

Georgia

# Data Collection Survey on Needs Assessment of the Reconstruction in Georgia

Final Report

August 2009

JAPAN INTERNATIONAL COOPERATION AGENCY

PADECO Co., Ltd.  
EXe·Idea Ltd.

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Exchange Rate (as of 18 July 2009):

1 US Dollar = 1.66720 Georgian Lari (GEL)

1 US Dollar = 0.70915 Euro (EUR)

1 Swedish Krona (SEK) = 0.12823 US Dollar

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## **Abbreviation**

ABS	Automatic Block Signaling
ADB	Asian Development Bank
ADF	Asian Development Fund
BBD	Basic Data and Directions
BMZ	Federal Ministry for Economic Cooperation and Development
BP	British Petroleum plc
BoG	Bank of Georgia
CSP	Country Strategy Paper
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFID	Department for International Development (Great Britain)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EMIS	Education Management Information System
ENP	European Neighborhood Policy
EU	European Union
F/S	Feasibility Study
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FMO	Financieringsmaatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)
GDP	Gross Domestic Product
GEF	Global Environment Facility
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
HRDF	Human Resource Development Fund
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDP	Internally Displaced Person
IFC	International Financial Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
JNA	Joint Needs Assessment

KfW	Kreditanstalt für Wiederaufbau
MCC	Millennium Challenge Corporation
MCGF	Millennium Challenge Georgia Fund
MIGA	Multilateral Investment Guarantee Agency
MOED	Ministry of Economic Development
MOF	Ministry of Finance (Georgia)
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organizations
NIP	National Indicative Program
NPL	Non Performing Loan
OECD	Organization for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
OSCE	Organization for Security and Cooperation in Europe
PPP	Public Private Partnership
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSRSP	Public Sector Reform Support Program
SAPI	The Stability Pact Anti-Corruption Initiative
SBA	Stand-By Arrangement
SDR	Special Drawing Rights
SIDA	Swedish International Development Cooperation Agency
TA	Technical Assistance
TRACECA	Transport Corridor Europe–Caucasus–Asia
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
VET	Vocational Education and Training





## Executive Summary

### 1. Study Background

Georgia attained its independence with the collapse of the USSR in 1991. Since then, the country has been promoting democratization and a market economy, but still faces political and economic instability. The military conflict between Georgia and Russia over South Ossetia in August 2008, followed by the international financial crisis, has had a serious effect on the Georgian economy. However, a Joint World Bank – European Conference was held (Refer to Box.1 below) in October of the same year at the urging of the United Nations (UN) and World Bank (WB) to address the needs of the country. The resulting amount of pledged support for Georgia was far more than had been expected. Japan pledged USD 200 million for Georgian reconstruction, followed by USD 1 billion by America and EUR 500 million by the EU.

JICA has been supporting the development and rehabilitation of Georgia aggressively based on the above mentioned diplomatic policy, implementing programs, such as private sector capacity development to contribute to an increase in income and the expansion of employment opportunity, Grant Aid for machinery for processing agricultural products, rehabilitation of the power sector to support industrial infrastructure, and others. Now JICA is beginning preparation of a yen loan for an East-West highway development project as part of its reconstruction support.

This study collected and analyzed relevant information to create an overview of the funding progress and future plan of USD 4.5 billion fund which was pledged at the reconstruction supporters' meeting. More specifically, the objectives of the study are:

- to understand the reconstruction fund progress provided by donors; and
- to understand the discordance among the main supporting sector. (Outlook of each sector, funding progress confirmation, and the demands of technical support)

Furthermore, this study aimed to determine what kind of support is required by the Japanese Government based on the current situation of the reconstruction programs by various donors, further support requirements in Georgia, and the expected synergistic effect between Georgia and Japan.

### 2. Status of Assistance by Major Donors

There are a number of international aid institutions and bilateral donor organizations supporting the redevelopment of Georgia. This report describes the latest developments in donor activities in Georgia. It summarizes their aid strategies, priority sectors, responses to the conflict, and ongoing/planned projects.

#### (1) Donor Meeting in Brussels

The Government of Georgia requested an assessment from the World Bank and the United Nations in August 2008 of the damage and economic losses resulting from the military conflict with Russia. The World Bank and the United Nations responded to the request and prepared a report called 'Georgia Joint Needs Assessment (JNA)<sup>1</sup>' which was distributed at the donor

<sup>1</sup> The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.

The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, Donor Funding in Support of Post-Conflict Recovery and Reconstruction: Summary Report, Prepared for the Donor's Conference of October 22, 2008 in Brussels.

meeting held in Brussels in October 2008. All donors were requested to support the reconstruction of Georgia.

Representatives from 38 countries and 15 international organizations attended, and the total amount pledged was USD 4.55 billion (including the loan for private sector) which was more than the amount reported in the study of reconstruction needs by World Bank (USD 3.25 billion for 3 years). Pledges for the public sector totaled USD 3.7 billion for the purposes of budget support (USD 586 million), social needs (USD 450 million) and infrastructure (USD 2.6 billion). An additional set of pledges of USD 800 million to support the private sector, including USD 750 million for the banking system were made.

The largest bilateral pledges were made by the governments of the United States (USD 1 billion) and Japan (USD 200 million). The European Commission pledged almost EUR 500 million. International financial institutions announced contributions to a total of USD 2.4 billion – this group encompasses the ADB (USD 300 million), EBRD (USD 927 million), EIB (USD 330 million), Council of Europe Development Bank (USD 1 million), and the World Bank Group (USD 880 million). While not part of the pledging, the IMF had extended a USD 750 million stand-by program in September 2008. Other countries which pledged contributions were Austria, Belgium, Bulgaria, Canada, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Romania, Slovenia, Spain, Sweden, Switzerland, Turkey, the Ukraine, and the United Kingdom.

In June 2009, the World Bank and the United Nations issued the JNA Progress Report<sup>2</sup>. This report indicated that an increased amount of USD 1 billion for the ‘Immediate Period (from October 2008 to March 2009)’ had been committed by donors while the amount pledged initially was USD 895 million. The committed amount includes budgetary support of USD 415 million, IDPs USD 165 million, infrastructure and others USD 334 million. The Ministry of Finance, Georgian Government explained that the disbursement of USD 557 million out of USD 1 billion has been made by March 2009.

The US was the principal donor – it provided USD 250 million in grants for general budget operations. The ADB disbursed USD 70 million, the World Bank disbursed USD 40 million and the EC disbursed USD 17 million. The ADB, however, increased their contribution from USD 70 million to USD 80 million, and the World Bank from USD 40 million to USD 85 million. The EC has indicated that its pledge may be slightly reduced because of conflicting needs for EC funds given the severity of the global economic crisis and the need to address conflicts elsewhere. The timing of the disbursement is also uncertain. The authorities are making every appeal and effort to avert this cut.

## (2) World Bank (WB)

The World Bank was one of the organizers of the donor meeting in Brussels last October, and pledged, on its own, USD 520 million. The single year commitment between 2001 and 2008 was less than USD 100 million, but in 2009 the lending level increased substantially. In June 2009, shares of effective lending by sector were Transport 50.3%, Public Administration and Law 13.0%, Energy and Mining 10.1%, and Agriculture 8.6%, Water/Sanitation/Flood Protection 6.0%, Health/Social Services 5.7%, Industry/Commerce 4.0%, Education 2.3%.

Lending over the past 3 years has been higher than the indicative program set out in the FY06–09 CPS, but focuses on the same activities. While the initial CPS estimated an IDA lending

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<sup>2</sup> The United Nations and the World Bank (2009), Georgia Joint Needs Assessment: Donor Funding in Support of Post-Conflict Recovery and reconstruction, Progress Report, June 30, 2009.

amount of USD 143 million over the period 2006–2009, focused on policy based support, infrastructure and the transit corridor, the education sector, and public sector management, the Bank added Avian Influenza Control Project for a total of USD 166 million. The WB's fourth poverty reduction support operation (PRSO IV) was approved in April 2008. Funds of USD 22.7 million were disbursed in August 2008 and, following the conflict, a supplementary amount of USD 40 million was approved in October 2008. The World Bank and IFC plans to disburse US 800 million over the next three years.

### (3) Asian Development Bank (ADB)

In November 2008, ADB issued a report titled, 'Proposed Loan Georgia: Emergency Assistance for Post-Conflict Recovery (EAPCR),' and agreed to provide USD 70 million by responding to the request of Georgian Government. Concessional lending terms were applied under emergency conditions. The loan will carry interest of 1% per year and a maturity of 40 years, including a grace period of 10 years, with repayment of principal at 2% a year for the first 10 years after the grace period and 4% a year thereafter. Biannual country allocation to be disbursed by 2009 has been increased from USD 40 million to USD 80 million (USD 50 from 'regular' ADF, and USD 30 from 'hard' ADF). These are mostly in budget support and will be signed by July. A core project by the ADB includes municipal infrastructure projects, highway projects along the Black Sea and the Southern Georgia, metro extension, and urban transport projects including the metro extension project.

### (4) European Bank for Reconstruction and Development (EBRD)

EBRD committed EUR 937 million in total for reconstruction support of Georgia. This total amount is three times the prior investment in Georgia. EBRD was the second largest supporter; the first was the United States with its pledge of EUR 730 million in October 2008. The commitment aims to help the banking sector recover from the unstable situation effected by the financial crisis, as well as reconstruction from the military conflict. From 2008 to 2009, EBRD supported the financial sector in Georgia with the amount of EUR 150 million; more than 50% of total lending until 2008. It shows that sector support is important and urgent. This strong support increased Georgian banks' equity capital ratio to 10–15%, and secured sufficient financial conditions for current economic conditions.

Presently, EBRD, EIB and KfW are co-financing a 500 kV Transmission Connection Project between Georgia and Turkey. At the same time, the export of surplus power will increase. As for hydropower plants, EBRD will finance the Turkish enterprise Anadol to construct Paravani Dam on a concession basis. Besides the energy sector, EBRD has financed the transportation sector. The Tbilisi Airport Project has already been completed. However, rehabilitation of the railroads appears canceled. Regarding municipal infrastructure, EBRD will finance various water supply rehabilitation projects.

### (5) International Monetary Fund (IMF)

There are two types of aid initiatives by the IMF: the Poverty Reduction and Growth Facility (PRGF) and Stand-By Arrangement (SBA). A new PRGF for Georgia was approved in 2001 and then again in 2004. In August 2007, the IMF Executive Board completed its sixth and final review of Georgia's economic performance under the latest 3-year USD 149 million PRGF arrangements. On September 15, 2008, the Executive Board of the International Monetary Fund (IMF) approved a USD 750 million Stand-By Arrangement (SBA) for Georgia to assist with recovering from the economic problems caused by the conflict with Russia. Its aim is to support the government's policies to stabilize the economy, help bolster investor confidence and rebuild gross international reserves as well as catalyze donors' support.

## (6) European Union (EU)

In 2008, the EC continued to support national reform efforts in Georgia and programmed assistance for a total amount of EUR 28.8 million. The 2008 Annual Action Plan programme, adopted in September 2008, focused on support for justice reform. At the international donor's conference in October 2008, the EC pledged up to EUR 500 million towards the country's reconstruction needs for 2008–2010. Following the conflict with Russia in August 2008, the European Council expressed firm support to Georgia and provided political, financial, and practical assistance. This included dispatching an EU civilian monitoring mission (EUMM), and organization of the international donor's conference in Brussels.

The Progress Report for ENP Implementation (April, 2009) makes reference to areas where further investment is necessary. For example, reference is made to the lack of an overall healthcare strategy, and that reform of vocational training and education requires on-going investment. Under transport, there is still a need to strengthen the administrative capacity of the various regulatory transport policies in particular to ensure efficient safety oversight. Further, Georgia needs to significantly strengthen its aviation authorities after many transport restructurings. The Report states that urgent efforts should be made to improve safety oversight and to gradually harmonize Georgia's legislation with European safety standards.

## (7) The United States (USAID, MCC)

The USD 1 billion assistance package pledged to Georgia by the US Government at the donor's conference of October 2008 is assisting with internally displaced persons, rebuilding infrastructure, restoring economic growth, and fostering continued democratic reform and energy security. Of this, USAID has provided USD 250 million. The development assistance (both financial assistance and technical assistance) provided to Georgia by USAID and MCC is all grand aid.

The level of assistance to Georgia by USAID was USD 41.5 million in 2006, USD 37.75 million in 2007, and USD 36.02 million in 2008 (not including monies under the USD 1 billion pledge of the United States Government). As of January 2009, USAID has provided USD 250 million in budget expenditure support (covering state pensions, state compensation, state academic stipends, health care, allowances for displaced people, support to schools, and compensation and salaries to government employees), over USD 40 million in humanitarian assistance, and is currently identifying further support. In general, the goals of the projects by USAID are to improve the business environment, expand access to capital, enhance business skills, develop a properly functioning land market, improve agricultural productivity, increase competitiveness of targeted business sectors, and expand economic opportunities in rural communities.

The main priority sectors under MCGF are roads and highways, energy, water, tourism, and agribusiness. Of these, highways, in particular the Samtskhe-Javakheti road section is considered the main 'flagship' project of MCGF and takes the largest funding allocation. In order to implement the Millennium Challenge Compact, the Government of Georgia established the Millennium Challenge Georgia Fund (MCGF). The five-year Compact of 2006 had a total allocation of USD 295.3 million for five main projects. Following the conflict of August 2008, a further USD 100 million was added to expand and complete these existing projects. As of April 2009, total disbursements amounted to USD 95.2 million.

## (8) Germany (BMZ, KfW, GTZ)

Development assistance by the German Government is channeled through KfW (Kreditanstalt für Wiederaufbau) for grant (small scale) and non-grant financial assistance and GTZ (Deutsche

Gesellschaft für Technische Zusammenarbeit) for technical assistance, as well as through international institutions such as the World Bank, the United Nations, and the European Bank for Reconstruction and Development (EBRD). In the donor meeting in October 2008, Germany pledged about EUR 133.7 million over the three years until 2010. Their assistance is being focused on the construction of shelters for IDPs, restoration of municipal infrastructure, and lending to a bank in Georgia, who in turn finance small- and medium-sized enterprises in the country.

The current assistance strategy to Georgia is based on ‘South Caucasus Strategy for Georgia, Armenia, and Azerbaijan–German Development Cooperation, 2007.’ This was prepared in the framework of the ‘Caucasus Initiative,’ which put priorities on sustainable economic development, energy and environmental protection, municipal development, and promotion of democracy. Lending by KfW essentially follows IDA conditions, but also applies other concessionary conditions depending on income levels of recipient countries, as well as commercial rates based on international capital markets. The priority areas of operation are in the category of energy, irrigation, and infrastructure development. KfW has been implementing financial assistance of the German Government totaling EUR 246 million by 2007. It also assisted the country through its own resources with EUR 25 million. GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) operates in the areas including: sustainable economic development; municipal development and democracy; energy and environment; and law and judicial systems. The emergency assistance projects by GTZ include provision of housing for IDPs; private sector development mainly concerning food safety for export to the European market; vocational education and training with the Ministry of Education & Science. GTZ plans to expand IDP related assistance in the future.

#### (9) Sweden (SIDA)

Development assistance by the Swedish Government is implemented through the Swedish International Development Cooperation Agency (SIDA). Assistance to Georgia in 2009 is around SEK 100 million, but was SEK 70 million in 2008. The Swedish pledge of SEK 400 million is made up of an ‘on-going’ and ‘new’ fund. In connection with the donor conference, the Swedish Ministry for Foreign Affairs added SEK 30 million to the 2008 funding through SIDA. Of this, SEK 10 million is intended for humanitarian support, and SEK 20 million for municipal investments needs. The planned budget in 2010 is SEK 150 million, which is a substantial increase as compared to the commitment in 2009. Funds are disbursed in cooperation with EBRD. There are four priority sectors in Swedish assistance for Georgia: humanitarian; agricultural; environment; and sustainable development.

#### (10) France

France pledged a total of EUR 7.53 million at the donor meeting in Brussels. France does not formally prepare policy/strategies papers for its assistance to Georgia. There is no bilateral agreement or ‘protocols’ and assistance is organized within the Embassy itself. It follows EU Action Plans, and operates within this framework. France generally supports small-sized projects in the area of technical and cultural cooperation, environment, and medical care.

### 3. Needs Assessment by Sector

This report also provides an overview for each of the major sectors, and damage by the military conflict, projects and donor activities, and further assistance needs. the sectors covered are: roads and highways; railways; airport and seaport; urban transport; water supply, sewerage, and solid waste; energy; agriculture; environment; tourism; finance; health; education; and internally displaced persons.

### (1) Road and Highways

The development of the East-West Corridor is being carried out by the World Bank and JICA, and one segment of the corridor has been opened by the World Bank. JICA plans to provide a loan to improve the Zestafoni–Samtredia section with an amount of about USD 180 million, and implement first the Kutaisi Bypass, and the Kutaisi–Samtredia section as they are considered to have a higher economic return. There are more ongoing projects, such as road development projects near Batumi by ADB, rural road development from Tbilisi to the border of Armenia by MCGF, and a road development plan in the Eastern mountain region by the World Bank. Large part of the road network such as access roads to arterial roads, rural roads, and urban streets are not paved, and donor assistance is required.

### (2) Railways

Rail infrastructure repairs were quickly carried out after the conflict and were completed using Georgian Railway's own financing. A signalization project is on-going. A government funded project in the south of the country to the border with Turkey is still on-going; this includes track rehabilitation from Marabda (near Tbilisi) to Ahalkalaki and the construction of a new link from Ahalkalaki to Karsi within Turkey. Other than these, there is a Tbilisi Railway Bypass Plan, which includes removal of existing rail line and the utilization plan of the large land area after the removal, comprising some 74 hectares. Preparation of re-development plan and feasibility studies require donor assistance. Georgia Railway has been privatized and has its own financing sources to a certain extent, but financial and technical assistance by donors are still required.

### (3) Airport and Seaport

There are two international airports (Tbilisi and Batumi) and four small airdromes (Kutaisi, Poti, Sukhumi, Senaki) in Georgia. A new airport was built in Tbilisi and Batumi by private funds and commenced operations in 2007. In the aviation sector, assistance such as the expansion of the air space by proliferation of radars, the improvement of aviation safety, installation of weather radar, installation of the instrument landing system (ILS) at Kutaisi airport, modernization of taxiway and apron at Tbilisi airport, development of database for digital topographic and obstruction are needed.

Development of the seaports in Georgia is carried out utilizing private funds, while the facilities of Maritime Transport Department of Georgia, which is responsible for supervising water area and commercial shipping operations, has deteriorated and needs to be modernized. Although the seaport administration office is undergoing development using the state budget, facilities such as telecommunications require technical assistance. Donor assistance can possibly assist in meeting the latest GDMSS (Global Maritime Distress and Safety System) standard.

### (4) Urban Transport

The public transport system in Tbilisi is in good condition compared to other Asian cities of the same scale due to the Metro which was build in former USSR era and the support by EBRD for strengthening the bus fleet. ADB is planning to implement a F/S on extension of the Metro. The taxi system can be improved institutionally through establishing a registration system and meter system. Traffic management needs to be improved as there are many traffic accidents. Even though traffic lights are installed at nearly 200 intersections, they are old models with fixed cycles and the city administration is investigating the adoption of modern traffic lights, such as Area Traffic Control Systems.

#### (5) Water Supply, Sewerage, Solid Waste

Due to the aged water supply system, there are serious problems, such as supply cut off and waste mixture in rural areas. The facility improvement projects in provincial cities are being conducted by USAID, EBRD, and KfW. However the facilities in the rural area still remain unattended. Many of electric pumps produced in the Soviet Union era are not functioning anymore. Therefore it is considered that use of gravity water should replace pumping systems. In Georgia, the rate of uncharged water is very high and water pipes are not well managed. Capacity building of newly established Public Water Authority is one of the priority issues.

#### (6) Energy

For the power supply field, the new power plant feasibility study is in progress with assistance from USAID. Also MCGF is conducting feasibility studies for a natural gas storage facility. The other important item in the energy field is the city gas project for West Georgia and technical assistance for F/S will be required.

#### (7) Agriculture

More than half of the Georgian population relates to the agricultural sector, and there are many farmers below the poverty line. As such, increased efficiency in agricultural production would play an important role in addressing poverty reduction in the county. In the agriculture sector, there are abandoned pump irrigation systems, which are in a similar situation to water supply. Replacement of the current system to a gravity irrigation system is required.

#### (8) Environment

Georgia has rich forest resources providing tourist attractions, which, in turn contribute to the country's economic growth. The forest resources suffered war damage and illegal cutting. Therefore, a database is required for the planning of sustainable cutting and tree planting. Water resources management is transforming administration area systems to valley systems under EU supervision.

With this background, USAID also plans to implement technical assistance for the preparation of a valley management master plan. Basic statistics on forest resources is essential as a base for valley management systems.

#### (9) Tourism

Georgia has high potential for tourism development due to magnificent landscapes and attractive visiting places. There are old church buildings, which are registered as World Heritage, resort areas along with Black Sea, wineries in the East area. A skiing resort in Southern Georgia is visited by international tourists from countries including Armenia, Azerbaijan, Turkey, and Ukraine. The number of domestic tourists is at a relatively low level despite promotion of the domestic tourism activity. The military conflict last year and global economic recession had an impact on the tourism industry. The Tourism Division of the Ministry of Economic Development has no master plan for tourism development. Up to now, systematic policy measures have not been implemented.

#### (10) Finance

The financial sector had not been damaged by the military conflict with Russia last year, however the global economic recession triggered by Riemann brother's bankruptcy damaged Georgian financial sector. Difficulties suffered included loss of deposit and swelling of non-performing loan. The disbursement of a foreign loan fund was also delayed. At the end of June 2008, banks concentrated on lending to the trading, financial service and construction sectors.

The construction sector had 8% of the total amount of lending. From now on, the demand of the financial sector support depends on the duration of recession in Europe. Additionally it depends on domestic market activity and previous financing effectiveness. Depending on the above trends, there is a possibility of required additional support. It all depends on the development of the economic condition.

#### (11) Health

Because of the chronic shortage of the national budget in Georgia, budget allocation to the health/medical sector has been limited. The primary medical services are not sufficient, and improvement of the medical service conditions in the rural areas as well as the medical insurance system is of prime importance to the country. In this situation, the World Bank has been implementing the Primary Medical Service Improvement Project for several years and more than 100 medical centers were established at Ajara, Imereti, and Shida Kartli. EU is also carrying out a similar project at Khaheti. USAID has provided financial support to employ 1,400 doctors to solve the doctor shortage in rural areas. Despite this support, assistance needs are high for the improvement of the primary medical service and donor assistance is required in various sub-sectors, particularly in rural or mountainous areas where there is a low potential for the application of private funds.

#### (12) Education

Education improvement and reorganization are keys to Georgia reconstruction and it has been carried out with World Bank support since the 1990s. An education system improvement program called 'Ilia Chavchavadze' is being implemented to decentralize school management, carry out capacity building, improving the usage of material/human/financial resources, and improve the quality of education. Vocational school facilities, on the other hand, are mostly outdated, and the shortage of instructors is a serious problem resulting in an inability to provide appropriate human resources for the reconstruction of the national economy.

#### (13) IDPs

There are two kinds of internally displaced persons (IDPs): one is 30,000 people from the military conflict last year; and the other is 270,000 people from conflicts in 1990s. For IDPs from the last year 6,000 houses have been provided within a few months after the conflict with financial support from USA, UNCHR, GTZ and various other donors. There are a number of issues to be addressed to restore the refugees' daily lives to normal. Such issues include facility improvement in the settlement, and social harmonization with local communities. Additionally, many of the IDPs from 1990s are still living in abandoned school buildings or other public facilities. There are many problems to be solved before their lives get back to a standard of living above an acceptable level. The Ministry of Refugees and Accommodation, Georgian Government established expert group meetings to address various specific issues.

### **4. Potential Future Assistance by JICA**

There are a number of donors involved in supporting the development of Georgia in various sectors. Assistance gaps based on these donor activities have also been indicated. This report explores the direction of future JICA assistance by first reviewing the priority issues identified by the Georgian government as well as the policies and experience of Japanese assistance to Georgia.

The Georgian parliament approved the 'Five Year Plan for Georgia without Poverty' in January 31, 2008. This program recommended priority issues for the period between 2008 and 2012. The government reviewed the priority issues by reflecting on the achievements made by the end



of 2008, and the changing socio-economic environment due to the military conflict and the global financial crisis. Results of these reviews have been reflected in the ‘Basic Data and Directions for 2009–2012 (BDD)’ prepared by the Georgian government. The latest BDD includes priority issues in the sectors of: national security; economic, fiscal and monetary policy; welfare of population; transport and infrastructure; agricultural and natural resources; education, culture and sports; public sector; and defense and law enforcement systems.

The principles of the ODA Charter by the Japanese Government, on the other hand, stipulate democratization and a market oriented economy, and support ‘self-reliant effort of the developing countries.’ Hence, Japan has been assisting Georgia to work effectively on issues such as the shortage of human resources, deterioration of the economic infrastructures, environmental deterioration and so on. Based on the policy consultation in 1999, and the ‘Consultation of JICA Priority Areas for the Caucasus’ in 2005, the priority sectors for assistance to Georgia by the Japanese Government are as follows:

- Development of economic infrastructure (especially energy, transportation and communication)
- Social sector (especially health care, medical care and education)
- Human resources

Japanese assistance to Georgia in the year 2007 was JPY 87 million of grant aid (based on exchanged official notes (E/N)) and JPY 172 million of technical assistance (based on JICA expense). The assistance until 2007 was 55.3 billion JPY of loan (based on E/N), JPY 7.27 billion of grant aid (based on E/N), and JPY 1.59 billion of technical assistance (based on JICA disbursement).

Based on the analyses of relevance between priority issues in Georgia’s development and the assistance principles in the Japan ODA Charter, potential future assistance by JICA has been put forward as shown in Table 1.

**Table 1 Potential Technical Assistance Measures to Support Development of Georgia**

Sector	Potential Technical Assistance
<b>Road and Highways</b>	<ul style="list-style-type: none"> <li>• Master plan and feasibility studies for rural road development</li> <li>• Road traffic safety policy study in mountain regions</li> <li>• Road design safety review</li> <li>• In-house consulting for technical review in the Foreign Project Unit to be established by Road Department.</li> </ul>
<b>Railways</b>	<ul style="list-style-type: none"> <li>• Preparation of development plan and feasibility studies of Tbilisi Railway Bypass and utilization of the land after the existing railway is removed.</li> <li>• Study to improve transport efficiency between Georgia – Azerbaijan (Including improvement of custom clearance system).</li> </ul>
<b>Airport and Seaport</b>	<ul style="list-style-type: none"> <li>• Preparation of database for digital topography and obstruction.</li> <li>• Improvement of emergency communication system to Maritime Transport Department of Georgia.</li> </ul>
<b>Urban Transport</b>	<ul style="list-style-type: none"> <li>• Urban traffic improvement study (mainly on improvement of the intersection and traffic signal system) (possible coordination with Asia Development Bank).</li> <li>• Capacity building for urban traffic improvement ability.</li> </ul>
<b>Water Supply, Sewerage, Solid Waste</b>	<ul style="list-style-type: none"> <li>• Study for introduction of gravity water supply system.</li> <li>• Capacity building of Public Water Authority.</li> </ul>

<b>Sector</b>	<b>Potential Technical Assistance</b>
<b>Energy</b>	<ul style="list-style-type: none"> <li>• F/S of city gas supply in West Georgia (possible coordination with the World Bank)</li> </ul>
<b>Agriculture</b>	<ul style="list-style-type: none"> <li>• Study on national water resources (determination of water amount, preparation of database, and feasibility studies of pilot projects)</li> <li>• Study for establishment of gravity water irrigation system.</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>• Establishment of Forest Resource Protection Agency (GIS database establishment, aerial photograph, GIS training and guidance and consideration of forest resource management organization)</li> </ul>
<b>Tourism</b>	<ul style="list-style-type: none"> <li>• Study for the Preparation of Tourism Master Plan for Georgia.</li> <li>• Capacity Building for the Development of Tourism Resources</li> </ul>
<b>Finance</b>	(The lending to private sectors, and/or establishment of micro finance by applying two step loans can be explored)
<b>Health</b>	<ul style="list-style-type: none"> <li>• Project to Improve Medical Environment of Rural Areas</li> </ul>
<b>Education</b>	<ul style="list-style-type: none"> <li>• Capacity Building to Strengthen School Management Systems</li> <li>• Training of School Teachers to improve Teaching Skills</li> <li>• Support to Improve Vocational Education and Training Facilities (potentially leading to grant financial assistance)</li> <li>• Training of Instructors at the Vocational Education and Training Centers</li> </ul>
<b>IDPs</b>	<ul style="list-style-type: none"> <li>• (Improvement of housing and infrastructure at various settlements by using grant aid schemes)</li> </ul>

## Chapter 1 Introduction

### 1.1 Study Background

Georgia attained its independence with the collapse of the USSR in 1991. Since this time, the country has been promoting democratization and a market economy, but still faces political and economic instability. The deterioration of its economic and social infrastructure developed during the soviet era, and the lack of maintenance are priority issues, which need to be resolved.

