



# Georgia and the World Bank Group

25 YEARS OF PARTNERSHIP

*Promoting Prosperity  
for the People*



WORLD BANK GROUP





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25

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# Abbreviations

ADB	Asian Development Bank
BTC	Baku–Tbilisi–Ceyhan
EBRD	European Bank for Reconstruction and Development
EU	European Union
GDP	gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IBRD	International Bank for Reconstruction and Development
ICT	information and communications technology
IDA	International Development Association
IFC	International Finance Corporation
JICA	Japan International Cooperation Agency
MIGA	Multilateral Investment Guarantee Agency
MW	megawatt
NGO	nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
SIDA	Swedish International Development Cooperation Authority
SME	small and medium-size enterprise
STEP	Skills toward Employment and Productivity
USAID	U.S. Agency for International Development

# Foreword

As we celebrate 25 years of partnership between Georgia and the World Bank Group, we also celebrate the many achievements of an impressive transformation. In the early 1990s Georgia faced many challenges that negatively impacted the living conditions of the population. Turbulence and conflict led to a large number of internally displaced people and weak public institutions. Today's Georgia bears little resemblance to the country I first visited in 1994. Rapid economic growth, maturing institutions, and the commitment of Georgian people to invest in the future have translated into improved living standards, a growing economy and a vibrant civil society. This is an impressive record of achievements that the people of Georgia can be proud of.

Over the last 25 years the World Bank Group was entrusted by Georgia to support this remarkable transformation. As a global multilateral development institution, we were asked to share good practices and experience from around the world and financially support development programs and investments.

The World Bank Group's partnership with Georgia focused on many areas, including the rehabilitation of infrastructure (roads, energy, water, schools, hospitals and homes), preserving cultural heritage, promoting the growth of the private sector, investing in people and protecting the poor.

While we celebrate today the country's many successes, the World Bank Group stands ready to continue to support Georgia as it strives to achieve prosperity for all. Investing in the most important asset of Georgia, its people, preserving the environment and adapting to climate change, and promoting private sector growth, are key areas of focus for our partnership going forward. We also want to learn from Georgia, so that other countries can learn from its experience and accomplishments.

Georgia is on *our* minds!

**Cyril Muller**

Regional Vice President  
Europe and Central Asia



# Preface

The report provides an overview of 25 years of partnership between Georgia and the World Bank Group in words, figures and pictures. It is not an exhaustive history but rather highlights some of the salient features through the eyes of those who lived it. It is based largely on World Bank Group publications, oral histories and testimonies of beneficiaries and participants from Georgia and the World Bank Group.

The report has been produced by a team led by Lire Ersado (Program Leader) and comprising Marjory-Anne Bromhead (Consultant), Breda Griffith (Consultant), Sarah G. Michael, Ozan Sevimli, Jan Van Bilsen, Inga Paichadze, Genevieve F. Boyreau, Sophie Devnosadze, Sophia V. Georgieva, Nino Kutateladze, Nino Moroshkina, Cristian Aedo, Tamar Barbakadze, Roberta Malee Bassett, Soren Nellemann, Sandro Nozadze, Darejan Kapnadze; Joseph Melitauri; Mariam Dolidze, Natalia Tsivadze; Nodar Mosashvili; Robert Mutyaba; and Tengiz Gogotishvili. The team benefited from administrative and logistic support provided by Maribel Cherras; Lela Ghongadze; Maia Duishvili; Militza Khoshtaria; Natia Gogsadze; Tamuna Namicheishvili; Nino Mikeladze; Nino Kurtanidze; Rusudan Mandzhgaladze; Mariam Ghambashidze; George Valishvili and David Mchedlishvili. Georgian counterparts and the World Bank Group staff, past and present, provided many useful comments. Special thanks to Inga Paichadze, Leonid Mujiri, Tamar Kobakhidze and Viktoria Siriachenko for photo

research and selection, with support from Tonya L. Ceesay (Information Management Services). Communications Development Incorporated (CDI) provided editorial and production services.

The content of this volume illustrates the depth and complexity of Georgia's challenges and the evolution of the World Bank Group engagement over the period. Georgia's story is one of resilience, from a turbulent period in the early years following its independence, to its current status of a thriving middle income democracy committed to inclusive and sustainable growth, with strong global connections, solid institutions, and a vibrant civil society.

The World Bank Group has been privileged to play a part in Georgia's development journey over the last 25 years, and we look forward to an even stronger program of cooperation in the future.

It is with great pleasure that I introduce you to *Georgia and the World Bank Group: 25 Years of Partnership: Promoting Prosperity for the People* with the hope that you will find it useful to learn from our experiences as we chart the path forward to address the challenges that remain.

**Mercy Tembon**

Regional Director, The South Caucasus  
Europe and Central Asia

Tbilisi, Georgia, September 2017



# Executive summary

## GEORGIA SINCE THE 1990S

Georgia and the World Bank Group’s partnership began in 1992. At that time the economy was in freefall and poverty was soaring. Between 1989 and 1994 its gross domestic product (GDP) fell by almost three-fourths, annual inflation topped 15,000 percent, industrial output was down by more than half, and wages plummeted by 90 percent. Education and health services substantially

deteriorated. Reliable provision of basic utilities, such as heating and water supply, collapsed. Roads ceased to be maintained. And tax revenues were about 2 percent of GDP.

Georgia is now a middle-income country, with steady economic growth and a per capita GDP of \$3,833 in 2015. Inclusive policies are reducing poverty, from 55 percent in 2001 to about 21 percent in 2015. Georgians have rebuilt the country with strong institutions and are working toward realizing



Georgia–IDA membership signing ceremony, Washington, DC (August 1993).



Zurab Chkheidze, Ambassador Extraordinary and Plenipotentiary of Georgia to the United States, signing the membership agreement (August 1993).

its 2020 vision of rapid, efficient economic growth and job creation. Inclusive growth and prosperity will reach every member of society. And the rational use of natural resources will promote environmental safety and sustainability and resilience to natural disasters.

### CONTINUITY WHILE ADAPTING TO A CHANGING ENVIRONMENT

The World Bank Group has supported inclusive development in Georgia since the early years of independence. The World Bank has financed more than \$2.7 billion in loans and credits, and the International Finance Corporation (IFC), the World Bank Group private sector arm, has provided about \$1.6 billion in long-term loans. Just as important has been technical assistance, policy dialogue, and analytical work. The World Bank Group, Georgian policymakers, and international and Georgian experts have built on international and local experience to develop policy options best suited to the Georgian context, in areas ranging from public health to energy to access to finance for small businesses.

*Supporting broad-based economic and social reforms through policy lending has been a key feature of partnership*

Partnership has been based on four pillars: macroeconomic and fiscal stabilization, public service delivery improvements, a strengthened environment for broad-based and private sector-led growth, and human development and poverty alleviation. The World Bank Group helped Georgia establish the Municipal Development Fund in 1997, at the start of a difficult time in its history. The fund survived and grew from supporting the rehabilitation of roads, water supply, waste collection, and other basic municipal services to support broader regional and municipal development and decentralization.

Georgia has increasingly led its own development agenda, articulating areas where it would most welcome collaboration with the World Bank Group and other development partners. Even in the early, difficult years, Georgian reforms led the region in several areas. In the mid-1990s, Georgia was the first country to implement a fully transparent system for subsidies for public transport, and it moved very quickly to privatize agricultural land. In the mid-2000s it vastly reduced corruption and developed carefully targeted approaches to social assistance. More recently, it has emphasized support for technological innovation. And internally generated revenues and foreign direct investment now finance more than half of public expenditures. Overseas development assistance has fallen from 48 percent of government spending in 2000 to 12 percent in 2015.

Supporting broad-based economic and social reforms through policy lending has been a key feature of partnership. Development policy operations have accounted for about 30 percent of total lending since 1992. Policy lending has supported macroeconomic and fiscal reforms, such as multiyear and results-based budgeting, and greater transparency in formulating policy and public expenditure, including at the local level. It has also supported improvements in education and health, standardized testing of children using international norms, and better regulation of access to pharmaceuticals.

Reforms have progressed from fundamental changes facilitating transition to a market economy to second-generation reforms. Before independence, Georgia had a system of centrally determined prices that bore no relation to markets or costs. Phasing out subsidies after independence involved increasing the price of heating gas by a factor of 5 and increasing the price of bread by a factor of 15. Tax revenues rose from only 2 percent of GDP in the early 1990s to 14 percent in the later part of that decade—and now average 24 percent of GDP.

More recent reforms include expanding affordable broadband access to rural areas, establishing a deposit insurance system, and encouraging contributory pension schemes.

In infrastructure, the initial focus was on restoring basic services, repairing roads, and providing reliable supplies of heat, electricity, and water to schools, hospitals, and homes. Later the government turned to creating viable institutions. Now Georgia is working with the World Bank Group to complete the East–West Highway corridor, making good use of the country’s potential as a transit hub. In power supply Georgia has benefited from IFC assistance in developing key oil and gas pipelines transporting energy from Azerbaijan to Europe and the Mediterranean, and it is now developing hydropower to generate clean electricity for local demand and seasonal exports. The World Bank Group has also helped improve local connectivity and road management, facilitating regional development.

Tourism, one of the fastest-developing areas of the economy, accounts (directly and indirectly) for more than 20 percent of GDP. The World Bank Group helped develop local tourist circuits, establish a system of protected areas, restore cultural assets and local town centers, and finance tourist business development. It has worked with Georgia on a tourism development strategy and supported microenterprise development, so that local communities can benefit.

In human development, the challenge has been to develop health, education, and social protection systems that are affordable and adapted to a market economy. The World Bank Group has helped mainly through development policy operations, analytical work, and policy advice.

In health, the challenge was to move from a system based on universal access and curative hospital care to one based more on primary health care. Georgia rapidly privatized primary health care and hospitals, but it faced serious issues of quality and access. It provided health insurance for the poor in the early 2000s and introduced universal health insurance in 2013. Because the system has limited coverage, however, up to 70 percent of health spending is out of pocket, and many Georgians self-medicate, despite the risks. The priorities now are to improve quality and coverage, especially for chronic diseases, which are widespread given Georgia’s aging population.

In education, the program started by rehabilitating buildings and restoring salary payment to teachers. It moved to reforms in curricula, teaching methods, assessment systems, finance, governance, and management information. With up to

*Extensive World Bank Group cooperation has helped create the conditions for private sector–led growth*

one-third of young Georgians, including many with tertiary education, not employed, the focus has shifted to developing skills adapted to the economy’s changing needs.

Georgia’s social protection system now reaches people in need, critical for reducing extreme poverty. The priority is to provide incentives for people who are not economically active but receive assistance to take up work if they can, while continuing to improve targeting of social benefits.

The World Bank Group was quick to mobilize postconflict support and continued assistance for internally displaced persons in Georgia. Following the conflicts in Abkhazia and South Ossetia in the early 1990s, more than 200,000 people left their homes; another 30,000 people from South Ossetia left after the 2008 conflict. The World Bank Group funded housing, community development, and longer term livelihood programs and helped build national capacity to address people’s longer term needs.

Extensive World Bank Group cooperation has helped create the conditions for private sector–led growth. Georgia has participated in the Business Environment and Enterprise Performance Surveys (BEEPS) since 1999 and in the Doing Business surveys since the early 2000s, using the results to assess progress and develop further reforms in infrastructure, trade facilitation, and education development. IFC has supported reforms in the banking system, broader financial sector development, and access to finance, especially for small businesses. The Multilateral Investment Guarantee Agency (MIGA) has provided political risk coverage, including for microfinance institutions.

The World Bank and IFC have facilitated public–private partnerships for developing large infrastructure. They helped Georgia negotiate favorable terms for the important Baku–Tbilisi–Ceyhan pipeline in the early 2000s and ensure civil society engagement in managing social and environmental risks. For hydropower, IFC is working with private partners in generation, the World Bank is helping finance transmission, and both are facilitating social and environmental risk mitigation.

The World Bank Group supported continuous cooperation in agriculture and the environment.



Evolution has been a natural part of the partnership between the World Bank Group and Georgia, varying in focus and intensity with the times. Today, the World Bank Group is helping rehabilitate irrigation and register titles to facilitate land markets. These programs will help more dynamic farmers expand and intensify production while enabling farmers who want to retire or transition to other activities sell their land. IFC programs support agribusiness, food safety, and access to finance. Improvements to rural roads and information and communications technology connectivity are ongoing. A country environment analysis helped identify priority environmental risks, including the health risks of pollution from vehicle emissions, construction activities, soil erosion, and the use of dirty fuels.

Georgia is improving its environmental legislation and institutions. After a sector review Georgia developed new legislation recognizing the multi-purpose functions of forests, which cover 40 percent of the country's land. Georgia is planning to upgrade its disaster and current forest fire preparedness systems and hydrometeorological services and is committed to reducing greenhouse gas emissions by 15 percent by 2030.

## LOOKING FORWARD

Over the past 25 years, Georgia and the World Bank Group have been partners in development, and the collaboration has reduced poverty and promoted prosperity. The World Bank Group has contributed more than \$4.3 billion to support Georgia's development. In addition to the growing financial support the World Bank Group's knowledge services and convening power have enabled this partnership to expand and evolve with changing local and global contexts.

Despite significant results, Georgia needs to manage its demographic transition, ensure gender equality, and improve education and health care delivery. It needs to better manage the environment, natural resources, and climate change. It needs to make infrastructure more affordable, strengthen rural areas and agriculture, and spur private sector-led development. And it needs to balance the priority to social programs with the need to maintain macroeconomic and fiscal sustainability and to limit the size of government.

Georgia and the World Bank Group will define the next program of cooperation over the coming months based on findings from the ongoing Systematic Country Diagnostic, Georgia's Socio-economic Development Strategy 2020, and the Government's Four Point Plan.

Georgia has transformed itself over the past 25 years. Georgians now have solid institutions and a vibrant civil society. The challenge over the coming decades is to continue the transition toward becoming an upper-middle-income country and to achieve shared growth and prosperity in an increasingly resilient and sustainable manner.

