



# Georgia: Logistics Cluster Development

Project Name	Logistics Cluster Development
Project Number	55323-001
Country	Georgia
Project Status	Active
Project Type / Modality of Assistance	Technical Assistance
Source of Funding / Amount	TA 6786-GEO: Logistics Cluster Development Technical Assistance Special Fund US\$ 225,000.00
Strategic Agendas	Inclusive economic growth Regional integration
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development
Sector / Subsector	Industry and trade - Trade and services
Gender Equity and Mainstreaming	No gender elements
Description	The TA is aligned with the following impacts: (i) Georgia's logistics supply chain infrastructure enhanced; and (ii) Georgia's economic growth and regional integration accelerated. The TA will have the following outcome: Kutaisi Logistics Center PPP project implementation commenced. Output 1: Kutaisi Logistics Center Feasibility study delivered. The TA will recruit a qualified international firm to develop final feasibility study for the KLC, including (i) updated market and demand analysis for logistics services; (ii) financial model and private and public contributions; and (iii) possible public-private partnership structures. Based on the feasibility study, ADB will consider extending transaction advisory services to the MOESD to attract qualified international logistics service providers to invest in the development of KLC. Output 2: MOESD staff knowledge on best practices in logistics sector improved. Consultants and resource persons will provide relevant MOESD staff with training on current trends and international best practices in logistics supply chain infrastructure development.

**Project Rationale and Linkage to Country/Regional Strategy**

Under the proposed small-scale TA, ADB will support Georgia to undertake a feasibility study for the development of integrated logistics center in west Georgia. The project will be designed as a Public-Private Partnership initiative to facilitate private investment in logistics infrastructure vital for Georgia's development as a regional economic corridor and transport hub. Subject to the outcome of the feasibility study, ADB will consider extending transaction advisory services to Georgia to help bring the project to fruition.

Located at the crossroads of Central West Asia and Eastern Europe, Georgia has historically played significant role in the movement of goods on the historic Silk Road. After its independence in 1991, Georgia rediscovered the advantages of its geographic location, repositioning itself as an aspiring regional economic corridor and a transport and logistics hub. For more than two decades, the successive governments, supported by development partners, have invested in strategic transport infrastructure projects to enhance connectivity with the global economy and achieve the vision of Georgia as a regional economic corridor. In modernizing Georgia's transport sector, the government efforts have been focused on rehabilitating Georgia's strategic East-West highway and rail corridors. Most of the two-lane highway have been expanded to a four-lane motorway while major infrastructural upgrades ongoing in Georgia's railway corridor, will reduce travel time and increase throughput capacity. In the maritime sector, Georgia's two Black Sea ports of Batumi and Poti are owned and managed by international operators and serve as gateways for international trade in Caucasus and partially for Central Asia. Total transshipments through Georgian ports were at about 17.2 million tons of cargo in 2019. APM Terminals, which owns and operates the Poti port, is investing \$250 million to develop Georgia's first deep-water port by 2023, to double the annual container capacity to 1 million TEU. In parallel to investments in transport infrastructure, the government consistently maintained liberal trade regime, accomplished free trade agreements and implemented transformative trade facilitation reforms, including: (i) customs modernization through integration of tax procedures and border control into Revenue Service agency; (ii) introduction of the Automated System for Customs Data (ASYCUDA); and (iii) creation of one stop-shop inland customs clearance zones for simplified cargo clearance and collection.

Despite these achievements, prospects to develop a transport and logistics hub in Georgia are constrained by lack of qualified logistics services. The local market is dominated by freight-forwarders and warehouse operators, with limited service portfolio, outdated warehouse infrastructure and little automation. There is limited supply of third-party logistics services and vast majority of companies operating in Georgia rely on in-house logistical arrangements, with high capital and operational expenditures. The World Bank's Logistics Performance Index, which ranks Georgia 119 out of 160 countries, indicates that Georgia is lagging behind other countries through which Central Asia can be accessed. Underdeveloped logistics sector may be attributed to range of factors, including risk perceptions, small market size, lack of industry knowledge and skills, inadequate public infrastructure and lack of integrated strategic planning. However, the existing gaps are also indicative of significant opportunities, particularly against the background of the country's recent progress in trade and transport sectors.