The military conflict between Georgia and Russia over South Ossetia in August 2008, followed by the international financial crisis, has had a serious effect on the Georgian economy. However, a Joint World Bank – European Conference was held (Refer to Box.1 below) in October of the same year at the urging of the United Nations (UN) and World Bank (WB). The resulting level of pledged support for Georgia was far more than had been expected.<sup>1</sup> Japan pledged USD 0.2 billion for Georgian reconstruction, USD 1 billion was pledged by America and EUR 0.5 billion by the EU.<sup>2</sup>

Georgia, next to Northern Caucasus and located between the Black and Caspian Seas, sits in an area geopolitically important as the access route connecting Europe and Asia. It is particularly important for Japan, with respect to energy security as a relay point for the BTC pipeline running through Azerbaijan to Turkey, as well as geopolitically as the Transport Node of the “Arc of Freedom and Prosperity.” As such, it is hoped that Georgia will quickly recover from the damage caused by the conflict and get back on track with respect to its stability and development, both necessary precursors to the prosperity and stability of the region via democratization and the development of a market economy for the entire Caucasus area.

JICA has been supporting the development and rehabilitation of Georgia aggressively based on the above mentioned diplomatic policy, implementing programs, such as private sector capacity development to contribute to an increase in income and the expansion of employment opportunity, Grant Aid for machinery for processing agricultural products, rehabilitation of the power sector to support industrial infrastructure, and others. Now JICA is commencing preparation of a yen loan for an East-West highway development project as part of its reconstruction support.

It is expected that Japan’s support will be carried out more strategically by making operations more effective, as well as by responding quickly to the needs of Georgia’s reconstruction.

On the other hand, with reference to the operations in Georgia, there is concern that the effectiveness of the support will be detracted due to restrictions by the implementation structure of Japanese development assistance and by local information being limited. Therefore, close coordination with the relevant authority or organization in Georgia, as well as reliable information, are very important.

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<sup>1</sup> The pledged amount by each donor and project are shown in Appendix A.

<sup>2</sup> Among the funds for rehabilitation of infrastructure in Georgia, a loan is planned to be provided for the development of transportation infrastructure, a high priority, while USD 1.2 billion in Grant Aid shall be allocated for urgent support.

**Box.1 Brief of Joint World Bank – European Conference to support Georgia  
(from the website of Ministry of Foreign Affairs, Japan)**

- (1) Date: 22 Oct 2008 (Wed)
- (2) Place: Brussels
- (3) Organizer: EU (Chair, France and European commission), World Bank
- (4) Attendants: Georgian Prime Minister: Lado Gurgenzidze, French Foreign Minister: Bernard Kouchner, Commission President: José Manuel Barroso, External Relations and Neighbourhood Policy Commissioner: Benita Ferrero-Waldner, Czech Foreign Minister: Karel Schwarzenberg, World Bank Vice-President: Shigeo Katsu, Director of Foreign Assistance Henrietta H. Fore, Minister for International Development: Mike Foster
- (5) There were representatives from 38 countries and 15 international organizations attended, and the total amount pledged was USD 4.55 billion (including the loan for private sector) which was more than the amount reported in the study of reconstruction needs by World Bank (USD 3.25 billion for 3 years).

## 1.2 Objectives of the Study

This study collected and analyzed relevant information to create an overview of the funding progress and future plan of USD 4.5 billion fund, which was pledged at the reconstruction supporters' meeting. More specifically, the objectives of the study are:

- to understand the reconstruction fund progress provided by donors; and
- to understand the discordance among the main supporting sector. (Outlook of each sector, funding progress confirmation, and the demands of technical support)

Furthermore, this study aimed to determine what kind of support is required by the Japanese Government based on the current situation of the reconstruction programs by various donors, further support requirements in Georgia, and the expected synergistic effect between Georgia and Japan.

## 1.3 Method of Study

First, the related information of this program was collected from websites and analyzed as part of a home office assignment. Next, preliminary lists of interviewees and questions to be asked were prepared and later refined. The site survey was implemented in June 2009. The interview questions were submitted to the interviewees beforehand.

It was recognized that the selection of donors to be interviewed should take into account their relevance to Japanese development assistance as well as the existence of local offices in Georgia.

- World Bank (WB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- USA (USAID, MCG)
- Germany (GTZ, KfW)
- Sweden (SIDA)
- France

Sweden and France were selected as the main players in the EU. Also, the International Monetary Fund (IMF) and EU (EC) were selected and their trends were collected as website information and analyzed.

Interviews at the donor organizations were performed to find out, for example, each donor's assistance strategies to Georgia, changes in assistance policies after the military conflict, high priority sectors, and special lending conditions, if any. Regarding the projects status of USD 4.55 billion pledged at the donor meeting in October 2008, information was collected on the progress of project implementation, fund disbursement, changes in project scope, and the adding/deleting of items in the scope. Additionally, attempts were made to collect information regarding the projects that were not included in the last year's pledge at the donor meeting, and planned projects by each donor.

The interviews of the Georgian government organizations were performed mainly with the organizations who are implementing donor assisted projects or those who have plans for implementing donor assisted projects. The following government organizations were visited by the study team during the field visit to Georgia:

- Ministry of Finance (MOF)
- Ministry of Regional Development and Infrastructure (MRDI) – Road bureau, River bureau
- Ministry of Economic Development – Tourist bureau
- Ministry of Agriculture – International division, Irrigation bureau
- Ministry of Energy
- Ministry of Environment and Natural Resources
- Ministry of Refugee and Accommodation
- Ministry of Education and Science
- Ministry of Labor, Health, and Social Protection
- Tbilisi City Hall – Road & Transportation bureau
- Georgian Railway Ltd.

During the visit to the above government organizations, interviews were made to find out the progress of donor assisted projects, reasons for implementation delays (if any), assistance needs of particular sectors, and areas requiring further assistance by donors. The visiting schedule for each organization, list of interviewees, and the contents of the interview are shown Appendix A, B, and C. Additionally, after returning to Japan, interviews during the field visit were followed up by telephone and e-mail, and additional information was collected through internet and by contacting by e-mail for those organizations that the Study Team could not visit.

#### **1.4 Composition of the Report**

The structure of this report is described below.

Chapter 1 describes the project background, objectives, and study method.

Chapter 2 includes overviews of donor activities in Georgia, their assistance strategies/methods, high priority sectors, and ongoing and projects.

Chapter 3 contains sector overviews, donor activities, and demand for further assistance.

Chapter 4 includes a review of the country development strategy by the Georgian Government, Japanese Government's policy to assist development of Georgia, and potential future support by JICA (mainly technical assistance).



## Chapter 2 Status of Assistance by Major Donors

### 2.1 Introduction

Before the military conflict in 2008 the Georgian economy was in steady growth with a yearly GDP growth rate of 10%. The conflict, however, negatively impacted the socio-economic environment with the undermining of the trust of investors, damages to transport infrastructure, and an increase in IDPs (internally displaced persons).

There are a number of international aid institutions and bilateral donor organizations supporting the redevelopment of Georgia. This chapter describes the latest developments in the donor activities in Georgia. It summarizes their aid strategies, priority sectors, responses to the conflict, and ongoing/planned projects. Analyses are made based on information provided by JICA, publications obtained through the internet, as well as valuable information obtained directly from donors based in Tbilisi.

#### (1) Donor Meeting in Brussels

The Government of Georgia requested an assessment from the World Bank and the United Nations in August 2008 of the damages and economic losses resulting from the military conflict with Russia. The World Bank and the United Nations responded to the request and prepared a report called 'Georgia Joint Needs Assessment (JNA)<sup>1</sup>' which was distributed in the donor meeting held in Brussels in October 2008. All donors were requested to support the reconstruction of Georgia.

JNA focused on the following three aspects for supporting the development of Georgia:

- Support for the rapid restoration of confidence. With growth, Georgia would generate internal resources for investment and poverty reduction. Donors could help best by providing resources for the budget to support the counter-cyclical budget policy and thereby ensure funding for critical economic and social needs. Moreover, donors needed to consider equity, debt or guarantee support to domestic banks so that lending to enterprises and consumers could be re-ignited.
- Support for social needs. The resettlement of the internally displaced and the needs associated with other conflict-affected populations put an unsustainable burden on fiscal resources. Through support for housing, social protection and other social programs identified in the JNA as well as via budget support, donors could make an important contribution to economic and social recovery.
- Support for critical investments. The JNA found that certain high value and high yield investments were essential to maximizing recovery prospects – the “core investments” in the report. Donor financing for such investments was essential as a bridge to the period when the private sector resumed investing. Such financing would also help to enhance the economic security of the country by broadening choices in energy and transport.

The JNA proposed that donors extend new financing in the amount of USD 3¼ billion over a three-year period. Of this amount:

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<sup>1</sup> The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.  
The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, Donor Funding in Support of Post-Conflict Recovery and Reconstruction: Summary Report, Prepared for the Donor's Conference of October 22, 2008 in Brussels.

- Budget support was estimated at USD 930 million (USD 480 million in 2008 and USD 450 million in 2009).
- Social sector needs were estimated at nearly USD 1 billion, of which USD 300 million corresponded to immediate needs (including amounts in the UN revised Flash Appeal), i.e., were required by spring 2009.
- Infrastructure support, including urban and municipal, was estimated at USD 1¼ billion, of which USD 120 million (damage and immediate needs) was required by spring 2009.

In addition, the JNA indicated that USD 700 million in donor support for the banking sector would be required. This support would be in the nature of contingent costs: unlike donor support in the three categories indicated above, banking sector support takes the form of provision of liquidity or guarantees. At the Brussels conference, donor pledges exceeded expectations: pledges for the public sector totaled USD 3.7 billion for the purposes of budget support (USD 586 million), social needs (USD 450 million) and infrastructure (USD 2.6 billion). An additional set of pledges of USD 800 million to support the private sector, including USD 750 million for the banking system were made.

Table 2-1 shows the pledged amount by sector at the donor meeting.

**Table 2-1 Pledged Amount by Sector (USD million)**

SECTOR	2008	2009	2010	TOTAL
1. Immediate (2008/early 2009)	99.59	0.00	0.00	99.59
2. Internally Displaced Persons	221.65	87.72	40.83	350.20
3. Core Recovery of the Georgian Economy	557.06	1,298.34	791.86	2,647.26
Not yet allocated	144.32	468.89	152.74	765.95
Infrastructure – Transport	120.00	393.71	167.85	681.56
Infrastructure – Energy	1.32	209.63	170.07	381.02
Urban and Municipal	80.20	11.87	118.46	210.53
Environment	2.24	2.90	1.32	6.46
Agriculture & Livelihood	5.25	13.33	4.61	23.19
Social Sectors (Education, Health, Social Protection)	1.41	1.17	0.87	3.45
Private and Financial sector	58.01	111.64	82.74	252.39
Other	144.31	85.20	93.20	322.71
4. General Budget and Macro-financial Support	378.46	103.94	103.94	586.34
<b>TOTAL</b>	<b>1,256.76</b>	<b>1,490.00</b>	<b>936.63</b>	<b>3,683.39</b>
5. Banking	486.99	190.75	175.02	852.76
<b>TOTAL</b>	<b>1,743.75</b>	<b>1,680.75</b>	<b>1,111.65</b>	<b>4,536.15</b>

Source: [http://ec.europa.eu/external\\_relations/georgia/conference/index\\_en.htm](http://ec.europa.eu/external_relations/georgia/conference/index_en.htm)

The largest bilateral pledges were made by the governments of the United States (USD 1 billion) and Japan (USD 200 million). The European Commission pledged almost EUR 500 million. International financial institutions announced contributions of a total of USD 2.4 billion – this group encompasses the ADB (USD 300 million), EBRD (USD 927 million), EIB (USD 330 million), Council of Europe Development Bank (USD 1 million), and the World Bank Group (USD 880 million). While not part of the pledging, the IMF had extended a USD 750 million stand-by program in September 2008. Other countries which pledged contributions were Austria, Belgium, Bulgaria, Canada, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands,



Norway, Poland, Romania, Slovenia, Spain, Sweden, Switzerland, Turkey, the Ukraine, and the United Kingdom.

Table 2-2 presents the yearly amount of pledges by country and donor for the next three years.

**Table 2-2 Pledged Amount by Donor (USD million)**

<b>DONOR</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>TOTAL</b>
<b>Countries:</b>				
Austria	1.12	0.66	0.00	1.78
Belgium	0.00	1.32	0.00	1.32
Bulgaria	0.22	0.22	0.21	0.65
Czech Republic	1.36	3.79	3.26	8.41
Denmark	0.00	9.02	3.54	12.56
Estonia	0.89	0.56	0.00	1.45
Finland	2.64	0.66	0.66	3.96
France	1.67	4.92	3.34	9.93
Germany	14.90	14.77	14.77	44.44
Hungary	0.31	0.00	0.00	0.31
Ireland	0.88	0.88	0.87	2.63
Italy	3.69	0.00	0.00	3.69
Latvia	0.07	0.36	0.33	0.76
Lithuania		0.66	0.66	1.32
Luxembourg	0.37	0.00	0.00	0.37
Malta	0.01	0.00	0.00	0.01
Poland	1.71	2.64	0.00	4.35
Romania	0.88	1.32	0.00	2.20
Slovenia	0.00	0.03	0.00	0.03
Spain	0.44	0.44	0.45	1.33
Sweden	20.06	13.19	19.79	53.04
The Netherlands	6.46	4.88	3.82	15.16
United Kingdom	3.39	0.00	0.00	3.39
<b>TOTAL EU Member States</b>	<b>61.07</b>	<b>60.32</b>	<b>51.70</b>	<b>173.09</b>
European Community	239.82	227.95	169.68	637.45
<b>TOTAL European Community + EU Member States</b>	<b>300.89</b>	<b>288.27</b>	<b>221.38</b>	<b>810.54</b>
Canada	1.66	1.66	1.66	4.98
Japan	66.00	67.00	67.00	200.00
Norway	14.50	12.52	12.52	39.54
Switzerland	7.27	5.98	5.63	18.88
Ukraine	24.46	0.00	0.00	24.46
United States	720.00	280.00	0.00	1,000.00
<b>TOTAL other donor countries</b>	<b>833.89</b>	<b>367.16</b>	<b>86.81</b>	<b>1,287.86</b>
CoEB	1.32			1.32
EBRD	267.64	362.56	296.64	926.84
EIB	0.00	197.76	131.84	329.60
ADB	110.00	90.00	100.00	300.00
World Bank	100.00	215.00	215.00	530.00
IFC	130.00	160.00	60.00	350.00
<b>TOTAL Financial Institutions and Organizations</b>	<b>608.96</b>	<b>1,025.32</b>	<b>803.48</b>	<b>2,437.76</b>
<b>TOTAL</b>	<b>1,743.74</b>	<b>1,680.75</b>	<b>1,111.67</b>	<b>4,536.16</b>

Preliminary data (in USD million)

Source: [http://ec.europa.eu/external\\_relations/georgia/conference/index\\_en.htm](http://ec.europa.eu/external_relations/georgia/conference/index_en.htm)

Note: Details of projects by each donor is shown at [http://www.mof.ge/default.aspx?sec\\_id=3212&lang=2](http://www.mof.ge/default.aspx?sec_id=3212&lang=2).

## (2) JNA Progress Report

In June 2009, the World Bank and the United Nations issued the JNA Progress Report.<sup>2</sup> This report indicated that an increase amount of USD 1 billion for the ‘Immediate Period (from October 2008 to March 2009)’ has been committed by donors while the amount pledged initially was USD 895 million. The committed amount includes budgetary support of USD 415 million, IDPs USD 165 million, infrastructure and others USD 334 million. The Ministry of Finance, Georgian Government explained that the disbursement of USD 557 million out of USD 1 billion has been made by March 2009 (see Table 2-3).

**Table 2-3 Committed/Disbursed in the ‘Immediate Period’ (USD million)**

Sector	Committed 2008/2009 April 1	Disbursed 2008/2009 April 1	Donor Organization & Allocated Amount
1. General Budget Support	414.5	388.5	1. World Bank – 40 2. ADB – 70 3. US Government – 250 4. European Commission – 41.2 (EUR 28mln) - PFM budget support – 14.9 (EUR 10mln) - Criminal Justice Reform budget support – 22.4 (EUR 15mln) - Food Security Program 3.9 (EUR 3mln) 5. Dutch Government – 3.2 (EUR 2.5mln) 6. Ukraine – 10.4 7. Malta – 0.01 (EUR 0.01mln)
2. Internally Displaced Persons	164.7	143.5	1. EC – 12.7 (EUR 10mln) 2. KFW – 8.7 (EUR 6mln) 3. GTZ – 11.3 (EUR 8mln) 4. UN-Flash Appeal 64.5 (new caseload) 5. UN – not listed in the Flash Appeal – 57.5
3. Core Recovery of the Georgian Economy	442.4	24.8	
Infrastructure – Transport	150.0		1. World Bank – 90 2. MCGF – 60
Infrastructure – Energy	13.0		1. MCGF – 13
Urban and Municipal	171.1	13.8	1. World Bank – 90 2. ADB – 37 3. KFW – 66.4 4. EBRD – 2 (multi-donor grant – MVG USD 8.8mln, EU EUR 0.8mln, SIDA EUR 0.4mln, ETC EUR 0.6mln) 5. MCGF – 26
Environment	7.2		2. KFW – 7.2 (EUR 5mln)
Agriculture & Livelihood	23.6	8.50	1. Japan (non-project grant) – 13.3 2. UN-Flash Appeal – 10.3

<sup>2</sup> The United Nations and the World Bank (2009), Georgia Joint Needs Assessment: Donor Funding in Support of Post-Conflict Recovery and reconstruction, Progress Report, June 30, 2009.

<b>Sector</b>	<b>Committed 2008/2009 April 1</b>	<b>Disbursed 2008/2009 April 1</b>	<b>Donor Organization &amp; Allocated Amount</b>
Other	77.5	2.5	1. US Government – 50 2. France – 6.3 (EUR 4.6) 3. GTZ – 11.6 4. Japan – 5.4 5. UN-Flash Appeal – 3.2
<b>Total</b>	<b>1,022</b>	<b>556.8</b>	
Private Sector:			
5. Banking and real sector	635.7	446.4	1. EBRD – 278.76 (EUR 210mln) 2. IFC – 220.6 3. OPIC – circa 176.3 4. FMO – 10
<b>GRAND TOTAL (Public and Private)</b>	<b>1,657.7</b>	<b>1003.2</b>	

Source: The United Nations and the World Bank (2009), *Georgia Joint Needs Assessment: Donor Funding in Support of Post-Conflict Recovery and reconstruction, Progress Report*, June 30, 2009, page 7, Table 2.

The US was the principal donor – it provided USD 250 million in grants for general budget operations. The ADB disbursed USD 70 million, the World Bank disbursed USD 40 million and the EC disbursed USD 17 million. The EC has indicated that its pledge may be slightly reduced because of conflicting needs for EC funds given the severity of the global economic crisis and the need to address conflicts elsewhere. The timing of the disbursement is also uncertain. The authorities are making every appeal and effort to avert this cut.

Sections 2.2–2.14 present an overview of donor operations in Georgia for support of development. They describe assistance strategies, priority areas, and list ongoing projects.

## 2.2 World Bank (WB)

The World Bank (WB) consists of five organizations called the World Bank Group: International Bank for Reconstruction and Development (IBRD); International Development Association (IDA); International Finance Corporation (IFC); Multilateral Investment Guarantee Agency (MIGA); and International Center for Settlement of Investment Disputes (ICSID). The headquarters of the World Bank are located in Washington, D.C., U.S.A.

### (1) Assistance Strategies

The WB Country Strategy Paper (CSP) for Georgia for 2009–2011 will soon be issued. The previous CSP was for the period 2006–2009 and there has been no basic change in strategy following the conflict of August 2008, other than post-conflict reconstruction needs. The new draft strategy identifies recent difficulties caused by both the conflict and the global economic decline as the following:

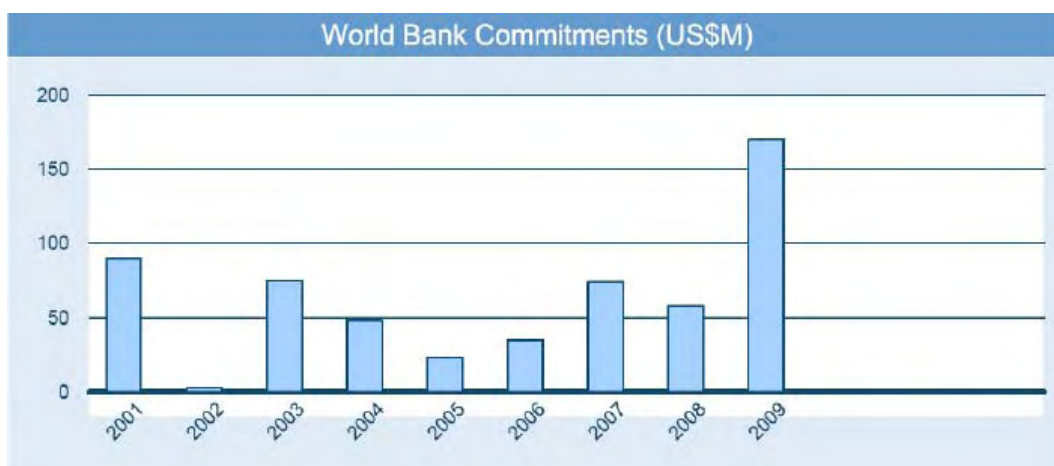
- Foreign investment has fallen sharply
- Tax revenues have declined
- Bank lending is down
- Export revenues have dropped off
- Social pressures are higher due to increased IDPs and existing poverty

Consequently, GDP will fall by 1.5% in 2009. The WB strategy lists key development challenges for Georgia as:

- Macroeconomic stability
- Private sector growth
- Upgrading infrastructure
- Widening social safety net
- Building human capital
- Strengthening government institutions and capacity

## (2) Level of Assistance

The World Bank was one of the organizers of the donor meeting in Brussels last October, and pledged, on its own, USD 520 million. As shown in Figure 2-1, the single year commitment between 2001 and 2008 was less than USD 100 million, but in 2009 the lending level increased substantially.



Source: The World Bank home page.

**Figure 2-1 World Bank Commitment to Georgia 2001–2009 (USD million)<sup>3</sup>**

In June 2009, shares of effective lending by sector were Transport 50.3%, Public Administration and Law 13.0%, Energy and Mining 10.1%, and Agriculture 8.6%, Water/Sanitation/Flood Protection 6.0%, Health/Social Services 5.7%, Industry/Commerce 4.0%, Education 2.3%.<sup>4</sup>

Lending over the past 3 years has been higher than the indicative program set out in the FY06–09 CPS, but focuses on the same activities. While the initial CPS estimated an IDA lending amount of USD 143 million over the period 2006–2009, focused on policy based support, infrastructure and the transit corridor, the education sector, and public sector management, the Bank added Avian Influenza Control Project for a total of USD 166 million.

IDA also delivered an extensive analytic work program mostly through Policy and Human Resource Development Fund (PHRD) grant support for the Poverty Reduction Support Operation (PRSO) program. IDA advisory support has also been provided by the Programmatic Public Expenditure work and the Programmatic Poverty Assessment (PA). The WB’s fourth poverty reduction support operation (PRSO IV) was approved in April 2008. Funds of USD 22.7 million were disbursed in August 2008 and, following the conflict, a supplementary amount of USD 40 million was approved in October 2008.

The WB and IFC commitment to Georgia for the next three years is USD 800 million.

<sup>3</sup> Financial Year of the World Bank is from July 1 to June 30.

<sup>4</sup> <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/GEORGIAEXTN/0,,contentMDK:20629239~menuPK:301753~pagePK:141137~piPK:141127~theSitePK:301746,00.html>

### (3) Priority Sector

The strategy proposes a two-pillar approach for support during 2009–2012. The first is to meet post-conflict and vulnerability needs with the main goals of promoting economic stability, creating jobs, increasing bank credit, and strengthening support for the poor. The second pillar concerns building long-term competitiveness. Here, the main goals are upgrading transport corridors and increasing connectivity, facilitating business growth and rural development, enhancing skills, and improving management of government resources.

Primary sectors of the World Bank Group are: (i) infrastructure and the transit corridor; (ii) the education sector; (iii) public sector management; (iv) Avian Influenza Control Project; and (v) poverty reduction advisory. The table below summarizes the target areas from the country strategy, highlighting the targets and key instruments to realize those targets. Table 2-4 shows priority areas to meet post-conflict and vulnerability needs, and Table 2-5 shows priority areas to build long-term competitiveness.

Goals for post conflict needs include: promoting economic stability; creating and maintaining employment; increasing bank credit; and strengthening public support and services for the poor.

**Table 2-4 Priority Areas to Meet Post Conflict Needs**

Goal	Target	Key Instruments	Partner
To promote economic stability	<ul style="list-style-type: none"> <li>- Restoration of GDP growth</li> <li>- Decline in Fiscal Deficit</li> <li>- Maintain Debt Sustainability</li> </ul>	<ul style="list-style-type: none"> <li>- On-going lending</li> <li>- New lending (Development Policy Operation (DPO) on macro/fiscal policies)</li> <li>- Analytic work (Country Memorandum on Growth)</li> <li>- IFC program (providing capital and liquidity to banks)</li> </ul>	IMF, EU, ADB
To create and maintain jobs	<ul style="list-style-type: none"> <li>- Creating new jobs in 2009–2012</li> </ul>	<ul style="list-style-type: none"> <li>- On-going lending (municipal development, local roads, and highways I and II)</li> <li>- New lending for the East-West Highway and Kakheti roads</li> <li>- Analytical work (i.e., annual poverty assessment)</li> <li>- IFC program (new investments)</li> </ul>	ADB, EBRD, JICA
To increase bank credit	<ul style="list-style-type: none"> <li>- Decline in Non-Performing Loans (NPLs)</li> <li>- Increase in bank lending as % of GDP</li> </ul>	<ul style="list-style-type: none"> <li>- On-going and new lending</li> <li>- Analytic work (payment systems TA, financial sector advice)</li> <li>- IFC program (on-going investments in banks, trade lines, advice to banks on NPL)</li> </ul>	IMF, EBRD, OPIC
To strengthen public support and services for the poor	<ul style="list-style-type: none"> <li>- Poverty rate to at/below current level of 23%</li> <li>- TSA coverage of extreme poor to increase (base=30%)</li> <li>- Voluntary health insurance for poor to increase (base=20%)</li> <li>- IDPs to receive adequate support</li> <li>- Increase in hours/day of municipal water supply</li> </ul>	<ul style="list-style-type: none"> <li>- On-going lending (health, municipal development, peace-building grant for IDPs, cities alliances grant)</li> <li>- New lending (DPO on health insurance)</li> <li>- Analytic work (poverty assessment)</li> <li>- IFC program (exploring private sector participation in health sector)</li> </ul>	MCC, ADB, EBRD

Source: Extracted from WB Draft Partner Strategy with Georgia (2009–2012), May 2009

Goals for building long term competitiveness includes: upgrading of transport corridors and increase connectivity; facilitating business growth and rural development; enhancing skills and capital; and improving government resource management.

**Table 2-5 Priority Areas to Build Long Term Competitiveness**

<b>Goal</b>	<b>Target</b>	<b>Key Instruments</b>	<b>Partner</b>
To upgrade transport corridors and increase connectivity	<ul style="list-style-type: none"> <li>- Reduction in transport time from Tbilisi to Rikoti and to Telavi</li> <li>- Improvements in road safety</li> </ul>	<ul style="list-style-type: none"> <li>- On-going lending (Highway I and II, local roads)</li> <li>- New lending (East-West Highway, Kakheti Roads)</li> <li>- Analytic work (capacity building of Roads Dept, donor coordination)</li> <li>- IFC program (exploring PPP investments in transport)</li> </ul>	ADB, JICA
To facilitate business growth and rural development	<ul style="list-style-type: none"> <li>- Improvements in tax and trade indicators</li> <li>- Increase in private sector share of GDP</li> <li>- Increase in SMEs</li> <li>- Increase in agricultural productivity</li> <li>- Increase in exports</li> <li>- Improved electricity reliability</li> </ul>	<ul style="list-style-type: none"> <li>- On-going lending (transport, electricity market, pre-investment infrastructure facility, rural development)</li> <li>- New lending (DPO on tax, customs, non-tariff barriers; East-West Highway, Kakheti roads)</li> <li>- Analytic work (CEM on growth, rural investment climate survey)</li> <li>- IFC program (exploring investment in business, agribusiness, retail); advisory work; study on rural competitiveness; survey on SMEs</li> </ul>	EBRD, IFAD
To enhance skills and capital	<ul style="list-style-type: none"> <li>- Improved quality of primary and secondary education</li> <li>- Improvement in learning outcomes</li> <li>- Improved health and access to health services</li> </ul>	<ul style="list-style-type: none"> <li>- On-going lending (education, health, grants on higher education)</li> <li>- New lending</li> <li>- Analytic work (building human capital)</li> <li>- IFC program (exploring investment opportunities in health services)</li> </ul>	Japan, Denmark, Sweden, the Netherlands, EU, USAID, UNICEF
To improve government resource management	<ul style="list-style-type: none"> <li>- Improvement in business friendly tax and customs administration</li> <li>- Improvements in financial management benchmarks</li> <li>- Introducing results based budgeting</li> </ul>	<ul style="list-style-type: none"> <li>- On-going lending (public financial management, municipal development)</li> <li>- New lending (DPO series on tax, customs; grant on M&amp;E capacity building in pilot areas)</li> <li>- Analytic work (financial management benchmarks)</li> <li>- IFC program (advisory work to improve business enabling environment)</li> </ul>	EU, SIDA, the Netherlands, DFID

Source: Extracted from WB Draft Partner Strategy with Georgia (2009–2012), May 2009

#### (4) Ongoing Projects

A list of recent and on-going World Bank projects is summarized in Table 2-6.