# Georgia since the 1990s

## *Turbulence and transformation*

Georgia has experienced good times and bad over the past 25 years. Immediately after independence, the economy collapsed and poverty soared. A decade later, the country went through a revolution, a war, and the global financial crisis. Even so, policymakers reformed the economy, eventually raising output beyond pre-independence levels.

### THE ECONOMY

Georgia's economy and the well-being of Georgians have followed political events. Between 1989 and 1994, Georgia's GDP fell by almost three-fourths, annual inflation topped 15,000 percent, industrial output fell by more than half, and wages plummeted 90 percent. Privatization was disorderly, and most industrial equipment was dismantled and sold as scrap to Turkey. The privatization of agricultural land contributed to the breakup of integrated production and processing chains, disrupting Georgia's markets for its traditional exports—wine, tourism, and subtropical agricultural products. Education and health services deteriorated. Reliable heating and water supply collapsed, and roads ceased to be maintained. And at the start of the 1990s, tax revenues were only 2 percent of GDP.

After the restoration of political stability in 1993, revenues rose to 14 percent of GDP, growth exceeded 10 percent, basic utilities and social services were largely restored, and a social assistance program was set up. Then, growth slowed to less than 5 percent a year in the late 1990s and early

2000s, but it rebounded after the Rose Revolution, averaging more than 7 percent a year in 2003–07. Tax revenues rose to 25 percent of GDP by 2008, the business environment improved, infrastructure was upgraded, energy and utility services improved greatly, and education and health programs became more cost-effective.

The conflict of 2008 led to an economic crisis, but Georgia was able to provide shelter for internally displaced persons, and growth recovered to more than 6 percent a year. By 2010 per capita GDP finally recovered to pre-independence levels.

Following a change of government in 2012, Georgia continued to perform well in *Doing Business* surveys. Indeed, it has the most liberal economic environment in Europe and Central Asia. Exports rose from 23 percent of GDP in 2000 to 45 percent in 2016, with room for considerable further growth, especially from agriculture, hydropower, and cultural and nature-based tourism. Growth has slowed since 2012, however, as a result of the external political environment, but Inflation remains contained and the banking sector is stable.

Georgia has spectacular natural assets, including mountains, forests, water resources, and biodiversity as well as fertile soils and varied microclimates, all requiring sustainable management, a challenge.

*Georgia has the most liberal economic environment in Europe and Central Asia*





Georgia is also taking more advantage of its location as a transit hub—for energy from Azerbaijan and Russia and for freight transport of goods across the Caucasus—and is investing in road infrastructure.

The government is seeking to balance macro-economic stability with strong social programs, including social assistance to the poor and vulnerable. But domestic savings are low, and investment and public expenditure needs high, partly because 7 percent of Georgia's population is internally displaced and partly because the population is aging. Despite its liberal economic environment, Georgia still struggles to reduce high unemployment and low economic activity rates, especially among the young, including those with postsecondary education.

## POVERTY AND REGIONAL DEVELOPMENT

Poverty rates are estimated at 45 percent in 1997 and as high as 55 percent in 2001.<sup>1</sup> Although economic growth rebounded after the Rose Revolution, inequality increased and poverty was slow to decline, especially between 2006 and 2010. Since then, poverty rates have come down—from 36 percent in 2010 to 21 percent in 2015, second only to Tajikistan in the region. They explain the government priority for social protection programs, which have helped: since 2010 consumption has grown faster for the bottom 40 percent of the income distribution (at 7.5 percent a year) than for the population as a whole (5 percent a year).

Poverty rates are higher in rural areas and in the east of the country, among households with dependents and households headed by women, and among internally displaced people and households with no working member. The share of people living in rural areas rose from 45 percent in 1989 to 49 percent by 2003, as people turned to subsistence farming for survival. It fell to 43 percent in 2014.

The government's regional development programs have progressed from restoring basic services to building decentralized institutions, developing infrastructure, restoring cultural assets, and revitalizing local economies. It is now restoring the agricultural economy, including sustainably managing natural assets and the environment.

Georgia's population fell from about 4.8 million in 1989 to 3.7 million in 2016.<sup>2</sup> Emigration and low fertility (1.8 children per woman in the 2000s, and even lower earlier in the transition) contributed to the decline. As fewer younger people reach working age, the government is stressing high labor market participation, including by women, and a skilled workforce for an increasingly sophisticated economy.

Georgians have faced high out-of-pocket expenses for health care since independence. The government introduced Universal Health Coverage (UHC) in 2013 and places high priority on delivering effective, sustainable services adapted to the country's changing demographics, difficult since an older population increases the costs of health and other social programs.



Above: Rehabilitation works under way in the high, mountainous village of Dartlo in the Kakheti region, under the First Regional Development Project.

Left: "We grow cucumbers, tomatoes, onions, garlic, peppers, and eggplant. Taking these vegetables to market and selling them is our only source of income. But many farmers in the region mostly grow grapes and take them to market. With the new road this has become easier and much faster."—Gia Zatiashvili, a farmer from Napareuli village

# What the Georgia and World Bank Group partnership has achieved

Between 1993 and 2016, the World Bank Group's financial support to Georgia totaled over \$4.3 billion, including \$1.5 billion on International Development Association (IDA) terms, \$1.2 billion on International Bank for Reconstruction and Development (IBRD) terms, and \$1.6 billion from the International Finance Corporation (IFC).<sup>3</sup> Of this financing, \$1.8 billion was for investment projects and \$0.9 billion for development policy operations (budget support). Of the IFC's investments, about \$654 million was mobilized from other financiers.

In the early 1990s, the priorities were to control hyperinflation, reverse the collapses in output and public service provision, and restore conditions for growth. World Bank Group support for price policy, the trade regime, government expenditure and institutions, and rehabilitating infrastructure damaged by war and neglect helped restore growth to 8 percent a year in 1995–98 (table 1).

The Socioeconomic Development Strategy 2020 seeks growth averaging 7 percent a year by maintaining a stable macroeconomic environment, strengthening human capital, improving private sector competitiveness, and increasing access to finance. The 2014–17 World Bank Group partnership framework—which supports strengthening public service delivery to promote inclusive growth and enabling private sector-led job creation through

improved competitiveness—is anchored in the Socioeconomic Development Strategy.

## SUPPORT BY SECTOR

IDA/IBRD support to public administration and finance accounted for the largest share of World Bank Group financing during the initial stages of the transition (28 percent between FY95 and FY05) and for about 17 percent of the overall financing over the last 25 years (figure 1). Transport and ICT evolved into a key area of collaboration, absorbing 10 percent of lending until 2006. Their share has since increased substantially to 57 percent in FY06–FY10 and now accounts for about 63 percent of the World Bank Group's Georgia portfolio. Transport and ICT accounted for an average of 36 percent of total lending over the 25 years. But support to education, mostly through development policy operations, has been modest, averaging 4.4 percent of total lending. Support to agriculture has also been modest, averaging 3.6 percent. Human development overall accounted for about 15 percent of World Bank Group financing.

Finance and insurance services accounted for the bulk of total lending by IFC between 1998 and 2017 (about 59 percent), and electric power for 27 percent (figure 2). IFC lending, modest before 2006, increased rapidly thereafter, and in 2015 and 2016 was greater than IBRD lending, a trend likely to continue.

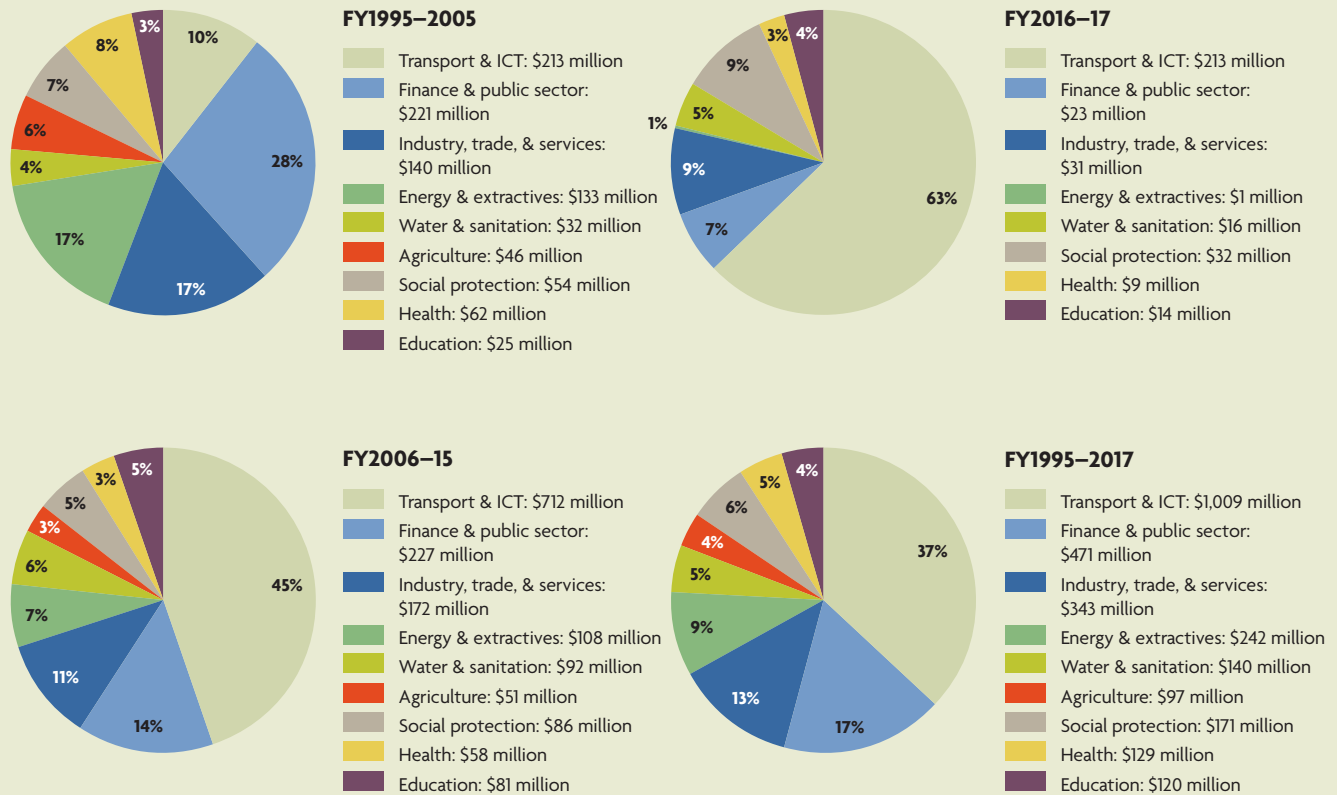
**TABLE 1** World Bank Group country strategy objectives for Georgia, 1995–2017

Area	1995–97	1998–2000	2004–06 (withdrawn)	2006–09	2010–13 <sup>a</sup>	2014–17 <sup>b</sup>
Macroeconomic stability and public sector reform	Reverse economic decline; assist in transition to a market economy	Secure medium-term sustainability of macroeconomic stabilization			Stabilize the economy	Stabilize the economy
Public sector governance	Redefine role and improve efficiency of public sector	Strengthen public finance	Improve governance and efficiency of public expenditures	Improve efficiency in public services	Increase the effectiveness of public service delivery	Strengthen public service delivery to promote inclusion and equity
Private sector development and growth	Promote private sector development	Strengthen and diversify sources of growth	Attain faster and more broad-based private sector growth	Enable employment and income-generating growth	Strengthen competitiveness for postcrisis growth	Enable job creation and competitiveness for private sector-led inclusive growth
Human and social sustainable development	Alleviate poverty	Alleviate poverty	Strengthen human capital and social protection	Human development and social protection	Meet postconflict and vulnerability needs	Improve social service delivery

a. The 2010–13 Country Partnership Strategy had two pillars: meeting postconflict and vulnerability needs and strengthening competitiveness for postcrisis growth. The first pillar encompassed economic stabilization, public expenditure management, and social and municipal service delivery; the second included support to infrastructure and private sector development, including agriculture.

b. The 2014–17 Country Partnership Framework has two pillars, but the results areas encompass the four broad objectives of the earlier strategies.

**FIGURE 1** World Bank lending to Georgia, by sector, 1995–2017



ICT is information and communications technology.



## FEATURES OF PARTNERSHIP

World Bank Group support to Georgia has typically taken three forms: knowledge generation and sharing, development policy and investment financing, and convening and working with other development partners. Providing research, analysis, expertise, international learning, and development solutions has been a key feature of the Georgia–World Bank Group partnership. Knowledge services—including analytical and advisory services—and technical assistance have been substantial, evolving over the years. As the economy strives for sustainable and shared growth, creating and disseminating knowledge that guides this path is a key part of the development story.

