ASIAN DEVELOPMENT BANK

Georgia: Improving Domestic Resource Mobilization for Inclusive Growth

Project Name	Improving Domestic Resource Mobilization for Inclusive Growth
Project Number	48044-001
Country	Georgia
Project Status	Closed
Project Type / Modality of Assistance	Loan
Source of Funding / Amount	**Loan 3190-GEO: Improving Domestic Resource Mobilization for Inclusive Growth** Ordinary capital resources — US$ 16.00 million **Loan 3191-GEO: Improving Domestic Resource Mobilization for Inclusive Growth** concessional ordinary capital resources lending / Asian Development Fund — US$ 59.00 million
Strategic Agendas	Inclusive economic growth
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development
Sector / Subsector	**Finance** - Finance sector development - Insurance and contractual savings - Money and capital markets **Public sector management** - Public expenditure and fiscal management
Gender Equity and Mainstreaming	Some gender elements
Description	The program will enhance inclusive growth options by opening up the fiscal space for the government to meet its planned significant funding of inclusive social and economic services. To achieve this, the program will support fiscal consolidation, improve revenue management, strengthen public expenditure management, enhance the generation of domestic savings, and increase private resource mobilization for investment opportunities, especially for micro, small, and medium-sized businesses. _The program impact will be citizens, particularly women, benefiting from higher living standards and more employment opportunities. The outcome will be the effective mobilization of domestic resources for increased public and private investment. The program will help enable improved fiscal space, better business opportunities and pension arrangements for women, more sustainable social service delivery, and a better environment for economic growth. The outputs are: (i) improved management of debt, cash and fiscal risk; (ii) strengthened revneue and public expendiutre management; (iii) enhanced generation of domestic savings; and (iv) increased mobilization of private resources for investment.

Project Rationale and Linkage to Country/Regional Strategy	The proposed program aims to improve domestic resource mobilization (DRM) to help achieve inclusive growth in Georgia. The program supports improved debt and fiscal risk management, more efficient revenue and public expenditure management, generation of domestic savings, and mobilization of private resources for investment. Inequality of income and opportunity will be addressed through the redistributive role of fiscal policy in tax and social protection measures. The programmatic approach and policy-based loan will finance three subprograms implemented from 2014-_2016. Growth of the Georgian economy since the Rose Revolution in 2003 has averaged nearly 6% annually during 2004_2013, leading to an increase in per capita gross national income by three times in current US dollar terms. While Georgia advanced rapidly on the Doing Business rankings, growth stemmed mainly from capital inflows before the twin crises of 2008 (the global financial crisis and the conflict with the Russian Federation) and from high public capital spending thereafter. In 2008 the crises sharply reduced capital inflows, and private investment and growth contracted by 3.8% in 2009. The government launched countercyclical fiscal measures to spur growth, increasing public expenditure from 34.0% of gross domestic product (GDP) in 2007 to 38.4% in 2009. The fiscal stimulus paid off, with growth rebounding and averaging more than 5% during 2010_2013. The share of foreign direct investment in GDP declined from 7.7% in 2011 to 5.8% in 2012. However, by the first quarter of 2014 it had increased to 7.2%. With the change in government in 2012, public finances came under pressure because of a large increase in social expenditure and limited scope to raise revenues, resulting in a fiscal deficit of 2.6% of GDP. The deficit is expected to widen to 3.7% in 2014 with a surge in social expenditures and lower revenues due to the slowing of growth in preceding years. The composition of central government expenditure will be changing over time with subsidies, transfers, compensation of employees, and interest payments taking up increasing budget shares at the expense of goods and services. In 2013 public capital expenditure, a significant driver of Georgia's economic growth during previous years, declined to below 6.0% of GDP from the 2008_2011 level of 7.5%_8.0% due to project implementation delays. Weaknesses have been identified in the selection, preparation, and appraisal of investment projects. Infrastructure investment needs, including those emerging from decentralization, will require a strong public investment management system to contain fiscal risks and maintain existing infrastructure. Maintaining sound macroeconomic and prudent fiscal management is critical for inclusive growth, requiring the government to exercise expenditure restraint as well as to increase revenues. The planned increase in social expenditures in the medium term is consistent with the government's push for inclusive, equitable growth for all citizens, as well as for gender-equitable growth. In this situation, maintaining capital expenditure requires careful prioritization of spending and improved expenditure efficiency and effectiveness to ensure fiscal sustainability. The government plans to develop public_private partnerships to leverage public resources and increase private participation, which can also strengthen its fiscal position. The government confronts different types of fiscal risk_macroeconomic, debt, and contingent liabilities_as well as those risks arising from state-owned enterprise (SOE) operations and the finance sector. The present capacity to monitor and deal with these different risks is limited. Recent reviews have put particular emphasis on the risks associated with the quasi-fiscal operations of SOEs, as some implicit subsidies are not reflected in the budget and the accounts of the central government. The SOE sector in Georgia contributed to 7% of gross GDP in 2012, accounting for 24% of total corporate investment. Total public debt amounted to 34.4% of GDP in 2013, of which 27.2% was denominated in foreign currency. Borrowing procedures are generally well developed, but external borrowing is poorly documented. A defined debt strategy is needed, as is more detailed analysis of external borrowing proposals. Operational risk management procedures are well developed but documentation to present a comprehensive snapshot is lacking. Presently, debt management and cash management in Georgia are two separate activities. Cash management is weak, since the government relies on a non-remunerated cash buffer in the National Bank of Georgia to ensure that payments can be made when due. In modern treasury management, these two functions are merged and managed by one single entity, using financial market instruments to meet the government's immediate and longer-term cash needs. To reach this stage, a two-pronged approach is required: developing the local financial markets, and establishing a modern treasury function in the Ministry of Finance (MOF). Tax policy and administration reforms serve as part of wider improvements of the business and investment climate. Total taxes in Georgia amount to 24.8% of GDP, of which indirect taxes make up 13.6% and direct taxes 11.2% in 2013. A notable feature is the constitutional ban on increasing various tax rates. The Georgia Revenue Service is responsible for collecting taxes for both levels of government as well as customs duties. High levels of old arrears impair the smooth functioning of tax administration. Selective writing-off of tax arrears is needed, with improved capacity for risk analysis to guide audit targeting and current controls. Pensions constitute the largest social spending item in the state budget, accounting for 18% of public expenditure in 2013 and 4% of GDP. This cost is likely to increase over time because of population aging. Social security is presently noncontributory. The current pension system needs revision to ensure both fiscal sustainability and adequate pension levels over the medium term. More expansive and efficient capital markets will be necessary to absorb pension inflows and allow pension funds to responsibly invest in equities. Capital markets, including money markets, can also provide funding for banks and nonbank financial institutions in Georgia through equity raising and bond issuance. In the design of a new pension system it is essential to take gender issues into account, as women are less likely to work in formal sectors, generally earn lower wages, and may perform other nonpaid labor. The current pension eligibility age is 65 for men and 60 for women, and is paid to all citizens regardless of marital status. The small and medium-sized enterprise sector represents nearly 96% of registered businesses and employs 42.0% of the workforce in Georgia, but accounted for only 17.7% of business turnover in 2013. Firms cite high interest rates, risk-averse bank lending policies, and absence of venture capital as major constraints on growth. Small businesses currently rely on owner resources or on retained earnings for investment. Poor development of securities and capital markets and long-term financial instruments, and reliance on a fully publicly funded pension scheme, prevent higher savings rates and limit the funds available for lending. Increasing access to finance, especially for small businesses managed by women, is an important policy consideration. Limited support for and use of innovation and technology also hampers small business development, with Georgia ranking 73 out of 142 on the World Economic Forum's Global Innovation Index. The program is consistent with the country assistance to Georgia from the Asian Development Bank (ADB) and with government policy.
Impact	Citizens, particularly women, benefit from higher living standards and more employment opportunities.