**Table 2-6 Ongoing Projects by the World Bank**

<b>Sector</b>	<b>Project Name</b>	<b>Aim/Description</b>	<b>Pledged in Brussels Conference</b>
Poverty	Poverty Reduction Support Operation	To implement policy reforms to strengthen public sector accountability, improve utility services, improve the environment for private sector development, and improve social, education, and health cares services	Yes
Public Administration	Development Policy Lending (2009)	To support the Government's policy reform program to (i) mitigate the impact of the economic downturn in the short-term; and (ii) facilitate recovery and prepare Georgia for post-crisis growth in the medium-term	No
Public Administration	Development Policy Lending (2010)	As above	No
Roads and Highways	Secondary and Local Roads	To rehabilitate secondary and local roads to the benefit of the rural population in selected areas and improve the effectiveness of the Road department	No
Roads and Highways	East-West Highway Improvement I	To improve access and safety along the central part of Georgia's East-West corridor and strengthen capacity of the Road Department	No
Roads and Highways	Vaziani–Gombori–Telavi	To renovate the 94 kilometer segment of the highway from Vaziani to Telavi.	No
Roads and Highways	East-West Highway Improvement II (additional funding)	To improve access and safety along the central part of Georgia's East-West corridor and strengthen capacity of the Road Department	No
Municipal Infrastructure	Regional and Municipal Infrastructure Development	To improve the efficiency, quality, and reliability of municipal services by building the capacity of local governments to provide sustainable services and increasing access to financing for infrastructure and related services	No

Source: Meetings with WB Representatives, Georgia; 'Status of Projects in Execution (SOPE) FY08, Georgia, WB'; World Bank Monthly Operational Summary – Europe and Central Asia Region, April 2009 (as of March 15, 2009)

#### (5) Assistance Gap as Seen by the WB Tbilisi Office

Based on a meeting with WB representatives, a perceived assistance gap exists in private sector lending as foreign investors pull out their investments.

### 2.3 Asian Development Bank (ADB)

The Asian Development Bank (ADB) was established in December 1966 as a regional development bank assisting economic development of the Asia Pacific Region. Japan was one of the biggest contributors from its establishment. Its headquarters are located in Manila, the Philippines, and there are 23 offices in, for example, Japan, Washington, D.C., Frankfurt, New Delhi, Dacca, and Jakarta. Major activities of the ADB include lending and equity participation in the projects by governments and private sectors in developing member countries, as well as

loan guarantee, and technical assistance in the areas of agriculture, natural resource, energy, industry, non-fuel mineral, finance, transport, telecommunication, and social infrastructures.

ADB has two types of funding resources: Ordinary Capital Resources (OCR), and Special Funds. OCR utilizes for its operation ordinary capital resources such as capital payment from its member countries, and cumulative profit reserves, and borrowing from private capital market by issuing bonds. It is a commercial based resource and the interest rates are usually LIBOR plus. Special Funds, on the other hand, are concessional funds based on contributions from developed member countries such as, Japan, U.S.A, European countries, and Australia.

There are several types of special funds including the Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), and Japan Special Fund (JSF). The ADF is the biggest special fund in the ADB and is applied to developing member countries with low GNP per capita with constraints in loan repayment. In general, the lending terms for ADF loans are the following: 32-year maturity, including an 8-year grace period, 1% interest charge during the grace period and 1.5% during the amortization period, and equal amortization. ADF financed Program loans offer the same terms, but have a shorter maturity of 24 years. Based on the recent world-wide financial crises, ADB has a plan to double the lending under the ADF.

Georgia qualifies for both the OCR and the ADF, but most of the ADB operation has been through the ADF. OCR in Georgia will start from next year.

#### (1) Level of Assistance

The cumulative lending to Georgia by ADB at the end of 2008 was USD 135 million. The new lending in 2008 totaled USD 110 million including USD 40 million for municipal infrastructure, and USD 70 million for emergency lending. There is also USD 600 thousand for grant TAs.<sup>5</sup>

#### (2) Assistance Strategy and the Priority Sectors

Georgia became a member of the ADB in February 2007. The country is eligible to access OCR (ordinary capital resources) as well as the ADF (Asian Development Fund).

According to ‘Georgia: Interim Operational Strategy 2008–2009’ in January 2001, ADB support focuses on sustainable economic development through improvement in governance, regional coordination, environmental protection (see Table 2-7).

**Table 2-7 Assistance Strategy by ADB**

<b>Strategy</b>	<b>Description</b>
Improving Service Delivery in Municipal Infrastructure Within the Evolving Decentralization Process,	ADB’s engagement in municipal infrastructure services will involve channeling funds for cost recovery-oriented investments through the central Government, and in turn from the MDF to local governments. This “wholesale” approach of relying on the MDF’s procedures, appraisal, and financial framework will ensure more effective results in ADB’s initial municipal infrastructure operations compared with the more traditional “retail” approach of providing project loans to selected municipalities.

<sup>5</sup> ADB Annual Report 2008, Central and West Asia



Strategy	Description
Reduce Road Transportation Constraints on Economic Activity	ADB's operational engagement in this area will involve financing improvements to the highway network, resulting in lower transport costs, better road safety, and reduced traffic congestion and vehicle pollution.
Upgrading and Developing Energy Infrastructure	ADB's operational engagement in this area will involve support for renewable energy initiatives, including assistance for identifying potential hydropower sites.

Source: ADB, *Georgia: Interim Operational Strategy 2008–2009*

ADB also will pursue opportunities for private sector operations given that Asian Development Fund availability is constrained and the Government is seeking to limit public non-concessional external borrowing.

### (3) Response to the Conflict Recovery

In November 2008, ADB issued a report titled, 'Proposed Loan Georgia: Emergency Assistance for Post-Conflict Recovery (EAPCR),' and agreed to provide USD 70 million by responding to the request of Georgian Government. Concessional lending terms were applied under emergency conditions. The loan will carry interest of 1% per year and a maturity of 40 years, including a grace period of 10 years, with repayment of principal at 2% a year for the first 10 years after the grace period and 4% a year thereafter.

Biannual country allocation to be disbursed by 2009 has been increased from USD 40 million to USD 80 million (USD 50 from 'regular' ADF, and USD 30 from 'hard' ADF). These are mostly in budget support and will be signed by July. The fund will be paid in to National Bank of Georgia and used through the Ministry of Finance in the areas of IDP housing, primary schools, and other areas requiring budget support. ADB has responded swiftly in the aftermath of the conflict. Measures taken by ADB include:

- Finalization and approval of USD 40 million equivalent in investment support through the Municipal Services Development Fund (MDF) Project;
- Participation in the multi-development partner JNA exercise;
- Close coordination with the principal development partners of Georgia, particularly the World Bank, IMF, European Union (EU), and United States, among others;
- Internally mobilizing an additional USD 70 million equivalent in Asian Development Fund resources to meet the emergency needs in Georgia;
- Designing the proposed Emergency Assistance for Post-Conflict Recovery (EAPCR) for Georgia

### (4) Ongoing Projects

The core activities by ADB in Georgia include municipal infrastructure and rural road development (see Table 2-8).

**Table 2-8 Ongoing and Planned Projects by ADB**

Sector	Project	Mode of Assistance	Budget (USD '000)	Status
Transport and Communications	Georgian Sustainable Urban Transport Project	Technical Assistance	1,100	Approved 8 Jun. 2009
Transport and Communications	Ajara Bypass Roads Development (Supplementary)	Technical Assistance	280	Approved 26 Mar. 2009
Transport and Communications	MFF Subregional Road Corridors Development Program (formerly MFF Southern Road Corridor and Interconnectivity Improvement Program)	Loan	381,200	Proposed (for approval in 2009)
Transport and Communications	MFF Ajara Bypass Road Development PFR1	Loan	118,800	Proposed (for approval in 2009)
Multimodal Transport	Georgian Sustainable Urban Transport Project	Technical Assistance	1,100	Approved
Multimodal Transport	Tbilisi Urban Transport	Loan	85,000	Proposed (for approval in 2010)
Multisector	Emergency Assistance for Post-Conflict Recovery	Loan	70,000	Approved 12 Nov. 2008
Water Supply, Sanitation and Waste Management	Municipal Services Development Project	Loan	40,000	Approved 12 Sep. 2008
Multisector	Municipal Services Development Project II	Loan	30,000	Proposed (for approval in 2009)
Transport and Communications	Ajara Bypass Roads Development	Technical Assistance	600	Approved 28 Jan. 2008
Finance	Senior Loan to Joint Stock Commercial Bank of Georgia	Private Sector	25,000	Approved 2 Aug. 2007
Law, Economic Management and Public Policy	Small-Scale Technical Assistance for Seminars on ADB Operational Policies and Procedures in Georgia	Technical Assistance	120	Approved 30 Apr. 2007

Source: <http://www.adb.org/Projects/approvals.asp?ctry=GEO&year=ALL&query=&browse=1&p=ctryGEO;>  
<http://www.adb.org/projects/summaries.asp?browse=1&ctry=GEO&type=&query=&p=ctrygeo>

## 2.4 European Bank for Reconstruction and Development (EBRD)

### (1) Overview

The European Bank for Reconstruction and Development (EBRD) is an international financial institution which was established for the support of the economic transition of Central and Eastern Europe. EBRD started their operations in 1991. EBRD focuses on private sector investment under their recognition that private sector development is the key issue for a market economy and privatization. Private sector investment includes direct financial support. Until the end of 2007, EBRD had invested 288.3 million euro in total: 27% in the financial sector, 35% in the private sector, 28% in the energy sector and only 10% in infrastructure in Georgia.

## (2) Assistance Strategy by EBRD

The main purpose in assisting Georgia is to contribute to private sector development through the support of economic reform and privatization. The following 4 subjects are listed as detailed objectives:<sup>6</sup>

- Investment climate: To seek a solution to critical bottlenecks to investment with close coordination with government, the local business community, international enterprises and international donors.
- Infrastructure: To support the political, social and economic stability of Georgia and the region through infrastructure development in order to secure energy self-sufficiency and security. Besides energy, municipal infrastructure, international traffic and the distribution network will be targeted.
- Enterprise sector: EBRD will actively expand funding of local businesses, particularly SMEs and microenterprises. The agribusiness sector will be important for the support by EBRD. Turn Around Management (TAM) and Business Advisory Service (BAS) Programmes will be implemented as well.
- Financial sector: EBRD will continue to expand support to existing and new partner banks in Georgia in order to stimulate the finance to develop local enterprises through TFP and MSME lines of credit, as well as mortgage loans.

The projects signed in 2008 are shown in Table 2-9.

## (3) Reconstruction Support

EBRD committed EUR 937 million in total for reconstruction support of Georgia. This total amount is three times the investment in Georgia in the past. EBRD was the second largest supporter; the first was USAID with its pledge of EUR 730 million in October 2008. It was anticipated that the commitment aimed for Georgia to help the banking sector recover from the unstable situation effected by the financial crisis, as well as with reconstruction from the military conflict.

## (4) Support to Financial Sector

Since the bankruptcy of Lehman Brothers in 2008, investment in Georgia has decreased. To prevent a financial crisis, stabilization of the financial system is urgently required. The global trend of monetary easing influenced the Georgian economy. While the real estate sector attracted 25% of all banking sector lending, the sector, which used to be an accelerator for economic growth in Georgia, came to a freeze. In addition, a steep business recession was revealed by a 30–35% decrease in exports and a 40% decrease in imports. As a result, non-performing loans of major banks rose to 10–15% of total assets. The Bank of Georgia and TBC are the two largest banks in Georgia and their share of banking assets is 55%. The EBRD and IFC, a part of the World Bank Group, gave support to BoG with USD 100 million in financial support by means of subordinated bonds, convertible subordinated bonds and ordinal loans. For TBC, EBRD bore USD 70 million, IFC the same at USD 70 million, FMO USD 21 million, and DEG USD 12 million.

From 2008 to 2009, EBRD supported the financial sector in Georgia with the amount of EUR 150 million; more than 50% of total lending until 2008. It shows that sector support is important and urgent. This strong support increased Georgian banks' equity capital ratio to 10–15%, and secured sufficient financial conditions for current economic conditions.

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<sup>6</sup> EBRD Country Strategy for Georgia

## (5) Support to Infrastructure Sector

Support for the energy sector counts as a major part of infrastructure sector. At the present moment, EBRD, EIB and KfW have co-financed a 500 kV Transmission Connection Project between Georgia and Turkey. The total investment amount will be EUR 290 million, and the reliability of the power supply in Georgia will be vastly improved. At the same time, the export of surplus power will increase. As for hydropower plants, EBRD will finance the Turkish enterprise Anadol to construct Paravani Dam on a concession basis. Other investments are also planned, such as the construction of Oni Cascade dam and the rehabilitation of Vardnili dam by means of private sector investment with EIB. Furthermore, USAID is implementing feasibility studies for nationwide hydropower in order to make use of the abundant water resources in Georgia. This implies an increase in investment in the power sector.

Besides the energy sector, EBRD has financed the transportation sector. The Tbilisi Airport Project has already been completed. Rehabilitation of the railroads seems to be canceled. Regarding municipal infrastructure, EBRD will co-finance with other IFIs various water supply rehabilitation projects in cities such as Ajara, Bakuriani, Poti, Kutaisi, Borjomi and Tskhaltubo. The implementation agency for those projects will be the Municipal Development Fund.

Table 2-9 EBRD Signed Projects in 2008

Project name	Sub project	Description	Sector	Portfolio Class	Year of signing	Project Value (EUR 000)	Loan (EUR000)	Equity (EUR000)	EBRD guarantee (EUR000)	Total EBRD finance (EUR000)
Direct Lending Facility	Populi	Support for expansion and distribution modernization for a food retailer.	Agribusiness	Private	2008	9,321	6,214	3,107	0	9,321
<b>Agribusiness total</b>										9,321
Bank Republic		Equity investment to support projected growth of the bank.	Bank equity	Private	2008	983	0	983	0	983
Georgian Financial Sector Framework	Basis Bank	Equity investment to support growth of a private bank.	Bank equity	Private	2008	2,956	0	2,956	0	2,956
<b>Bank equity total</b>										3,939
Bank Republic Mortgage Loan II		Credit line to support mortgage lending to individuals.	Bank lending	Private	2008	14,227	9,959	0	0	9,959
Bank Republic		Medium-term funding to a range of financial intermediaries for on- lending to small and medium-sized enterprises.	Bank lending	Private	2008	3,557	3,557	0	0	3,557
Bank of Georgia		Various loans to strengthen bank's capital base and maintain an adequate liquidity position.	Bank lending	Private	2008	18,526	18,526	0	0	18,526
Bank of Georgia		To facilitate lending to retail clients and small and medium-sized enterprises.	Bank lending	Private	2008	17,041	17,041	0	0	17,041
Bank of Georgia		To facilitate lending to retail clients and small and medium-sized enterprises.	Bank lending	Private	2008	35,567	35,567	0	0	35,567
Caucasus Energy Efficiency Program	Bank Republic	Investment for on-lending to private sector industrial entities to finance projects aimed to improve their energy use.	Bank lending	Private	2008	3,557	3,557	0	0	3,557
Medium-sized Loan Co-financing Facility	Bank Republic	Investment to provide larger loans to Georgian private companies.	Bank lending	Private	2008	7,113	7,113	0	0	7,113
TBC Bank		Loan for on-lending to small and medium-sized enterprises.	Bank lending	Private	2008	10,670	5,335	0	0	5,335
<b>Bank lending total</b>										100,655
Aureos Central Asia Fund		Equity investment to support medium-sized enterprises in Azerbaijan, Central Asia and Georgia.	Equity funds	Private	2008	569	0	569	0	569
<b>Equity funds total</b>										569

Project name	Sub project	Description	Sector	Portfolio Class	Year of signing	Project Value (EUR 000)	Loan (EUR000)	Equity (EUR000)	EBRD guarantee (EUR000)	Total EBRD finance (EUR000)
Geo Steel		Investment for construction and operation of a steel mini-mill.	Manufacturing	Private	2008	19,917	9,959	0	0	9,959
Medium-sized Loan Co-financing Facility	TBC Bank	Investment in home improvement firm Jaokeni Company.	Manufacturing	Private	2008	2,312	2,312	0	0	2,312
Medium-sized Loan Co-financing Facility	TBC Bank	Investment in Tegeta Motors.	Manufacturing	Private	2008	4,802	4,802	0	0	4,802
<b>Manufacturing total</b>										17,073
Batumi Public Transport		Support for modernisation of urban transport.	Municipal and environmental infrastructure	State	2008	2,500	2,500	0	0	2,500
Borjomi Water		Support for upgrading and enhancement of the water and wastewater networks.	Municipal and environmental infrastructure	State	2008	6,568	1,500	0	1,500	0
Kobuleti Water		Support for rehabilitation and enhancement of the water and wastewater networks.	Municipal and environmental infrastructure	State	2008	13,075	1,500	0	0	1,500
<b>Municipal and environmental infrastructure total</b>										4,000
Bank Republic		Loan to further develop and expand lending activities to private sector entrepreneurs, particularly outside the capital.	Small business finance	Private	2008	14,227	7,113	0	0	7,113
ETC Non-bank MFI Framework II	WV Credo	Investment to increase financing for micro and small enterprises in the Early Transition Countries and to assist the non-bank microfinance institutions.	Small business finance	Private	2008	1,067	1,067	0	0	1,067
<b>Small business finance total</b>										8,180
Caucasus Online		Debt and equity investment for construction of a high capacity sub- sea cable.	Telecoms	Private	2008	21,767	21,767	0	0	21,767
<b>Telecoms total</b>										21,767
<b>Grand Total</b>										165,504

## 2.5 International Monetary Fund (IMF)

The IMF typically provides assistance to countries by advising on prudent macroeconomic and financial policies and related structural reforms, such as exchange rates and tax policy, fiscal management, budget execution, fiscal transparency, and tax and customs administration. When appropriate, the IMF draws on World Bank expertise in designing poverty reduction programs, and the staffs of both the IMF and World Bank cooperate closely. WB staff takes the lead in advising the authorities on the design of poverty reduction strategies in areas such as poverty assessments, monitoring, structural and sectoral issues, social issues, and cost priority poverty-reducing spending.

### (1) Strategy and Level of Assistance

The two main initiatives for IMF assistance to Georgia are explained below.

#### Poverty Reduction and Growth Facility (PRGF) for Georgia

In 1996, the IMF approved a 3-year loan under the Poverty Reduction and Growth Facility (PRGF) for Georgia to support the government's economic program.<sup>7</sup> This PRGF was previously named the Enhanced Structural Adjustment Facility (ESAF) and was re-defined to be based on the country-owned poverty reduction strategies as articulated in Poverty Reduction Strategy Papers (PRSP), thereby ensuring consistency in policies. A new PRGF for Georgia was approved in 2001 and then again in 2004. In August 2007, the IMF Executive Board completed its sixth and final review of Georgia's economic performance under the latest 3-year USD 149 million PRGF arrangement.

The financial arrangements with Georgia under the IMF PRGF are summarized in Table 2-10. Repayments by Georgia to the IMF for the latest PRGF arrangement are projected over the period 2007–2011.

**Table 2-10 Financial Arrangements with Georgia under PRGF**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	June 2004	September 2007	98.00	84.00
PRGF	January 2001	January 2004	108.00	49.50
PRGF	February 1996	August 1999	172.05	172.05

Source: Georgia: Sixth Review under the Three-Year Arrangement under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria – Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Georgia (August 2007)

#### Stand-By Arrangement (SBA) for Georgia

On September 15, 2008, the Executive Board of the International Monetary Fund (IMF) approved a USD 750 million Stand-By Arrangement (SBA) for Georgia to assist with recovering from the economic problems caused by the conflict with Russia. Its aim is to support the government's policies to stabilize the economy, help bolster investor confidence and rebuild gross international reserves as well as catalyze donors' support. The Government of Georgia has issued letters of intent to the IMF (in September and November 2008 and March 2009), describing the country's economic strategy and range of economic policies it has planned to commit to during 2008 and 2009. The letters of intent highlighted the importance of restoring

<sup>7</sup> PRGF loans carry an annual interest rate of 0.5% and are repayable over 10 years with a 5.5 year grace period in principal payments.

investor and consumer confidence and, in turn, private capital flows, as well as the challenge in implementing this in the context of the global economic crisis.

The IMF Board completed a first review of the program in November 2008 and a second review on March 24, 2009. The second review raised the following issues:

- The Georgian economy was seriously affected by the August armed conflict with Russia and is now feeling the impact of the global downturn.
- 2009 will be another difficult year as the recession in economic partners unfolds
- The recent introduction of foreign exchange auctions should facilitate the move to a more flexible exchange rate regime to preserve macroeconomic and external stability
- Close coordination between fiscal and monetary policies is also needed to support macroeconomic management
- The tightening of credit conditions and the weakening of the real economy have exposed vulnerabilities in the banking sector.
- Program risks have increased mostly on account of possible adverse macro-financial interactions

## **2.6 European Union (EU)**

Georgia and the European Union (EU) first entered relations under a Partnership and Cooperation Agreement in 1996 which came to force in 1999. Subsequently, the EU–Georgia European Neighbourhood Policy (ENP) Action Plan was adopted in 2006 for a period of 5 years. Since then, its implementation has been guided and monitored by annual reports setting out comprehensive priorities, and timelines. The first progress report was adopted in April 2008 and the second in April 2009.

In addition, implementation of the ENP has been facilitated by institutional cooperation through the EU–Georgia Cooperation Council, the EU–Georgia Cooperation Committee, the Parliamentary Cooperation Committee and various sub-committees on trade, economic and legal issues, as well as justice, liberty and security.

### **(1) Level of Assistance**

The ENPI financing for Georgia under the National Indicative Programme 2007–2010 is EUR 120.4 million. In 2008, the EC continued to support national reform efforts in Georgia and programmed assistance for a total amount of EUR 28.8 million. The 2008 Annual Action Plan programme, adopted in September 2008, focused on support for justice reform.

In the international donor’s conference in October 2008, the EC pledged up to EUR 500 million towards the country’s reconstruction needs for 2008–2010.

### **(2) Priority Areas**

The ENP Action Plan lists priority areas as:

- (1) Strengthen rule of law especially through reform of the judicial system, including the penitentiary system, and through rebuilding state institutions. Strengthen democratic institutions and respect for human rights and fundamental freedoms in compliance with international commitments of Georgia.
- (2) Improve the business and investment climate, including a transparent privatization process, and continue the fight against corruption.



- (3) Encourage economic development and enhance poverty reduction efforts and social cohesion, promote sustainable development including the protection of the environment; further convergence of economic legislation and administrative practices.
- (4) Enhance cooperation in the field of justice, freedom, and security, including in the field of border management
- (5) Strengthen regional cooperation
- (6) Promote peaceful resolution of internal conflicts
- (7) Cooperation of foreign and security policy
- (8) Transport and Energy

Regarding transport and energy, the priority is to ensure effective cooperation between the EU and the states in the Black Sea and Caspian regions in the framework of the “Baku Initiative”.

### (3) Ongoing Projects

Following the conflict with Russia in August 2008, the European Council expressed firm support to Georgia and provided political, financial, and practical assistance. This included dispatching an EU civilian monitoring mission (EUMM), and organization of the international donor’s conference in Brussels. Table 2-11 shows ongoing and planned projects by EU.

**Table 2-11 Ongoing and Planned Projects by EU**

Sector/ Sub-Sectors	Project Name	Description	Pledged in Brussels Conference
Budgetary Support	Targeted budgetary support	Reimbursement of expenses incurred by GOG from 2008 budget for IDP housing construction	Yes
Humanitarian	ECHO humanitarian assistance	Humanitarian aid delivered through NGOs	Yes
Multi	winterization of collective IDP centers, microfinance, VET, small infrastructure development	Implemented through UNHCR/ UNDP/ NGO, and sub contracted to NGOs	Yes
Multi	2008 action program under Georgian ENPI allocation	Implemented by NGO/IOs	No
Budgetary Support	Targeted budgetary support related	Housing construction in 2008 and 2009 to be disbursed in three tranches in 2009	Yes
Regional Cooperation /Conflict Resolution	2007 ENPI allocation for conflict resolution (Abkhazia)	Peace efforts in the framework of the UN Secretary General’s Group of Friends for Abkhazia. Implemented by NGO/IOs	No
Budgetary Support	Budget support, project support, Twinning, Grants	Ongoing assistance under various programs, including criminal justice reform budget support, to be provided in 2009–2011 in three tranches	No
Regional Cooperation /Conflict Resolution	EU Monitoring Mission in Georgia	Contributing to stabilising, normalising and confidence building in Georgia	Yes

Sector/ Sub-Sectors	Project Name	Description	Pledged in Brussels Conference
Multi	Budget support, project support, Twinning, Grants	Mix of sector policy support programmes, IDP housing, TA, Twinning, Grants, EU MM, Macro-Financial Assistance	Yes
Multi	Budget support, project support, Twinning, Grants	Mix of sector policy support programmes, IDP housing, TA, Twinning, Grants, European Monitoring Mission (EUMM), Macro-Financial Assistance	Yes

#### (4) Direction of Future Assistance by EU

The Progress Report for ENP Implementation (April, 2009) makes reference to areas where further investment is necessary. For example, reference is made to the lack of an overall healthcare strategy, and that reform of vocational training and education requires on-going investment. Under transport, there is still a need to strengthen the administrative capacity of the various regulatory transport policies in particular to ensure efficient safety oversight. Further, Georgia needs to significantly strengthen its aviation authorities after many transport restructurings. The Report states that urgent efforts should be made to improve safety oversight and to gradually harmonize Georgia's legislation with European safety standards. Maritime safety remains a major issue and the Georgian fleet is classified as 'High Risk' in the black list of the Paris Memorandum of Understanding on port state control.

## 2.7 The United States (USAID, MCC)

### (1) U.S. Agency for International Development (USAID)

USAID's current strategy for Georgia is titled: USAID/Caucasus–Georgia Country Strategy (2004–2008), and is dated August 7 2003. The Strategy includes core objectives of economic growth, energy, democracy, and health and social development. Additionally, three special initiatives are proposed in the strategy: elections assistance, anti-trafficking in persons, and anti-corruption.

This existing strategy for Georgia is now outdated and will be replaced by a new 3-year strategy, which is still being drafted within Washington headquarters. The 3-year strategy and period will be made in regard to the anticipated expenditure of USD 1 billion, as pledged at the Brussels conference. The new strategy is expected to follow the same principles of the previous strategy.

Based on meetings with USAID representatives in Georgia, USAID's priority sectors are currently considered as:

- Economic Growth
- Democracy & Governance
- Health
- Energy
- Environment

The USD 1 billion assistance package pledged to Georgia by the US Government at the donor's conference of October 2008 is assisting with internally displaced persons, rebuilding

infrastructure, restoring economic growth, and fostering continued democratic reform and energy security. Of this, USAID has provided USD 250 million.

The level of assistance to Georgia by USAID was USD 41.5 million in 2006, USD 37.75 million in 2007, and USD 36.02 million in 2008 (not including monies under the USD 1 billion pledge of the United States Government).

As of January 2009, USAID has provided USD 250 million in budget expenditure support (covering state pensions, state compensation, state academic stipends, health care, allowances for displaced people, support to schools, and compensation and salaries to government employees), over USD 40 million in humanitarian assistance, and is currently identifying further support.

## (2) Ongoing Projects by USAID

USAID's current projects are listed in Table 2-12 with brief descriptions. In general, the goals of the projects are to improve the business environment, expand access to capital, enhance business skills, develop a properly functioning land market, improve agricultural productivity, increase competitiveness of targeted business sectors, and expand economic opportunities in rural communities.