### Knowledge services

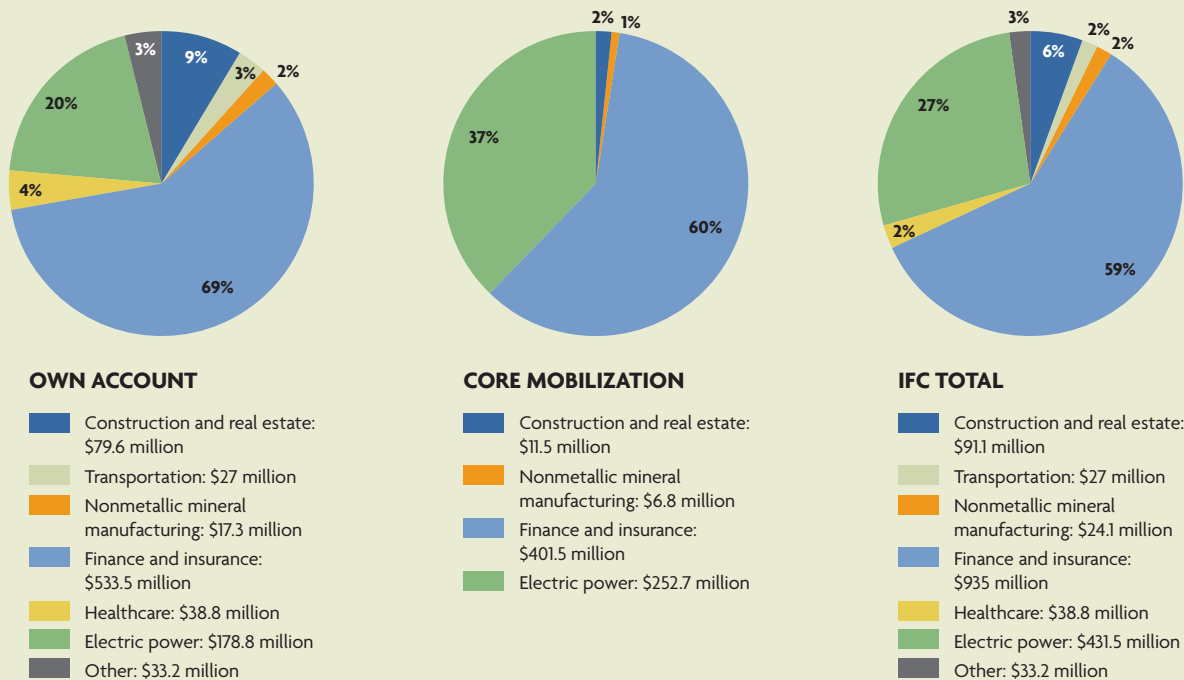
Knowledge services, always important in Georgia, have been increasingly demand driven and collaborative. The World Bank Group has supported the collection of data and the development of analytical tools, including poverty and vulnerability assessments, *Doing Business* surveys, and the assessment of educational outcomes based on international standards. A road user charge study

*As the economy strives for sustainable and shared growth, creating and disseminating knowledge that guides this path is a key part of the development story*

(in 2003–04) laid the foundations for asset management, and a study in 2015 estimated that upgrading the East-West highway would boost Georgia’s GDP by 4.2 percent in the long term. A related country environment analysis highlighted the economic and health costs of poor management of Georgia’s natural assets and urban environment, providing a strong justification for improved environmental policies. IFC’s advisory services included support for corporate governance, tax simplification, and financial services, including mobile banking.

Poverty assessments and public expenditure reviews helped Georgia design and deliver key social and infrastructure programs within its macroeconomic and fiscal constraints. The World Bank Group provided knowledge services on

FIGURE 2 IFC lending to Georgia, by sector, 1995–2017



pension reform in 2000, 2005, and 2015. IFC knowledge services helped policymakers develop the financial sector and improve the business environment. Georgia has sought (and received) knowledge services in areas such as information and communications technology (ICT) and linking innovation to employment (2014 and 2015), forest management (2014), freight transport and logistics (2016), assistance to internally displaced persons (2016), and tourism development (2016).

### **Development policy operations**

Development policy operations accounted for about a third of World Bank lending over the past 25 years (\$0.9 billion of \$2.7 billion). Early policy lending had more basic goals, such as providing budget support for social sectors, ensuring foreign exchange for imports, and restoring macroeconomic stability. Health sector reforms sharpened the focus on primary care, adapted health care delivery to Georgia's changing demographics, reduced the maternal mortality ratio, and improved health insurance. The World Bank has also supported reforms to strengthen decentralization and regional development.

The World Bank Group has responded quickly to emergencies and crises. It helped rehabilitate schools in Tbilisi damaged by the April 2002 earthquake and irrigation canals and levies damaged by severe floods in 2005—identifying needs and providing additional financing less than a month after the disasters. After the conflict with Russia and

the global economic crisis of 2008, the World Bank Group and the International Monetary Fund helped ensure that people displaced by the conflict and other vulnerable groups were provided social assistance and shelter. They also rapidly increased support to reduce budget deficits and restore growth (box 1).

World Bank Group support strengthened the Municipal Development Fund, established in 1997 and maintained through the political crises of the early 2000s. The fund provided a basis for longer-term local infrastructure, services, and institutional development, working with a variety of government and international development partners.

### **Cooperation with development partners**

In transport, the World Bank Group assumed the lead in coordination with the Asian Development Bank (ADB), the Japan International Cooperation Agency (JICA), the European Investment Bank, and other development partners. In water supply and sanitation the ADB has been the lead partner, with investments and reforms often based on analytical work supported by the World Bank Group. Since 2005, the U.S.–funded Millennium Challenge Corporation has supported investments in general education, technical and vocational education and training, and higher education to strengthen quality and relevance, with an emphasis on science, technology, engineering, and math. The World Bank Group helped design the program and fund several studies.

## **BOX 1 Identifying priorities and raising funds for recovery after the 2008 conflict**

In August 2008, in the aftermath of the conflict with Russia, the government asked the World Bank to help design and implement a strategy to address immediate economic and social needs and reestablish growth. The government took prompt measures to boost consumer and investor confidence, adjust the budget, provide support to war-affected people, rehabilitate infrastructure, and provide social, health, and education services.

In response to Georgia's request, the World Bank and the United Nations led a team that included the Asian Development Bank, the European Union, the European Bank for

Reconstruction and Development, the European Investment Bank, and IFC). Working closely with the government, it prepared a joint needs assessment for Georgia's economic recovery, spelling out a comprehensive set of priorities for assistance.

The assessment, benefiting from guidance and ownership by the government and from strong international partnership, laid the groundwork for an international donors' conference for Georgia, at which donors (including governments and multilateral development agencies) pledged \$4.5 billion.



# Ensuring sustainable development

Engagement in the sustainable development agenda has included the improved management of natural assets and physical capital (infrastructure) to deliver utility services, ensure connectivity, and support equitable and environmentally sustainable growth. Given Georgia's land, water, and forest resources, its varied climate, its cultural heritage, and its location as a transit hub for transport and energy, this agenda is key to development.

## **MUNICIPAL DEVELOPMENT: FROM REHABILITATING INFRASTRUCTURE TO SUPPORTING REGIONAL DEVELOPMENT AND TOURISM**

Rehabilitating municipal infrastructure rehabilitation was the first investment operation supported by the World Bank Group in Georgia, in 1994. The \$20 million project preserved essential infrastructure and municipal services, improved municipal services in a sustainable and environmentally beneficial manner, and reinforced the credibility of local governments through visible interventions in key services. Investments included weatherproofing 23 hospital and school buildings, establishing dedicated electricity lines for 15 hospitals, providing spare parts and equipment for underground and other public transport in Tbilisi, and rehabilitating municipal infrastructure in Tbilisi,

Batumi, and Poti. The operation restored the Tbilisi metro system, which 90 percent of local citizens depended on to get to work. Although the focus was on service delivery, the operation also demonstrated the accountability of government to citizens, a key in longer term institutional development.

Municipal development and decentralization projects starting in 1997 and 2002 built on the 1994 operation. They retained a focus on basic service delivery but provided stronger support to building municipal institutions and establishing solid financial and information management systems. They supported 15 municipalities with 90 percent of the country's urban population.

A key feature was the Municipal Development Fund to strengthen local self-government bodies while investing in infrastructure and services. The fund is still the key institution for financing municipal infrastructure in Georgia. Over time it established guidelines for the contributions of participating municipalities, fiduciary oversight and creditworthiness, investment sustainability, and municipal management. Providing an institutional base for support from development partners has also helped lay the basis for longer term institutional reforms, such as the European Charter for Local Self-Government in 2005, a new Organic Law on Local Self-Governing bodies in 2005, and the State Law on Local Budgets in 2006.





### **Preserving cultural heritage**

The Tbilisi Cultural Heritage Project, though small (\$4.5 million), had an important demonstration impact, which later, more ambitious regional development programs built on. It recognized Georgia's cultural heritage not only for its economic impact but also for social cohesion and national pride. It provided funding to nongovernmental organizations (NGOs) for conservation activities ranging from stabilizing buildings to recording traditional songs and dances. It restored key sites, including Old Town Tbilisi, the northern mountain town of Shatili, the walled town of Signaghi, and the ancient rock city of Uplistsikhe. It supported institution building, training, public awareness campaigns, and an integrated conservation master plan for Old Town Tbilisi. It thus had longer term impacts as well. Urban cultural heritage restoration led to the opening of hotels, cafes, restaurants, and galleries and to an influx of residents and offices, increasing property values and creating a foundation for a vibrant historic downtown core in Tbilisi.

The project protected more than 100 cultural and historic treasures, revitalized knowledge of crafts, and created ties with private benefactors and international groups. It helped policymakers

formulate laws and strengthen the capacity of the Ministry of Culture, institutes, NGOs, community groups, and cultural heritage committees. And it encouraged social cohesion by bringing members of different ethnic groups and religions together to work on subprojects.

These operations laid the groundwork for larger regional development operations since 2008. The Regional Municipal and Infrastructure Development Project started in 2008 (\$120 million), just after the conflict in Southern Ossetia that displaced about 30,000 people.<sup>4</sup> Implemented through the Municipal Development Fund, it improved municipal institutions, infrastructure, and services as well as housing conditions and other services for conflict-affected people. It lowered energy costs by reducing losses in distribution and delivery, increased access to and the reliability of piped water, reduced vehicle operating costs through road rehabilitation, provided housing for displaced people, and established solid waste collection systems.

The project improved local budgeting and reporting, subproject planning, and feasibility studies. It supported three strategic city plans as well as wastewater management strategy and feasibility

studies for six cities that covered cost-effective treatment options. And it supported the preparation of guidelines on urban and intervillage road design and a feasibility study for a bridge in Tbilisi to connect two expanding districts.

This project, and the Municipal Development Fund, provided a platform for development partner cooperation. The Millennium Challenge Corporation, which provided \$60 million for municipal infrastructure through the Municipal Development Fund between 2007 and 2012, entered a service agreement with the World Bank. The Bank team provided safeguards and procurement and technical support to ensure high design and implementation standards.<sup>5</sup> The European Bank for Reconstruction and Development (EBRD) and ADB also provided funding through the Municipal Development Fund.

The project reduced poverty and strengthened shared prosperity. Half its subprojects were executed in Imereti, Samegrelo-Zemo Svaneti, Kvemo Kartli, and Kakheti—all with poverty rates above the national average. Beneficiary surveys showed that better access to services and infrastructure facilitated the start-up of micro and small enterprises. In Kobuleti, a popular Black Sea resort area in Adjara, more than 60 percent of respondents reported that the project road helped them start or expand their business.

Building on the Regional Municipal and Infrastructure Development Project, the State Strategy for Regional Development 2010–17 aims to reduce urban and rural development imbalances by

improving public services, strengthening regional transport connections, and building the tourism infrastructure to support local economies. Three regional development projects—in Imereti (\$39 million), Kakheti (\$60 million), and Mtskheta Mtianeti and Samtskhe Javakheti (\$60 million)—support this strategy.<sup>6</sup> They finance infrastructure and tourism alongside institutional capacity building.

Tourism is now one of the most important sectors, with potential for substantial growth. Between 2009 and 2016, Georgia had one of the world's fastest tourism growth rates, as annual tourist arrivals more than quadrupled to 6.3 million. Tourism directly accounted for an estimated 7 percent of GDP and about 5 percent of employment in 2016.<sup>7</sup> Including indirect impacts, it generated an estimated 20 percent of GDP and supported about 300,000 jobs (17 percent of employment).<sup>8</sup> Export earnings from travel services increased from about \$475 million in 2009 to more than \$2 billion in 2016.

The three regional development projects increased the number of beds, developed small and medium enterprises (SMEs), substantially increased the number of tourists, and put in place enabling infrastructure. They are supported by World Bank Group technical assistance and analytical work, including technical assistance on cultural heritage tourism in Kakheti, a Poverty and Social Impact Assessment, and support to develop a tourism strategy (box 2). The South Caucasus Skills Development Study also informed program design. The most recent development policy operations

## BOX 2 Increasing tourism: Georgia's strategy for 2015–25

In 2015 the government finalized a comprehensive tourism strategy, developed following widespread consultations with investors, tour operators, hotel owners, representatives of national and local governments, and managers of protected areas and heritage sites. The World Bank Group played a facilitating role.

The strategy seeks to maximize tourist satisfaction, diversify markets and products, increase the size and profitability of the industry, and increase opportunities for job creation. Its eight strategic objectives include:

- Respect, enhance, and protect Georgia's natural and cultural heritage.
- Create unique and authentic visitor experiences centered on those assets.

- Enhance competitiveness through world-class visitor services.
- Attract higher-spending markets through effective marketing and promotion.
- Enhance Georgia's ability to collect and analyze tourism data and measure industry performance.
- Expand public and private sector investment in the tourism sector.
- Enhance the business environment to facilitate increased foreign and domestic investment.
- Build partnerships among government, industry, NGOs, and communities.

Source: World Bank 2015.

provide further support to decentralized development by including actions on data on budget execution and investment selection criteria.

Georgia views the regional development program as a catalyst for its interventions. It has attracted support from multiple sources—including the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the European Union, the U.S. Agency for International Development (USAID), the Millennium Challenge Corporation, Swiss Development Cooperation, and the Swedish International Development Cooperation Authority (SIDA).

### **CONNECTIVITY AND TRANSPORT: LINKING PEOPLE, DELIVERING SERVICES, AND SUPPORTING GEORGIA AS A TRANSIT HUB**

In the early years of independence, transport assets deteriorated rapidly, as the economy collapsed. As in municipal development, the focus of investment has evolved, in this case from emergency rehabilitation to asset management and promotion of Georgia as an international transit corridor.

The agenda's three main pillars are urban road and transport rehabilitation, secondary road

*Including indirect impacts, tourism generated an estimated fifth of gross domestic product and supported about three hundred thousand jobs*

rehabilitation linking smaller settlements to services and enabling market development, and development of major highways and international transit corridors.

World Bank Group support to transport (mainly roads, as ports and railways are largely privatized) increased sharply over the past 25 years, rising from \$84 million in 1995–2005 to \$898 million since 2006. It makes up 36 percent of World Bank Group lending to Georgia since 1996. With regional development, it accounts for the bulk of investment lending.

