introduce its Carbon Market Initiative to expand the development of clean energy, as well as energy-efficient and greenhouse gas abatement projects that are eligible under the Clean Development Mechanism of the Kyoto Protocol. These initiatives will be combined with technical assistance to establish an adequate Clean Development Mechanism policy framework and infrastructure. Other forms of renewable energy, including solar, wind, and biomass, will also be explored.

Regional Cooperation: Strength in Numbers

Georgia is a member of several regional institutions, including the Organization of the Black Sea Economic Cooperation and a grouping of Azerbaijan, Georgia, Moldova, and Ukraine. In the area of transport and trade facilitation, Georgia has prioritized its participation in the Eurasian Transport Corridor Project supported by the European Union. The project links Central Asia and Europe through the Caucasus. Development of these corridors will enable Georgia to realize its full transit economy potential. The government's objective is to combine high-quality transport infrastructure (roads, railways, ports) with trade



Georgia has prioritized its participation in the Eurasian transport corridor project.

facilitation, including harmonization of border-crossing procedures, transit fees, and tariffs.

Georgia is also included in a series of subregional road corridors that will allow Central Asian countries direct access to the Caspian Sea via Aktau, and eventually the Black Sea. These corridors are part of the Central Asia Regional Economic Cooperation (CAREC) Program.

In the realm of regional energy trade, Azerbaijan, Georgia, and Turkey cooperate on energy security and energy transportation. The development of a Caucasus regional energy market structure is envisaged. This will generate benefits to all over the longer term. ADB will be involved in this program.

ADB will support the government's renewable energy initiatives, including exploring opportunities with private sector players to participate in privately led hydropower development

Private Sector Development: Ease of Doing Business

The private sector has been boosted by wide-ranging business regulatory reforms undertaken since 2003. Licensing reforms have transformed the business environment. Reforms in labor regulations, property registration, and taxes have also been notable.

Georgia, the top reformer in 2006, was ranked fifth in 2007, and continues to improve its ranking each year. Its trade regime is liberal, with low import tariffs, no quantitative restrictions, and no limits on current and capital account convertibility.

Finance is among the fastest-growing sectors of the economy. Private sector credit as a share of gross domestic product (GDP) is expanding rapidly. Credit is still concentrated in retailing and construction, while agriculture remains underserved. Access of small and medium-sized enterprises (SMEs) to credit needs to improve.

Only a fraction of potential SME borrowers succeed in accessing credit because of lack of collateral, perceived high credit risk, and unaffordable interest rates. The government and ADB intend to work together in this area.

ADB's first private sector loan in Georgia, for \$25 million, was disbursed in 2007 to the Bank of Georgia for lending to SMEs. This increased lending to SMEs by 26% from August 2007 to August 2008. It was part of a \$125 million loan provided by ADB and Citibank as co-arrangers. A \$20 million loan to the Bank Republic–Société Générale Group was approved in February 2010 for SME onlending.

ADB is considering an additional \$50 million loan to support the banking sector, which will help renew lending activities, notably to SMEs, which is essential to job creation and prosperity.

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Access of small and medium-sized enterprises to credit is improving.

Operational Effectiveness: Improving Efficiency and Performance

As ADB's newest member country, Georgia has a portfolio that is at an early stage of development, with no project completion reports written or independent evaluations yet conducted. That said, anecdotal evidence gathered through field visits to ADB projects indicates that the government has developed a strong working relationship with ADB and that projects are doing well. No significant operational issues were identified by government officials interviewed. Contract awards of disbursements are moving up fast and there are no projects at risk.

One example of operational efficiency pointed out by local government officials was the ongoing two-phase Municipal Services Development Project. The first phase of this complex package of more than 60 subprojects is expected to be completed in 2010, 2 years earlier than initially estimated.

David Atunashvili, the head of Akhaltsikhe Municipality, where the program is financing an improvement of the water system and other work, noted that all the subprojects in his town were demand driven and involved extensive community consultation. They also adhered to high environmental standards.

"We have a strong partnership with ADB," said Atunashvili. "We share ADB's principles of good governance, safeguards, and community consultation."

"We have a strong partnership with ADB. We share ADB's principles of good governance and community consultation."
—David Atunashvili, head of Akhaltsikhe municipality



David Atunashvili, head of Akhaltsikhe municipality, noted that ADB-financed improvements in his town were driven by community demand.

Future Challenges

Georgia's economic outlook is promising. As a small, open economy at the crossroads of Europe and Asia, Georgia depends on developments in neighboring countries for its own trade and economic growth. Given the projected global and regional economic recovery and the return of investor confidence, as evidenced by strengthening momentum in the domestic economy in the final months of 2009, GDP growth in the country is projected to increase to more than 5.0% in 2010 and remain at a sufficiently elevated level thereafter.

Despite strong growth in recent years, "there is general consensus that neither poverty nor extreme poverty have been significantly reduced," according to the *2008 Georgia Human Development Report* by the United Nations Development Programme. "The discrepancy between strong GDP growth and stagnating poverty estimates suggest that economic reforms have still not fully impacted on the lives of enough of Georgia's society. Going beyond the strong GDP figures and translating them into higher general levels of prosperity is, the government recognizes, a key priority for the next phase of the reforms."



Natia Kldiashvili and her husband operate a private ambulance. The new road in front of their house has made it easier for them to deliver emergency services to their community.

Despite the challenges, the country has a strong record of social inclusion and equity. Government reforms promote human development and labor market flexibility, provide social safety nets, expand access to health care among the poor and vulnerable, privatize health care facilities, and assure the quality and financing of education. Gender equality is guaranteed by law. Social welfare spending on education and health, including elderly and disability pensions, targeted social assistance, and benefits to internally displaced people, represented a significant share of the state budget (11.5% of GDP in 2009) and is a government priority. The tax system has created the fiscal space to ensure better alignment of spending with national poverty reduction priorities.

Although reforms and improvements have not yet reached everyone in Georgia, they are directly and positively affecting many. Natia Kldiashvili is one of them. She and her husband own a private ambulance, which he drives. Not long ago, the road in front of their house was in such bad condition that her husband sometimes could not get the ambulance out to respond to emergency calls.

Today, with the support of an ADB project, there is a new road in front of her home, with access to nearby towns and hospitals, and their business looks more promising. "My husband is able to respond faster and better to emergency calls in our area now," she said. "This road is saving lives."

Text by Floyd Whaley.

The cover shows a road project in Samtskhe-Javakheti, near the town of Akhaltsikhe.

Photographs by Daro Sulakauri.

For more information, please visit www.adb.org/Georgia/ or contact George Kiziria, senior country coordination officer, Georgia Resident Mission (gkiziria@adb.org).

Development Effectiveness Brief: Georgia

The Asian Development Bank (ADB) has been a key partner in supporting Georgia's development goals. Georgia is the newest of ADB's 67 members, having joined in 2007. ADB's support to Georgia is closely aligned with the government's development agenda, focusing limited resources on a small number of priority areas and complementing the work of other development partners. Georgia's partnership with ADB has expanded rapidly, and ADB's country portfolio is one of the fastest growing. Georgia's portfolio is at an early stage of development, with no project completion reports written or independent evaluations yet conducted. That said, early indications are that the government has developed a strong working relationship with ADB.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.