**Table 2-12 Ongoing Projects by USAID**

<b>Sector / Sub-Sectors</b>	<b>Project Name</b>	<b>Description</b>	<b>Pledged in Brussels Conference</b>
Business Environment	Business Climate Reform	Improvements to commercial legislative framework, tax and customs administration, and facilitating public-private policy discussions.	No
Business Environment / tourism	SME Support Project	Supporting development of tourism sector, increasing access to finance, promoting European standards in banking education.	No
Land Market	Land Market Development II	The project also supports registration of IDP claims on properties within the administrative borders of South Ossetia.	No
Agriculture	AgVANTAGE	Identifying markets for Georgian value-added products and ability to capture domestic and international market opportunities	No
Business Environment	Georgia Employment and Infrastructure Initiative	Includes community investment projects, rural business development, public-private partnerships	No
Business Environment	Establishment of Ph.D Program in Business at Caucasus University	Establishment of the first international caliber Ph.D. program in finance, marketing and management in Caucasus	No
Agriculture	Expansion of Agricultural Risk Reduction Assistance in Georgian Conflict Zones	Provision of a package of production assistance including machinery services, seeds and fertilizer to farm families.	Yes
Agriculture	Livestock Fodder	Provision of emergency supply of animal feed, and training to farmers on livestock management.	Yes

<b>Sector / Sub-Sectors</b>	<b>Project Name</b>	<b>Description</b>	<b>Pledged in Brussels Conference</b>
Food	Winter Food Supply	Provision of food to IDPs over winter months and support for cash disbursements for supplemental food over an extended period.	Yes
Agriculture	Other	Provision of a USD 3 million loan guarantee for borrowers from local financial institutions	No
Business Environment	Other	Provision of a USD 1.5 million loan guarantee for borrowers from local financial institutions	No
Rural Energy	Rural Energy Program	Improved management of local energy production and local ability to use and protect Georgia's energy resource base	No
Energy Policy	Energy Policy Initiative	Including identifying and addressing policy analysis information and data gaps, building capacity of local groups, and training programs	No
Tourism	Support for National Parks Reform	Technical assistance and training is provided to Ministry officials and employees of protected areas throughout Georgia	No
Energy Regulation	Regional Energy Regulatory Network	Support and formalizing of energy regulatory authorities' relationships and coordination of an exchange program among the region's authorities	No
Energy Regulation	GNEWRC Partnership Program	Building and strengthening a partnership between GNEWRC and a US regulator	No
Energy Transmission	Black Sea Transmission Planning	Developing a pool of Georgian professionals to conduct analysis of the transmission system and update infrastructure plans	No
Water Utility	Water Utility Sector Reform Program	Developing an action plan for the reform of the water utility sector and building capacity of key decision makers	No
Public Administration	Public Administration Reform	Improvement of institutional accountability through better communication and greater civil society involvement in planning processes	No
Governance	Parliamentary Strengthening Program	Strengthening the ability of Members of Parliament to engage each other for constructive policy debate	No
Governance	Political Party Development Project	Including enhancement of policy development and articulation and strengthening parties' organizational capacity	No
Governance	Communities Empowered for Local Decision-Making Urban Institute	Strengthening the role of local government associations and promoting an improved legislative framework for decentralization	No
Trafficking	No to Trafficking in Persons and Domestic Violence	Developing an A-TIP and DV referral mechanism and supporting establishment of shelters for both TIP and DV victims	No

<b>Sector / Sub-Sectors</b>	<b>Project Name</b>	<b>Description</b>	<b>Pledged in Brussels Conference</b>
Governance	Georgia Rule of Law Project	Addressing needs of judicial institutional strengthening, legal education reform, human rights, and anti-corruption	No
Governance	Judicial Administrative and Management Reform Project	Improving the quality and timeliness of judicial decision making and improving court practices	No
Social Integration	National Integration and Tolerance in Georgia	Elaborating a unified strategy and action plan	No
Governance	Elections Support	Currently addressing issues of electoral legal and systematic reform by engaging specialists from each political party	No
Social Integration	Internet Access and Training Program	Creating an electronic link for civil society, media, and community members through internet centers	No
Social Development	Rebuilding Lives	Implementation of day centers and outreach services and capacity building local NGOs.	No
Social Integration	Supporting Equal Opportunities for People with Disabilities	Strengthening the institutional and advocacy capacities of Disabled Persons' Organizations	No
Education	Education Management Project	Establishing an education management training program for administrators	No
Disease Control	Tuberculosis Treatment and Prevention Project	Expanding the Directly Observed Therapy short-course (DOTS), improving clinical and laboratory services.	No
Disease Control	Reduce Transmission and Impact of HIV/AIDS	Developing a response to prevent further spread of sexually transmitted infections and HIV	No
Health Management	Cooperation in Health System Transformation (CoReform)	Strengthening the role of the Ministry in health policy formulation and development of strategies	No
Health Management	Health Management Education Project	Supporting establishment of short professional training courses on areas of hospital and insurance management	No
Health Management	Healthy Women in Georgia	Training doctors and pharmacists and conducting outreach programs aimed at youths and expecting parents	No
Health Emergency	Emergency Medical Services	Establishing an Emergency Department (ED) and improving various emergency service activities	No
Education	Georgia Vocational Education Project	Building direct relationships between vocational schools and employers and providing intensive training to meet future workforce needs	No
Reform	Enhancing Capacity across Sectors in Transition	Addressing workforce development needs and performance gaps within organizations	No
Reform	Small Grants & South Caucasus Cooperation	Small grants to Georgian NGOs in areas including civic participation and civic monitoring among others	No

Sector / Sub-Sectors	Project Name	Description	Pledged in Brussels Conference
Business Enterprise	Community Connections	Professional exchange programs with US Groups of professionals in various fields	No
Business Enterprise	Small Project Assistance	Providing grants to community groups to fund training in various skills	No

Based on meetings with USAID representatives, suggested sectors and areas where USAID considers there are still major investment needs are in the following areas:

- IDP: including housing, rehabilitation, livelihood etc. There is an estimated USD 800 million need, which still has a large shortfall in assistance.
- Banking Sector: There is an estimated need of USD 110 million. EBRD have been active in this area.
- Healthcare: including the need for health insurance as there are 2 million people in Georgia without coverage.
- Roads: there is a need for secondary and rural road improvement.
- Education: Primary schools require significant rehabilitation.
- Water/Sanitation: Although USAID are not currently supporting this sector, there are large scale needs.
- Agriculture: including the need for irrigation.
- Energy: Minister of Energy once stated that USD 190 million is required for the energy sector.

A project where USAID currently have no commitment, but are interested in partnering with other donors, is the Kutaisi–Poti gas pipeline. This would provide industrial capacity to the Poti free trade zone area, as well as serving the city of Poti and providing an alternative energy supply route. The cost is estimated at USD 140–150 million and potentially it could be a project for USAID’s last tranche at around USD 70 million allocation.

Other areas that USAID are proposing to assist in, or where there may be opportunity for donor cooperation, are water resources and watershed management, the health sector, and education facility rehabilitation.

### (3) Millennium Challenge Corporation (MCC)

The first five-year Millennium Challenge Compact (agreement) was signed by the Millennium Challenge Corporation and the Government of Georgia in September 2005 and came into force in 2006. The Compact seeks to rehabilitate key regional infrastructure by improving transportation for regional trade, ensuring a reliable supply of energy, and improving the delivery of regional and municipal services. In addition, programs will develop regional enterprises by funding investment and increasing productivity in farms, agribusinesses and other enterprises to increase jobs and rural income. In order to implement the Millennium Challenge Compact, the Government of Georgia established the Millennium Challenge Georgia Fund (MCGF).

To respond to the conflict of August 2008, additional funds were allocated to the MCGF, but there was no change in the existing strategy of priority sectors and projects. A second Compact between MCC and Georgia is currently being discussed, but no new action or projects have yet been decided.

The main priority sectors under MCGF are roads and highways, energy, water, tourism, and agribusiness. Of these, highways, in particular the Samtskhe–Javakheti road section, is considered the main ‘flagship’ project of MCGF and takes the largest funding allocation.

The five-year Compact of 2006 had a total allocation of USD 295.3 million for five main projects. Following the conflict of August 2008, a further USD 100 million was added to expand and complete these existing projects. As of April 2009, total disbursements amounted to USD 95.2 million.

#### (4) Ongoing Projects by MCGF

The table below (Table 2-13) shows the on-going projects under MCGF. Unlike USAID operations, project preparation is mainly undertaken by the recipient government.

**Table 2-13 Ongoing Projects by MCGF**

<b>Sector / Sub-Sectors</b>	<b>Project Name</b>	<b>Description</b>	<b>Pledged in Brussels Conference</b>
Energy	Energy Infrastructure Rehabilitation Project	To rehabilitate the most damaged sites of the North-South gas main pipeline and priority energy sector studies.	Yes (additional funding for energy sector studies)
Water Supply	Regional Infrastructure Development Project	Rehabilitation of water supply systems in Georgia’s regions	Yes (additional funding permits completion of three municipal water projects)
Road	Samtskhe-Javakheti Road Rehabilitation Project	223.9 km of road rehabilitation. Additional funding permits rehabilitation of sections including Sulda-Kartsakhi to the Turkish border.	Yes (additional funding)
Agriculture / Agribusiness	Agribusiness Development Activity	Disbursement of grants and the provision of technical and market information assistance. Grants are awarded on a co-financing basis	No
Tourism, Agriculture	Georgia Regional Development Fund Project	Strengthen SMEs, generate new jobs, attract additional investments to the country, increase the procurement of goods and services from local suppliers, and develop the sales network for local products.	No

Source: Based on materials provided by MCGF’s Tbilisi office.

Of six sections of the Samtskhe-Javakheti Road Rehabilitation Project, all have been tendered and four have commenced construction. Land acquisition and resettlement costs are covered by the MCGF budget. The post-war additional funding has facilitated completion of three sections, which could not be covered by the original budget allocation. By 2010, MCGF plans to complete all road projects and hand over them to the Road Department of Georgia.

Regarding the energy project, the gas pipeline is divided into three phases. The first phase is completed while the second is on-going. As for the third component, bidding documents for underground gas storage facilities are being prepared for a pre-construction design study. The cost of design study was initially USD 5 million, but USD 13 million was added and tendering for consultant selection will be announced by the end of the year. It is intended to implement the

project in the Ninotsminda depleted oil field. As Georgia can claim 10% of gas (from Russia, Azerbaijan, and Armenia) passing through the country, the project has strategic purposes.

Regarding the water supply project, water supply systems in five cities (Poti, Kutaisi, Kobuleti, Borjomi, Bakuriani) are being rehabilitated. In addition to MCGF, the project is co-financed by EBRD and KfW.

## 2.8 Germany (BMZ, KfW, GTZ)

There is more than one organization involved in development assistance from Germany. BMZ (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung – German Federal Ministry for Economic Cooperation and Development) takes responsibility of about 70% of its ODA budget of EUR 8.978 billion (2007).<sup>8</sup> Development assistance is channeled through KfW (Kreditanstalt für Wiederaufbau) for grant (small scale) and non-grant financial assistance and GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit ) for technical assistance, as well as through international institutions such as the World Bank, the United Nations, and the European Bank for Reconstruction and Development (EBRD).

The bilateral assistance budget of BMZ in 2009 is EUR 2.86 billion. Policy and strategy for German ODZ are prepared by BMZ. The latest versions of policy and strategies are described in ‘Program of Action 2015 for Poverty Reduction’ which was approved by the cabinet in April 2001. Country assistance strategies and sector development strategies are prepared by BMZ based on recommendations by KfW and GTZ.

In the donor meeting in October 2008, Germany pledged about EUR 133.7 million over the three years until 2010. Their assistance is being focused on the construction of shelters for IDPs, restoration of municipal infrastructure, and lending to a bank in Georgia, who in turn finance small- and medium-sized enterprises in the country.

The current assistance strategy to Georgia is based on ‘South Caucasus Strategy for Georgia, Armenia, and Azerbaijan–German Development Cooperation, 2007.’ This was prepared in the framework of the ‘Caucasus Initiative,’ which put priorities on sustainable economic development, energy and environmental protection, municipal development, and promotion of democracy (see Table 2-14).

**Table 2-14 Priority Areas by BMZ to Assist Georgia**

Priority Areas	Measures
Sustainable Economic Development	<ul style="list-style-type: none"> <li>• Poverty reduction</li> <li>• Development of the financial sector and the private sector</li> <li>• Improve financial, legal, administrative and societal frameworks to support development of small and medium enterprises in the private sector.</li> </ul>
Energy and Environmental Protection	<ul style="list-style-type: none"> <li>• Promotion of renewable energies and boosting energy efficiency</li> <li>• Nature conservation and the promotion of biodiversity</li> </ul>
Municipal Development and Democracy	<ul style="list-style-type: none"> <li>• Reform of the legal and judicial system</li> <li>• Support for the administration</li> <li>• Decentralisation and municipal development (including drinking water supply)</li> <li>• Promotion of civil society</li> <li>• Peaceful conflict resolution at local level</li> </ul>

Source: <http://www.bmz.de/en/countries/partnercountries/georgien/zusammenarbeit.html>

<sup>8</sup> [http://www.bmz.de/en/figures/InDetail/1-3\\_Net\\_German\\_ODA\\_2002-2007.pdf](http://www.bmz.de/en/figures/InDetail/1-3_Net_German_ODA_2002-2007.pdf)



## (1) KfW

KfW (Kreditanstalt für Wiederaufbau, meaning Reconstruction Credit Institute) is a development bank owned by the German Government, and its headquarters are located in Frankfurt. The priority areas of operation are in the category of energy, irrigation, and infrastructure development. KfW has been implementing financial assistance of the German Government totaling EUR 246 million by 2007. It also assisted the country through its own resources with EUR 25 million.

### Major Areas of Operation

KfW operates in 5 main areas in Georgia (Table 2-15 shows the list of ongoing and planned projects by KfW):

- Health Sector;
- Natural Resources;
- Municipal Infrastructure;
- Financial Sector; and
- Energy Sector.

Health Sector assistance has been phased out as the sector approaches a sufficient standard. TB and drug problems are less serious now. Assistance in the water and wastewater sectors is the main line of operations in Municipal Sector assistance. Water treatment systems in Georgia, for example, are getting extremely old and in most cases are not functioning. There is an urgent need to rehabilitate/restore these systems. KfW is a co-founder of ProCredit Bank that facilitates credit guarantees to small-/medium-sized enterprises. As foreign investors withdraw their investment from the country, assistance to local enterprises is urgently required. Energy Sector assistance focuses on power distribution (e.g. high-voltage power transmission projects) rather than power generation. KfW's current commitment is about EUR 20 million, but assistance in this sector is most likely to double in the future. KfW is the second largest donor after the U.S. in energy sector assistance in Georgia. USAID is working on regulatory and institutional reform of the power sector.

### Assistance Strategy

KfW does not prepare policy/strategy papers. The German government and the recipient government meet every 2 years and both sides agree on the nature of assistance to be provided. The agreement is called 'protocol' that is treated as confidential.

### Level of Assistance Before and After the Military Conflict in 2008

No large commitment has been made since last August, but an Emergency Relief Fund consisting of EUR 10 million has been allocated.

### Lending Terms

Lending by KfW essentially follows IDA conditions, but also applies other concessionary conditions, as well as commercial rates based on international capital markets. KfW does not apply special loan conditions for post-conflict countries.

### Assistance Gap

It seems that gaps exist in the areas of (i) village electrification; (ii) agricultural/rural development; (iii) medical service improvement; and (iv) solid waste.

Medical service deteriorated after the collapse of Soviet Union. Doctors are there with knowledge of medicine, but there is not enough medicine or equipment. TAs on public hospital management may also be required. A medical insurance system has been introduced recently, but is still in the development stage.

**Table 2-15 Ongoing and Planned Projects by KfW**

<b>Project</b>	<b>Mode of Assistance</b>	<b>Schedule</b>	<b>Description</b>
Black Sea Energy Transmission Network	Loan (EUR 220 million)	Under preparation (expect to start in the autumn of 2009) Co-financed by EBRD and EIB	Project will extend the Georgian transmission system with new 500 kV lines (261 km) from Gardabani and Zestaponi to a new substation near the Turkish border at Akhalsikhe.
ProCredit Bank	Equity Participation (8.5% of capital of around USD 24 million)	Started in 1999, and KfW still holds part of the share.	The objective of the project was to support and expand the provision of sustainable, efficient and customer-oriented financial services at market conditions to micro and small enterprises.
Credit Guarantee Fund (CGF) – Georgia	Credit guarantee (EUR 6.1 million)	Started in 1999	When local banks borrow from international commercial banks, KfW guaranteed up to ninety percent of the inter-bank loan amounts.
Continuous water supply and waste water treatment in Batumi, Georgia	Loan (Phase I, EUR 17.1 million; Phase II, EUR 45 million)	The first phase was started in 2007	The first phase serves to rehabilitate the supply and sewerage system of the old part of Batumi, and the second phase include the extension of the rehabilitation measures to further parts of the city, a wastewater system for a number of coastal villages south of Batumi and the construction of a waste water treatment plant.
Borjomi-Kharagauli National Park	Grant Technical Assistance (EUR 3.0 million +)	Ongoing	Municipal authorities are given assistance in the promotion of an environmentally compatible development through targeted training and advisory measures.
Ecoregional Nature Conservation Programme (Phase I).	Grant (EUR 7.0 million)	(no information available)	By establishing a national park, it will be possible to promote an environmentally compatible tourism. The programme measures are aimed at preventing the further destruction of ecosystems through illegal logging, over-grazing and the uncontrolled expansion of tourism.
Regional Interconnected Power Grid I	Loan (EUR 10.5)	(no information available)	In order to re-establish power transmission between Georgia and Armenia, all deficiencies that might hamper the free flow of electricity are to be eliminated.

Project	Mode of Assistance	Schedule	Description
Georgia Social Investment Fund (GSIF II)	Grant (less than EUR 1.0 million)	Municipal Development Fund of Georgia (MDF)	These measures comprise comprehensive investments in the social infrastructure (schools, health stations, community centers) and the economic infrastructure (drinking water supply, bridge construction, and decentralized energy supply).
Programme for the Promotion of Renewable Energies	Grant (EUR 12.6 million)	(no information available)	The objective of the programme is to establish a Fund for Renewable Energies, which is to provide credit funds at favorable conditions to Georgian commercial banks to make investments in the use of renewable energies.

Source: prepared by the study team based on the information in the following website: [http://www.kfw-entwicklungsbank.de/EN\\_Home/Countries\\_and\\_Projects/Europe42/Georgia29/index.jsp](http://www.kfw-entwicklungsbank.de/EN_Home/Countries_and_Projects/Europe42/Georgia29/index.jsp)

## (2) GTZ

GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) initiated its operations in 1992, and operates in the following priority areas based on the agreement with BMZ.

- Sustainable economic development
- Municipal development and democracy
- Energy and environment
- Law and judicial systems

### Response to Post Conflict Recovery

Two main projects are being implemented for IDPs.

- Housing Project: This has an allocation of EUR 8 million. This is being implemented with the Ministry of Refugees and aims to provide 300 houses for 300 IDP families. This will be completed in August/September 2009.
- The second project has 3 main components: (i) Private sector development mainly concerning food safety for export to the European market; (ii) Vocational education and training with the Ministry of Education & Science; (iii) Economic support for the re-integration of IDPs, including training, equipment, and micro-loans.

GTZ are seeking further cooperation for these components. The Polish are showing interest with a budget of EUR 10 million for health or education. The European Commission is providing budgetary support of approximately EUR 19 million (Table 2-16 shows the ongoing projects by GTZ).

**Table 2-16 Ongoing Projects by GTZ**

<b>Project</b>	<b>Implementing Agency</b>	<b>Schedule</b>	<b>Description</b>
Strengthening of Local Self-Government	Parliamentary Committee for Regional Policy, Self-Government and Mountainous Regions	January 2006 to December 2012	The project advises political decision-makers at all state levels on the implementation of the legal framework for local self-government.
Support to the Chamber of Control in Georgia	Chamber of Control in Georgia	January 2003 to December 2012	The project strengthens the capacity of the Georgian Chamber of Control. Legal consultancy helps improve the legal framework for the Chamber of Control, to establish binding regulations for its auditing powers and to secure its independence vis-à-vis other state organs.
Support for the Legal and Judicial System	Ministry of Justice and High Council of Justice, Georgia	July 1998 to December 2009	The project supports the endeavor to develop the capacity of judicial institutions in Georgia. Specialist personnel from the Ministry of Justice, the High Council of Justice and the Supreme Court are assisted.
Training and Upgrading in the Agricultural Sector	Ministry of Agriculture and Food in Georgia	October 2002 to September 2010	Agriculture management courses are being introduced at technical schools, colleges and vocational schools. Teaching methods and subject matter are geared to the needs of privatized smallholder agriculture.
Promotion of Municipal Democracy in the South Caucasus	State Chancellery of the Republic of Georgia	October 2002 to September 2009	The project supports cities, municipalities and associations to initiate local-level development processes and to execute local tasks transparently and effectively, with the participation of institutions, organizations and the population.
Caucasus City Network Client	Local governments in the cities involved	March 2002 to December 2009	The key tools are fact-finding trips within the region and to Germany, internships in special fields and job-shadowing. Regional workshops, training programmes and conferences promote exchanges between the countries.
Legal and Judicial Reform in the South Caucasus	Justice ministries	April 2002 to March 2010	Besides consultancy on legislation and measures for the dissemination of the law, priority is given to the promotion of regional cooperation and to the exchange of experiences.
Sustainable management of the biodiversity in protected areas and forests, South Caucasus	Environment Ministries	June 2008 to May 2016	Support is provided for the reform of relevant laws, ordinances and implementation guidelines, organizational development and the development of capacity and potential at the environment ministries, staff development within and outside the environment ministries, and environmental communication.

Source : Project Profiles provided by the GTZ office in Tbilisi, June 2009

## References

- Project Sheets for ongoing projects by KfW in Georgia, Armenia, and Azerbaijan.
- GTZ South Caucasus: Partner on the Road to Europe, German Development Cooperation (2007).

## 2.9 Sweden (SIDA)

Development assistance by the Swedish Government is implemented through the Swedish International Development Cooperation Agency (SIDA).

### (1) Assistance Strategies

The Swedish Ministry of Foreign Affairs is currently reviewing its policy in a strategy paper. A new 4-year strategy for the period 2010–2013 covering Georgia will be developed this year. The latest version of the published policy paper available is the version for 2006–2009 (Strategy for development cooperation with Southern Caucasus; January 2006–December 2009). A greater focus will be made on Georgia within Southern Caucasus due to political interest and ending support for Armenia. There are four priority sectors in Swedish assistance for Georgia:

- Humanitarian
- Agricultural
- Environment
- Sustainable Development

The new 2010 strategy will replace agriculture with trade as EU integration is considered the greater priority.

Assistance strategies to Georgia by SIDA shown in ‘Strategy for development cooperation with Southern Caucasus; January 2006–December 2009’ are summarized in Table 2-17.

**Table 2-17 Assistance Strategy to Georgia by Sweden (2006–2009)**

<b>Goal</b>	<b>Tools to Achieve Goals</b>
Enhanced Capacity in Public Institutions Promoting Democratic and Effective Governance	<ul style="list-style-type: none"> <li>• Give citizens greater access and influence in political processes</li> <li>• Ensure that the differing needs of men, women and minorities are taken into account in political processes</li> <li>• Strengthen the capacity and improve the organizational efficiency of ministries and government agencies at different levels</li> <li>• Support the government’s reform initiatives and anti-corruption measures</li> <li>• Support the emergence of free media</li> </ul>
Greater Respect for Human Rights	<ul style="list-style-type: none"> <li>• Heighten public awareness of human rights and the need for gender equality between women and men, girls and boys</li> <li>• Enhance the capacity of public institutions to ensure compliance with human rights</li> <li>• Support institutions that monitor compliance with human rights, such as the ombudsman system</li> <li>• Create free media</li> </ul>
Promoting Sustainable Economic Development	<ul style="list-style-type: none"> <li>• Strengthen knowledge and understanding of farming practices and entrepreneurship among producers</li> <li>• Strengthen the capacity of government agencies to promote sustainable economic growth in agriculture</li> <li>• Strengthen the capacity of government agencies to promote sustainable economic growth in agriculture</li> </ul>

Goal	Tools to Achieve Goals
	<ul style="list-style-type: none"> <li>• Improve education and training in the agricultural sector</li> <li>• Help bring agricultural institutions, standards and rules into line with the EU</li> </ul>

Source : Strategy for development cooperation with Southern Caucasus; January 2006 – December 2009

## (2) Level of Assistance

Assistance to Georgia in 2009 is around SEK 100 million, but was SEK 70 million in 2008. The Swedish pledge of SEK 400 million is made up on an ‘on-going’ and ‘new’ fund. In connection with the donor conference, the Swedish Ministry for Foreign Affairs added SEK 30 million to the 2008 funding through SIDA. Of this, SEK 10 million is intended for humanitarian support, and SEK 20 million for municipal investments needs. The planned budget in 2010 is SEK 150 million, which is a substantial increase as compared to the commitment in 2009. Funds are disbursed in cooperation with EBRD.

## (3) Mode of Assistance

Swedish assistance can be classified into two types:

- Policy Support: e.g., Municipal Infrastructure Fund
- Trust Fund: directly managed by SIDA

## (4) Ongoing Projects

Table 2-18 shows a list of ongoing projects by SIDA as of June 2009.

**Table 2-18 Ongoing Projects by SIDA**

Sector	Project	Budget (Million SEK)	Schedule	Implementing Agency (Counterpart)
Environment	Municipal Environment Infrastructure Fund	50.0	December 2008 – December 2010	EBRD, Municipal Development Fund (Various Georgian municipalities)
Human Rights and Democracy	Durable Solutions – A way forward for IDPs in Georgia	27.3	October 2008 – September 2011	Danish Refugee Council (DRC) (Ministry of Refugees and Accommodation (MRA))
Economic Development	Management and Training Support Project for Registration and Cadastre	23.5	June 2008 – June 2012	Lantmäteriet (National Agency of Public Registry (NAPR), Ministry of Justice)
HR/Conflict Resolution	Open Fun Football Schools in South Caucasus	3.0	June 2008 – December 2010	Cross Borders Project Association
Democratic Governance/HR	Core support to Eurasia Partnership Foundation in Georgia	18.9	December 2007 – June 2011	Eurasia Partnership Foundation in Georgia

<b>Sector</b>	<b>Project</b>	<b>Budget (Million SEK)</b>	<b>Schedule</b>	<b>Implementing Agency (Counterpart)</b>
Economic Development/ Conflict Prevention	Rehabilitation and Economic Development in the Zone of the Georgian–Ossetian Conflict	9.2 (equivalent to EUR 1 million)	March 2007 – June 2009	OSCE mission to Georgia (Joint Control Commission)
Democratic Governance/HR	Democratic Governance Programme in Georgia	9.1	January 2007 – December 2009	UNDP (Various ministries and public bodies)
HR/Conflict Resolution	Women to Women	30.0	January 2007 – December 2009	Kvinna till Kvinna (NGOs in Georgia and South Caucasus)
Environment	Support to Poti and Kutaisi Water Supply Projects	40.85	August 2006 – December 2009	EBRD, Municipal Development Fund Georgia (Kutaisi and Poti Municipalities)
Democratic Governance/HR	Media Development Loan Fund Seed Fund Program in Georgia	4.3	July 2006 – July 2009 (76003094)	Media Development Loan Fund (Local radio and printed media)
Democratic Governance	Public Sector Financial Management Reform Support Project (PSFMR-SP)	37.0	March 2006 – March 2010 (76003582)	Ministry of Finance, World Bank (Ministry of Finance)
Democratic Governance	International School of Economics at Tbilisi State University (ISET)	15.7	February 2006 – June 2011	World Bank, partnership for Economic Education and Research (PEER) (Tbilisi State University, ISET)
Democratic Governance/HR	Support to the Interministerial Commission for Joint Action on Child Welfare	3.4 (of which 1.6 for an extension January 2008 to March 2009)	December 2005 – March 2009	UNICEF Georgia (Interministerial Commission for Joint Action on Child Welfare)
Democratic Governance/HR	Conflict Prevention and Integration Programme for Samtskhe-Javakheti Region	6.6	November 2005 – December 2009	OSCE High Commissioner on National Minorities
Economic Development	Support to the Milk and Dairy Sector in Georgia	50.05	November 2005 – October 2009	GRM International AB (Ministry of Agriculture)

Source: SIDA

#### References

- Strategy for development cooperation with Southern Caucasus; January 2006 – December 2009

## 2.10 France

### (1) Policy and Strategies

France does not formally prepare policy/strategies papers for its assistance. There is no bilateral agreement or ‘protocols’ and assistance is organized within the Embassy itself. It follows EU Action Plans, and operates within this framework. France generally supports small-sized projects in the area of technical and cultural cooperation, environment, and medical care.

France pledged a total of EUR 7.53 million at the donor meeting in Brussels.

### (2) Priority Areas

There are three areas of assistance by France identified as high priority for the next 3 years:

1. Cultural cooperation including education
2. Excellency access (medical and agricultural sectors)
3. Rule of law, good governance, and human rights

An example project in the dissemination of French culture is the Picasso Exhibition, which cost EUR 170,000. There are also efforts to increase French language education in schools as the level of teaching has fallen from 20% to 5%. As for Excellency Access, projects are mainly in the medical sector and agricultural sector, where France has a competitive edge. In the medical sector, projects include the supply of medical equipment for blood testing, breast cancer, etc., and provision of training to public hospitals. The project cost for blood testing equipment was EUR 800,000, and EUR 1 million for breast cancer. Human rights projects involving training are implemented through Georgian NGOs.

### (3) Ongoing Projects

Ongoing projects by France are shown in Table 2-19 Environmental assistance has been completed and construction in rebuilding radar equipment is almost complete.

**Table 2-19 Ongoing Assistance Projects by France**

Sector	Up to 2007 (EUR 1,000)	After 2007 (EUR 1,000)	Description
Poverty	75	133	Program “Aide au retour volontaire”: Micro-Projects support for migrants returning to Georgia.
Air Transport		5,000	Loan granted for the construction of a new radar system after the August 2008 conflict.
Environment		1,200	Management of the natural resources (forest preservation) – national park of Borjomi-Kharagauli.
Social	9	13.75	Cooperation in archaeology, paleontology and museology (grants and traineeships).
		300	Junior partner financed by the EC.
Education	133	349	Grants for students (Master Degrees in France).
Medicine		600	Construction and equipment of a medical diagnostic center in Gourджаани.
		53.2	Medical exchanges / grants for physicians and chemists.
		4	French psychoanalysts delegation visiting the green house in Tbilisi: consultations and support to families having children with mental disorders, conferences.
		2	Grant to orthopedic center Gefpor.