Partnership started with programs to support institutional reforms and restructure the Transport Ministry, including commercializing and privatizing transport administrations and services (ports, railways, highways, road transport, and vehicle inspection). Initial investment support was rehabilitating major roads. By the mid-2000s, 70 percent of major





The Liakhvi bridge on the East-West Highway, built with the latest construction technology.

roads were in fair or good condition, but 60 percent of secondary and most local roads remained poor. Traffic injury and fatality rates were the worst in Europe.

In 2004, the World Bank Group started a program to help rehabilitate and manage secondary and local roads, recognizing their contribution to poverty reduction and shared prosperity. Since then, it has provided nearly \$400 million. The 2004 Secondary and Local Road Rehabilitation Project (\$20 million, with additional financing of \$90 million) improved the economic and social well-being of the rural population by upgrading their secondary and local road networks and the effectiveness of the Road Department of the Ministry of Infrastructure and Development in road maintenance and in interaction with communities and responsiveness to local needs. Implementation faced some delays after a government decision to transfer responsibility for certain roads to

local governments. Despite the delays, the project upgraded about 700 kilometers of secondary and 200 kilometers of local roads, established regional offices, improved data management and public participation, trained police, adopted five-year rolling maintenance programs, and prepared designs for further rehabilitation. In subsequent operations the Road Department helped municipalities prepare annual road programs and develop technical guidelines for maintenance.

The Five-Year Rolling Program for 2016–2020 for Improvement and Preservation of Secondary Road Assets emphasizes enhanced maintenance of the secondary road network. Its objective is “to promote sustainable road infrastructure development providing efficient transportation, ensuring short and long-term benefits for all road stakeholders.” The most recent World Bank Group operation, the Secondary Road Asset Management Project, approved in 2016, aims to improve road user access to social services and markets and enhance road asset management. It supports output- and performance-based contracting, increases the focus on maintenance, and seeks to ensure adequate planning by budgeting for maintenance through five-year rolling programs. It includes indicators on road safety, data collection, and climate-resilient design and maintenance practices. The focus is on Racha-Lechkhumi, Mtskheta-Mtianeti, Shida Kartli, and Guria, some of the poorest regions in Georgia.

*The Secondary and Local Road Rehabilitation Project improved the economic and social well-being of the rural population by upgrading their secondary and local road networks*

Since 2006, the World Bank Group and the government have collaborated on a major program to upgrade the East-West Highway Corridor, part of a broad strategy to convert Georgia into a major transit and logistics hub. Between 2006 and 2016, the World Bank Group provided more than \$450 million (23 percent of World Bank Group lending to Georgia in this period) to upgrade the corridor to European international road standards. In 2006 transport was the second-largest sector of Georgia's economy, accounting for 13 percent of GDP and 11 percent of employment. Transport, storage, and communications tripled their contributions to GDP between 1996 and 2006, from 4.6 percent to 13.0 percent. Despite offering the closest maritime gateway to nearly all Central Asian countries, the Georgian East-West Highway accounted for a negligible portion of their foreign trade, mainly because of long transit times, poor road conditions, multiple cargo handling points, and formal and informal payments and delays. Between 2006 and 2016, traffic growth along the East-West Highway increased 7 percent a year, accounting for 23 percent of vehicle use on Georgian roads and nearly half its international traffic. By 2015 nearly 300 of 400 kilometers had been upgraded, with the support of the World Bank Group, the ADB, the European Investment Bank, and JICA, and the government is committed to completing the project by 2020.

The 2014 Enabling Trade Index ranked Georgia 56th of 138 countries for the availability and quality of transport infrastructure, indicating that improvements remain to be made. The most recent World

Bank Group East-West Highway operation, approved in 2015 for \$140 million, focuses on 85 kilometers of road between Zemo-Osauri and Argveta, in landslide-prone areas with very difficult terrain that require expertise and innovation in design and construction. Road safety and climate resilience are high priorities in program design (box 3).

The World Bank Group program of cooperation has been backed by studies over the years. In 1995 the World Bank Group conducted a broad-based transport sector review. Key studies in the mid-2000s concerned road user charges and rural infrastructure. More recent work has studied logistics, private sector participation in highway operations and maintenance, and the broad economic impact of large road projects, including the East-West Corridor.

### **ENERGY: FROM HEATING AND LIGHTING FOR THE PEOPLE TO MANAGING NATURAL ASSETS AND CREATING A REGIONAL ENERGY TRANSIT HUB**

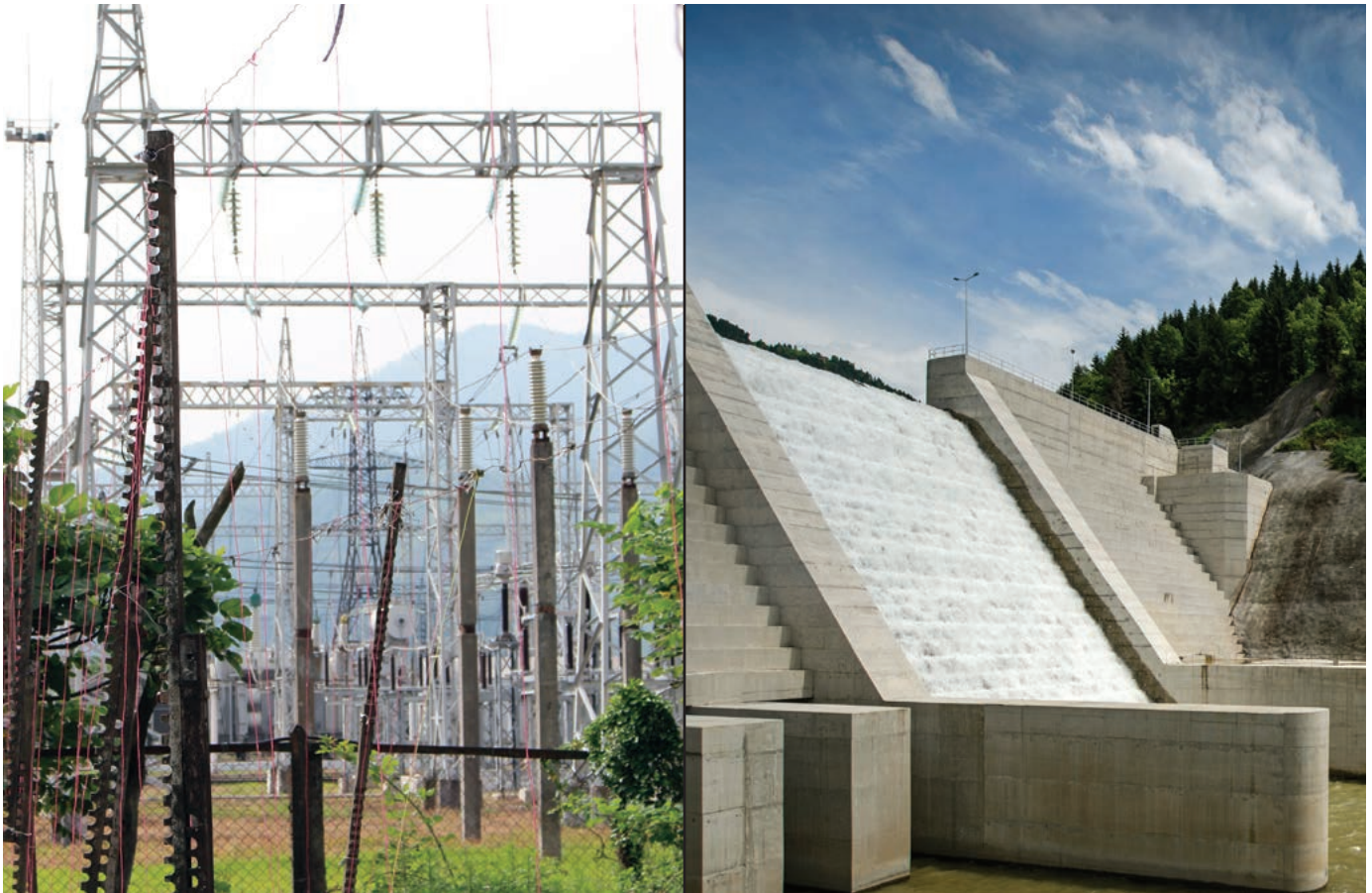
Georgia faced a tough energy situation in the early 1990s. Its supply and transmission systems had been integrated with those of the former Soviet Union, and it relied heavily on imported natural gas. By 1994 gas transport routes from Russia were closed, and the war in Abkhazia caused the destruction of a major thermal power plant and difficulties in operating a major hydro plant. The energy sector was a key constraint to development. But it had long-term potential as a source of growth, given

#### **BOX 3 Improving road safety and the climate resilience of the transport sector**

The government is implementing a Road Safety Strategy and Action Plan that includes remediating accident black spots, strengthening the enforcement of traffic laws, and improving road maintenance. The Roads Department Road Safety Unit and Patrol Police undertake road safety audits, including inspections of planned road rehabilitation and construction activities and road safety engineering improvements. The Road Safety Unit has a Road Safety Working Group with broad-based participation, including civil society. These measures, together with road safety campaigns by NGOs and stricter enforcement of traffic rules, have reduced accidents and injuries. The fatality rate fell from 16 people per 100,000 inhabitants in 2006 to

11 in 2013, despite high traffic growth. This rate is only slightly higher than the 9.1 average for Europe.

The increased frequency of landslides, rock-falls, and flash floods has caused serious damage to road infrastructure—and caused loss of property and lives. With World Bank Group support, the Roads Department is conducting a vulnerability assessment of roads to climate change and developing and implementing climate-resilient measures for the most vulnerable road sections. World Bank Group lending has supported improved safety and environmental standards, design standards resilient to climate extremes and earthquakes, and more sophisticated asset management.



Georgia's location as a transit corridor for Azerbaijani oil and gas exports and its potential to generate hydroelectricity from its mountains and water resources. Priorities included restoring supplies of electricity and heat, including to schools and hospitals.

Beginning in 1994 the government raised tariffs, reduced losses, overhauled the regulatory framework, and in 1999 sold the Tbilisi electricity distribution utility to U.S. energy giant AES. World Bank Group programs, which totaled \$145 million over 1995–2005, initially helped rehabilitate the sector. Later the World Bank Group helped improve the financial sustainability of electricity utilities; diversify sources of supply; and enhance the government's capacity to negotiate and implement oil and gas transit agreements, maximize their benefits,

and minimize social and environmental costs.<sup>9</sup> Concerned about the poverty impact of tariff increases, the World Bank Group helped increase understanding and develop mitigating measures, including stepped tariffs and targeted social assistance.

The World Bank–supported \$10 million energy transit institution-building operation (approved in 2001) sought to enhance the capacity of Georgia to negotiate and implement oil and gas transit, purchase, and sale agreements to maximize economic benefits and minimize social and environmental costs. The project improved Georgia's negotiating capacity through regulatory reforms and a host country agreement and contributed to efficiently monitoring and managing environmental and social risks (including marine oil spills and damage to ecologically sensitive areas).

The BTC and Baku–Supsa pipelines were the largest foreign-sponsored projects in the region in 2000. The cost of the BTC pipeline was about \$4 billion, with about \$620 million spent in Georgia. Payments to local companies totaled about \$300 million. The transit of hydrocarbons provides revenue to Georgia's budget and allows Georgia to

*The energy sector was a key constraint to development, but it had long-term potential as a source of growth*

purchase gas at favorable prices. IFC was part of the investment consortium for both pipelines.

Between 2006 and 2009 the World Bank Group support supported reforms through policy lending, among them a government action plan that included a debt management law, extensive metering of gas and electricity distribution, improved collection and financial viability, and service targets. Except in the southwest of the country, most of the basic problems of access and financial viability have been overcome. Service is available 24 hours a day for paying customers, and collection rates exceed 90 percent.

Georgia is increasing its generation of renewable energy for energy security and summer export. In addition to the Georgian Energy Development Fund, established in 2010 to develop small

and medium renewable energy projects, the government launched the Partnership Fund for large strategic infrastructure, such as hydropower. The World Bank Group also supports energy efficiency (box 4).

### **WATER: PROVIDING CLEAN DRINKING WATER AND SANITATION, MANAGING WATER FOR AGRICULTURE AND ENERGY, AND RESPONDING TO FLOODS**

World Bank Group support to municipal water supply has been mainly through municipal and regional development programs, which first focused on restoring basic services. The projects also responded to emergencies, such as the 2005

#### **BOX 4 Developing sustainable hydropower, with support from the World Bank Group**

Together with the Multilateral Investment Guarantee Agency (MIGA), ADB, and EBRD, IFC is participating in the Adjaristsqali Hydropower Project in southwest Georgia. The project, owned by the Adjaristsqali Georgia LLC (AGL), includes initial schemes in Koromkheti (1,150 MW), Shuakhevi (185 MW), and Khertvisi (165 MW).

The \$250 million debt financing arranged by IFC represents the largest-ever private hydropower investment in Georgia. It consists of two \$90 million long term senior loans (one each from ADB and EBRD) and a \$70 million loan from IFC. IFC's total investment is \$104 million, including a \$34 million equity investment in AGL, a joint venture between India's Tata Power and Norway's Clean Energy Invest (40 percent each) and IFC (20 percent).

The Shuakhevi plant will satisfy Georgia's electricity demand during the winter, reducing dependence on imported fuel and increasing renewable energy. It will foster cross-border electricity trading with Turkey, which should benefit local communities by creating jobs, boosting municipal incomes, and upgrading local roads. The first hydropower project in Georgia certified by the United Nations Framework Convention on Climate Change for carbon emission reductions, it is expected to reduce emissions by more than 200,000 tons a year.

IFC's investment is complemented by World Bank financing of the power transmission line

that will connect the Shuakhevi plant to Georgia's national grid and improve power supply to the Adjara region. Approved in May 2014, the \$60 million loan aims to provide reliable power transmission to the southwestern part of the grid, upgrade electricity exchange systems, and provide economically efficient and environmentally and socially sustainable electricity sector planning.