Between 2010-2019, Georgia's external trade doubled to \$13.3 billion, while growth in manufacturing and development of retail and distribution sectors have contributed to demand growth for modern logistics services. Georgia's free trade agreements with EU and the People's Republic of China, which came into force in 2016 and 2018 respectively, have opened prospects for further increase in trade and deeper integration into global supply chains. Improvements in Georgia's connectivity with neighboring countries, including rehabilitation of the East-West highway, launching of the Baku-Tbilisi-Kars railway connecting Georgia with Turkey and ongoing development of deep seaport in Poti, have significantly enhanced the prospects for a regional logistics hub in Georgia. There is a broad consensus within the government, businesses and expert community that (i) gaps in logistics services constrain Georgia's integration into global supply chains; (ii) Georgia has sufficient freight turnover and market demand necessary for modern logistics cluster development; and (iii) the government has a role to play in catalyzing transformation in the logistics market through a combination of policy interventions and public-private partnerships (PPP).

To support Georgia in developing modern logistics clusters, in 2017 the World Bank conducted a feasibility study, which identified two potential locations for logistics centers in the capital Tbilisi (1.1 million inhabitants) and the second largest city of Kutaisi (150,000 inhabitants) in West Georgia. Based on the feasibility study, the Ministry of Economy and Sustainable Development of Georgia (MOESD) announced a request for expressions of interest from private sector to develop the two logistics centers on a build-own-operate basis. The government pledged to contribute necessary land and offsite infrastructure, such as access roads and utilities, free of charge. The two projects did not attract a sufficient number of qualified bidders and the tender was closed. The lack of interest among larger international companies specializing in logistics was attributed to weak market outreach, limited experience with structuring PPP projects and lack of transaction advisory services. In 2021, the government approached the World Bank to revise and update the feasibility study for the Tbilisi logistics center and help MOESD in structuring the PPP project and bringing it to the market once again. The government requested ADB to help revise and structure the Kutaisi Logistics Center (KLC) PPP project and consider extending transaction advisory services to facilitate private sector participation.

The site identified for the KLC is located in direct proximity to the Kutaisi International Airport, the railway line connecting Poti - Tbilisi - Baku/Yerevan, and the East-West Highway. Poti port is only 75 kms away and Kutaisi industrial areas are within 50 km radius. About 39 hectares of land and 134 000 square meters of logistics facilities are envisioned for KLC development with the total estimated investment of about \$71 million over two development phases. The preliminary design has been completed, including a road-rail container terminal to be constructed and operated by Georgian Railways. The Government is willing to bear the cost of the land and off-site infrastructure, which constitutes about 7% of capital cost. The government sees the prospective KLC as: (i) a distribution hub for West Georgia and cross-docking point for distribution in East Georgia; (ii) consolidation and processing center of high value agricultural exports originating in central west Georgia; and (iii) a regional air hub for export of high value agriculture and other value-added products. The feasibility study estimates potential cargo flow to the Kutaisi Logistics Center from 1.1 to 2.8m tons by 2030, including significant portion of temperature sensitive agricultural goods requiring cold storage.

ADB is well-positioned to support Georgia in developing logistics clusters and will extend this small-scale technical assistance on a fast-track basis given the potential role of the project, among other government initiatives, in aiding the economic recovery from COVID-19 impact. ADB will also support MOESD in strengthening staff knowledge in logistics sector through training in current trends and best practices in logistics supply chain infrastructure development, including through PPP mechanism. With its goal of enhancing Georgia's logistics supply chain infrastructure, the TA is aligned with operational priorities of ADB's Strategy 2030 and ADB's country partnership strategy for Georgia, 2019-2023, both of which adopt regional cooperation and integration as a primary strategic objective.

Impact	Georgia's logistics supply chain infrastructure enhanced Georgia's economic growth and regional integration accelerated
<b>Project Outcome</b>	
Description of Outcome	Kutaisi Logistics Center PPP project implementation commenced.
Progress Toward Outcome	
<b>Implementation Progress</b>	
Description of Project Outputs	Kutaisi Logistics Center Feasibility study delivered MOESD staff knowledge on best practices in logistics sector improved
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide
<b>Summary of Environmental and Social Aspects</b>	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	
Responsible ADB Officer	Kiziria, George
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Georgia Resident Mission

Timetable	
Concept Clearance	-
Fact Finding	21 Sep 2021 to 21 Sep 2021
MRM	-
Approval	01 Oct 2021
Last Review Mission	-
Last PDS Update	01 Oct 2021

## TA 6786-GEO

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
225,000.00	0.00	0.00	0.00	0.00	0.00	225,000.00	-	0.00

Project Page	<a href="https://www.adb.org/projects/55323-001/main">https://www.adb.org/projects/55323-001/main</a>
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