Sector	Up to 2007 (EUR 1,000)	After 2007 (EUR 1,000)	Description
IDPs		960	Humanitarian emergency assistance
		200	Grant to the HCR (flash appeal for Georgia)
		100	Grant to the ICRC (flash appeal for Georgia)
		147.5	Support (with HCR) to the NGO <i>première urgence</i> project : wood distribution and rehabilitation of collective centres
		50	Reconstruction in Abkhazie and Imeretie (support to French NGO <i>première urgence</i> )

Source: French Embassy in Tbilisi, June 2009.

#### (4) Special Lending Terms Applicable under Emergency Conditions

For the Tblisi Airport radar project there is a special low rate loan with only 1% interest over 20 years and a 5–7 year grace period.



## Chapter 3 Needs Assessment by Sector

### 3.1 Introduction

The previous chapter described the strategies and ongoing activities of major donors in assisting with the development of Georgia. This chapter provides an overview and explains, for each of the following sectors, damage by the military conflict, projects and donor activities, and further assistance needs.

- Roads and Highways (Section 3.2)
- Railways (Section 3.3)
- Seaport and Airport (Section 3.4)
- Urban Transport (Section 3.5)
- Water Supply, Sewerage, and Solid Waste (Section 3.6)
- Energy (Section 3.7)
- Agriculture (Section 3.8)
- Environment (Section 3.9)
- Tourism (Section 3.10)
- Finance (Section 3.11)
- Health (Section 3.12)
- Education (Section 3.13)
- Internally Displaced Persons (Section 3.14)

### 3.2 Roads and Highways

#### (1) Overview

Georgia offers a maritime gateway closest to nearly all countries of Central Asia. However, at present, the utilization of Caucasus route through Georgia is still very limited in the trading activities with the countries in Central Asia. This is due to multiple factors such as lengthy transport time, underdevelopment of road networks, multiple border crossings and loading and unloading of cargos, the payment of toll fees and bribes, and delays in transportation.

Traffic from the Caspian Sea has been rapidly expanding for the transportation of crude oil and oil products. Traffic cargoes to the east are mostly oil and oil products. Non-oil trade to the West mostly consists of products from Armenia, Azerbaijan and Central Asia, and they have a large share of the traffic at the ports of Georgia.

Inadequate transport infrastructure causes increase in business costs and discourages foreign direct investment. The majority of the people in Georgia are left outside of recent economic developments. Many researches point out that limitations in market access and poverty in rural areas are highly correlated. According to a study conducted by the World Bank on Georgian rural infrastructure, only 5% of surveyed communities had their roads repaired within the last 5 years and 41% of communities have roads that have gone without repair for over 15 years.

Poor accessibility to road networks has reduced the opportunities for agribusiness. As a result, there are few intermediates, wholesalers and shipping associations for agro products in the country. The rehabilitation of roads will result in income generation through the improvement of access to the market. Rehabilitation projects on rural roads and bridges would also lead to economic benefits, reduce the need for bartering, and finally increase the number of small and medium size enterprises.<sup>1</sup>

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<sup>1</sup> The World Bank, Rural infrastructure in Georgia: improving service delivery, 2006.

The total length of the first-class road in Georgia is 1,495 km, and that of the second-class road is 3,345 km. The total length of rural roads is 15,480 km. The main trunk roads span over 859 km and consist of: 1) the East-West corridor connected by Poti–Tbilisi–Red Bridge, 2) Mtskheta–Kazbegi–Larsi route, 3) Sarpi–Batumi–Samtredia route, 4) Khashuri–Akhaltsikhe–Turkish Border route, 5) Tbilisi–Mameuli–Guguti route. Despite its geographic advantages, Georgia has yet to manifest its potential for international transit corridor.

While the Government of Georgia has increased the road budget these years, the needs for road improvement are still significant. Traffic accident mortality in Georgia was 12 persons per 10,000 cars in the year 2005, and the rate is high within Eastern Europe.

TRACECA<sup>2</sup> started as a cooperation program of the EU, aiming to develop corridors connecting Central Asia and Europe to revive the ancient Silk Roads. The main route in Georgia is the East-West corridor connecting Poti–Tbilisi–Red Bridge. The top 3 cities in Georgia including the capital Tbilisi (population: 1.07 million), Kutaisi (0.18 million), Rustavi (0.11 million) and other major cities in Georgia are located in this East-West Corridor. The Government of Georgia has recognized the strategic importance of this traffic route connecting Central Asia, the Caspian Sea and Europe and given the highest priority to the rehabilitation and improvement of the East-West Highway to an international standard road network.

The main financial support for the improvements of the East-West Highway has been given by the World Bank, and the work has been concentrated in the east of Rikoti Tunnel. The Japan Bank for International Cooperation (JBIC, now merged with JICA), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), and European Investment Bank (EIB) are now considering financing other parts of national corridors in the west of Rikoti, as well as the route connecting to Turkey through Batumi.

## (2) Needs Assessment of Reconstruction Support by JNA

Table 3-1 shows the main investment road projects defined by JNA. According to the study, USD 2,141 million in total will be required for reconstruction and further economic development.

**Table 3-1 Main Road Network Long Term Projects**

Road	Length km	Cost Estimation (USD million)
1 Sveneti–Rikoti (incl. rehabilitation of existing Rikoti tunnel)	64	350
2 Rikoti Tunnel (new)	2	50
3 Rikoti–Zestafoni	44	420
4 Zestafoni Bypass	9	80
5 Zestafoni–Kutaisi	23	69
6 Kutaisi Bypass	16	43
7 Kutaisi–Samtredia	25	78
8 Zestafoni–Samtredia New Highway	56	187
9 Samtredia–Poti	60	288
10 Kobuleti–Batumi–Sarpi	57	421
11 Tbilisi–Gombori–Telavi	72	25
12 Other Main Roads	225	130
Total	653	2,141

Source: The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.

<sup>2</sup> TRACECA stands for Transport Corridor Europe–Caucasus–Asia. It is an international cooperation program with the participation of fourteen member countries with the headquarters located in Baku of Azerbaijan. The World Bank, EBRD, and ADB are supporting this program together with technical assistance by the EU.

Most of the projects up to Sveneti, located in the west of Tbilisi, are completed or are being implemented by the World Bank or the Government of Georgia. The section from Sveneti to Ruisi will be covered by East-West Highway III, as well as the further section through Kashuri to Rikoti by the World Bank. The East-West Highway III project has already entered the design phase and construction will start at the end of this year.

Rikoti is a watershed that divides the east and west parts of Georgia. To the west of Rikoti are the middle-sized city of Zestafoni and Kutaisi, Georgia's second largest city. It is anticipated that the increase in traffic in the near future will likely cause traffic congestion within these cities.

The Black Sea coastal highway starts from Sarpi, which is an inland gateway to Turkey. Batumi is the largest city along the coast (the third largest city in Georgia) and also a major destination for vacationers. A sea port has been operating and the bulk cargoes are loaded and unloaded at this port, while the Poti Port is mainly used as a container terminal. Economic benefits of improving access to Batumi are quite significant. The number of traffic is on a rapid rise with increased volumes of trade and also tourists to sea resorts. There are a couple of bottlenecks along this route at the city center of Batumi and also passage over a hill between Batumi and Kobuleti. ADB is in charge of this section and has already completed the feasibility study for the Ajara Bypass and should be moving on to the implementation phase fairly soon.

JICA is responsible for the section between Zestafoni and Samtredia. According to the pledge of USD 180 million in 2008, the project should cover the sections that have high economic benefits including Kutaisi Bypass and the Kutaisi–Samtredia section.

The World Bank also provides financial resources for the development of the eastern region of Georgia by improving the road section between Vaziani–Gombori–Telavi in the east of Tbilisi (see Table 3-1).



Source: Prepared by JICA Study Team

Figure 3-1 Major Road Projects

JNA also recommends the development of alternative routes in view of national security. Table 3-2 shows parallel network proposals to the Major Road Network, including the East-West Corridor that offers alternate routes from Tbilisi to Batumi.

**Table 3-2 Improvement of Alternative Road Network**

Section	Length (km)			Cost Estimate (Million GEL)			Total (USD Million)
	Total Length	Minor Repair	Major Repair	Minor Repair	Major Repair	Total (GEL Million)	
1. Batumi–Shuakhevi–Adigeni–Akhaltzikhe–Akhalkalaki–Ninotsminda	250	22	143	5.5	127.3	132.8	95
2. Kutaisi–Sairme–Abastumani–Benara	102	16	45	3.5	4	7.5	5
3. Khashuri–Borjomi–Akhaltzikhe	75	15	15	4	7.5	11.5	8
4. Boriomi–Bakuriani–Akhalkalaki	82	0	52	0	26	26	19
5. Tskhratskaro–Tsalka	50	0	50	0	25	25	18
6. Mtskheta–Gori	60	0	33	0	20	20	14
7. Gori–Skra–Osiauri	45	0	45	0	28	28	20
<b>Total</b>	<b>664</b>	<b>53</b>	<b>383</b>	<b>13</b>	<b>237.8</b>	<b>250.8</b>	<b>179</b>

Source: The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.

After this recommendation for an alternative route development, the Tbilisi–Akhalkalaki–Akhaltzikhe–Batumi route attracted some interest, but has not led to a commitment of financing from any donor yet.

In addition to the two categories of priority road networks, JNA adds another USD 1 billion for the rehabilitation of rural roads and quotes USD 3.32 billion as the total cost needed for long-term investment needs for the road sector in Georgia. This amount does not include regular maintenance costs. The study estimates that it would take ten years to complete the entire project with the participation of all donors and the private sector.

JNA judges that the implementation is doable by the Road Department with their current capacities. However, it recommends the reform tasks. It is not rational to expect the Road Department to administer a series of large scale projects with the expected timeline and performance without serious reforms within.

- Gradually introduce state-of-the-art asset management capabilities and introduce concepts of benchmarking and performance targets.
- Alter Road Department modus operandi to (1) create a client/supplier relationship between the Ministry and the Road Department, (2) increase accountability, and (3) allow for professional career development and increased delegation to middle management.
- Institute a road-financing system and/or budgetary guidelines that closely link maintenance expenditures with direct or indirect road user charges.
- Introduce multi-year road maintenance programming and test the use of maintenance performance-based Contracts.
- Improve the decentralization process of local roads. Explore alternatives for a more gradual decentralization process, relating the transfer of responsibilities to the local governments' technical and financial capacities.

### (3) Current Status of Donor Support

Table 3-3 shows the current status of the road related projects that the major donors are supporting. Figure 3-1 shows the locations of the major road projects within Georgia. The total amount pledged so far for the sector is USD 920 million, still below the estimated total investment need of USD 3.3 billion. However, it is a great accomplishment within the short period of time.

**Table 3-3 Current Status of Road Project by Donor**

Donor	Project	Cost (USD million)	Approval Date
<b>A. Implementation Project</b>			
1. World Bank	Transport Rehabilitation	12.0	18 June 1996
2. World Bank	Transport Ministry Restructuring	2.3	3 Sept. 1998
3. World Bank	Roads Project	40.0	25 May 2000
4. World Bank	Secondary/Local Roads	22.3	24 June 2004
5. World Bank	East-West Highway Improvement I	20.8	5 December 2006
6. World Bank	Infrastructure Pre-Investment Facility	5.6	16 February 2006
7. World Bank	East-West Highway Improvement II	20.0	18 Dec. 2007
8. World Bank	E-W Highway Improvement II Additional Funding	35.0	30 October 2008
9. World Bank	Secondary/Local Roads Additional Financing	70.0	19 March 2009
10. MCGF (Grant)	Samtskhe–Javakheti Road Rehabilitation	183.6	12 Sept. 2005
<b>B. Technical Assistance</b>			
1. ADB	Preparing the Ajara Bypass Roads Development Project (TA7089-GEO)	0.6	28 January 2008
2. JBIC	JBIC Pilot Study for Project Formulation for Highway Improvement Project	0.5	7 August 2007
<b>C. Project in Pipeline</b>			
1. ADB	MFF SRC Tranche 1 Kobuleti Bypass	108	September 2009
2. ADB	MFF SRC Tranche II Batumi Bypass	92	2010
3. ADB	MFF SRC Other Tranches	300	2012+
4. ADB	Urban Development Facility	40	2009
5. JICA	East-West Highway Zestaponi–Samtredia Section	180	August 2009
6. World Bank	East-West Highway Improvement III	140	August 2009
7. World Bank	EW Highway Improvement III Additional Funding	na	2010
8. World Bank	Vaziani–Gombori–Telavi	60	2009

Source: World Bank, JICA, ADB estimates. Notes: ADB = Asian Development Bank, JBIC = Japan Bank for International Cooperation, JICA = Japan International Cooperation Agency, MCGF = Millennium Challenge Fund Georgia, MFF = Multi-tranche Financing Facility, SRC = Subregional Road Corridors Development Program, TA = technical assistance

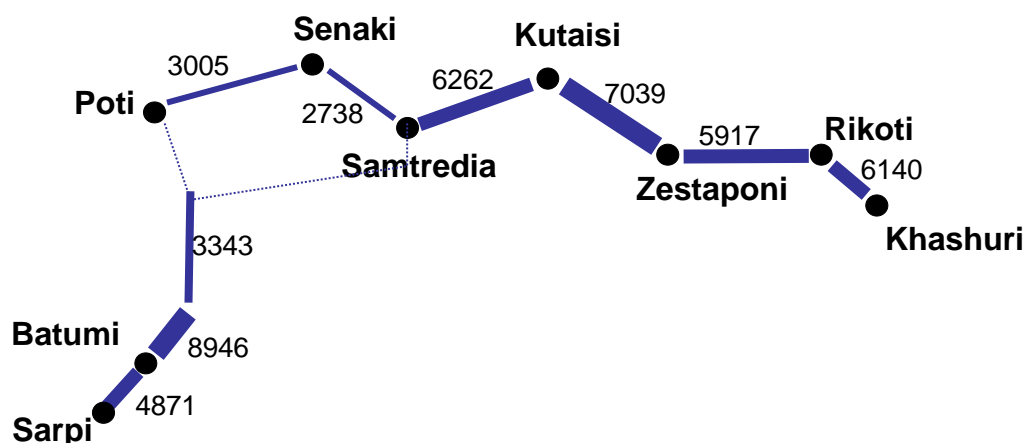
### (4) JBIC Pilot Study “Highway Improvement Project”<sup>3</sup>

The main objective of the study was to identify priority projects for Japanese ODA financing. Based on the macroeconomic and regional economic viewpoints, priority sections were identified for ODA financing. Figure 3-2 shows current traffic volume between Khasuri–Sarpi, and Table 3-4 shows future traffic forecast between Rikoti–Sarpi by section.

<sup>3</sup> JBIC (2008), JBIC Pilot Study for Project Formation for Highway Improvement Project Georgia, Final Report, Exe-Idea, PADECO, CPC.

Section Investigated

1. Rikoti–Zestafoni
2. Zestafoni Bypass
3. Zestafoni–Kutaisi
4. Kutaisi Bypass
5. Kutaisi–Samtredia
6. Zestafoni–Samtredia Motorway (alternative to the above sections 3, 4, and 5)
7. Samtredia–Poti
8. Kobuleti–Batumi
9. Batumi Bypass
10. Batumi–Sarpi



Note: Average traffic volume of three traffic count surveys conducted in 2007  
Source: Road Department, Ministry of Economic Development

**Figure 3-2 Current Traffic Volume between Khasuri–Sarpi  
(Annual Average Daily Traffic Year 2007)**

**Table 3-4 Future Traffic Forecast between Rikoti–Sarpi by Section**

Section	Rikoti–Zestafoni Km179	Zestafoni–Kutaisi Km215	Kutaisi–Samtredia Km249	Samtredia–Poti Km288	Poti–Kobuleti Km64	Kobuleti–Batumi Km95	Batumi–Sarpi Km115
2007	5,917	7,039	6,262	2,738	3,343	8,946	4,871
2010	7,902	9,382	8,248	3,620	4,359	11,840	6,445
2015	11,393	13,490	11,662	5,142	6,081	16,840	9,170
2020	15,068	17,802	15,182	6,718	7,831	22,024	11,998
2025	18,760	22,124	18,665	8,284	9,543	27,179	14,810
2030	23,281	27,406	22,866	10,177	11,588	33,417	18,218

Source: JBIC (2008), JBIC Pilot Study for Project Formation for Highway Improvement Project Georgia, Final Report, Exe-Idea, PADECO, CPC.

During the first half of the study, the study team had selected the section between Zestafoni and Kutaisi Bypass as a priority section for feasibility studies, based on the evaluation results shown in Table 3-5. The western parts of the national corridors were divided into 10 sections and were scored from A to D on the five criteria of technical merits, future traffic, environmental impacts, social impacts and economic returns.



**Table 3-5 Multiple Criteria Evaluation of Road Sections**

	<b>Section</b>	<b>Technical Merit</b>	<b>Traffic</b>	<b>Environment</b>	<b>Social</b>	<b>B/C</b>	<b>Overall</b>	<b>Project Cost (USD 000')</b>
1	Rikoti–Zestafoni	1	2	1	3	0.4	C	600,751
2	Zestafoni Bypass	1	3	2	1	1.2	A	80,017
3	Zestafoni–Kutaisi	3	3	2	3	1.5	A	71,870
4-1	Kutaisi Bypass (4-lane)	3	3	2	2	2.1	A	95,998
4-2	Kutaisi Bypass (2-lane)	2	3	2	2	4.5	A	38,971
5	Kutaisi–Samtredia	2	2	2	3	0.4	B	50,989
6	Zestafoni–Samtredia Motorway	1	2	2	2	1.4	A	294,849
7	Samtredia–Poti	2	1	1	2	0.0	D	440,928
8	Kobuleti–Batumi	1	3	2	2	1.8	A	197,074
9	Batumi Bypass	2	3	2	2	1.1	A	185,527
10	Batumi–Sarpi	2	2	2	3	0.2	C	152,410

Source: JBIC Pilot Study for Project Formation for Highway Improvement Project Georgia, Final Report, Exe-Idea, PADECO, CPC, 2008.

Note: Technical: 3 – Not difficult, 2 – Medium, 1 – Difficult;  
Future Traffic: 3 – Heavy, 2 – Medium, 1 – Low;  
Environment Risk: 3 – Low, 2 – Medium, 1 – High;  
Social Risk: 3 – Low, 2 – Medium, 1 – High

#### (5) Zestafoni–Samtredia Road Development

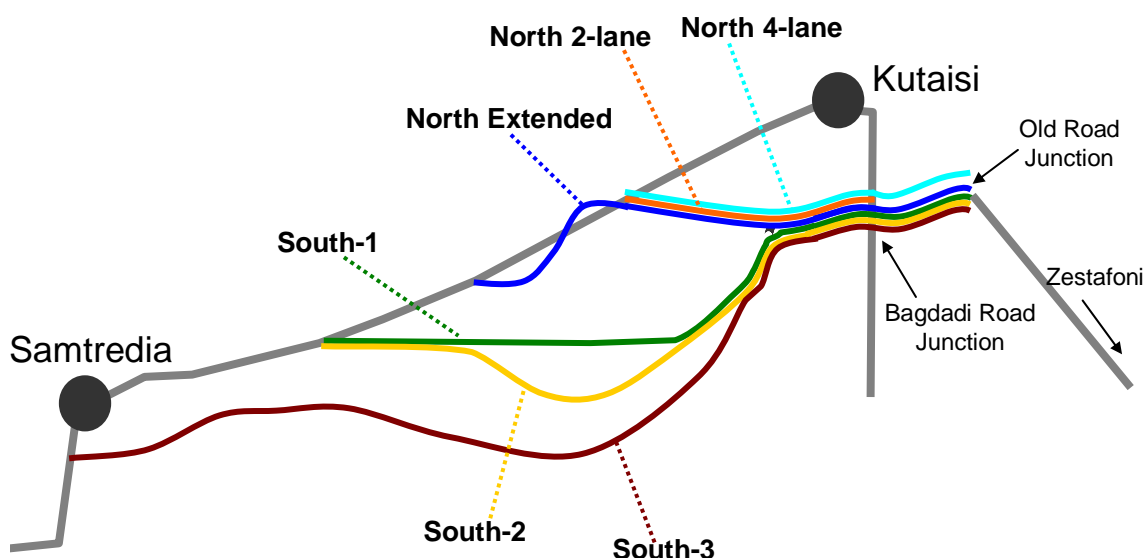
Based on the discussions during the first half of the study, it was agreed that the section between Zestafoni and Kutaisi would be the most beneficial sections for immediate implementation. Therefore this section was selected for further detailed investigation on economic analysis, environmental and social impact assessments. Two options for Zestafoni Bypass with tunnels and without tunnels were examined. Zestafoni–Kutaisi requires simple expansion and improvement works. There is a small hill at Nakhshiregele where a large volume of earthwork is expected. Thus the section was further divided into Nakhshiregele–Kutaisi. Among Kutaisi Bypass options, a total of five options were examined. The north option recommended by the Traceca Masterplan was subdivided into two options of 2-lane and 4-lane bypass options. Three new additional options were added in the south, all of which will avoid accessing the road between Kutaisi and Samtredia (see Table 3-6).

**Table 3-6 Project Options**

<b>Section</b>	<b>Option</b>	<b>Note</b>
Zestafoni Bypass	Tunnel	Tunnel
	No Tunnel	No Tunnel
Zestafoni–Kutaisi Improvement	Zestafoni–Nakhshiregele	Zestafoni–Nakhshiregele
	Nakhshiregele–Kutaisi	Nakhshiregele–Kutaisi
Kutaisi Bypass	1. North (4-lane)	East (North) + West (North)
	2. North (2-lane)	East (North: only western section of Bagdadi Junction, 2-lane) + West (North: 2-lane)
	3. North Extended	East (North) + West (North) + North Extension
	4. South 1	East (North) + West (South 1)
	5. South 2	East (North) + West (South 2)
	6. South 3	East (North) + West (South 3)

Source: JBIC (2008), JBIC Pilot Study for Project Formation for Highway Improvement Project Georgia, Final Report, Exe-Idea, PADECO, CPC.

Figure 3-3 shows the schematic locations of all the above options for Kutaisi Bypasses.



Source: JBIC (2008), JBIC Pilot Study for Project Formation for Highway Improvement Project Georgia, Final Report, Exe-Idea, PADECO, CPC.

**Figure 3-3 Kutaisi Bypass Options**

After conducting the topographic surveys of the major sections of all the options, the final alignments were determined. Table 3-7 shows the summary of the cost estimates based on the quantity estimates for each option and the associated economic evaluations.

**Table 3-7 Economic Evaluation Results**

Section	Option	Present Value (USD million)	Present Value of Cost (USD million)	B/C	EIRR
Zestafoni Bypass	Tunnel Option	62.0	71.9	0.9	10.7%
	Not Tunnel Option	61.2	51.4	1.2	13.7%
Zestafoni–Kutaisi Improvement	1. Zestafoni– Nakhshiregele	46.8	28.7	1.6	15.3%
	2. Nakhshiregele– Kutaisi	24.5	18.1	1.4	14.2%
Kutaisi Bypass	1. North (4-lane)	127.3	61.9	2.1	19.9%
	2. North (2-lane)	113.1	25.1	4.5	32.7%
	3. North Extended	130.8	71.5	1.8	18.3%
	4. South 1	128.3	76.2	1.7	17.3%
	5. South 2	124.8	76.9	1.6	16.8%
	6. South 3	141.3	99.3	1.4	15.3%

Note: All values are converted into the present value of 2008.

Source: JBIC (2008), JBIC Pilot Study for Project Formation for Highway Improvement Project Georgia, Final Report, Exe-Idea, PADECO, CPC.

#### (6) Sections to be Financed by Yen Loan

Based on the discussion between the government of Georgia and JICA, the sections to be financed by Japanese ODA were agreed upon as shown in Table 3-8 with the estimated total cost of around USD 180 million. At present, the final loan agreement is expected in September 2009.

**Table 3-8 Sections to be Financed by JICA**

Component	Length (km)	Lanes
Zestafoni–Kutaisi	22	2 × 2
Kutaisi Bypass Bridge	0.8	1 × 2
Kutaisi–Samtredia (including half of Samtredia Bypass)	32	1 × 2

(7) Samtredia Bypass

Among the route options that the Pilot Study examined, the Georgian Government has selected the South 3 option for Kutaisi Bypass. Currently, all preparations are proceeding with the South 3 as the final alignment. However, the limited resources allocated for the Pilot Study did not allow thorough investigation of this difficult route which necessitates further technical examinations. The junction crosses a tributary of the Rioni River as well as the Rioni itself in order to circumvent the direct crossing of the inner city of Samtredia. The Rioni River often floods with an abundant flow originating from the melting snow of the Caucasus Mountains during spring. It is a typical flood-prone river. The junction area is the location of the merging of a tributary, an irrigation canal, and the main river itself where the river course abruptly bends itself with intensive erosion of the river banks.

The alignment decision should be based on further investigations of all the hydrological issues including river training needs, bridge requirements, etc. It is also possible that the overall construction costs may increase drastically. Therefore, an additional study is being prepared independently for this section by JICA.

Figure 3-4, Figure 3-5, and Figure 3-6 show the aerial photos used to examine the cadastral situations of the Samtredia Junction area as part of the EIA conducted by the government of Georgia. It is evident from these photos that only a narrow strip land is available for the construction of the junction beside residential blocks, leaving little room for alignment designs. It would be necessary to construct a bridge with a large span or to provide very long embankment protection.



Source: Project “Reconstruction of the Zestafoni–Kutaisi–Samtredia Section of the E-60 Highway” Environmental and Social Assessment and Analysis of Alternatives

**Figure 3-4 Samtredia Bypass Route (1)**



Source: Project “Reconstruction of the Zestafoni–Kutaisi–Samtredia Section of the E-60 Highway” Environmental and Social Assessment and Analysis of Alternatives

**Figure 3-5 Samtredia Bypass Route (2)**



Source: Project “Reconstruction of the Zestafoni–Kutaisi–Samtredia Section of the E-60 Highway” Environmental and Social Assessment and Analysis of Alternatives

**Figure 3-6 Samtredia Bypass Route (3)**

#### (8) World Bank East-West Highway III

The East-West Highway III Project financed by the World Bank is comprised of three components. Component A is Sveneti–Ruisi improvements and new highway construction (USD 177.9 million). Component B is the rehabilitation of the Rikoti Tunnel (USD 176 million) and Component C is institutional strengthening (USD 27 million). Component A section starts at Sveniti where East-West Highway Project II ends to reach Ruisi 15.6 km to the west. The current roadway is converted into a 2-lane one-way road in accordance with the European Highway Standards. The project consists of Sveniti–Ortasheni (8.2 km), 2 double-lane tunnels (800 m) and tunnel end to Ruisi (6 km). The project includes Liakhvi Bridge with a span of 877 m as a large structure.

#### (9) Asian Development Bank: Ajara Bypass Project

The Ajar Bypass Project to be financed by the Asian Development Bank has been allocated with TA funds twice, once in January 2008 and the second time in March 2009. The project consists of three components, i.e. Kobuleti Bypass (34 km), expansion of the section between Kobuleti to Batumi (6 km), and Batumi Bypass (14 km). Now ADB is processing the project for loan approval of USD 118.8 million. The implementation is expected to commence within the year 2009.

#### (10) Millennium Challenge Corporation: Rural Road Improvements

The Millennium Challenge Corporation is financing road improvement of the section between Samtskhe-Javakheti with MCGF as its local counterpart. The total length of the improvements spans over 223.9 km, which is divided into 6 sections, and work has already started for 4 sections. An additional fund has been allocated to improve a new section of Sulda–Kartsakhi which connects to the Turkish border. According to MCGF, all the work will be completed by the end of 2010 and the project will be transferred to the Road Department of the Georgian Government.

#### (11) Assistance Needs in Roads and Highways Sector

There are three areas that require further assistance in terms of road sector development, i.e. institutional capacity development of the Road Department, traffic safety reinforcement, and maximization of economic impacts from road network development.

##### Institutional Capacity Development of Road Department

At present, the Road Department, staffed with some 100 personnel, is responsible for the policy development through road maintenance. Even the current workload often affects the smooth progress in planning and implementation. Given the fact that the road sector will receive the largest share of all international aid and financing from various donors, it is necessary to expand capacity as quickly as possible. It is most likely that impending work in the areas of planning and design supervision, procurement supervision, establishment of national standards, and relation management with project affected people will double or treble the current work load in a few months time. Therefore, there is an immediate need for technical assistance to transfer project management know-how of international standards.

##### Traffic Safety Program

Increased traffic at high speeds may increase the risk of traffic accidents without proper prevention measures. Starting from design stages, appropriate traffic safety provisions should be incorporated to reduce these safety risks. Based on the analysis of the current traffic safety problems of specific sections should be studied in detail, such as accident data to set up an overall program for traffic safety.

### Maximization of Economic Benefits

In order to maximize economic benefits of development of national corridors, it is indispensable to improve access roads connecting to the improved roads. There are technical assistance needs to improve access by developing feeder roads from public and private facilities nearby. Given there is prevalent free range grazing by cattle, minimization of cattle crossing over national corridors needs to be undertaken. The overall goal of this type of technical assistance is to harmonize the new road network into the local economy and to minimize adverse effects on local residents to the largest extent possible.