A key feature of the loan is an Electricity Sector Strategic Environmental and Social Assessment (SESA). Environmental aspects of hydropower, controversial in Georgia, have been the focus of civil society attention since 1980. National environmental legislation does not provide for SESAs of sectoral/regional development plans or for environmental screening of infrastructural projects at the early stage of their development, before a financing decision is made. There are no national rules on determining an acceptable minimal water flow (ecological flow) to sustain aquatic life and downstream ecosystems. The World Bank project should create a platform for well-informed government decision making on future investment.

AGL, which has an environmental health and safety unit, will be responsible for overseeing the *Environmental* and Social Impact Assessment of both the transmission and hydropower projects, with support of the World Bank for the transmission line and IFC and other development partners for the hydropower projects.



Tbilisi floods. Later operations supported water supply and wastewater management strategies, including cost-effective treatment. The 2008 Regional Municipal Development Project brought improved water supplies to more than 360,000 people, half of them in rural areas. Investments in sewage treatment proved more challenging. The ADB, which established operations in Georgia in 2007, has taken the lead among development partners in municipal water and sewerage. But few sewage treatment systems are functioning, and most wastewater is discharged untreated into the nearest water body.<sup>10</sup>

Irrigation and drainage are key to agricultural production in many areas. The 2012 Rural Investment Climate Assessment by the World Bank, a survey of 3,000 rural households, found that 49 percent of households considered the lack of irrigation or drainage a severe constraint to rural investment. In the west rainfall is high and drainage is required to prevent waterlogging; in the south and east, rainfall is low and irrigation is necessary.

To rehabilitate infrastructure and build capacity for managing on-farm irrigation and drainage, the World Bank Group supported an Irrigation and Drainage Community Development Project (\$27 million). The project was intended to be the

first phase of a long-term program. After the 2005 floods, it received \$16 million in additional financing to restore damaged river embankments and irrigation infrastructure.

Agriculture was not viewed as a priority until 2012. As a result, public services for agriculture, including irrigation, advisory, and veterinary services, continued to deteriorate. The area with reliable irrigation declined from 386,000 hectares in 1988 to 105,600 in 2004 and just 25,000 in 2012. The drained area plummeted from 114,300 hectares in 1988 to 5,600 in 2012.

The Socioeconomic Development Strategy 2020 recognizes the importance of agriculture to the rural economy, employment, and exports. It seeks to rebuild services for small farmers, including cooperative development, improvement of irrigation and drainage, and completion of agricultural land registration. By providing enabling conditions for increasing productivity and securing land tenure, the strategy aims to enable more farmers and investors to invest in and expand agriculture, stimulating high-value, labor-intensive crop production and bigger agricultural investments while facilitating migration out of agriculture for older farmers who want to retire, move, or lease their land. Lessons from World Bank Group support for



irrigation and land registration earlier in the transition helped inform the design of the new programs.

The World Bank Group has reengaged in the sector. The \$50 million Irrigation and Land Market operation, approved in 2014, aims to improve the delivery of irrigation and drainage over 26,000 hectares and develop better policies and procedures as a basis for a national program of land registration. The program also supports an irrigation and drainage strategy, on-farm service delivery, and system modernization. It is also financing the pilot phase of a registration program for agricultural land.

### **AGRICULTURE: TRANSITIONING TO PRIVATE FARMS, DEVELOPING VALUE CHAINS AND THE RURAL ECONOMY**

Agriculture was a mainstay of the economy, supplying vegetables, fruits, tea, wine, and brandy to the rest of the country—with nearly a third of Georgia's labor force and a third of GDP.

The shocks that followed the collapse of the Soviet Union reduced output and exports to about a third of 1990 levels by 1993. The state order system, which underpinned agricultural trade and production, collapsed and was abolished in 1995. Direct price interventions ceased. Georgia privatized agricultural land quickly, but new smallholder owners who had previously been specialized employees on large farms lacked farm management or business experience.

Recognizing the economic potential of the sector and its role in poverty reduction, the World Bank Group ran a substantial program in the late 1990s and early 2000s, redirecting scarce public resources to irrigation and drainage infrastructure and agricultural technology. World Bank Group assistance also supported forestry, land reform, agricultural research and technology, improved marketing, a financial intermediary system, and secondary and rural roads.<sup>11</sup> Agricultural exports partially recovered, rising from \$40 million in 1995 to \$300 million in 2005. But rural poverty rates remained high, and overall agricultural production did not recover—output in 2005 was only a third of that before independence.<sup>12</sup>

The Agricultural Development Project, supported by the World Bank, built capacity for financial intermediary services for more dynamic agricultural enterprises, revitalizing the Institute for Viticulture, Horticulture and Oenology as a knowledge center and providing competitive grants for innovation. Support to land registration and privatization helped develop a sound cadaster system.

*Irrigation and drainage are key to agricultural production in many areas*

Earlier operations informed the World Bank Group Rural Development Project, approved in 2005 to improve agricultural production and access to markets, strengthen rural financial services, and modernize institutions for food safety and property registration. Although government support was uneven and credit union activities had to be dropped, some activities were very successful. The project strengthened the National Agency for Property Registration and served as a catalyst for other development partners (including GIZ, SIDA, and USAID). It helped develop the country's food safety institutions and regulations, activities that IFC has since helped strengthen (through the Eastern Europe Agribusiness Standards Advisory Program supported by the government of Austria). Supply chains for citrus and hazelnuts were strengthened. Microfinance activities were very successful, with more than 10,000 loans, and repayment rates have been very good.

Since 2012 the government has given higher priority to the rural economy. About half of Georgia's population works in agriculture, but the sector contributes only about 8 percent of GDP. There is a dynamic commercial sector, including niche high-end products, such as wines and hazelnuts. The





Enhancing market access, improving the logistics infrastructure, and expanding productivity and export growth will require improving skills and worker deployment, which in turn will help generate employment and lead to more inclusive growth in Georgia.

business environment and land prices are favorable. Agricultural exports are worth about \$700 million a year.

But many agricultural activities remain at subsistence level and the farm population is aging, often dependent on social assistance to supplement income. Improving agricultural productivity and facilitating the movement of labor from agriculture into higher-productivity activities are essential for improving opportunities in rural areas. The government is increasing public funding to agriculture and continuing to invest in secondary roads to improve rural connectivity. The European Union and USAID are the main partners on agriculture and rural development.

The World Bank Group is increasing its support to agriculture. In addition to the Irrigation and Land Market Development Project it is conducting analytical work on linking smallholder farmers to markets and on public spending in agriculture. The National

Land Reform Strategy and Action Plan considers how to enhance the land rights of women and internally displaced persons. IFC is targeting micro, small, and medium enterprises in rural areas through support to financial intermediaries, investment and advisory services in agribusiness, and direct investments. MIGA's Small Investment Program offers political risk insurance for small and medium investments, including agribusiness. The 2014 development policy operation includes provisions for enhanced regulations on food safety, improved animal health and vaccination coverage, and strengthened enforcement through the building of the capacity of the National Food Agency. The aim is to move toward European and national standards.

### **THE ENVIRONMENT, CLIMATE CHANGE, AND NATURAL RESOURCE MANAGEMENT: MEETING THE CHALLENGE OF SUSTAINABLE MANAGEMENT**

Georgian policymakers are paying more attention to the long-term benefits of sustainable environmental and natural resource management. The World Bank Group has helped Georgia manage the

*About half of Georgia's population works in agriculture*

environmental and social impacts of major investments, including the BTC pipeline, where public disclosure and participation of civil society groups increased transparency and understanding of the project.<sup>13</sup> Environmental impact assessment and implementation management of the East-West Corridor highways program helped address worker safety, manage hazardous materials, prevent erosion and manage landslide risk through sound road design, and minimize damage to natural habitats.

Key institutions such as the Municipal Development Fund have developed environmental and social management guidelines. The World Bank and IFC are helping the government manage the impacts of hydropower development, and the World Bank is helping the government conduct a strategic environmental and social assessment of sector development.

In the early 2000s, the World Bank Group supported improved natural resource management through small operations.<sup>14</sup> One sought to improve coastal zone management in an area that was trying to promote coastal tourism and develop its ports. It helped reestablish protected areas, rebuild ecological corridors, strengthen institutions, and develop programs to help local people benefit. Another sought to establish environmentally and economically sustainable forest management practices. While the project faced serious challenges, including a period of rapid privatization in the absence of regulations to ensure sustainability, the World Bank Group and Georgia have since reengaged in forest policy dialogue.

A country environmental analysis by Georgian and World Bank experts in 2016 highlights the costs of environmental degradation, especially to health

## BOX 5 Reducing environmental degradation

Nearly three-fourths of Georgians, exposed to high levels of particulate matter in the air in cities, have increased risks of heart and lung disease. In rural areas four of five households use solid fuel for heating and cooking and are exposed to indoor air pollution that averages 30 times the recommended level. Children are at heightened risk of loss of cognitive abilities because lead levels are high, despite the official ban on lead in fuels since 2000. Waste management remains a problem for cities other than Tbilisi and Rustavi.

Low-income groups are disproportionately at risk of the effects of environmental degradation. In rural areas their dependence on fuelwood indicates that the pressure on environmental resources is likely to continue. Solid fuel causes high levels of indoor air pollution, which affects health and puts pressure on forests, reducing their capacity to capture carbon and protect watersheds.

Georgia neglected the environment in the first two decades of the transition. In 2011–13 environmental expenditures amounted to only 0.37 percent of total public expenditures. Since 2012 the government has strengthened the role of the Ministry of Environment and Natural Resource Management.

An environmental analysis by the World Bank in 2006 made the following recommendations:

- Strengthen the system of air quality monitoring, and reestablish vehicle emissions inspections.
- Reform the system of pollution charges.

- Reduce indoor and outdoor air pollution by reducing use of solid fuel for heating, adopting clean energy, supporting climate mitigation programs, and monitoring health impacts.
- Improve solid waste management through market-friendly measures.
- Adopt the new forest law, and arrest degradation by supporting sustainable management balancing watershed protection and production goals, including commercial forestry, fuelwood production, and clean stoves.
- Reduce the impacts of extreme weather, and arrest land degradation by adopting climate-smart agricultural practices, improving early warning and response systems for weather hazards, modernizing the hydrological and meteorological monitoring network, providing targeted support to the poor through the social protection system in the event of natural disasters, and expanding weather-based disaster insurance systems.
- Enhance administrative and institutional capacity, including better data collection and information management for policy formulation and implementation, and consider use of green growth accounting to incorporate the contribution of natural capital in GDP.

Source: World Bank 2016.



(box 5). The government now accords higher priority to addressing environmental issues and is committed to adopting climate-friendly policies as part of its commitments to the 2015 Paris Climate Change Agreement. It has agreed to reduce greenhouse gas emissions by 15 percent by 2030. Among the Sustainable Development Goals (SDGs) it has prioritized environmental sustainability, including sustainable management of forests and the integration of climate change measures into national policies, and acknowledged the link between forest degradation and natural disasters such as floods. Georgia adopted the Law on Living Modified Organisms in 2014 and the Waste Management Code in 2015. Enforcement will require capacity building across institutions.

### **PROTECTING THE VULNERABLE, INCREASING OPPORTUNITIES FOR YOUTH, AND ENSURING GENDER EQUALITY**

The World Bank Group has supported programs targeted at the most vulnerable Georgians, including health and social protection programs and small-scale infrastructure and rural development programs. It has also helped resettle groups affected by civil conflict and conflicts in neighboring countries, supported emergency disaster

recovery programs, and sharpened its focus on developing policy responses to assist particularly disadvantaged groups.

Analytical work in 2017 increased understanding of perceptions of social inclusion in Georgia. It identifies a framework of opportunity, dignity, and ability to gain access to market, services, and spaces (physical, cultural, and political) for improving social inclusion and highlights that family, social networks, and education are perceived as important drivers. It emphasizes that social exclusion can affect different groups at different times<sup>15</sup> and makes three main policy recommendations: improve data on and understanding and monitoring of social exclusion and inclusion, develop a comprehensive and coordinated social policy to address the issue, and adopt locally appropriate solutions.

Georgia is committed to gender equality. Before independence, female participation in the workforce was high, facilitated by widely available child-care services. In the early years of transition with the collapse of public funding, these services withered, and the quality of maternal and child health care deteriorated sharply. Maternal mortality doubled in the 1990s. The Gender Equality Law passed in 2010 provides for the enhancement of women's security, equality in the labor market, and stronger political participation. Although education levels of young women are equal to or higher than those of

young men, labor participation rates are lower, in part because of differing expectations over family commitments. Women also tend to work in lower paid jobs and are underrepresented in politics. In recent years poverty appears to have fallen less among people in households headed by women. The World Bank Group ensures that all of the projects it supports are gender-informed and is working with the government and civil society groups to integrate gender-related issues into programs and to bring attention to previously neglected areas.

*Analytical work in 2017 increased understanding of perceptions of social inclusion—opportunity, dignity, and access to market, services; and physical, cultural, and political spaces*



# Promoting human development

Human development—health, education, and social protection, including social assistance and pensions—is key to inclusive growth and welfare. Health care was especially hard hit in the early years of independence, the system faces challenges in providing affordable services. High-quality education and skills development are the cornerstones of a modern, growing economy—but half of young Georgians are not actively employed.

While providing an enabling environment for private sector-led development, the government is committed to improving health, education, and social protection. Social expenditure rose from 7 percent of GDP in 2011 to 11 percent in 2015 (half of government spending), with expenditure on pensions and health care the driving forces. World Bank Group support to human development has so far been limited compared with such other sectors as infrastructure and public administration. Over the past 25 years, World Bank Group financing for human development accounted for 15.3 percent of the total (4.4 percent for education, 4.7 percent for health, and 6.3 percent for social protection), most through development policy operations. The most recent investment operations in human development (for health and education) were in 2002.