Project Outcome

Description of Outcome	Effective mobilization of domestic resources for increased public and private investment
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	1. Debt, cash, and fiscal risk management improved 4. Mobilization of private resources for investment increased 3. Generation of domestic savings enhanced 2. Revenue and public expenditure management strengthened
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	tbilisi

Safeguard Categories

Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	Stakeholders including relevant government departments, private sector, banks, insurance companies are being consulted.
During Project Implementation	The same set of stakeholders will be consulted during implementation.

Business Opportunities

Consulting Services	not applicable
Procurement	not applicable

Responsible Staff

Responsible ADB Officer	Niazi, Tariq H.
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, CWRD
Executing Agencies	*Ministry of Finance* *16 Gorgasali St., 0114* *Tbilisi* *Georgia*

Timetable

Concept Clearance	24 Jul 2014
Fact Finding	07 Jul 2014 to 18 Jul 2014
MRM	10 Sep 2014
Approval	21 Nov 2014
Last Review Mission	-
Last PDS Update	25 Jul 2014

Loan 3190-GEO

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
21 Nov 2014	21 Nov 2014	15 Dec 2014	31 Dec 2014	-	05 Jan 2015

Financing Plan		Loan Utilization			
	Total (Amount in US$ million)	Date	ADB	Others	Net Percentage
Project Cost	16.00	Cumulative Contract Awards			
ADB	16.00	21 Nov 2014	16.00	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	21 Nov 2014	16.00	0.00	100%

Loan 3191-GEO

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
21 Nov 2014	21 Nov 2014	15 Dec 2014	31 Dec 2014	-	05 Jan 2015

Financing Plan		Loan Utilization			
	Total (Amount in US$ million)	Date	ADB	Others	Net Percentage
Project Cost	59.00	Cumulative Contract Awards			
ADB	59.00	21 Nov 2014	57.50	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	21 Nov 2014	57.50	0.00	100%

Project Page	https://www.adb.org/projects/48044-001/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=48044-001
Date Generated	06 July 2017