#### References

- JBIC (2008), JBIC Pilot Study for Project Formation for Highway Improvement Project Georgia, Final Report, Exe-Idea, PADECO, CPC.
- The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008, Annex XI, Transport.
- Reconstruction of the Zestafoni–Kutaisi–Samtredia Section of the E-60 Highway, Environmental and Social Assessment and Analysis of Alternatives.
- World Bank, Project Information Document, Georgia – Third East-West Highway Improvement Project.
- World Bank, Georgia – Third East West Highway Improvement Project: Environmental Assessment (Vol. 1 of 2): Environmental Impact Assessment.

## **3.3 Railways**

### (1) Overview

Figure 3-7 shows the extent of the Georgian Railway network. It is a broad gauge railway connecting the Black and Caspian Seas. The majority of the rail infrastructure is 100 or more years old. In total, the operating network comprises 1,323 km with 527 km of mainline and 796 of single track branch lines. Around 80% of the network is located in mountainous terrain and tight track radii are common. There are 1607 bridges in the railway inventory and 45 tunnels. The double track main line includes 598 bridges, 8 tunnels, and 25 level crossings. The overall condition of most rail structures is satisfactory, requiring only maintenance and foundation strengthening. Most level crossings require trains to slow down to 25 kph which restricts efficient operations. The design standards of the railway are based on Soviet design parameters (GOSTs) and the main line was designed to accommodate speeds up to 100 kph for passenger trains and 80kph for freight trains. Higher speeds are restricted by the topography and geometry of the network.



Source: Georgia Railway

**Figure 3-7 Georgia Railway Network**

Electrification of the entire network was completed in 1967 and since 2000 significant improvements in this area have been made, including the replacement of defective equipment. Regarding signaling, only about 83 km of the mainline has functioning automatic block signals (ABS), with the remainder of the network functioning as semi-ABS. The lack of train location information between stations restricts efficient operation. Increases in traffic will require upgrading of the signal and train control systems. Telephone communications between stations have been substantially improved in recent times due to the installation of fiber-optic cable. A 24-strand fiber-optic communications system has been installed throughout the main line network.

The buildings of Georgian Railway are poorly maintained and highly depreciated. Their average age is 50 years, though some date to pre-1900.

Land held by Georgian Railway, particularly in Tbilisi is a valuable asset and may be realized in the case of the planned Tbilisi Bypass by selling redundant rail land within the centre of the city for commercial and residential interests.

Georgian Railway is presently operating around 43 train pairs per day on the densest single track sections of the rail line. Between Tbilisi and Samtredia a total of around 80 trains per day are operating on the double track. An increase in traffic would be a strain on current capacity. The topography on some sections requires some special precautions in operations, such as the adjustment of train brake valves and pressure, which has some impact on the efficiency of operations.

Georgian Railway consists of 30 departments and units under the main divisions of: Infrastructure (7 departments), Freight (5 departments), Passenger Central Office (10 departments). By the end of 2005, Georgian Railway had over 17,000 employees and contractors. By 2007, the number reduced to around 15,000. Locomotive, wagon, and track

personnel constitute over 50% of the total staff for core activities. 65% of staff are over 40-years old.

Until the dissolution of the Soviet Union, Georgian Railway operated in a broad role to provide a link between the Caucasus and Russia in particular. By 1995, Georgian Railway's traffic had declined to less than 9% of the 1990 level. Since this time, it has increased annually, but is still only 30% of the former value. However, Georgian Railway is not a failing enterprise and has been experiencing growth over the last decade due to its role as a regional carrier for transit traffic. This is influenced by crude oil and petroleum-product transport generated by growth in petroleum production in the Caspian basin region. Georgian Rail is effectively dependent on the capacity and efficiency of the ports at Batumi and Poti. These ports and the border crossings of Azerbaijan and Armenia are the main source of Georgian Railway's profitability, but also vulnerability due to lack of cargo diversity.

International passenger traffic is low reflecting the country's poor relationship with Russia, which was previously its main generator. Most passenger revenue is local and suburban services and there is little market to increase revenue through premium services due to old equipment and short hauls.

## (2) Impact of Conflict

Infrastructure damage caused by last year's conflict included the following (Table 3-9):

**Table 3-9 Infrastructure Damage on Railways by the 2008 Conflict**

Section	Repair Cost	
	GEL	USD
Senaki Station	120,000	84,000
Gori-Skra Railway Section	247,000	173,000
Kaspi Station	200,000	140,000
Grakali-Metekhi Bridge	1,450,000	1,020,000

Note: Exchange rate of GEL=USD 0.7 was used.

Monetary losses amounted to GEL 27 million (USD 19 million) including around GEL 22 million losses due to reduction or stoppage of freight operations. Infrastructure was rebuilt by Georgian Railway without donor assistance.

## (3) Main Issues

The main issues for rail infrastructure concern ageing assets while freight demand is steadily increasing, and the need to raise speeds to improve efficiency of operations. The Khasuri to Zestaponi section represents a bottleneck due to low speeds and there are approximately 127 km of defective rail (around 3% of total rail km). Due to the high market share of freight traffic and very low passenger transport, one issue is the bypassing of Tbilisi, which has a scheme included in the City's Master Plan. In terms of environmental issues, the most pressing need is clean-up of leakage, spills, and contamination near oil loading/unloading terminals at Poti and Batumi.

## (4) Ongoing Projects

Rail infrastructure repairs were quickly carried out after the conflict and were completed using Georgian Railway's own financing. A signalization project is on-going. A government funded project in the south of the country to the border with Turkey is still on-going. This includes track rehabilitation from Marabda (near Tbilisi) to Ahalkalaki and construction of a new link from Ahalkalaki to Kars within Turkey. A new company has been established to implement the



project and additional funding was provided by a loan from the Government of Azerbaijan. The project will facilitate movement between Azerbaijan and Turkey via Georgia. In the west of the country, a new rail line connecting the Senaki-Poti link to Kuleui at the Black Sea coast is on-going.

Figure 3-8 shows the location of projects by Georgian Railways.



Source: Prepared by JICA Study Team

**Figure 3-8 Location of Railway Projects by Georgian Railways**

### (5) Activities of Major Donors

Previously, the following studies were carried out within the rail sector:

- Strategy for Restructuring Georgia Railway (USAID, Booz Allen, 2005)
- Study on Azerbaijan–Georgia Railway Transportation Modernization Project (JETRO, 2007)
- Railway Marketing Project (WB, 2007)

As mentioned below, there are plans for donor financing for Tbilisi Rail Bypass.

### (6) Sector Needs and Potential Projects

#### Tbilisi Rail Bypass

As shown in Figure 3-8, the main project concerning potential donor cooperation is Tbilisi Rail Bypass. The newly adopted master plan for Tbilisi includes options for this bypass scheme. The project includes removal of the existing rail line between Didude and Nautlugi Stations in the central area. The large space in this central area, comprising some 74 ha, would be

commercially sold for business and residential development and the proceeds would assist funding of the rail bypass.

Funding for Tbilisi Rail Bypass would be split as follows:

- EBRD: EUR 125 million
- EIB: EUR 125 million
- Georgian Railway: EUR 5.3 million (for engineering design) plus VAT expenses

A special purpose company will be created to implement the project. Regarding access to the city centre from suburban areas after removal of the central line, the terminal rail stations of Didube and Nautlugi are very close to metro stations, so inter-modal transfer would be available. There is a conceptual plan under the (Urban Development Concept Plan of the Municipality) to construct a tram line in the city

#### Khasuri to Zestaponi New Line Construction

In terms of other major infrastructure needs, there is a need for a new rail line from Khasuri to Zestaponi to replace the existing track. However, this would be a very expensive undertaking (around USD 500 million) due to the topography of the area. The project, which would include tunnels and bridges, would relieve a major bottleneck for national rail transport by allowing rail speed to increase from 64 km/h to 100–120 km/h, which is an overall aim of the rail company. This project is mentioned in the 2007 JETRO Report. In addition to this major project, Georgian Railway holds a list of over 1000 projects for future expenditure collectively amounting to some GEL 560 million. These are sorted into sections and levels of priority 1–3 (see Appendix).

#### Other Projects

Based on interviews with Georgian Railway, there are needs for training of personnel and that the trainings would be most beneficial for technical engineers, rather than general personnel of the Ministry. Finally, there is scope to improve the level crossings, which have safety and transport capacity implications.

#### References

- Georgian Railway Overview Report, Georgian Railway, May 2007
- CAPEX Breakdown 2006–2009, Georgian Railway, 2009
- Freight Flows by Origin-Destination for 2002–2009, Georgian Railway, 2009
- Freight Flows by Commodities for 2002–2009, Georgian Railway, 2009
- Freight and Passenger Flow by Directions for 2002–2009, Georgian Railway, 2009
- Future CAPEX, Georgian Railway, 2009
- Georgian Conflict-Damage Railway Presentation, 29 August 2008
- Meeting at Georgian Railway with Mr. Dimitri Kemoklidze (Head of Strategic Projects & Development), Georgian Railway, 24 June 2009
- Georgian Railway website <http://www.railway.ge>

### **3.4 Airport and Seaport**

#### (1) Airport

Georgia has two major international airports in Tbilisi and Batumi, and four smaller airports located in Kutaisi, Poti, Sukhumi, and Senaki. Tbilisi and Batumi airports are in private possession owned by the Tepe-Akfen-Vie (TAV), which received 20-year management and

operational concession on both. Meanwhile, Kutaisi and Senaki airports are still state owned. Sukhumi airport is located in Abkhazia, and, currently, is beyond Georgian state jurisdiction.

Georgia makes significant efforts to integrate into the European Union aviation market. The country joined the International Civil Aviation Organization (ICAO) and the European Civil Aviation Conference (ECAC) in 2004 and 2005, respectively. In January 2009, the European Commission received a directive to negotiate a comprehensive aviation agreement with Georgia. The agreement will allow integrating Georgia into European aviation structures.

#### Tbilisi International Airport

Tbilisi International Airport (Tbilisi International Airport Joint Stock Company) is the main airport of Georgia and is located near Tbilisi, the capital of the country. Until 2007, the airport had an old building and facilities inherited from the soviet period. In 2005, the government of Georgia signed a concession agreement with the Tepe-Akfen-Vie (TAV), a subsidiary of TAV Airports Holding (a private Turkish consortium), to build a new Tbilisi airport (with 3,000 meter runway) by 2007. The project costs USD 62 million. In return, the consortium received a right to manage and operate Tbilisi International Airport for the next 20 years. The total construction cost was USD 62 million, but in 2006, the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) agreed to provide parallel loan funding, USD 27 million each to TAV to construct new and upgrade existing facilities and equipment.<sup>4</sup>

Tbilisi airport (new terminal area) was opened in 2007 and serves international routes worldwide with a passenger capacity of 2.8 million passengers per year. The new terminal has a total area of 25,000 square meters, three passenger boarding bridges, three luggage conveyors, a modern luggage screening system, four gates, and 25 check-in counters.

#### Batumi International Airport

Batumi airport is the second international airport operating in the country with a 2,420-meter runway. Similar to the new Tbilisi airport, Tepe-Akfen-Vie (TAV) signed an agreement with the government of Georgia to rehabilitate the airport facilities in 2005. The management includes all services except air traffic control and security. Batumi airport rehabilitation project was finished by 2007, and cost about USD 15 million. The airport terminal area covers about 3,900 square meters with a passenger capacity of about 600 thousand per year.

#### Kutaisi-Kopitnari Airport

Kutaisi airport is located in the vicinity of Kutaisi, and is state-owned. The government of Georgia is considering airport rehabilitation plans to prepare it for international flights. The rehabilitation plans include construction of a new control tower and facility upgrading. Meanwhile, the government already repaired a 2,500-meter long tarmac damaged during the Georgian-Russian war in August 2008.

#### Potential Airport Projects

The following is a list of key areas where investment is required in the airport sector.

- Installation of primary radar in the west of Georgia to double coverage of airspace and improve flight safety.

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<sup>4</sup> <http://www.ifc.org/ifcext/pressroom/ifcpressroom.nsf/PressRelease?openform&0C77B47C63DD634E85257171004FD601>

- Installation of a meteorological radar at Tbilisi Airport in order to improve the quality of meteorological services
- Installation of an Instrument Landing System (ILS) at Kutaisi Airport in order to improve flight safety
- Modernization of the taxiways and aprons of Tbilisi Airport.
- Creation of an electronic terrain and obstacle database in accordance with the requirements of the Chicago Convention.

## (2) Seaport

Georgia has three seaports situated in Batumi, Poti, and Sukhumi (the Black Sea ports). Sukhumi port is located in Abkhazia, and, at this moment, is beyond Georgian state jurisdiction. Seaports in Poti and Batumi both are located on the TRACECA route and handle oil transportations from Supsa oil terminal. In addition to seaports, there are two oil terminals, Supsa and Kulevi ones. All seaports and oil terminals in Georgia are in private possession.

### Batumi Seaport

Batumi seaport (Batumi Seaport Limited) is known for its geo-strategic and natural advantages and serves as a transportation link between Europe and Asia.<sup>5</sup> The port is located near natural deep water bay and is secured from the seaside. Batumi port has approximately 10 million tons of annual cargo turnover (9 million in oil products' turnover) and incorporates five terminals: the oil terminal, container terminal, ferry terminal, dry cargo terminal, and passenger terminal. In February 2008, Batumi Seaport, including Batumi oil terminal, was acquired by KazMunaiGas, the state oil company of Kazakhstan.

The oil terminal specializes in petroleum processing, particularly crude petroleum.

Since 2007, Batumi container terminal is operated by the Batumi International Container Terminal LLC (BICTL), a subsidiary of International Container Terminal Services Inc. (ICTSI), a Philippines based company. BICTL holdings consist of berths № 4 and № 5 for the container terminal, and berth № 6 for the ferry and dry bulk general cargo terminal. BICTL's major objectives are to refurbish the container terminal and strengthen the berths. At the same time, BICTL is considering an option to expand its shipping lines.

The three-deck ferry terminal has a deadweight tonnage of 12,600 tons. Annual throughput of the dry cargo terminal (berths №6, №7, №8 and №9) is about 700 thousand tons. The passenger terminal represents a sea station building located in the city centre of Batumi.

### Poti Seaport

Poti port, the second largest Georgian seaport on the Black Sea, has been in operation since 1858. The port incorporates general cargo berths, liquid cargo terminal, bulk cargo berths, container terminal, ferry terminal, and oil terminal. In addition, the port has open and closed warehouses, eight cargo handling facilities, a passenger station and berths for the fishing fleet. The port is directly connected to the railway and motorway network and is estimated to handle 15 millions tons by 2010.<sup>6</sup>

In terms of ownership, the Ras Al-Khaimah Investment Authority (RAK), a United Arab Emirates state investment fund, possesses a 49-year concession to run Poti seaport. In addition to that concession, RAK purchased a port on nearby land (300 ha) to build a Free Industrial

<sup>5</sup> <http://www.batumiport.com/en/01-002.html>

<sup>6</sup> [http://www.investmentguide.ge/index.php?lang\\_id=ENG&sec\\_id=184](http://www.investmentguide.ge/index.php?lang_id=ENG&sec_id=184)

Zone on it. RAK also intends to build an additional terminal on the 100 ha of undeveloped land that belongs to the port.<sup>7</sup>

#### Supsa Oil Terminal

Supsa oil terminal is located four miles from Poti seaport and handles a substantial part of oil transportation. The terminal has been in operation since 1999 and is used to store crude oil transported via the Western Route Export Pipeline (WREP) from Azerbaijan to the Black Sea. The British petroleum (BP)-led Azerbaijan International Operating Company (AIOC<sup>8</sup>) owns and operates the terminal as well as the pipeline. Supsa oil terminal has a shipment capacity of about four million metric tons of fuel oil per year. The crude oil kept in crude oil storage tanks (each having a capacity of 40,000 tons) is driven via the export loading system comprised of three diesel-driven loading pumps.

#### Kulevi Oil Terminal

Kulevi oil terminal was opened in 2008, and is owned by the Azerbaijan State Oil Company (SOCAR). It is located on the eastern coast of the Black Sea and has proved to be the largest terminal in South Caucasus. Kulevi terminal is connected to the Black Sea by a channel for tankers and three piers. It also has a mobile service fleet of nine vessels, and a laboratory to test oil and refined products.

#### Status of Donor Assistance

In 1998, the World Bank assisted in equipping Global Maritime Distress and Safety System (GMDSS) equipment at the Maritime Rescue Coordination Center (MRCC) and one ship, as well as at Harbor Master's offices in Batumi and Poti. However, this equipment is now ageing and does not comply with International Maritime Organization (IMO) requirements for GMDSS in shore radio stations.

#### Assistance Needs for Seaport Sector

The Maritime Transport Department of Georgia is responsible for controlling the Georgian marine area, overseeing waters and merchant shipping operations. The department has a search and rescue division with 24-hour operation. The equipment within this department is outdated and requires modernization. Harbour master offices are currently being improved from the state budget but technical support is required for equipment, such as telecommunications. Possible investment in the above systems with donor cooperation could be investigated.

### **3.5 Urban Transport**

#### (1) Sector Overview

The population of the City of Tbilisi is 1.34 million, which is more than 25% of Georgia's population, but the city generates nearly 50% of Georgian Gross Domestic Product (GDP). Tbilisi suffers from traffic congestion on major arterials during morning and evening peak hours, and air and noise pollution. This is mainly due to increased private car ownership, an inadequate road network, and the deteriorating public transport systems, including discontinuing tram and trolleybus services. About 80% of air pollution derives from motor transport and there is a concern on degradation of historical buildings and monuments.

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<sup>7</sup> Government of Georgia, Press Release, [http://www.government.gov.ge/files/34\\_559\\_759889\\_government\\_of\\_georgia\\_announces\\_the\\_sale\\_of\\_51\\_of\\_poti\\_sea\\_port.pdf](http://www.government.gov.ge/files/34_559_759889_government_of_georgia_announces_the_sale_of_51_of_poti_sea_port.pdf).

<sup>8</sup> Oil Major Consortium in Azerbaijan.

Tbilisi's public transport systems consist of a two-line metro system, 123 bus routes, and 189 microbus routes. The whole system carries 400 million passenger trips annually (1.1 million per day of which 250,000 by Metro). The total public bus fleet in Tbilisi is currently 943 units. In 2005, EBRD assisted the city with a bus fleet renewal. 86 new Bogdan buses were purchased with a USD 3.1 million loan as well as 50 second-hand DAF buses. Another 27 buses were acquired with a grant which included technical assistance. 34 buses were purchased with a Japanese grant of 150 million yen.<sup>9</sup> The City acquired 530 buses from its own budget. In addition to public buses provided by the City, there are currently 2,200 privately operated minibuses operating on 189 routes. This figure has fallen from around 5,000 due to competition from the expanded public bus fleet. Private minibuses are basically operating under free market entry conditions. A permit to operate a minibus costs about GEL 50/bus/month. There is no licensing system for taxis, so it is not possible to know the number of taxis plying in the city. It is common practice for any person with a private car to operate it as a taxi by fixing a taxi sign to the car. There is no taxi metering, so trip fares are negotiated with the customer.

Road traffic accidents have been reported to have dramatically increased, with over 4,000 reported in Tbilisi in 2007, and a 62% increase in the number of people injured in 5 years. Accident details are the responsibility of the Police and no data is kept within the City government.

There are 178 locations in Tbilisi operating with (diode) traffic signals. Timings are fixed. Except for some parts of the city centre, the lights have a fixed blinking yellow operation from 11pm to 7am.

The City authority has implemented a number of measures to ease traffic congestion. On-street parking management, for example, was contracted through an auction to a foreign company, 'ParkCity,' in January 2009. In February 2009, to promote inter-modal use of public transport, a USD 7 million integrated ticketing system for the bus and metro networks was instituted, using Czech technology and financing from the Bank of Georgia.

## (2) Ongoing Projects and Status of Donor Assistance

In 2007, the World Bank assisted Tbilisi City on traffic safety, traffic management, parking management, and public transport systems development.

EBRD provided USD 4 million to Tbilisi Bus Company in 2005 and USD 2.5 million to Batumi in 2008 for support of a bus fleet renewal program, licensing of minibus systems, bus route rationalization, and development of information management systems.

Responding to the request of the Government of Georgia, ADB initiated urban transport improvement projects in Tbilisi and Kutaisi with a budget of USD 30 million. The Metro Extension Project (Phase I) intends to expand the existing Metro line to Vazha Pshavela where several educational institutions are located. This project also includes the construction of a bridge across the MtKvari River. In addition, ADB plans to finance transport improvement projects in Tbilisi totaling USD 85 million.

## (3) Assistance Needs in Urban Transport Sector

A report on Tbilisi urban transport assistance supported by MDF indicates that the investment of up to USD 17 million will be required for the next five years (Table 3-10).

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<sup>9</sup> Total grant was 300 million, of which the remainder went to water services.

**Table 3-10 Investment Requirement in Tbilisi Urban Transport Sector  
(next five years)**

<b>Project Description</b>	<b>Estimated Cost (USD thousand)</b>	<b>Implementation Schedule</b>
1. Annual design of new and improved traffic arrangements in existing intersections	100/year	Years 1–2
2. Geometric improvement of 2 Intersections	500	Years 1–2
3. Traffic control center stage 1: installation, upgrading 140 intersections & installing 60 new traffic lights	6,750	Years 3–5
4. Traffic control center – Maintenance	1,250/yr	Years 6- on
5. Improvement of additional Intersections (5/yr)	1,750/yr	Years 3–5
6. On going mapping of all accidents in Tbilisi in a GIS package and preliminary analysis	10/yr	Every year 1–5
7. Collecting quantitative and qualitative data on road safety behavior and attitudes	400	Years 1–3
8. Upgrade accident investigation, reporting and analysis into a safety management tool	250	Years 3–5
9. Public campaign to influence road behavior related to new traffic management and enforcement activities	1,500	Years 3–5
10. Develop traffic design guidelines (both for Geometric design and traffic light design and standards)	200	Years 2–3
11. Capacity building and training in safety management, traffic management and public transport management	600	Years 3–5
12. Data collection for transportation planning	250	Years 2–3
13. Developing Comprehensive Demand model	350	Years 3–4
14. Development of transportation master plan	200	Years 3–4
15. Identifying major infrastructure projects for private sector participation in financing	200	Years 3–4

Source: Municipal Development Fund of Georgia (2007), Urban Transport Assistance to Tbilisi Municipality, Final Report, June 2007.

The above report also recommends a short-term action program as shown in Table 3-11, for the attention of the donor society.

**Table 3-11 Action Plans for Urban Transport Improvement in Tbilisi**

<b>Number</b>	<b>Action Plan</b>	<b>Contents</b>
Action 1	Prepare a Transport Master Plan based on transport demand modeling with a focus on public transport modes	<ul style="list-style-type: none"> <li>• Preparation of TOR</li> <li>• Conducting various surveys</li> <li>• Development of transport demand modeling</li> <li>• Reorganization of public transport systems</li> <li>• Preparation of land use plans</li> <li>• Preparation of future development plan based on LRT and BRT</li> <li>• Selection of priority projects</li> </ul>
Action 2	Capacity Building of Tbilisi Transport Department	<ul style="list-style-type: none"> <li>• Preparation of street improvement guidelines</li> <li>• Preparation of traffic impact study guidelines</li> <li>• Implementation of various training</li> </ul>
Action 3	Privatization of Public Transport Company	<ul style="list-style-type: none"> <li>• Privatization assisted by EBRD</li> </ul>
Action 4	Procurement of Traffic Control Systems	<ul style="list-style-type: none"> <li>• Preparation of design guidelines and specification for the traffic signal systems</li> <li>• Procurement of equipment</li> <li>• Establishment of a traffic control center</li> </ul>

Source: Municipal Development Fund of Georgia (2007), Urban Transport Assistance to Tbilisi Municipality, Final Report, June 2007.

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- Municipal Development Fund of Georgia (2007), Urban Transport Assistance to Tbilisi Municipality, Final Report, June 2007.
- ADB (date unknown), Georgian Sustainable Urban Transport Project, Outline Terms of Reference for Consulting Firm.

### 3.6 Water Supply, Sewerage, and Solid Waste Management

#### (1) Overview

Water supply, sewerage, and solid waste management are closely related to the living conditions of the citizens of the country. The level of the services has deteriorated to hamper normal economic activities at large. Concentration of investments and economic activities in Tbilisi has delayed much needed infrastructure investments in rural cities.

#### (2) Water Supply

According to a survey conducted by USAID,<sup>10</sup> the national average in access to public water supply is 85%, but for rural cities is only 55% (Table 3-12).

**Table 3-12 Accessibility to Water Supply and Sewerage<sup>11</sup>**

Service	Area	Accessibility (%)
Water Supply	National Average	85
	Tbilisi	95
	Large towns	80
	Small towns	55
Sewerage	National average	70
	Tbilisi	90
	Large towns	45
	Small towns	30

Source: USAID, Georgia Water Utility Sector Reform Program, First Report: Current Status, Issues, and Reform Options, 2008

In rural cities, due to tight fiscal situations, lack of proper maintenance has degraded the service level in water supply seriously. In many cities, the facilities have been in operation over 40 years and some of them were built during the 1930s and 40s. The majority of pumps and other equipment is now used beyond its original physical life and needs to be replaced. Over 50% of the water supply networks require immediate rehabilitation. Disruption in water supply occurs regularly and most of the users receive water for the duration of 2 to 6 hours a day. Often drinking water is contaminated due to leakages and foul water and some cities are faced with the problem of water-borne diseases constantly. During the wet season, more than often the water turns muddy.

Water supply companies are not making enough revenue to financially sustain their operations. Furthermore, they are not equipped with proper managerial or technical skills. The facilities were built during the Soviet era without any regard for energy efficiency. Therefore, the efficiency is too low to sustain long-term operations financially.

According to the USAID survey, the average water supply per capita per day in the year 2002 was 1,000 liters per day per capita and that for Tbilisi was 1,400 liters per day per capita. Given

<sup>10</sup> USAID, Georgia Water Utility Sector Reform Program, First Report: Current Status, Issues, and Reform Options, 2008.

<sup>11</sup> The average number of hours of supply is 8 hours a day according to USAID, but the actual number of hours is estimated to be far less.



the normative figure in Europe of 120 liters per day per capita, the magnitude of waste is far too evident. Water meters actually functioning are estimated to be around 5%. Therefore, it is easily conceivable that a large portion of the water supplied is simply wasted. With much loss through leakages added, the level of non-revenue water is estimated at no less than 45% and most likely more.

### (3) Sewerage Service

According to the survey by USAID, the national average in access to sewerage service is 70%, but that for rural cities is only 30%. In many cities, sewer pipes are broken and often clogged. Out of 28 wastewater treatment plants in the country, only 5 facilities are in operation. In any of the facilities, only primitive physical treatment of wastewater and nothing of biological treatment in nature is provided before release. As a result, there is a growing concern of ingress of wastewater into the water supply systems in most of the cities in the country. In some smaller cities, only septic tanks are used for wastewater treatment.

### (4) Solid Waste Management

The current practice of landfill of solid waste poses some public risks to the neighboring residents in terms of potential groundwater contamination and infectious diseases, thus creating undesirable social impacts.

Normally, the collection of solid waste is handled by a utility company owned by the municipality, or a section of it. There is a lack in human resources and managerial and technical capacities. Thus, a long-term development approach is needed.

### (5) Needs Assessed by JNA

JNA (2008) summarized the urban infrastructure investment needs, as shown in Table 3-13.

**Table 3-13 Reconstruction Investment Needs in Urban Infrastructure**

Cities	Subsectors	(GEL million)
Gori	Roads	15.8 (rural)
		2.0 (urban)
	Water supply systems	0.54
	Housing and commercial buildings	1-3
Senaki	Roads	0.4
	Water supply systems	0
	Housing and commercial buildings	0.3
	Public buildings*	0.4
Poti	Roads	0
	Water supply systems	6
Zugdidi	Water supply systems	0
	Sanitation	1.5
Roads		GEL 24.2m (USD 17.3m)
Water supply	Wastewater, sanitation	GEL 2.0m (USD 1.4m)
Public buildings		GEL 1.6m (USD 1.1m)
Total		GEL 0.4 m (USD 0.3m)
		USD 20.1m

Source: The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.

According to the JNA, the estimated investment need within urban infrastructure is estimated to be USD 257 million for the immediate and mid-term (Table 3-14). According to the survey conducted by USAID, it will require USD 487 million for the sector of water supply and

sewerage alone. With most of the pipe facilities underground, there is no knowing the extent of the needs for rehabilitation until actual work starts.

**Table 3-14 Urban Infrastructure Investment Needs**

<b>Project</b>	<b>(USD million)</b>	<b>Major Components</b>
1 Kutaisi Infrastructure	36	water pipes, treatment facilities, wastewater, water pipes, treatment
2 Poti Infrastructure	36	water pipes, treatment facilities, wastewater, water pipes, treatment
3 Zugdidi Restoring water supply pipe line	7	Urgent: no later than March 2010
4 Zugdidi Infrastructure	22	upgrading of urban and
5 Senaki Infrastructure	22	municipal infrastructure
6 Tbilisi Urban Transport	36	preparatory studies, traffic public transport, parking space, road networks
7 Kutaisi Urban Transport	36	preparatory studies, traffic public transport, parking space, road networks
8 Batumi Urban Transport	18	road improvement, traffic control, parking spaces
9 Management contract related expenses	24	
Immediate damages	20	
<b>Total</b>	<b>257</b>	

Source: The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.