## **HEALTH: CREATING A MODERN SYSTEM DESPITE RESOURCE CONSTRAINTS**

Georgia's public health services collapsed in the early years of independence. As a proportion

of total public spending, spending on health fell from 13 percent in 1991 to 0.5 percent in 1995, and it remained very low throughout the 1990s. The maternal mortality ratio more than doubled between 1990 and 1997, the share of deaths caused by cardiovascular disease rose 35 percent, and the overall mortality rate increased 18 percent. Severe outbreaks of diphtheria and measles occurred in 1994, and the number of new tuberculosis cases more than tripled between 1991 and 2002.

The early priorities were to address the funding decline and support the move to a modern system less focused on hospital care and more focused on primary health care and prevention, all against a backdrop of severe budget constraints. A longer term aim was universal health coverage. An additional challenge has been adapting health care delivery to Georgia's aging population, while many older adults live in rural areas.

The past 10 years have seen reforms to the system, most led by the government. The World Bank Group has supported the sector through policy advice and four technical assistance credits; three lending operations (approved in 1996, 1999, and 2002); and policy lending (box 6). Despite reforms, the quality of coverage and care remains uneven, and out-of-pocket expenses are high, especially for pharmaceuticals.

The World Bank Group also helped the government design reform programs and rehabilitate facilities. The first reforms, initiated in 1995, included a reorientation of the Ministry of Health, Labor, and Social Affairs from delivery and financing of health

## BOX 6 What have World Bank Group–supported investments achieved in Georgia’s health sector?

World Bank Group–supported investments have achieved a great deal in Georgia since the 1990s:

- The 1996 health credit helped establish Georgia’s public health system; develop a system of licensing and accreditation; craft a regulatory framework for the pharmaceutical sector and an essential drug list; separate purchasing from the provision of health care and render providers autonomous; establish a system of financing to provide public support for priority health services and population groups; introduce the concept of continuing education into the health sector; and support institutional reforms.
- The Hospital Restructuring Component of the Structural Reform Support Project (1999) supported the Hospital Master Plan, the basis for the hospital restructuring reform, heavily influencing the new wave of health sector reforms.
- The Health Sector Development Project (2002) trained health care professionals and established professional standards, improved

access of rural populations to primary health care facilities, and accelerated the pace of reforms, especially for primary health care. More than 100 primary health care facilities were rehabilitated, built, or fully equipped in three regions of Georgia, mainly in difficult-to-reach areas. Evidence-based guidelines for primary health care were developed and distributed across the country, and improved information systems established.

- The Avian Flu Project (2006) strengthened the national surveillance and response system in order to minimize the threat posed to humans and the poultry industry by HPAI infection and other diseases that can be transmitted to humans from animals.

Health-related projects were implemented by the Health and Social Projects Implementation Center, subordinated to the Ministry of Labor, Health and Social Affairs, which was responsible for most health programs supported by development partners (the World Bank, the European Union, and the Global Fund).

services toward policy and planning, reduced the role of the state in financing clinical services, increased the focus on preventive health, and separated health care delivery and health financing by establishing a State Health Fund financed by a wage tax and budgetary contributions. The World Bank Group also supported the financial and administrative autonomy of hospitals, the legitimization of direct payments from users to providers, and the provision of a basic package of publicly financed services with extended public coverage for vulnerable groups.

In addition to policy advice, the World Bank Group provided training in new managerial and medical methods, upgraded major hospital and primary care facilities (including their heating and electricity systems), and improved expenditure efficiency, including by reducing the number of facilities and staff.<sup>16</sup>

In 1999 the government approved a national health care policy supporting further reforms and decentralization of the health care management system, introducing social insurance, and reorganizing service delivery. Implementation was challenging, especially at the local level.

In 2002 the World Bank Group supported investments in health provision through the Health

Sector Development Program, which included upgrades to primary care services, especially in rural areas. The program developed policy, made regulatory improvements, built capacity, increased public awareness of family medicine, and supported health care management information systems.

In 2006 the government adopted major health sector reforms, privatizing primary care and launching the Medical Insurance Program for the poor. The program used general tax revenues to provide means-tested health insurance to the poorest 20 percent of the population. Private insurance companies served as financial risk carriers and purchasing agents for the program.

World Bank Group development policy operations between 2007 and 2012 supported reform implementation, especially through improved budgeting, information management, and targeting. A 2013 review noted that the Medical Insurance Program was well targeted to the poor and improved financial protection of its beneficiaries. It served as a launching pad for investments in hospitals and information technology systems.<sup>17</sup> Use of primary care facilities also increased. Managing private insurers has been a challenge, however,



and broader health system weaknesses, including primary health care and pharmaceutical markets, curtailed the program's effectiveness in increasing access to high-quality health care.

In 2012 the government extended a benefits package similar to that provided by the Medical Insurance Program to roughly 750,000 more beneficiaries. In 2013 it introduced universal health coverage. By 2014 health expenditure in Georgia represented about 8.4 percent of GDP, but only about 30–35 percent of total health expenditures (about 4 percent of GDP) passed through the government budget and were financed from general tax revenues. Nearly 70 percent of expenditures were out-of-pocket, about half for pharmaceuticals, many sold without prescription. Self-treatment was still the choice for about 45 percent of Georgians, especially people with chronic conditions.

Through its development policy operations, the World Bank Group has supported reforms to

upgrade the quality of some care centers, require prescriptions to purchase certain drugs, raise the quality of neonatal care, and increase the number of conditions covered by the universal health care package and extended coverage to drug purchases, initially only for people receiving social assistance. The government is reviewing various health programs, with a view to consolidating them. That review includes a health expenditure review (box 7) and a review of procurement.

IFC provided a \$25 million loan to support Georgia's largest private health care services company in providing access to high-quality affordable services. Many development partners have been involved in health sector reforms and financing, including the European Union, USAID, SIDA, the Department for International Development, the World Health Organization, UNICEF, and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

### **BOX 7 How can Georgia improve the delivery of health care services and the efficiency of spending on the sector?**

After the government set up the universal health care program in 2013, the share of health care in public expenditures more than doubled, rising from 4.0 percent to 8.4 percent in 2015 (below the European average but high for a country with Georgia's per capita income). In part because of low coverage of outpatient drugs and in part because primary health care doctors are paid a fixed annual rate per person, primary care use rates remain low. Patients and providers face incentives to use costly hospital and emergency care with payments based on activity and on complex tariff and copayment rules.<sup>18</sup>

Most Georgians buy drugs from pharmacies, where generic products are often unavailable. Out-of-pocket expenses, mostly for drugs, account for two-thirds of total health expenditures.

A 2017 public expenditure review by the World Bank highlighted the need to increase efficiency in health spending and the delivery of health services. Suggested reforms included the following:

- Adopt a reference pricing system for public sector expenditures on pharmaceuticals, and adopt reforms to increase the availability, affordability, and prescription of generic drugs.

- Standardize rates for hospitalization paid by the Social Services Administration, which needs to leverage its role as a single purchaser and introduce stronger quality and access standards.
- Improve monitoring and reporting; upgrade analytical, information technology, and data management systems; improve purchasing and coordination mechanisms; and consider a single contract/agreement per provider for the universal health care program.
- Place more emphasis on primary care, reduce reliance on acute hospital and emergency care, and better coordinate between primary and hospital care.
- Expand access to essential drugs, integrate the rural doctor program into the universal health care program, and reform the incentive system so that primary care providers take more responsibility for patient care, particularly for patients with multiple, chronic conditions
- Enhance the quality and efficiency of hospital care.
- Improve the coordination and reduce the fragmentation of all care.

Source: World Bank 2017b.



Georgia's vision is to create health care programs similar to those of upper-income European countries. Toward that end, the government is working to improve coverage at a cost that is manageable for both citizens and the public budget. The World Bank Group is providing policy advice and policy lending, taking into account the experiences of other countries, but increasing coverage is likely to be difficult without more direct investment support.

**EDUCATION: PREPARING GEORGIANS TO WORK IN A PRIVATE SECTOR-DRIVEN ECONOMY**

Funding for education collapsed during the early transition years. Teachers earned paltry salaries, supplies of materials dwindled, and infrastructure deteriorated. Basic literacy levels and school attendance remained high, but governance and

quality declined. Corruption, particularly in examinations and admissions to higher education, was widespread.

World Bank Group support started by restoring heat and repairing buildings. From 2002 to 2011, a \$50 million adaptable program loan, implemented in two phases, included reforms of curricula, teaching methods, and teacher training; greater autonomy for schools to manage their own budget; allocation of funds based on a per capita funding formula (as opposed to the previous block funding of schools); and criteria for more efficient public funding of general education. Some 800 small schools were consolidated. Reforms in the university entrance examination system curbed corruption, and Georgia began to take part in international student learning assessments.

The reforms had some successes, particularly in improving governance and efficiency, but many challenges remained. There was also growing inequity in the quality of schooling that richer and poorer people received.

Georgia performed poorly on the 2009 Programme for International Student Assessment (PISA). Its performance improved in the 2015 round, but Georgia still remains two and a half years behind the average in science achievement for

*Human development—health, education, and social protection—is key to inclusive growth and welfare*

countries in the Organization for Economic Cooperation and Development (OECD), and half of all children in Georgia perform below basic proficiency levels in literacy and numeracy. Georgia also scores lower than students in comparator countries, such as Moldova or Turkey.

Teaching is not an attractive career in Georgia, and salaries remain low, despite multiple increases. Teacher certification rates are very low, with only about 25 percent of teachers certified in 2013.

The World Bank Group continues to support education reform, largely through policy dialogue, analytical work, and development policy operations. Recent reforms in schools have focused on improving the quality of teachers by tightening criteria for entering the teaching profession, introducing teacher evaluation and professional development systems, monitoring implementation of curricula, and increasing the quality of and access to preschool education. Improving preschool is intended to help increase female labor participation rates, low by European standards. The Millennium Challenge Corporation has invested in education, based partly on analytical work by the World Bank Group and the Georgian government, particularly on the need for a sharper focus on science, technology, engineering, and math in curricula at all levels.

Georgia is also considering reforms that will better match the skills of its working-age population with the needs of the labor market. Despite

the decline in the workforce, unemployment rates are high. A 2013 Skills toward Employment and Productivity (STEP) survey concluded that in both white- and blue-collar occupations, demand for workers with midlevel skills appears to be higher than demand for high-skilled workers (box 8).<sup>19</sup> Nearly 40 percent of the unemployed have some form of higher education; they remain unemployed because of the poor quality of their education, their lack of knowledge of information technology, and weak links between education and the private sector.

A 2014 Education Policy Review supported a comprehensive National Education Sector Strategy by the Ministry of Education and Science.<sup>20</sup> Undertaken by the World Bank Group at the request of the government, it included a strategy and action plan ranging from early childhood education to higher education and other postsecondary training, within a framework of lifelong learning. It showed that, despite reforms, education outcomes remain poor. Only 51 percent of Georgian youths were employed, suggesting a mismatch between their skills and employers' needs. Access to high-quality education was highly inequitable. Improvement in outcomes over the previous 10 years had been slow.

The government is addressing these issues, but the agenda is long and difficult to implement, especially in a resource-tight environment. Still, public

### **BOX 8** How can Georgia increase employment? Recommendations from the STEP survey

The Skills toward Employment and Productivity (STEP) surveys generate internationally comparable data on skills in developing countries. The 2013 survey included modules measuring cognitive skills (reading, writing, and numeracy); socioemotional skills (personality, behavior, and preferences); and job-specific skills (“transversal” skills with direct job relevance, including computer literacy) of a representative sample of adults 15–64 living in urban areas, whether or not they worked. Modules also gathered information on family, health, language, socioeconomic status, access to services, and housing quality.

The Georgian survey found that lack of relevant job skills is related to high levels of inequality and to unequal access to high-quality

preschool and general education. Higher education and vocational training programs seldom have good links to the job market.

The study made several recommendations:

- Get children off to the right start by providing access to high-quality early education (Georgia introduced a policy of free access to preschools in 2013).
- Ensure that all children learn through equitable access and high-quality, relevant education and training.
- Build job-relevant skills.
- Encourage entrepreneurship and innovation.
- Facilitate labor market mobility and job matching.

*Source:* World Bank 2013.



spending on education is growing, driven primarily by increases in teacher salaries. Public spending to the sector rose at an annual 1 percentage point of GDP between 2012 and 2016 (to a budgeted 3.8 percent in 2016). Some 3.1 percent of GDP is spent by the central government; the rest is managed by local administrations for preschool education. Funding for tertiary education (10 percent of total education expenditure) has been identified as a priority requiring a systematic approach to strengthen links to labor market demand and improve quality.

The government is committed to improving teacher quality. In 2015 it adopted the teacher recruitment, evaluation, professional development, and career advancement scheme. World Bank Group support provided advisory services for implementation, including development of standardized instruments for teacher evaluation.<sup>21</sup> The scheme linked teacher recruitment and teacher education to professional development, career progression, and promotion. It also introduced a multidimensional evaluation system covering self-evaluation and internal and external assessment. Reforms benefited from earlier studies by the World Bank on Georgia's education system, including a Public Expenditure Review and a Teacher Systems Approach for Better Education Results (SABER).<sup>22</sup>

The World Bank Group's policy dialogue with the government is now focusing on higher education, including technical support for more efficient allocation of financial resources, an effective quality assurance system, and stronger labor market linkages.

## **SOCIAL PROTECTION, POVERTY ALLEVIATION, AND PENSIONS: PROTECTING THE VULNERABLE AND ENSURING A DECENT LIFE FOR OLDER PEOPLE**

Georgia's universal pension scheme has undergone several reforms over the past 20 years. The country's social protection programs have been effective. Poverty declined by 15 percentage points between 2010 and 2015, consumption of the bottom 40 percent of the population grew more rapidly than that of the population as a whole, and inequality (measure by the Gini coefficient) declined from 0.35 in 2006 to 0.32 in 2015.

The World Bank Group has worked with Georgia to improve analytical tools for assessing poverty and vulnerability and to design policy responses, mainly through development policy assistance. In the early years of the transition, partnership focused on social assistance, poverty targeting, and poverty reduction-oriented investments. A 1999 poverty assessment highlighted increasing inequality, noting that the Gini coefficient had risen from 0.29 in 1990 to 0.46 in 1998.<sup>23</sup> Structural reform programs in 1995–2000 helped design a system to keep track of social payments, which averaged 25 percent or more of public expenditure but were not always well targeted.<sup>24</sup> They also helped improve the quality and timeliness of statistics by supporting development of a poverty-monitoring methodology and implementation of a household survey.

