

## DEVELOPMENT COORDINATION

### A. Major Development Partners: Strategic Focus and Key Activities

1. A large number of 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) as well as for business competitiveness and public financial management. The International Finance Corporation and the European Bank for Reconstruction and Development have supported a wide array of private sector investments and, together with KfW, are assisting in increasing access to finance. Major grant financiers for education, health, and social protection include the European Union and the United States. The International Monetary Fund has supported external sustainability of Georgia.

#### Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
<b>Public Sector Management</b>			
World Bank	Competitiveness and Growth DPO Series	2012–2014	212.7
EU	Support to Public Finance Management (budget support)	2011–2015	13.7
<b>Finance</b>			
KfW	Senior Loans to Rural Development Program	2014	41.2
MCC	South Caucasus Financial Sector Advisory	2013–2019	16.0
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
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
<b>Education</b>			
EU	Support for Vocational Education and Training Sector	2009–2016	23.3
World Bank	Education System Realignment and Strengthening Project	2006–2011	23.7
<b>Health and Social Protection</b>			
World Bank	Health Sector Development Project	2003–2011	24.8
USAID	Family Planning, Maternal and Child Health Services Project	2009–2014	10.5
<b>Multisector</b>			
IMF	Stand-by Credit Arrangement and Stand-by Credit Facility	2012–2014	387.0
IMF	Stand-by arrangement	2014–2017	154.0

ADB = Asian 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.  
Sources: Development partners' websites.

2. ADB provided budget support in a series of three program loans amounting to \$250 million (table), with the goal of ensuring continuity in maintaining key public expenditure items by the government. The loans were designed to help the government mitigate adverse economic

and social impact of the twin crises of a conflict with the Russian Federation and global financial turmoil, sustain countercyclical fiscal stance, and strengthen social safety nets.

3. The International Monetary Fund (IMF) approved a 36-month \$154 million stand-by arrangement with Georgia in July 2014 to support the authorities' economic program, aiming to reduce macroeconomic vulnerabilities, increase policy buffers, and support growth while making the economy more resilient to external shocks. The program supports a framework to improve discipline in macroeconomic and fiscal policy by providing modest balance of payments financing. This follows the IMF's \$387 million, 2-year Stand-By Arrangement and Stand-By Credit Facility (approved in April 2012), a precautionary arrangement to provide a macroeconomic safety net in case of increased external pressures, which ended in April 2014.

4. In June 2014, the World Bank approved the \$92.7 million Competitiveness and Growth Development Policy Operation for Georgia. This was the last operation in the programmatic series of three operations spanning 2012–2014, totaling \$212.7 million. The third competitiveness and growth development policy operation in Georgia aims to help the government in its efforts to strengthen competitiveness and improve social and fiscal outcomes, with the ultimate objective of ending extreme poverty and boosting shared prosperity. These objectives will be achieved through reforms in the areas of trade and trade facilitation, education, public financial management, and effectiveness of social spending.

5. The International Finance Corporation (IFC) supported projects with the private sector in financial services with an emphasis on access to finance. IFC's equity and loans to TBC Bank, Bank Republic, and Bank of Georgia helped strengthen banks' capital bases and provided additional liquidity to expand lending to SMEs. To date, IFC has invested \$607 million in Georgia in 49 projects.

6. In March 2014, the European Bank for Reconstruction and Development (EBRD) issued the first ever local currency 2-year bond totaling GEL50 million (€20.7 million) to encourage borrowing in local currency and to develop and strengthen local capital markets, thereby increasing the supply of locally sourced finance. The transaction is the first bond placed by a foreign issuer in Georgia, and represents the first floating rate note on the domestic market. The EBRD also supported the agribusiness sector 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, microfinance institutions, and leasing companies for onlending to farmers and other agricultural entities. Additional credit lines were extended to commercial banks, most recently to the Bank of Georgia and VTB Bank of Georgia, mostly in Iari. To date, the EBRD has invested a total of €1.86 billion for 167 projects in various sectors of the Georgian economy.

7. The United States (US), through the United States Agency for International Development (USAID) has administered a US pledge of \$1 billion dollars disbursed entirely in the form of grants after the conflict with the Russian Federation in 2008. The US also has provided loan portfolio guarantees for microfinance organizations and selected local banks to extend commercial credit to the agriculture and non-agriculture sectors, and to business activities that contribute to improved technology or increased 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 technical vocational educational programs that develop, test, and disseminate innovative and effective approaches to employment-oriented skills development.

8. The European Union (EU) provided \$13.7 million to Sound Public Finance Management on a grant basis to support an efficient allocation of public resources to foster economic development and eradicate poverty. The budget support includes reforms for trade facilitation and strengthening of export competitiveness, as trade is a key issue on the country's agenda for a free trade agreement with Europe.

9. KfW funded the Senior Loans to Rural Development Program in the amount of \$41.2 million, providing credit lines to financial institutions.

## **B. Institutional Arrangements and Processes for Development Coordination**

10. The Government of Georgia takes ownership of the assistance program, and in many respects Georgia works in line with the principles of the Paris Declaration based on ownership, accountability, alignment, and results orientation, taking approaches that are context based and policy coherent. The government's public financial management (PFM) capacity has been strengthened, along with appropriate institutional and human resource capabilities to continue reforms in order to maintain sector outcomes. During previous program loans, progress in PFM and action plans complemented support of program budgeting. Macroeconomic risks of slower growth and capacity constraints were mitigated by anchoring PFM on emerging positive trends, and the risk of reversal was minimized. ADB's program lending support was aligned with and designed to reinforce the IMF's support for macroeconomic stabilization and the budget support provided by the World Bank and the EU. Establishment of the ADB resident mission in Tbilisi in December 2008 (and its operationalization in 2009) has strengthened coordination efforts, and the office has been very active in policy coordination, ensuring gaps and overlaps with other donors are promptly identified and addressed.

## **C. Achievements and Issues**

11. While aid coordination is strong it remains largely informal, which limits its overall impact. Informal coordination arrangements do exist, with different donors taking the lead to coordinate assistance to key sectors or, as in 2008, to undertake a joint needs assessment. With respect to ADB, the government does play 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.

## **D. Summary and Recommendations**

12. Development partners have been cooperating in providing consolidated budget support and in coordinating sector policy dialogue and capacity building. ADB conducts regular policy discussions with the IMF and World Bank on sector policy and related capacity building issues. The proposed program on Improving Domestic Resource Mobilization for Inclusive Growth benefited from these close consultations 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.