It is necessary to approach the solid waste problem from a national perspective. Among all cities, the problem for Tbilisi is the most urgent. There are immediate needs to rehabilitate the existing two landfills. In addition to Ajara and Rustavi, there are needs for the development of regional landfills. It is anticipated that five additional regional landfills will satisfy the national need for solid waste disposal. It is necessary to examine the rehabilitation needs of the existing landfills. If rehabilitation is not sufficient, it would be necessary to find new sites by conducting feasibility studies with the assumption of closing the old ones. It would take longer to establish a new site and secure land in relation to the affected residents than would rehabilitation.

#### (6) Current Status of Donor Activities

USAID has provided technical assistance in the management of water supply since 2007. The core recommendation is to consolidate 80 water supply companies into 4 regional companies. Table 3-15 indicates the integration plan of water and sewerage companies by USAID. The four companies consist of Ajara on the Black sea Coast, Georgia Water West for the western region of Georgia, Georgia Water East for the eastern part of Georgia, and Tbilisi Water. Tbilisi Water is already privatized. According to this master plan, instead of promoting decentralization, financially weak local companies will be centralized into regional companies to strengthen financial bases and managerial disciplines. The reform is already taking shape according to this recommendation. A new agency of Water Supply Regional Development Agency under the Ministry of Regional Development and Infrastructure is already established to realize the integration.

**Table 3-15 Integration Plan of Water and Sewerage Companies by USAID**

Regional Companies	Population (000)			Province	Service Area km <sup>2</sup>	Water Companies	Headquarters
	Urban	Rural	Total				
West and North	545	762	1,307	4	20,981	27	Kutaisi
Central and East	321	939	1,260	5	29,058	28	Tbilisi or Telavi
Ajara	147	222	369	1	2,900	3	Batumi
Totals	1,013	1,923	2,936	10	52,939	58	

Source: USAID, Water Utility Reform Plan and Implementation Strategy

Note: Already privatized Tbilisi is excluded.

EBRD, EIB, World Bank, and KfW are now co-financing the Municipal Infrastructure Project. The main targeted cities are Kobuleti, Poti, Kutaisi, Borjomi, and Tskhaltubo. The total financial support is about USD 160 million.

### (7) Needs for Urban Infrastructure Development

In the case of water supply, the delivery system was constructed during the Soviet era with heavy reliance on pumping systems with an assumption of cheap electricity. Given the high appreciation of price of electricity, energy cost is the most costly expense for the operation of the current water supply systems. Therefore, it is much needed to switch from a pumping system to a gravitational system of delivery to the largest extent possible. Since similar needs for identifying water source and designing gravitational delivery system exist for irrigation as well, it would be ideal to integrate the two studies into one national water resource master plan.

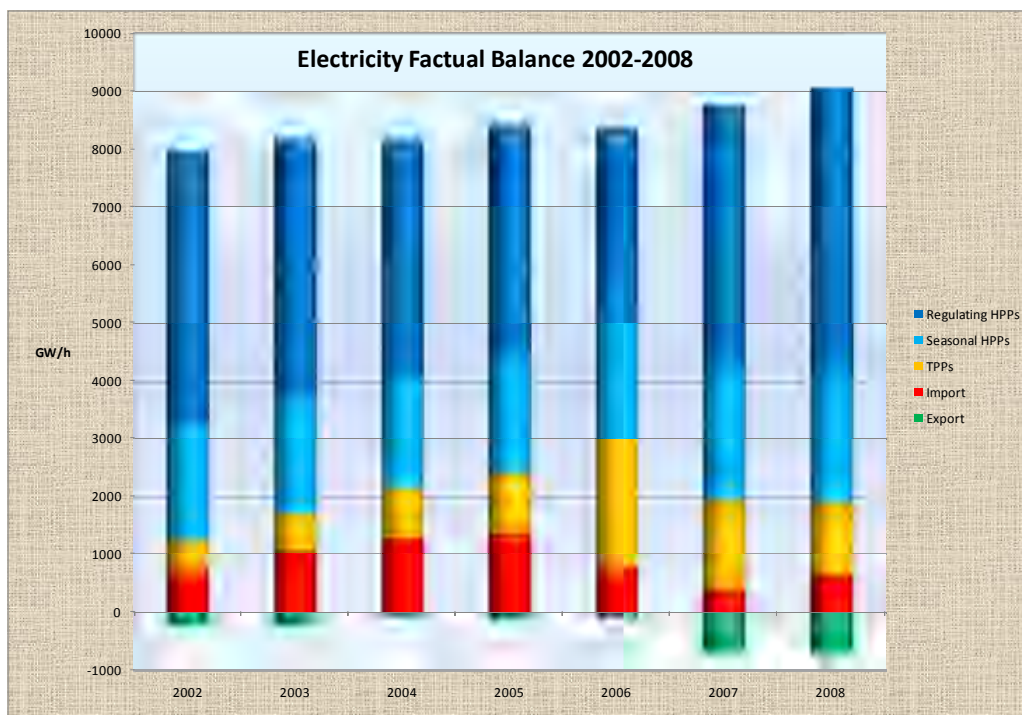
#### References

- USAID, Water Utility Reform Plan and Implementation Strategy
- USAID, Georgia Water Utility Sector Reform Program, First Report: Current Status, Issues, And Reform Options, 2008
- The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008, Annex XIII, Municipal and Urban Services.

## 3.7 Energy

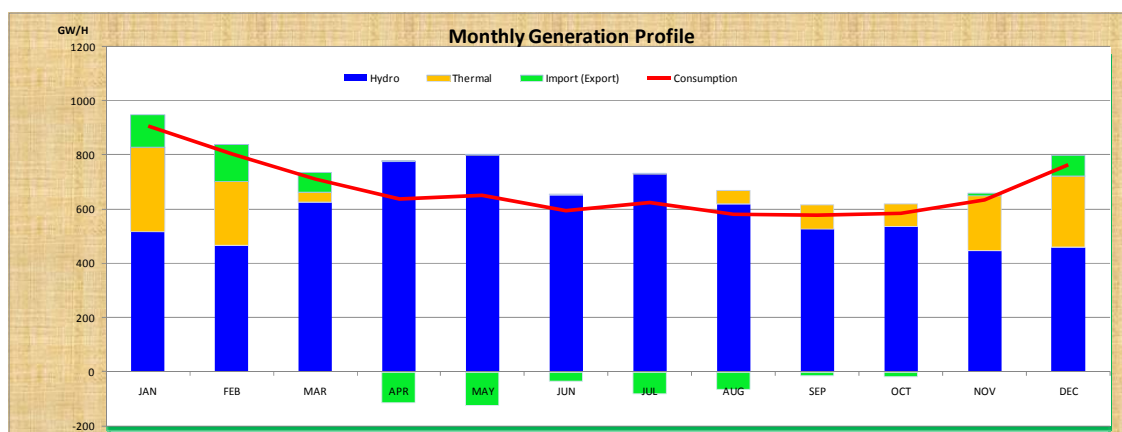
### (1) Overview

Electricity and Gas are major subsectors of the Energy Sector in Georgia. In the area of Electricity, it is endowed with the rich water resources of the Caucasus Mountains as potentials of hydropower generation. Recently, Georgia is recognized as an electricity exporting country which used to suffer from a constant power shortage until the beginning of the 2000s. The present installed capacity of the country totals 2,475 MW of which 2,060 MW is contributed by hydropower generation. As indicated in Figure 3-10, the domestic power demand is sustained by its own plant capacity and a surplus is even exported during the period of April-August when a good volume of water is available. As for the period of August-October, thermal power plants fill the shortfalls of hydropower. Major imports of electricity from neighboring countries, especially from Turkey, take place during the period of power shortage from November–March.



Source: Ministry of Energy

**Figure 3-9 Structure of Electricity Supply (2002–2008)**



Source: Ministry of Energy

**Figure 3-10 Monthly Electricity Generation Profile of Georgia**

The majority of power generation originates from HPP Enguri at present. However, there is concern on the security issue as Enguri's power generation units are located in Abkhazia, while its reservoir and related facility are located in the territory of Georgia. A lack of transmission capacity is another concern for this sector which causes frequent trouble in the case of electricity imports during the drought period.

The BTC (Baku–Tbilisi–Ceyhan (Petroleum) Pipeline) is a pipeline designed to transfer crude petroleum from the Caspian Sea to the western borders which is the only route that does not go through Russian territory. The transfer capacity of the BTC is 1 million barrels per day and its total length runs 1,768 km from the Azeri-Chirag-Gunashli (ACG) Oil Field to the coast of the Mediterranean Sea. The construction of the pipeline was completed in 2005 by an international consortium of the British Petroleum (BP) initiative. It started its operation of shipments from Ceyhan in 2006. The BTC pipeline of BP, one of the most important facilities, has escaped from

damages that might have been caused by the military confrontation in 2008. There is another gas pipeline that runs parallel to this route which was also not damaged from the incident. However, the distribution pipelines in Gori and the surrounding area were destroyed. A part of the restoration cost for this is allocated in the budget for the JNA Study.

In the Electricity sector, the transmission sector remains State-owned, as does the gas sector. The rest has been privatized.

## (2) Needs Assessment by JNA

The cost estimation of the needs for reconstruction assistance by the JNA in 2008 is indicated in Table 3-16.

**Table 3-16 Needs for the Reconstruction in Energy Sector by JNA**

<b>Project</b>	<b>Cost Estimation (unit: USD million)</b>
Direct damages and losses from the conflict	12
Strategic reserve of mazut (heavy fuel oil) as back-up fuel for gas power plants	26
Rehabilitation for Senaki 220kV transmission line	28
Natural Gas Storage	177
total	243

Source: The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.

According to the appraisal by JNA, it is stressed that the direct damage restoration and the strategic reserves of Mazut are the most significant investments. The gas-turbine thermal power plant located in the suburb of Tbilisi has the role of supplementing electricity during winter time. The strategic reserves are to stock 4 weeks' worth of fuel to prepare for a contingency – the cost of which totals USD 26 million. The rehabilitation of Senaki 220 kV transmission line is to strengthen the transmission grid in the western region of the country.

JNA sees significance in the development of holding water resources as a long-term goal including development in HPP Khundoni (USD 800 million), HPP Namakhvani (USD 540 million), and HPP Oni Cascade (USD 525 million).<sup>12</sup>

## (3) The Mid-Term Investment Plan of the Country

According to the Basic Data and Directions (BDD, essential financial data, principle), the most essential mid-term budgetary plan, the mid-term goals of the Energy Sector include the following:

- Increase in installed capacity by 500MW in the hydropower generation: 1) increase in utilization of hydro potentials by 13%; 2) increase in share of annual hydro power generation to 90%.
- Improvement of reliability on electricity system: 1) diversification of source of electricity; 2) dispersion of origination of imports.
- Improvement of exporting capacity: extending export volume to threefold.
- Diversification of energy sources in rural areas: extension of supply area of utility gas.

It should be noted that the principles of BDD are defined in the same direction as the mid/long-term goals indicated in JNA.

<sup>12</sup> The total cost is estimated at USD 2.7 million.

#### (4) Status of Donor Assistance

Among the needs identified by JNA, the only commitment made was on the budget for F/S on the underground reserve facility of natural gas by the US MCC amounting to USD 13 million. This project has been completed and Ninotsminda was nominated as a candidate site. According to its cost estimation, the construction cost ranges from USD 60–150 million, for which financing sources have not been yet provided. The project for the strategic reserves of Mazut has been implemented and completed by the Georgian Government's own funds. The project of rehabilitation on Senaki 200 kV transmission line is supposed to be financed from the general account of the Georgian Government. However, it has been postponed due to financial reasons. The prospect of implementation is unclear.

There is one on-going project which does not fall within the scope of the JNA projects – construction of a 500 kV transmission line connecting with Turkey through the pan-Black Sea route. This is the one of the projects announced for the prospective assistance in the Reconstruction Conference in 2008. The bidding process has already been initiated. The project is expected to be completed on a rather fast track. This will create a complementary supply system of electricity with Turkey. Both JNA and BDD see it as essential to the Country.

With regard to the development plan of hydropower generation, the Government of Georgia has already identified a total of 80 potential sites. It will filter and select 25 sites out of these and narrow these down to 5–6 for the F/S with the assistance of USAID. As for the projects concerning the construction of power plants, they are planned to follow the concession procedure to invite private investors. Thus, there will basically not be room for public financing. EBRD and EIB have made announcements of their interest in the financial support of private investors.

The most notable progress has been shown in the project on HPP Paravani. The Turkish company has already been awarded the concession and is expected to initiate construction within this year with a loan arrangement by EBRD/EIB. Although the site of the power plant is state-owned, it is going to be a 100% private capital construction. Most of the electricity generated is to be exported to Turkey; however, it has the obligation condition to provide 50GWh domestically during the winter period of electricity shortage. HPP Nmakhvani has its potential installed capacity of 450 MW. F/S was completed during the Soviet era. Some private investors, including Korean companies, are interested in the site. A plan for the project on HPP Khudoni is planned for the installed capacity of 70 MW. With regard to the HPP Oni Cascade Project, it has a potential installed capacity of 280 MW. The construction cost is estimated at USD 600 million. EBRD is interested in this Project.

Table 3-17 shows the on-going Projects in the energy sector.

**Table 3-17 Energy Related Ongoing Projects**

Project	Donor organization/ Country	Amount (million)	Financial mechanism	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
Black sea high voltage power transmission line (500 kv)	EIB, EBRD, BMZ, KfW	EIB: EUR 56 EBRD: EUR 60 BMZ/Germany: EUR 9 KfW/Germany: EUR 100 Total: EUR 225 Project Cost: EUR 290	Ministry of Energy	2009	2009	2011	Under implementation
Paravani Hydropower Plant	EBRD	EUR 40	direct private lending	Signed	Started	End of 2009	Construction underway
Oni cascade hydro-power plant	EBRD	EUR 50	direct private lending	TBD	TBD	TBD	Concession process underway
Vardnili HPP Cascade Rehabilitation	EBRD EIB	EBRD: EUR 25 EIB: EUR 25 Total Project cost: EUR 60	TBD	TBD	TBD	TBD	Under Appraisal
Hydropower Projects Feasibility Study	USAID	USD 9			2009	2010	Feasibility studies for nation-wide hydropotentials
Gas Storage Pre-construction Design	MCC/USA	USD 13	GOG/MCG F	11,08	10,08	12,10	feasibility studies for underground storage facilities is underway

Source: Ministry of Finance and the JICA Study Team

## (5) Assistance Needs in Energy Sector

### *Project on the Gas Pipeline in the Western Region of the Country*

There is a strong need for external financial assistance expressed by the government on this gas pipeline project for the western region of the country, though financial support has not yet been committed. USAID is now contemplating F/S and has called for co-financing, including with Japanese, to the scale of the cost. The total cost is estimated at approximately USD 150 million.

The Project consists of 3 components.

- Stage 1: Senaki–Poti 27 km, 700 mm pipeline > new construction / USD 26 million
- Stage 2: Saguramo–Terjola–Senaki 101 km, 500 mm > replacement / USD 94 million
- Stage 3: Saguramo–Terjola 45 km, 700 mm > 25% rehabilitation / USD 30 million

The initial design for Stage 1 is complete. Each stage requires a 3–4 month construction schedule. This Project will be carried out to provide a significant energy source to the FTZ in Poti, the strategic core for Georgian industrial development, as well as to allow for energy conversion to the gas utility in Zestafoni, Kutaisi, Senaki, and Poti, the major cities in the western part of the Country.



Source: Georgian Oil and Gas Company

**Figure 3-11 Tbilisi–Poti Gas Pipeline Routes**

References:

- The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008, Annex XII, Energy.
- Internal Materials provided by USAID.





Figure 3-12 Georgia Power Sector Map

# OIL & GAS EXPLORATION & TRANSPORTATION



Source: USAID Tbilisi Office

Figure 3-13 Georgia Oil and Gas Sector Map

### 3.8 Agriculture

#### (1) Sector Overview

Approximately 2 million people, equivalent to 48% of the Georgian population, live in rural areas on farmland of 1 million hectares. The agriculture sector employed 52% of the labor force in 2007, and this share has doubled since 1990. For those IDPs from South Shida Kartli and South Ossetia, agricultural income from vegetables, fruits, and crops comprise a significant part of total income.

Poverty is the most serious issue in rural areas in Georgia. A study on poverty in the country shows that 59% of poor and 62% of poorest live in rural areas. Among them, many independent farmers are seriously poor, and the highest poverty rate (59.4%) is observed in Shida Kartli. According to a survey implemented before the military conflict, it is reported that farmers are obliged to spend 75% of their income on food due to inadequate food access and supply.<sup>13</sup> On the other hand, recent improvement in the macroeconomy in Georgia has not contributed to agricultural sector development. Even though the agricultural sector comprises only 9% of GDP, the sector is important because many people are engaged in agricultural activities. The agricultural sector is recognized as a safety net for the Georgian economy, and a long-term strategy for the sector is needed for the improvement of economic development.

#### (2) Irrigation Systems

Around 300,000 hectares of farmland were irrigated during the Soviet era. However, the irrigated areas have decreased vastly and only 120,000 hectares of this land are irrigated at present. The World Bank started to finance USD 7–8 million for the expansion of irrigated areas. The irrigation systems with 4,000 hectares were supposed to be rehabilitated by the project. However, it was stopped due to technical problems. There is no definite plan for the reopening of the project.

There were about 300 pump stations in Georgia during the Soviet era, and 36 pump stations are in operation today, out of which only 10–14 of them are fully functioning. Drastic reduction of operating pumps for irrigation owes to the mismatch of their locations to needs. A sharp increase in the electricity tariff of about thirtyfold discouraged the rebuilding of pumping stations. In addition, it was necessary to invest in the re-building of secondary and tertiary irrigation channels.

The Ministry of Agriculture has a plan to replace 8 pump systems in Meskhet-Javakheti with gravity flow irrigation systems, which also takes into account the replacement of some pump systems in Akhalkalaki, Kaspi and Tetri Tskaro. Potential areas for irrigation systems will be in Kvemo Kartli, Shida Kartli and Kakheti.

There are irrigation companies (Ltds) which provide irrigation services in Georgia.

- Kokheti M (drainage and irrigation) – Western Georgia
- Mtkvari M (irrigation) – Western Georgia, Shida Kartli, Samtskhe–Javakheti
- Sioni M (irrigation) – Kvemo Kartli, Tbilisi
- Alazani M (irrigation) – Eastern Georgia, Kakheti

Water is supplied to farmland through “Water Associations”. There are 279 Water Associations and 52 of them are located in Western Georgia.

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<sup>13</sup> The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.

### (3) Farmland Drainage Systems

There are 24 farmland drainage systems in Georgia. Most of them are located in swampy areas near the Black Sea in western Georgia. These drainage systems malfunction due to lack of maintenance, causing waterlogging in some areas. Water channels of drainage systems are clogged near the coastal area in western part of Georgia due to cleaning neglect over a prolonged period. The World Bank financed the cleaning of those systems and 12 systems have already been cleaned. The government also allocated USD 15–16 million for the maintenance of drainage systems, and these activities will be completed by the end of this year. The current projects will rehabilitate some drainage systems which cover about 80,000 hectares. However, it will take an additional USD 100 million to clean up all the drainage systems in the country.

### (4) Needs Assessment by JNA

The military conflict last year inflicted serious losses of agricultural products due to interruptions of harvests at fields and orchards in Gori Plain. The water supply from irrigation systems in Southern Ossetia was stopped, and residents and farmers had to be evacuated from the military invasion of Russia. It is estimated that 50,000 small farmers lost more than USD 100 million by the end of 2008.

Agriculture Reconstruction Strategy prepared by JNA is focused on the following points:

- Urgent assistance of farmland protection and food security for IDP, returned people in Shida Kartli
- Short-term assistance to minimize the negative impact of the military conflict on agricultural production and food security
- Short- and mid-term assistance to prepare infrastructure for sustainable agricultural production and food security in that area
- Long-term assistance to improve productivity and competence of agriculture

JNA specified reconstruction development needs by each step as shown in Table 3-18.

**Table 3-18 Reconstruction Development Needs Assessment  
for Agriculture Sector Prepared by JNA**

<b>Period</b>	<b>Reconstruction Development Needs</b>
Urgent Needs (October 2008 – March 2009)	<ul style="list-style-type: none"> <li>• To enable the production of winter wheat with estimated productivity 2–2.5/ha in 2 hectares field</li> <li>• To secure sufficient forage for 50,000 households to winter over</li> <li>• To consider a long-term solution to the water supply problem for 10,000 households, including people and livestock, to access enough water to be consumed</li> <li>• To provide 20 pumping wells and small irrigation systems</li> </ul>
Short- and Mid- term Needs (April 2009 – March 2010)	<ul style="list-style-type: none"> <li>• 50,000 small and vulnerable farmers, some living in areas destroyed by the conflict or some returned from the evacuation, will be able to sustain themselves with new products and social assistance packages</li> <li>• To reconstruct and rehabilitate agricultural infrastructure as production assets in Shida Kartli and other vulnerable areas</li> <li>• To restore the number of livestock to that before the conflict</li> <li>• To irrigate farmland up to 5,000 hectares in Gori Plain</li> </ul>
Mid-term Needs (April 2010 – September 2011)	<ul style="list-style-type: none"> <li>• To irrigate farmland with 20,000 hectares in Gori Plain by replacement or sustainable water resources</li> <li>• To reconstruct and rehabilitate rural infrastructure as production assets in Shida Kartli and other vulnerable areas</li> <li>• To establish and operate 5 agribusiness factories</li> <li>• To provide consulting services regarding agriculture and pasturage</li> </ul>

Source: The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.

### (5) Donor Assistance Activities

At present, USAID, SIDA, and JICA have assistance activities in the agricultural sector. USAID urgently set up a project and appointed FAO as an implementation agency to provide forage with 4,240 tons for 37,000 livestock. This project was planned for the shortage of forage to winter over as well as the impact from the conflict. USAID and SIDA supported several activities in the agricultural sector before the conflict, and they extended some existing programs as urgent assistance activities.

USAID has implemented a program called AgVantage to provide technical assistance for agricultural products and agribusiness in Georgia to increase their added value in all processes from production farmers to food processing. USAID has also provided a USD 3-million loan guarantee for the Republic Bank as an agricultural credit framework. SIDA has supported the construction of a milk center. The Government of Japan granted agricultural tractors with USD 13.3 million in urgent assistance (see Table 3-19).

**Table 3-19 Donor Assistance in Agricultural Sector**

Donor Organization/ Country	Amount mln	Currency	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
GoJ	13.3	USD	agricultural tractors grant	non-project grant	2008	2009	2009	signed on December 25, 2008 (due to JPY appreciation vs USD, dollar equivalent is about USD 13.5 million)
USAID	-	USD	Emergency Cattle Fodder	Grant	2008	2008	2008	Provision of 4,240 ton of over winter emergency fodder for 37000 cattle for conflict affected farmers.

Source: Hearing by JICA Study Team

### (6) Assistance Needs in Agricultural Sector

According to the Ministry of Agriculture, they will have a donor coordination meeting with donors soon and request support for development issues in the agricultural sector. There are some issues to be managed mid- and long-term, and it is relevant to start from a master plan and feasibility study. Japan and other donors are expected to implement a study regarding water resources. As for basin management, Georgia has changed their method from sectional management by each ministry to an integrated one to follow after the EU. USAID has started to prepare a basin management program in a few areas to support these reform initiatives.

In relation to these activities, basic information for conversion from electric pump irrigation during the Soviet era to gravity flow irrigation systems is required. "Nationwide Water Resources Survey" has the potential to be implemented as technical cooperation with the purpose of analyzing the available surface and groundwater resources, and to plan irrigation and water supply projects. These technical cooperation projects will include the estimation of available water resources, setting up a database for available water resources, and a feasibility study for pilot projects such as gravity flow irrigation and water supply. The cost will be USD 1–3 million.

References:

- The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008, Annex IX, Agriculture and Livelihoods.

### 3.9 Environment

#### (1) Outline

There following are the five major sectors within environmental management in Georgia:

- Forestry Resource Management
- Solid Waste Management
- Water Resource Management
- Disaster Prevention and Management
- Climatic Change Measures

#### (2) Forestry Resources Management

Georgia is located in the south Caucasus area with a total national surface area of 6.5 million hectares. The forest of Georgia comprises 2.77 million hectares, i.e., 40% of the total national land area. The estimated volume of forestry resources totals 3.6 billion m<sup>3</sup>. 97% of the forest area, 2.92 million hectares, is in the mountains and the balance lies in the flatlands. Mature trees dominate at 33.4% (852.3 thousand hectares), while ripe and old age plants make up 35.4% (904.4 thousand hectares).<sup>14</sup>

Although endowed with rich forestry resources, the degradation of forests is becoming a conspicuous problem at present. The causes behind this degradation are multiple, including illegal cutting and past rampant licensing without due considerations for sustainability. In addition, fires caused by the conflict further damaged precious resources. At present, the Borjomi area, where much fire damages were inflicted, are now under the implementation of a rehabilitation project. It is urgent to establish a rational management system to achieve sustainability in the long run, including a rational licensing scheme. Technical assistance in the development of a national database for forestry resources is urgently needed.

#### (3) Solid Waste Management

The Dutch government has assisted Georgia in the field of solid waste management since 10 years ago, mainly on policy development. At present, EBRD is expected to finance a landfill in Batumi. Also BP is providing financing to one in Rustavi.<sup>15</sup>

#### (4) Water Resource Management

As mentioned before, EU and UNDP have helped Georgia to make a shift from administrative division-based water resource management to integrated watershed-based water resource management. The government is now preparing a basic legal framework for the new administrative approach. The main water resources for the water supply in Georgia are groundwater, including springs. However, basic information on water resources is lacking. The EU is assisting Georgia in this sector with the following projects:

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<sup>14</sup> As for tree species, the beech occupies 1,060 thousand hectares; the fir, 161.5 thousand hectares; the pine, 91.0 thousand hectares; the oak, 241 thousand hectares; the alder, 125.1 thousand hectares; the Chestnut, 72.8 thousand hectares; the hornbeam, 220.6 thousand hectares; the Fir-tree, 102.0 thousand hectares, etc.

<sup>15</sup> Please see also Section 3.6 of this report.

- Mtkvari-Araks project : Water Quality Monitoring
- Water governance project : Water Quality Classification System Development

#### (5) Disaster Prevention and Management

Major disasters in Georgia are landslides and earthquakes but there is no overall framework in this sector.

#### (6) Climatic Change Measures

The government has ratified the Kyoto Protocol, Trans-boundary Air Pollutant Treaty, and Montreal Protocol on Ozone Layer Destruction Matters. The main donor in this field is GEF. The ministry has requested a project on solar panels from JICA.

#### (7) Assistance Needs for Environmental Protection

##### National Forestry Database Development

Among all the rich natural resources, Georgia is particularly rich with water and forestry resources. Water resources have enabled Georgia to generate almost all of its power needs from hydropower generation. Large-scale power exports from hydropower generation are planned in the future, as well. Also, it is important to utilize water resources effectively to improve productivity in agriculture. Forestry resources are critical to preserving the rich water resources of Georgia. Now a new framework is being established to preserve and utilize water resources in accordance with watershed basins for sustainable development. The core of such management rests on the conservation of forestry resources. The Georgian landscape commonly has steep terrain where landslides are often observed. Soil conservation also requires some attention.

The ministry of Environmental Protection is particularly interested in the development of a national database for forestry resources. Evidently, the database is to serve as a foundation for sustainable development policies for water resource management and agricultural development. Such awareness within the government is now becoming more dominant. Eventually it will become the basis for the establishment of a special agency that manages the overall forestry resources with a holistic approach, including the management of the landownership registry, forestry resource distribution, the issuance of licenses for timbering, transfer of ownerships, replanting, etc. It is necessary to provide basic technical assistance to support such sustainable development implementation in the area of information infrastructure. Another potential project that may be needed in tandem with database development is to support institutional development projects to support the development of the Forestry Protection Agency. The actual core of this technical assistance may focus on the technical aspects of remote sensing, aerial photography, GIS database development, human resource development for GIS management, forestry ranger training, etc.

##### Water Resource Master Plan (Study)

Another request from the ministry was on the area of hydro-geology. As described in the sections for agriculture and water supply, the need for the development of an efficient gravitational delivery system is much needed to replace the current inefficient systems. It may be possible for the ministry to coordinate the needs of two other economic ministries to develop overarching national inventory database for water resources.

#### References:

- The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008, Annex XIV, Environment.

### 3.10 Tourism

#### (1) Overview

The main tourism activities within Georgia are culture and adventure, with visits to ski resorts, national parks, the Black sea coast, and UNESCO sites. Eco-tourism is a growing area. In 2007, Georgia received around 1 million visitors. Presently, 73% of arrivals to Georgia are from Azerbaijan, Armenia, and Turkey. Table 3-20 shows a breakdown in the number of tourist arrivals by country of origin. This table also shows the high yielding segments of the arrival market. South Korea and Japan show the highest expenditures per trip, though demand is low.