A \$26 million Social Investment Fund Project in 1997 aimed to improve access of vulnerable groups to social and economic services, build the capacity of communities and small-scale contractors, and improve the government's capacity to conduct poverty assessments. Communities chose their programs, most of which involved rehabilitating schools, water supplies, or health clinics. A supplemental credit helped rehabilitate 22 schools in Tbilisi damaged by the April 2002 earthquake. The Social Investment Fund was later incorporated into the Municipal Development Fund. Evaluations suggested that activities were appropriately targeted to poorer areas and were likely sustainable.

In 2004–12 the government attached high priority to a targeted social safety net program. The policy loan series of 2005–08 supported implementation of this program, which paid pension arrears and the reestablished on-time pension payments. After the conflicts in 2008, the World Bank Group increased the size of the lending program to support the government in providing Georgians uprooted from their homes in South Ossetia and Abkhazia with temporary housing. Support was provided through the budget as well as the Regional and Municipal Infrastructure Project.

By 2011 the government was still concerned about effective targeting. Development policy reforms increased the share of the population in the bottom income decile that received assistance from 30 percent to 50 percent. The government also committed more broadly to maintaining social expenditures at no less than 36 percent of the budget. It also introduced performance-based budgeting and a basic health insurance package for the poorest 20 percent of the population.

The Targeted Social Assistance program is being refined. Together with old-age pension payments, it accounts for about 40 percent of the income of the poor. These transfers have been important for reducing poverty, especially in rural areas. The program is one of the most effective in Europe and Central Asia, though it is more modest than programs in other countries in the region. Outreach is very good: only 7 percent of households in the bottom decile (and 19 percent of households in the second to bottom decile) are not registered.<sup>25</sup> But only about 60 percent of the bottom decile received assistance, and some vulnerable groups, including poor rural populations and families with many children, remained uncovered, resulting in high child poverty.

The 2014–17 Development Policy Loan series supports the revision of the means-tested methodology adopted in 2006 for Targeted Social

*The Targeted Social Assistance program is one of the most effective in Europe and Central Asia*

Assistance in order to improve targeting. It also supports actions to improve access to and prompt payment of pensions. The government increased social spending from 7 percent of GDP in 2012 to 10 percent in 2016, primarily for Targeted Social Assistance, pensions, health, electricity subsidies, and incentives under the High Mountainous Regions Law. The government is working with UNICEF and the World Bank to improve the targeting and effectiveness of Targeted Social Assistance, with a focus on eliminating child poverty.

World Bank Group cooperation on pensions has been largely dialogue and policy assistance, including fiscal sustainability, given the aging population. The government accumulated substantial pension arrears in the difficult times of the early 2000s. World Bank support through policy lending in 2006–09 helped eliminate these arrears while the government undertook further reforms. Since 2008 all social contributions have been rolled into the general tax structure rather than deducted from payrolls, and liability for pensions has been transferred to the government rather than to contributory pension schemes. Since 2012 all Georgians of retirement age have received a flat-rate social pension; special pensions are provided for people with disabilities and other groups.<sup>26</sup>

Analytical work confirms that pensions have been crucial in reducing poverty, even though poverty rates remain higher for older people than for the population as a whole.<sup>27</sup> The government is considering introducing a contributory private pension scheme, jointly financed by citizens, employers, and the government, to supplement existing schemes and provide an incentive to save and invest.

The World Bank Group is working with the authorities to deepen understanding of the impact of social spending on the poorest Georgians and the constraints on labor force participation, especially by women and youth. The longer term objective is to move from a social assistance program to an integrated social protection program that prevents poverty while building human capital. Social protection programs need to be seen in a context of broader spatial and sectoral programs, including programs that facilitate migration to urban areas and boost dynamism in the rural economy.



# Building institutions and developing the private sector

Support to macroeconomic stability, public financial management, and an environment for private sector-led growth have formed a major part of the partnership between the World Bank Group and the Georgian government since the early 1990s. Improved governance and public administration have been cross-cutting themes, with almost all investment and development policy operations supporting measures to strengthen institutions and service delivery.

IFC has played a major role in financial sector development, access to finance, and improvements to the business environment. Its support to financial sector development totaled \$1.58 billion between 1993 and 2016, with advisory services playing a strong role. World Bank lending in these areas averaged almost 30 percent of total lending between 1995 and 2016, including 15.3 percent to public administration improvements, 12.6 percent to industry and trade services, and 2 percent to finance, through both policy and investment lending.

## **TRANSFORMING INSTITUTIONS, MANAGING THE MACROECONOMY AND THE BUDGET**

Georgia has made great progress in improving its institutions and managing its macroeconomy and budget. Following the early civil conflicts, its first

priorities were to restore macroeconomic stability, ensure funding for social programs, and adopt “first-generation” market reforms. The World Bank Group assisted in all these areas. Policy lending has helped stabilize the economy and promote public sector management and social and sectoral reforms. Reforms that improve living conditions for Georgians have been some of the strongest features of cooperation between the government and the World Bank Group.

In the mid-1990s, the government focused on macroeconomic stabilization. Inflation in 1991–94 averaged 5,000 percent a year, and GDP fell 25 percent a year. World Bank Group assistance included \$220 million in policy lending and \$20 million in associated technical assistance credits—funds the government used to stabilize inflation and spur growth. A large privatization program was implemented, revenue collection increased from 5 percent to 14 percent of GDP, the energy sector was restructured, benefit targeting was improved, and the public sector was reduced and restructured. The World Bank Group technical assistance credits that accompanied policy lending supported policy formulation, statistics, customs and tax administration, treasury, debt management, and aid coordination.

Reforms progressed well until the late 1990s, facilitated by World Bank Group financial and technical assistance. The government reduced the size of the public sector substantially. By eliminating

*Over the past ten years, the government's focus has been on infrastructure and regional development, as well as continuing improvements in public sector management and transparency*

subsidies to reallocate public expenditures, the government was able to modestly increase pensions, unemployment benefits, and other social benefits for the neediest. The World Bank Group approved a policy credit of \$60 million in 1999 to improve macroeconomic balances by strengthening expenditure management, improve governance, introduce a transparent regime for state procurement, reduce the costs of starting a business, extend land reforms, and promote private sector participation in infrastructure. The policy credit also supported judicial reform.<sup>28</sup> But progress was uneven, as corruption rose and the government became less popular.

After 2003 the government aimed to reduce the role of government and increase private sector

development, curb corruption, and improve the effectiveness of social programs. Over the past 10 years, the focus has been on infrastructure and regional development, as well as continuing improvements in public sector management and transparency. Between 2004 and 2010, the government implemented an ambitious program of reforms to restore private sector-led growth and reduce poverty. Between 2004 and 2009, World Bank policy-based lending totaled \$145 million in five operations, and the World Bank Group provided additional support after the 2008 conflict with Russia.<sup>29</sup> The broad aims were to strengthen public sector management and improve the electricity and gas sectors, the private sector development environment, and social service delivery.

The government program supported simpler rules in a range of areas, including customs and tax administration, to reduce opportunities for corruption. The government and the World Bank Group also developed a wide-ranging economic development and poverty reduction program covering governance, the business climate, privatization, reforms in social assistance, macroeconomic and public expenditure management, and programs in





all social and economic sectors. Progress in public sector efficiency was impressive, achieved through a systematic budgetary process, a medium-term expenditure framework, a Treasury Single Account, an increase in public information on procurement, and a law on local self-government that clarified budget rules for local governments and anti-corruption strategies. A Public Financial Management Project supported all of these activities.<sup>30</sup>

After the 2008 conflict with Russia and the financial crisis, the World Bank Group sharply increased its support. Early 2009 saw a crisis of confidence, as economic growth turned negative and the budget deficit reached 9 percent of GDP. World Bank policy-based lending totaled \$235 million between 2010 and 2013, and the International Monetary Fund provided \$750 million.<sup>31</sup> The government reduced the budget deficit to 3 percent of GDP by 2012 while maintaining social expenditures at 36 percent or more of the budget. It also introduced performance-based budgeting in five ministries and rolled out government budget systems in all local government units.

The government remained committed to fighting corruption and undertook further reforms to do so.<sup>32</sup> It simplified the tax and customs codes, which improved revenue collection. In 2011 it passed the Economic Liberty Act, which restricts the government from imposing new taxes, increasing rates, or establishing new regulatory authorities or new licenses and permits without a nationwide referendum. The act also caps the share of government expenditures in GDP at 30 percent, of debt to GDP at 60 percent, and of the budget deficit to GDP at 3 percent.

Since 2013 the World Bank Group has worked with the government to implement its Socio-economic Development Strategy, which seeks to achieve faster, inclusive, and sustainable growth averaging 7 percent a year and to realize the benefits associated with the Deep and Comprehensive Free Trade Agreement. The strategy supports private sector-led growth and a role for the state in addressing market failures and cross-cutting constraints. It has four pillars: stable macroeconomic environment and fiscal efficiency; strengthened human capital; increased access to capital; and improved private sector competitiveness. Development policy operations have continued to support cross-sectoral reforms, including improved management of the civil service; better monitoring of state-owned enterprises (SOEs) and other public entities; inclusion of SOEs' revenues and expenditures and those of municipalities in the public financial management information system; an

improved capital budgeting framework; and implementation of laws on competition, food safety, trade and free movement of products, customs efficiency, and the power sector.<sup>33</sup>

Development policy operations have also improved the targeting of the social assistance program, helped roll out universal health coverage, improved maternal and neonatal care, upgraded standards for hospitals and primary health care, helped craft regulations requiring a prescription to buy certain drugs, improved the quality of teachers, strengthened the curricula and monitoring and evaluation system, and helped roll out government e-procurement.

## DEVELOPING THE PRIVATE SECTOR

The business environment in Georgia has improved dramatically over the past 25 years, pushing Georgia into 16th place in the world on the Doing Business indicators in 2016.<sup>34</sup> Many factors have contributed, including the quality of infrastructure and connectivity, the rule of law, property rights, skills, and stable government. IFC, which Georgia joined in 1995, has played the lead role in improving access to finance, especially for SMEs, in several major energy-related investments and in innovative areas such as private investments in health.

In the 1990s, the government started creating a legal framework for private sector development. In 1994 it adopted simple registration procedures for new businesses and enacted a company law and a foreign investment law; in 1995 it passed a commercial banking law. It prepared antimonopoly and bankruptcy laws, as well as a law permitting private ownership of agricultural land. It privatized state-owned enterprises and began to remove export and import restrictions. It eliminated the state order system and improved the effectiveness of the foreign exchange market. The National Bank of Georgia issued new prudential banking regulations and gradually strengthened its supervisory function. A diagnostic review of the five state banks, completed in June 1995, guaranteed the independence of the National Bank in formulating monetary and exchange rate policies.

Financial deepening involves several areas. The deposit insurance system protects small depositors and increases the banking sector's resilience to shocks originating in failures of nonsystemic banks. A second pension reform will encourage private savings for retirement through changes in the contributory pension framework that could include matching of voluntary savings from employees with



contributions from employers and the government. New laws are facilitating the development of capital markets and insurance markets. Georgia has also introduced mandatory third-party insurance for vehicles.

IFC has supported broad-based private sector growth by removing barriers to private sector development, strengthening financial institutions, and supporting other sectors. It provided strong support to the banking sector, complemented

by advisory services that facilitated investment, improved the business climate, developed SMEs and the leasing sector, and improved corporate governance.<sup>35</sup> IFC's Foreign Investment Advisory Service helped register businesses, and its Private Enterprise Partnership improved licensing, permit, and inspection procedures and dispute resolution. Since 2003 it has focused on development of SMEs, microcredit, and support to leasing companies.

Since 1999 the World Bank Group has worked with Georgia to track improvements in the business environment (box 9). Private sector development faced some difficulties as the governance environment deteriorated in the late 1990s, but after the Rose Revolution Georgia's Doing Business ranking vaulted from 112th place in 2005 to 18th in 2007. Other indicators showed improvements, albeit less dramatic.

After 2004 the government eased the tightest constraints to private sector development and restored the health of the banking system. It simplified tax legislation, streamlined inspection processes and licensing requirements, developed a new customs code to facilitate international trade, and made progress toward developing a standardization system in line with World Trade Organization requirements.

IFC's assistance was important in restoring the health of the banking system. IFC helped the government define six indicators of financial

### BOX 9 How does the World Bank Group assess a country's business environment?

The World Bank Group and Georgia have cooperated on tracking Georgia's progress in creating a business-friendly environment for more than 25 years. In 1999 the EBRD and the World Bank jointly introduced the Business Environment and Enterprise Performance Survey (BEEPS). Specifically designed for Eastern European countries, it gathers data in a uniform way in each country. Issues include informal payments and corruption, finance, labor, crime, innovation, legal and judicial issues, taxation, customs, and cross-border trade. The survey, which is conducted every three years, includes a standardized sample of firms in different sectors and locations and of different sizes, ownership, and market orientation.

The *Doing Business Report* sheds light on how easy it is for a local entrepreneur to open and run a small to medium business when complying with regulations. It measures and

tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and following labor market regulations. *Doing Business 2017* covers 190 economies, including 25 in Eastern Europe and 32 high-income OECD countries.

The methodologies of the BEEPS and *Doing Business* are complementary. Most of the *Doing Business* indicators are generated by asking lawyers, accountants, and other professionals in each country about the details of the laws, rules, and procedures that govern aspects of doing business. In contrast the BEEPS asks 200–600 firms in each country questions about their business environment and their interactions with the state.

soundness: the capital adequacy ratio, the return on assets, the return on equity, the level of non-performing loans, the liquidity ratio, and the loan-to-deposit ratio. IFC's investments in three banks during this period were substantial, representing two-thirds of the total assets of Georgia's commercial banks. IFC also provided these banks advisory services for nonperforming loans, risk management, and corporate governance. MIGA provided guarantees for investors in microfinance.

Georgia's Socioeconomic Development Strategy is maintaining its focus on private sector development. A 2015 development policy operation is supporting business environment reforms, financial sector deepening and diversification, and greater firm capacity to innovate and export. The government is also encouraging public-private dialogue through debate and publication of new draft economic laws.

The SME sector has grown quickly, with turnover increasing 230 percent between 2006 and 2013. In 2013 SMEs accounted for 94 percent of registered firms and 43 percent of private sector employment (excluding self-employment). They accounted for only 20 percent of GDP, however, a far smaller share than the 40–50 percent in OECD countries.

*Since 1999 the World Bank Group has worked with Georgia to track improvements in the business environment*

Georgia has taken a variety of steps to increase this share:

- An entrepreneurship development agency is providing advice, financial assistance, and business training support to SMEs through its Micro and Small Business Support program.
- A Georgian Innovation and Technology Advance facility, which includes a technology park and fabrication laboratories, is supporting innovation.
- The state has supported investment in and encouraged SMEs to take part in public procurement by modernizing and simplifying electronic procurement systems and providing training in procurement requirements and procedures through the State Procurement Agency.

The World Bank Group is supporting innovation through the \$40 million Georgia National



**TABLE 2 IFC advisory services to Georgia**

Service	Partner
Providing agribusiness advisory services to help local companies apply food safety standards throughout the agribusiness value chain while strengthening the capacity of local consultants. Improved standards will help agribusiness firms meet regional and export market requirements, helping the sector grow.	Government of Austria
Improving the investment climate by improving regulations on tax, trade logistics, and investment policy.	Austria's Federal Ministry of Finance, BP and its oil and gas co-ventures, and the government of Norway
Helping financial institutions reduce nonperforming loans, improve risk management, and increase lending to small and medium enterprises.	Swiss State Secretariat for Economic Affairs (SECO)
Working with local financial institutions and companies to strengthen corporate governance in order to improve performance, sustainability, and ability to access finance.	SECO, with support from the Development Bank of Austria
Stimulating investment in resource-efficient technologies and best practices, improving operational practices in industry across sectors, and raising awareness among policymakers and financial institutions.	Georgia's Ministry of Finance
Helping secure a private sector partner to build, operate, and transfer the 280-megawatt Nenskra Hydropower Plant Project and helping Georgia tap its considerable hydropower potential.	—

Source: IFC Factsheet, December 2016.

Ecosystem for Innovation Project, approved in 2016. Its objectives are to increase the innovative activities of firms and individuals and their participation in the digital economy. The project supports innovation infrastructure (community centers, regional hubs, broadband for development, digital skills development, business support) and financing (start-up and matching grants, financing policy technical assistance). It focuses on small towns and rural areas not well served by broadband.

Support to innovation includes creating an enabling environment for information and communications technology (ICT) and innovative business development. The private sector has invested \$1.2 billion in ICT since 1991. As a result, most people in Georgia have access to mobile networks. There have been delays in upgrading mobile networks to 4G speeds, however, and only a third of Georgians have adopted broadband Internet. Rural communities can use 3G mobile networks for Internet connectivity, but the quality is often poor, and the expensive networks cannot support business needs.<sup>36</sup> The government has passed legislation to facilitate the growth and competition of wireless broadband services, with the aim of lowering prices.

By 2013 investment in research and development had declined to 0.2 percent of GDP, far below the EU target of 3 percent. Reductions in state funding for science and weak commercialization of innovation have been bottlenecks for high-tech industries, and the number of scientists declined steeply. In 2014 Georgia ranked 74th on the Global Innovation Index. Still, Georgia's researchers are performing close to international levels in several fields, including materials science, nanotechnology,

biotechnology, and pharmaceuticals. In 2014 the government established the Georgian Innovation and Technology Agency, which is in charge of implementing innovation policy. Georgia has also received praise for its national quality infrastructure, through international recognition of the Georgian National Agency for Standards and Metrology and the Georgian Accreditation Center.

IFC has played a growing role in supporting private sector investment and improvements to the business environment (table 2). The range of its advisory services has expanded well beyond its initial focus on the financial sector and energy to include investments in clean energy, medical companies, agribusiness, housing, banking institutions for investment in SMEs, and viable private sector investments more broadly.

MIGA is providing political risk insurance to the Adjaristsqali Hydro Project (see box 4); GeoCapital Georgia (the guarantee holders are principals of a microfinance organization operating in Georgia); and the ProCredit Group Central Bank for Mandatory Reserves Coverage (the guarantee holders are the ProCredit Holding AG & Co. and KGaA).

Private sector development has been impressive in Georgia, but knowledge gaps remain. More needs to be known about the informal sector and self-employment, detailed firm-level productivity, and value chains for key sectors, such as agriculture and tourism. The World Bank Group will work with Georgian researchers to plug these gaps. Further development will depend on a range of factors, including both reforms and external factors, such as the economic climate in Turkey and Russia and the broader security environment.

# Looking forward

Georgia and the World Bank Group have been long-term partners in development, and the collaboration has resulted in a significant reduction in poverty and promotion of prosperity. While Georgians have increasingly taken the lead in policy formulation and implementation, the World Bank Group has continued to support national policymakers reviewing options and deciding what is best for Georgia and Georgians. The World Bank Group has responded flexibly and quickly to internal and external emergencies. This flexibility has built a relationship of trust.

Georgia's population is aging and declining. The working-age population will make up a smaller proportion of the population in the future. In response policymakers need to increase opportunities for human capital while adapting social programs and health care to the country's demographics.

Adapting education and training to the changing needs of the job market is a priority for sustained economic growth. Georgia needs to invest more in technological innovation and research. The quality of education, including early childhood education, needs to be improved. And primary health care and

the management of the chronic diseases of older adults need more attention.

Georgia also needs to ensure better management of the environment, natural resources, and urban population growth and to better adapt to climate change. Its natural assets—including its mountains, coastlines, water, land, and forest resources and its rich biodiversity—have enormous potential to support sustainable socioeconomic development through tourism, agriculture, and hydropower development, and all Georgians can be environmental stewards for these assets. But Georgia needs to do more to improve regulations and capacity in many areas, including pollution monitoring, environmental assessment of sectoral and regional plans, and assessment of environmental flows in rivers. It also needs to strengthen hydro-meteorological forecasting systems and disaster risk management services.

The government and the World Bank Group will define the next program of partnership over the coming months based on the ongoing Systematic Country Diagnostic, Georgia's Socioeconomic Development Strategy 2020, and the Government's Four Point Plan.



International School of Economics at TSU

**ISET**

Jointly-funded project of the Government of the Republic of Georgia and the Ministry of Education and Science of the Russian Federation  
Agency for International Education

# Notes

1. These figures are based on the World Bank international poverty line of \$2.15 per capita per day.
2. These figures do not include Abkhazia and Southern Ossetia. Including these areas, the population of Georgia was 5.4 million in 1989.
3. Georgia graduated to being a full IBRD borrowing country in 2014.
4. The project comprised a \$51 million IDA credit, an IBRD loan of \$33.5 million, and IBRD grants totaling \$5.2 million. Additional financing provided in 2010.
5. This kind of fee-based service is now called a Reimbursable Advisory Service (RAS).
6. Kakheti is the origin of ancient winemaking. Mtskheta-Mtianeti has unique natural assets, ski resorts, and the World Heritage city of Mtskheta (the old capital of Georgia). Samtskhe-Javakheti has historical cities, monuments, ski and health resorts, mountains, and national parks. Imereti includes the spa town of Tskaltubo, the Gelati Monastery Complex, part of the Borjomi-Kharagauli National Park, covering more than 76,000 hectares of forests and meadows and home to rare flora and fauna.
7. Georgian National Tourism Administration 2017.
8. World Travel and Tourism Council 2015. The indirect contribution is measured by the GDP and jobs supported by the spending of people directly or indirectly employed by the travel and tourism sector.
9. Support included a \$52 million project (1997), a \$25 million reform policy loan and \$1 million in technical assistance to support oil and gas utility reform (1999), a \$31 million electricity market support project (2001), and a \$10 million energy transit institution building project.
10. Melua 2015.
11. The World Bank funded four operations: a \$15 million Agricultural Development project (1997), which supported credit and land registration and was co-financed by the International Fund for Agricultural Development (IFAD); an \$8 million Agricultural Research and Extension project (2000); a \$10 million Rural Development project, which included \$10 million in co-financing from IFAD; and a \$7 million Avian Flu Response project (2006), which helped strengthen animal health monitoring and surveillance and address the human health risks of the spread of the disease. A Forest Development project also formed part of the rural portfolio.
12. Exports have been volatile and linked to relations with Russia as well as the health of the Russian economy.
13. All World Bank Group-supported investments are subject to relevant environmental and social safeguard policies, helping build capacity for implementation and monitoring.
14. The operations were a \$5.7 million Integrated Coastal Zone Management Project (1998), an \$8.7 million grant from the Global Environmental

Facility for the Georgia Protected Areas project (2001), and a \$16 million Forestry Development project (2002).

15. World Bank 2017d.
16. Assistance was channeled through the health credit, adjustment lending, and municipal infrastructure programs.
17. Smith 2013.
18. The universal health care program reimburses expenditures for drugs on the essential drugs list up to GEL 50–100 a year for the poor, pensioners, and veterans; the rest of the population pays out of pocket for drugs prescribed during primary care visits. Drugs prescribed by rural doctors are not reimbursed by the universal health care program; patients must go to the primary care center at the district center to obtain a prescription that can be reimbursed. Essential medicines are free when provided as part of inpatient or emergency care, creating incentives to access emergency and/or hospital services directly. In order to address high rates of self-treatment, the government introduced special regulations on prescriptions and other financial measures.
19. The STEP survey was funded by a Bank Netherlands Partnership, part of the Multi-Donor Trust Fund for Labor Markets, Job Creation and Economic Growth.
20. World Bank 2014a.
21. The programs were the Georgia Programmatic Education Sector Support Program and the recently closed Institutional Development Grant.
22. World Bank 2014b.
23. World Bank 1999.
24. Programs included the \$10.1 million Institution Building Credit (1994); the \$75 million Rehabilitation Credit (1995); the \$60 million Structural Adjustment Credit 1 (1996); the \$4.8 million Technical Assistance Credit (1996); the \$60 million Structural Adjustment Credit 2 (1997, 1998); the \$5.5 million Technical Assistance Credit 2 (1996); and the \$12.5 million Energy Sector Adjustment Credit (1999, with a final tranche of \$11.5 million in December 2001).
25. Baum, Mshvidobadze, and Posadas 2016.
26. Ministry of Economy and Sustainable Development 2015.
27. World Bank 2017e.
28. The Judicial Reform Project, approved in 1999 and closed in 2006 with an IDA credit of \$13.4 million, sought to help establish the judiciary as an independent third branch of government, through technical assistance to improve administrative procedures, capacity building, infrastructure rehabilitation, training, and public communications.
29. These operations included the \$24 million Structural Adjustment Credit 4 (2004) and four poverty reduction operations from 2004 to 2008 totaling \$83 million, with additional financing of \$40 million in 2008.
30. The \$15 million Public Financial Management operation was approved in 2006 and closed in 2012. It was funded by a number of development partners and Georgia's own budget. Its objectives were to strengthen the institutional capacity of key ministries and agencies to use public resources more effectively and efficiently and to improve accountability in the use of public resources.
31. There were three development policy operations (DPOs) in 2009, 2011, and 2012 totaling \$175 million and one competitiveness and growth DPO in 2012 for \$60 million.
32. World Bank (2012) chronicles these reforms.
33. Competitiveness and growth development policy operations included a \$60 million loan in 2012, a \$60 million loan in 2013, a \$93 million in 2014, a \$50 million loan in 2015, and a \$60 million in 2017. A \$60 million private sector competitiveness loan was approved in 2015.
34. World Bank 2017a.
35. Total investments between 1995 and 2007 were \$171 million. They covered the energy, manufacturing, banking, and financial sectors.
36. In 2015, 1 GB cost about GEL 15 (\$7) per month, or 8 percent of the average monthly income of a rural dweller.



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## KEY DATES WORTH KNOWING IN THE GEORGIA–WORLD BANK GROUP PARTNERSHIP

- **August 7, 1992** Georgia became a member of the International Bank of Reconstruction and Development (IBRD)
- **September 6, 1992** Georgia became a member of the International Center for The Settlement of Investment Disputes (ICSID)
- **December 29, 1992** Georgia became a member of the Multilateral Investment Guarantee Agency (MIGA)
- **August 31, 1993** Georgia became a member of the International Development Association (IDA)
- **July 5, 1994** Approval by the World Bank’s Board of Executive Directors of first loan to Georgia, a US\$10.1 million Institution Building Project. to assist the government in its efforts to move to a market economy
- **June 29, 1995** Georgia joins International Financial Corporation (IFC)
- **September 1997** The World Bank’s Board of Executive Directors approved the first World Bank Group Country Assistance Strategy for 1998–2000
- **October 1997** The World Bank Group Office opens in Georgia
- **November 2003** The World Bank’s Board of Executive Directors approved the World Bank Group Country Assistance Strategy for 2004–2006
- **June 2004** International Donor Conference co-hosted by the European Commission and the World Bank in Brussels to support reforms for the most urgent and highest priority areas for 2004–2006
- **September 2005** The World Bank’s Board of Executive Directors approved the Country Partnership Strategy for 2006–2009
- **April 2006** World Bank together with other donors helped to establish the International School of Economics of Tbilisi (ISET) at the Tbilisi State University
- **October 2008** International Donor Conference co-hosted by the European Commission and the World Bank in Brussels with US\$4.5 billion pledged for post-conflict support to Georgia
- **June 2014** Georgia graduates from the International Development Association (IDA)
- **May 2014** The World Bank’s Board of Executive Directors approved the World Bank Group Country Partnership Strategy for 2014–2017
- **November 2016** First Systematic Country Diagnostic (SCD) launched