**Table 3-20 Arrivals by Country of Origin and Average Expenditure**

Country of Origin	Average Expenditure per trip (EUR)	Total Expenditure (EUR millions)	Arrivals (Jan–Dec 2007)
Azerbaijan	281,629	72	18.0
Turkey	248,028	280	62.0
Armenia	243,133	350	75.8
Russia	91,361	504	41.6
Ukraine	28,932	128	3.4
Israel	16,450	631	9.8
USA	14,818	775	10.8
Germany	14,081	709	9.5
Greece	12,380	N/A	N/A
UK	9,775	720	6.7
Bulgaria	9,104	245	2.1
Iran	7,986	N/A	N/A
France	5,958	1,126	6.3
Japan	1,457	1,117	1.6
S.Korea	651	1,685	1.0
<b>TOTAL</b>	<b>985,743</b>		<b>248.5</b>

#### (2) Tourism Strategy for Georgia

A National Tourism Development and Investment Strategy for Georgia – ‘The Georgian Way’ – funded by the US Trade and Development Agency was developed in 2008. Some recommendations of the strategy are listed below:

- Focus on high yielding market (tourists with greater expenditure)
- Focus on long haul and western European traffic
- Provide more experience-based (geo-tourism) tourism

The strategy also promotes encouraging long haul visitors who are destined for Turkey to also visit Georgia by extending their trips. Turkey received over 600,000 American tourists in 2007. A small proportion of these would cause the number of visits to Georgia by Americans to double if their trips were extended. Nationally, the strategy also recommends a hub and spoke destination network. In this way, the main hubs of Tbilisi, Borjomi, and Kutaisi would have several accessible destinations within reach.

#### (3) Status of Donor Assistance

Table 3-21 shows the status of assistance by donors in the tourism sector.



**Table 3-21 Status of Donor Assistance in Tourism**

<b>Donor/ Implementer</b>	<b>Strategic Aim/Objective</b>	<b>Time Frame (ongoing/planned)</b>
SDC Swiss Development Cooperation/ <i>CENN – Caucasus Environmental NGO Network</i>	To develop tourist activities in Bakuriani	2008–2009
SDC – Swiss Development Cooperation/ <i>Elkana - Biological Farming Association</i>	To implement the Tourism and Rural Development Project (TRDP)	2006–2008
Eurasia Partnership Foundation/ <i>American Chamber of Commerce</i>	To provide support to the tourism industry	Ongoing
Eurasia Partnership Foundation/ <i>Svaneti Tourism Center, Elkana Association, Training and Development Group, and Svaneti Tourism Center</i>	To build awareness in service standards and business management principles among small and medium-sized tourism enterprises (SMEs) in the following regions: Kakheti, Mtskheta-Mtianeti, Samtskhe-Javakheti, Kvemo Kartli, Imereti, Guria, Svaneti, and Racha	Ongoing
Eurasia Partnership Foundation/ <i>Tbilisi Tourism School</i>	To promote reform of vocational education in the tourism service sector by supporting development of the country's first tourism vocation school.	Ongoing
Friedrich - Ebert Foundation/ <i>The Georgian Union of Mountain Activists (GUMA), Mountain-Tourism Center in Upper Svaneti (SMTC)</i>	To support rural households which derive income from rural tourism activities, for example by providing lodging, food, and supporting employment for local youths as guides	Ongoing
GTZ-project "Private sector development in Georgia"/CCVMT – "Competence Centre Vine, Wine marketing & Wine tourism", NGO "Union of Assistance of Development Georgian Region"	To increase the sustainability of tourism development in the area of Zemo Svaneti	Ongoing, FY 08
GTZ-project "Private sector development in Georgia"/CCVMT – "Competence Centre Vine, Wine marketing & Wine tourism", NGO "Union of Assistance of Development Georgian Region"	To increase the sustainability of tourism development in mountainous regions	Ongoing, FY 08
GTZ -project "Private sector development in Georgia"/ NGO "Union of Assistance of Development Georgian Region", div. stakeholder groups	To promote public-private dialogue (PPD) for sustainable regional development processes in Zemo Svaneti	Ongoing, FY 08
GTZ -project "Private sector development in Georgia"/TCC Batumi, ATA Adjara Tourism Association, Adjara AR Government	To position Adjara AR as one of the major tourism destinations in Georgia	FY 08
GTZ -project "Private sector development in Georgia"/ DOTR	To support capacity development in the Department of Tourism and Resorts (DOTR)	FY 08 Jan. 08

<b>Donor/ Implementer</b>	<b>Strategic Aim/Objective</b>	<b>Time Frame (ongoing/planned)</b>
GTZ -project "Private sector development in Georgia"/ <i>CCVMT Competence Centre Vine, Wine marketing &amp; Wine tourism</i>	To support capacity development in the Competence Centre for Vine, Wine Marketing and Wine Tourism (CCVMT)	FY 08
GTZ -project "Private sector development in Georgia"/ <i>GTA Georgian Tourism Association, ATA Adjara Tourism Association</i>	To support capacity development in tourism associations, e.g. Georgian Tourism Association (GTA) & Adjara Tourism Association (ATA)	FY 08 March 08 April 08
GTZ -project "Private sector development in Georgia"	To promote awareness, capacity building and public-private dialogue (PPD) for sustainable tourism development in Georgia	Ongoing, FY08
USAID SME Support Project	To position Signaghi as a major tourism destination in Kakheti	2007–2008
USAID SME Support Project <i>DOTR</i>	To improve the awareness and accessibility of tourism information throughout the country	2007–2008
USAID SME Support Project	To increase the presence and visibility of Georgian hotels in internet search engines	2008
USAID SME Support Project	To position Abastumani and Abastumani Astrophysical Observatory as one of the major tourism attractions in Georgia	2008
USAID SME Support Project	To position Mestia/Uzhguli as one of the major tourism destinations in Georgia	Ongoing
USAID/IREX <i>Internet Access and Training Program (IATP)</i>	To teach entrepreneurs the basics of web design, so that they can promote tourism independently; to assist trainees run their businesses more efficiently and learn more about business advertising, customer care, and online services	2006-January 2008
USAID "Georgia Employment and Infrastructure Initiative (GEII)"; CHF International-Georgia in partnership with International Executive Service Corps (IESC)	To remove constraints in future growth of rural tourism in GEII communities and develop a tourism strategy covering Adjara, Kakheti, and Samtskhe–Javakheti regions. To develop tourism potential in Abastumani Resort (Samtskhe–Javakheti) and Mestia (Samegrelo Zemo Svaneti).	Ongoing, 2008–2009
USAID/Public Administration Reform Program (PAR)	To assist organizational development of the Department of Tourism and Resorts of the Autonomous Republic of Adjara	Ongoing, FY 08
USAID/Urban Institute – "Communities Empowered for Local Decision-Making" Project	To set up a Tourism Information Center in Borjomi; to develop tourism in the Akhaltsikhe –Rabati Neighborhood, and in Kutaisi	2007 2007 2008

<b>Donor/ Implementer</b>	<b>Strategic Aim/Objective</b>	<b>Time Frame (ongoing/planned)</b>
U.S. Department of the Interior/ International Technical Assistance Program (USDOI-ITAP)	To assist in building the capacity of Georgia's Government to enhance management of national protected areas	Ongoing, FY 08
Global Environment Facility/ The World Bank/ <i>Ministry of Environment and Natural Resources, Agency of Protected Areas</i>	To develop national capacity for management of protected areas and conservation of biodiversity in the selected priority areas of East Georgia	Ongoing, scheduled to close on December 31, 2008
Embassy of Greece <i>DOTR</i>	To establish the Georgian-Greek Tourism School (IKARUS)	2006
Embassy of the Kingdom of the Netherlands <i>International Business Development and Investment Promotion Center</i>	To develop tourism vocational education in Ajara through the Matra Small Embassy Projects Programme (MATRA KAP)	2007
Embassy of the Kingdom of the Netherlands	To develop instruments for developing the tourism/economic sectors, including the following programmes: <u>PSOM</u> Programme for Co-operation with Emerging Markets <u>PUM</u> Netherlands Management Co- operation Programme <u>MMF</u> The Matchmaking Facility Programme <u>MPP/MATRA KAP</u> Institution and capacity building <u>CBI</u> Centre for the promotion of imports from developing countries	2005-2007
Embassy of Poland <i>People in Need</i>	To develop tourism in Kazbegi	2008
Embassy of Poland <i>Polish Foundation for Intercultural Education</i>	To develop agrotourism in Pankisi	
Embassy of Poland <i>Kryzowa Foundation for Mutual Understanding</i>	To promote agrotourism and regional products in Georgia	
Embassy of Poland <i>Embassy of Poland</i>	To support tourism development in the Svaneti Region	

#### (4) Sector Needs and Potential Projects

Based on meetings with representatives of the Department of Tourism and Resorts within the Ministry of Economic Development of Georgia, important needs of the tourism sector with potential for donor assistance are:

- Short-term training for small and medium-sized enterprises;
- Production of guidelines for small and medium-sized enterprises on how to operate their businesses;
- Road access (the tourism department informs the road department on needs for tourism access, such as secondary roads).

Potential projects are listed in the ‘Georgian Way’ strategy document and summarized in Table 3-22. The estimated cost of the implementation plan is USD 4.9 million, which includes USD 1.5 million for staff time and technical assistance.

**Table 3-22 Potential Projects in Tourism Sector**

Potential Project	Need
Regional chains of branded , boutique and mid-range hotels and inns	International tour operators would be more likely to offer Georgia as a destination if they were assured of comparable quality of accommodations across the country.
Rest areas and welcome centers	A system of rest areas along the roads between major hubs would offer services for tourists, domestic travelers, and truck drivers.
Wine centers in Kakheti and Racha	Wine centers would serve as a core element of wine tourism related clusters.
Ground transportation companies	A ground transportation company is needed in Georgia.
Regional airline	A regional airline that serves both the domestic market and other countries in the region is needed in line with forecasts in arrivals.
Rail system expansion and improvements	The rail system could be expanded to include linkages to European rail systems, which would expand the market to Georgia from Europe.
Culinary institute	A culinary institute in Tbilisi and/or Signaghi could show the best of Georgian cuisine and serve as a restaurant, training center, and classes for tourists.
Gudauri ski resort development	Existing sporadic and unplanned resort developments is detrimental to the attractiveness of the area. Privatization of ski operations and waste management facilities are required.
Four season attractions and facilities	Facilities that cover the four seasons should be implemented, including shopping malls, indoor water parks, spa resorts, and vacation educational centers.
National park visitor services	Utilization of parks should be expanded, building on donor supported investments in Borjomi, Lagodekhi, and Kolkheti.
Casinos	A major international casino operator could be approached with a view to further resorts in key hub destinations such as Batumi, Borjomi, and Tbilisi.
Special interest tours	Low impact tours based on appreciation of the natural environment can attract a high end visitor.
Handicraft/souvenir development	The quality and distribution of local handicrafts should be improved and expanded. Agricultural products should also be promoted to the tourism market.
Gonio resort development	This is a large military base near the ancient Gonio fortress south of Batumi and has scale to be suitable for a large destination resort.
Cultural heritage preservation program	A needs assessment should be conducted to determine the extent to which historic sites are under threat and require preservation.

Source: National Tourism Development and Investment Strategy for Georgia – ‘The Georgian Way’ funded by the US Trade and Development Agency, Executive Summary, March 16, 2008

#### References

- National Tourism Development and Investment Strategy for Georgia – ‘The Georgian Way’ funded by the US Trade and Development Agency, Executive Summary, March 16, 2008

- Tourism Development Projects 2008, Department of Tourism and Resorts within the Ministry of Economic Development of Georgia.
- Meetings with Department of Tourism and Resorts within the Ministry of Economic Development of Georgia, June 2009.

### 3.11 Finance

#### (1) Sector Overview

Liberation of the economy was spearheaded by the privatization of the banking sector in Georgia. The sector had attracted much foreign direct investment and served as one of the nuclei of economic development before the conflict. Although the financial sector was at a low level of development, the credit base saw a dramatic expansion in the last few years. Between the end of 2004 and that of 2007, the deposit outstanding to GDP ratio doubled from 8.5% to 17.5%. External debt to GDP ratio trebled during the same period from 9.5% to 27%.

There was no immediate damage to the financial sector from the military conflict of 2008, but the global financial crisis triggered by the Lehman Shock did not leave Georgia untouched, causing a large drain in deposits, an increase in non-performing loans, and finally delays in the repayment of external debts. At the time of June, 2008, bank liabilities were focused on trading, financial services, construction, and real estate development. The share of construction was 8%; that of housing loans 18%, and the total real estate sector share was 25%. Real estate development in tandem with the financial sector was one of the locomotives for recent economic development in Georgia, but the largest economic risks were also inherent in this development. The two sectors collapsed immediately after being hit by the global financial crisis. The two largest banks, BoG and TBC, own 60% of the total bank assets in Georgia. The share of foreign capital in the banking sector is around 80%. Naturally, the rescue of the banking sector in Georgia is likely to depend on support by the respective parent banks abroad.

In 2008, external debts by the major banks in Georgia exceeded USD 500 million, the majority of which were scheduled for repayment in the first half of 2009. Thus, external assistance was much needed to avoid default in repayment. Under these circumstances, an agreement was reached with the IMF for a standby arrangement of USD 750 million for a period of 18 months in September 2008.

JNA, on the other hand, lists assistance needs as follows:

- Meeting external obligations is a priority to maintain investor confidence.
- In light of increasing provisions, increasing Tier 1 and Tier 2 capital from shareholders should be initiated for certain banks.
- Banks with ample capital and excess lending capacity – mostly new entrants – should be encouraged to increase lending and gain market share.

#### (2) Current Status of Donor Activities

Most support to the financial sector rests on the shoulder of EBRD and IFC, which strongly promoted the privatization of the sector in the past. At present, EBRD has provided about EUR 150 million, IFC USD 170 million in lending and OPIC with USD 176 million in guarantees.

Among bilateral agencies, the Dutch agency of FMO has extended the support of USD 10 million.

EBRD plans to add another EUR 300 million in support within the year 2009. A total of over USD 900 million are either implemented or in the pipeline. This support goes directly to the

banks without being mediated by the government. EBRD has supported BoG with EUR 100 million in the forms of subordinated debt, convertible bonds, and senior debt. For TBC, EBRD provided USD 70 million, IFC USD 70 million, FMO USD 21 million, and DEG USD 12 million similarly in the mix of subordinated debt, convertible bonds and senior debt.

**Table 3-23 Current Status of Assistance by Donors**

Donor	Assistance	Cost (million)	Financing Scheme	Approval	Start	End	Note
EBRD	Banking sector financing (loans, equity) – EUR 150mln in 2008, EUR 300 mln in 2009, amount for 2010 to be determined	EUR 450	direct private lending	2008	2008	2010	EBRD works directly with banking sector
BMZ	Microfinance support project handled by KfW (invest in equity of microfinance institutions, channeled directly to microfinance institutions)	EUR 4	direct private lending	Agreement can sign soon	2008	open	
FMO	Support to banking sector	USD 30	direct private lending	TBD	TBD	TBD	TBD
IFC	Support to banking and real sectors	USD 350	direct private lending	2008	2008	2010	implementation underway

Source: Ministry of Finance, JICA Study Team interviews

### (3) Assistance Needs in Finance Sector

The level of assistance needs in the financial sector all depends on the longevity of the current financial crisis in Europe. Furthermore, it also depends on the performances of the overall Georgian economy and on past investments in Georgia. Depending on these trends, there is a chance for further need of financial assistance for this sector.

#### References:

- The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008, Annex III, Banking Sector.
- EBRD, Webpage <http://www.ebrd.com/>

## 3.12 Healthcare

### (1) Overview

Collapse of the Soviet Union disorganized the existing state-controlled healthcare and social security sector. The sector lost the main part of its donation due to the inability of the public system to resist the impacts of economic shocks and handle social programs. As a result, healthcare service quality drastically decreased, lacking modern technology, equipment, and infrastructure. Early in the 90s, the government initiated sector reforms, with a focus on infrastructure improvement and health and social security sector decentralization, new health legislation development, and separation of purchasing and service provision functions.

Despite some health services (pharmacies, dental clinics, hospitals and primary healthcare centers) being privatized in the 90s, the state still possessed significant assets (hospitals) in the

sector until 2007. Thus, hospital sector reform became an important constituent of the privatization process by that time. In January 2007, the government approved a three-year (2007–2009) master plan aimed at substituting the existing hospital facilities with new hospitals all in private possession. The plan considers total hospital sector capacity to be 7,800 beds countrywide. The government considered privatization as a necessary precondition for overcoming sector financing constraints and ensuring high quality service provision.

Table 3-24 presents information on expenditures allocated to the health care sector covering the period 2001–2006. It is indicative that state expenditures on the health sector gradually decreased and private expenditures on health represent the major share of total expenditures allocated to the sector.

**Table 3-24 Expenditure in Health Sector**

<b>Indicator</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
General government expenditure on health as percentage of total government expenditure	7.6	7.5	6.7	5.3	5.9	5.6
Private expenditure on health as percentage of total expenditure on health	82	83.7	85	84.6	80.5	78.5
Total expenditure on health as percentage of gross domestic product	7.8	8.7	8.5	8.5	8.6	8.4

Source: World Health Statistics 2008<sup>16</sup>

The ongoing health reform process aims to improve access to good quality health care for all Georgians. The main components of this health reform are:

- A transition from public to private service provision (both at the hospital and primary health care levels), with an ambitious hospital privatization program (only a handful of primary healthcare facilities remain under public ownership);
- Privatization of medical insurance systems; and
- Changing roles of the Ministry of Labor, Health and Social Affairs from service provider to an overseer of the health systems.

The reform process is still in progress with a number of issues still to be addressed.

The major mortality causes of the Georgian population are non-communicable (chronic) and cardiovascular diseases, caused primarily by deteriorating socio-economic conditions. Cancer takes the third place among mortality causes. The communicable disease, such as tuberculosis (TB), rate is rather high, and was increasing year by year. Overall, primary prevention and management of chronic and cardiovascular diseases, as well as TB treatment and early diagnostic measures, are considered to be a top priority in healthcare interventions in Georgia.

The Ministry of Labor, Health and Social Affairs (MoLHSA) is a key sector player responsible for defining sector policies, strategic development directions and coordinating their implementation. Other organizations relating to healthcare systems in Georgia are shown in Table 3-25.

<sup>16</sup> <http://www.who.int/whosis/en/index.html>

**Table 3-25 Healthcare Related Organization and Their Duties**

<b>Organization</b>	<b>Duty</b>
Ministry of Labor, Health and Social Affairs	Responsible for defining sector policies, strategic development directions and coordinating their implementation.
Health and Social Programmes Agency	Improving and delivering healthcare and social programs to specific and socially unprotected groups of Georgian population, such as: elderly, war veterans, those below poverty live, population in remote rural areas, etc.
Medical Service Provision Regulation Agency	Issues healthcare facility licenses and is responsible for certification of medical professionals
National Center for Disease Control and Public Health (NCDCPH)	Disease prevention and immunization activities.
Health and Social Program Implementation Center	Responsible for implementing the health infrastructure development programs.
Drug Agency	Responsible for the state drug policy, including quality and safety regulations of medicines and drugs.

## (2) Damage on Healthcare System by the Conflict

According to the JNA report based on an official Government report, as of October 9, 2008, 391 Georgian citizens died in the conflict, and the number of injured people was more than 2,200. Almost all healthcare facilities in South Ossetia's Georgian villages located were totally destroyed, and some medical facilities were damaged in Gori. The government provided appropriate medical care for those injured, and delivered medicines contained in the humanitarian support materials. The priority of the government during this period was placed on the provision of basic health services to the affected population through mobile clinics, and on addressing the mental health and psycho-social needs of the affected population. JNA estimated a total of USD 174.2 million for the assistance requirements at the time of the donor meeting in Brussels, which includes USD 168.3 million for a medical assistance program for the poor and vulnerable population, USD 5.1 million for reconstruction and rehabilitation of infrastructure, and about USD 1 million for health services. According to the JNA 'Progress Report,' a budgetary commitment has not been made yet.

## (3) Status of Donor Activities

The sector got significant assistance from the World Bank, USAID, the European Commission, the United Kingdom Department for International Development (DFID), the Swedish International Development Cooperation Agency (SIDA), and other donors. Major donor-assisted programs include:

- The World Bank, DFID and EC have jointly contributed about USD 39 million<sup>17</sup> to assist the sector since 2002 under the name of "Primary Health Care Improvement Project." The goal of the project is to increase the coverage of primary healthcare in the country. Under this project, the development of over 100 primary health care centers in three main regions, namely, Ajara, Imereti and Shita Kartli was financed. The project provided primary healthcare centers with training facilities and provided general practitioner doctors with 6 months of healthcare training and nurses with 4.5 months of training with an emphasis on teamwork between the two. According to the Ministry of Labor, Health and Social Affairs, significant improvement has been made in the primary healthcare sector.

<sup>17</sup> The World Bank contributed approximately USD 25 million, DFID approximately USD 7.2 million and European Union approximately USD 7 million.



- The World Bank is working on an Avian Flu Project, which is scheduled for the period of 2006–2010. The project has three components: 1) animal health (with Ministry of Agriculture), 2) human health (with Ministry of Labor, Health and Social Affairs), and 3) strategic communication (with Ministry of Labor, Health and Social Affairs). The project has procured some facilities and devices such as artificial ventilators and medicine as part of anti-pandemic measures.
- SIDA was supporting the healthcare system of Georgia by funding a series of training sessions in primary and public healthcare. Trainings had been conducted for Georgia's key health sector specialists and state officials either in Sweden or in Georgia.
- The European Commission funded approximately USD 5.5 million between 2005 and 2007 for implementing the Refurbishment of Health Facilities, Provision of Essential Medical Equipment, and Health Promotion Activities in Kakheti Region Communities.
- The Health Sector Development Project, funded by the World Bank (approximately USD 20 million) and implemented from August 2002 to December 2010.
- The Global Fund provided support totaling about USD 20 million in tuberculosis (TB) prevention and control, HIV/AIDS prevention and control, and malaria prevention and control.
- Another USAID strategic direction was a reproductive health program run by John Snow Inc. The program launched in 2003 (and still on-going) is focused on increasing women's awareness and their access to improved quality healthcare.
- In 2004–2006, USAID funded USD 6.9 million to implement 'Georgia Co-Reform Project: Cooperation in Health System Transformation.' The project goal was to assist the government of Georgia in healthcare financing system improvement and reproductive health and family planning policy development.
- The project also financed the development of public health management information system together with USAID, as well as public information. The project renovated the hospital in Gori as well. Another health facility was the construction of 25 bed hospital in a mountainous region in Raja Province. It is not possible to privatize medical care in mountainous regions and thus requires much public support. Such development needs are numerous.
- Within primary healthcare there is a village doctors program assisted by USAID. This commenced in January 2009. Independent medical practitioners are paid GEL 450/month to participate. Around 1,400 doctors are contracted by the government under this scheme, which is currently considered a sufficient number.

The Ministry organizes a donor conference every two months on average. Last October, the World Bank and the United Nations prepared a 'Joint Needs Assessment' report as the basis for the donor conference. WB staff from each sector and government officials gathered all the data and provided fiscal requirements for reconstruction. The prime minister himself headed the conference and spent five full hours every time to review the figures together with the staff, giving more pressure to provide authentic documents to call for the much needed assistance in reconstruction.

#### (4) Assistance Needs for the Health Sector

Since WB has focused on only the three provinces of Imereti, Ajara and Shida Kartli. The project only covered 40–50% of Imereti, and the EU has covered the Khaheti region but was able to cover only 50% of the needs. There are more areas to cover even in the field of primary healthcare.

### Reform of Medical Insurance Systems

Since the introduction of a medical insurance system two years ago, 150 million people have already joined the system. There are nine companies handling medical insurance in Georgia. Insurance plans are not available for those living below the poverty line and about 70% of the population pays full medical costs. Government subsidies are effective for emergency illnesses such as HIV or Malaria. Private insurance plans cover only a limited range of costs of healthcare services and medicines. According to the WHO, private household out-of-pocket payment on health as a percentage of total health expenditure for Georgia was 76.9 % (in 2005), which is the highest number among post-soviet countries and even in the European Region. Thus, there is a definite need for comprehensive policies that address insurance risks and prevent insurance companies from focusing only on low-risk clients, primarily Health Care (PHC) services.

Medical services were supposed to be free for those groups of the population living below the poverty line, but in reality, people still pay with their own money to get a consultation or diagnosis. Even in the case of possessing insurance plans (either private or public), the patient still needs to cover 20–25% of formal expenses. Besides formal payment, the treatment cost is affected by informal payment as well. An informal payment scheme was widely put into practice in the 90s at state hospitals and is still active today. The major reason is low remuneration of health sector workers, which makes them dependent on out-of-pocket payments as an addition to their salaries (e.g., the payment rate for surgery is USD 3 per hour).

### Improving Access to Medical Service and Medicine in Rural Areas

In Georgia, about four million people live in rural and remote areas having limited or no access to the nearest ambulatory, pharmacy or health post. Moreover, clinics located in rural areas have a risk of providing low-quality services (qualified staff move to urban areas). Thus, the population is forced to travel to the capital for adequate health assistance. Likewise, scarcity or absence of medicines available in regional pharmacies also forces the population to look for specific drugs on the capital market.

### Professional Skills Development

Most health sector workers received training in the soviet era and definitely need to develop their skills and participate in further training. Professional associations and networking might also provide significant support to the professional skills development scheme. There is a need to improve levels of remuneration of health sector workers and modernize medical equipment, as these directly affect the quality of service.

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### 3.13 Education

#### (1) Overview

Soon after the end of the Soviet Union, Georgia promoted reforms in various sectors aimed at leading its economy out of the socialist legacy. The government put a priority on education development, as human resource development is key to successful reconstruction, and has been working on the strengthening/reform of educational systems in Georgia since 1994. The aim of educational reforms is to bring up creative and flexible individuals who can cope with a market and democracy-oriented socio-economic environment. The Georgian Ministry of Education and Science started a reform program in 2003 called 'Ilia Chavchavadze.' The objectives of the program were to achieve educational reforms (decentralization), capacity development, effective use of physical, human, and financial resources, and improvement in the quality of education.

Management of the education system was decentralized within a revised legal framework and educational institutions (schools and universities) were established as public legal entities, each with a board of trustees empowered by a financial management authority. A per capita funding formula has been introduced at the general secondary education level, and unified national university entrance exams were introduced in an effort to improve the transparency of the education system. There are a number of issues to be addressed in the education systems of Georgia such as improving the quality of teachers, motivating their skills development, introduction of systematic training programs, and improving low levels of teacher salary.

Enrollment rates in basic education stand at 96.4 percent. Basic education (between the ages of 6 and 15) in Georgia is compulsory. There is no noted gender imbalance, but inequities in the quality of education services exist between rural and urban populations. The Enrollment rate in Secondary School (between the ages of 15 and 18) is 90 percent. Every year, 65,000 students graduate from high school. Half of them enroll in universities. There are 62 accredited universities in the country. Half of them are public universities. There are four universities that provide a wide variety of programs. The Ministry developed a system of providing scholarships to university students. The amount of these scholarships is 2,500 GEL per year per student.

#### (2) Impact of Military Conflict on School Education

The JNA report indicated, based on the information provided by the Ministry of Education and science, that at least ninety-nine schools have suffered various degrees of damage. Of these, six schools were burned down. In November 2008, 43 schools remained inaccessible due to their locations in zones controlled by the Ossetian and Abkhazian forces. There was significant damage to schools in the buffer zone to the north of Gori. Loss of furnishings and equipment, including computers, is also reported both as a direct result of the military action and the subsequent looting.

About 120,000 people were displaced during the aftermath of the conflict, and about 20,000 are still living in public schools, kindergartens, boarding schools, orphanages, universities, and research institutions in Tbilisi and some other areas. As a result of occupation by IDPs, some

schools cannot use school building for teaching, but arrangements were made so that the affected student could attend classes at other schools.

The JNA report included, among others, the following actions as high priority:

- A full and comprehensive assessment of damage to school buildings, equipment, furniture, textbooks, computers etc;
- Rebuilding and repair of school buildings and facilities; and
- The psychosocial needs of the IDP children suffering from the trauma of violence and separation from their homes.

Donors at the donor meeting in Brussels last October pledged USD 53 million for education sector support: USD 27 million for infrastructure and equipment, USD 23 million for materials and services, and USD 3.5 million for emergency activities. According to the JNA Progress Report, however, final approvals are still to come from the donors. All of the post-conflict projects in education are implemented through MDF.

### (3) Vocational Education and Training (VET)

There are 39 state VET centers and 12 privately owned VET facilities in Georgia. A basic education certificate is a necessary condition for enrollment in vocational programs. The age of the candidates is set at 15 years or older. In 2007–2008 around 6,200 students were enrolled in vocational programs of different duration offered by the VET centers. After the military conflict with Russia, demand for vocational training for IDPs increased, and three VET centers have already begun retraining them.

In March 28, 2007 the Law of Georgia on Professional Education was passed by the Parliament, and the Law of Georgia on Elementary Vocational Education and Training of 1998 was abolished. The law created a new legal framework for the VET system in the country including the creation of private educational activities in the VET system, the introduction of paid VET qualification, the introduction of diversified sources for the financing of the VET institutions, the acquisition of elementary VET programs separately from general education or after it, short-term professional training/retraining of the unemployed population, and others.

Governance bodies of the vocational education and training system in Georgia are: the Georgian government, the MoES, the Ministries of autonomous republics (Adjara and Abkhazia), bodies of local self government, and three legal entities of public law under the supervision of the MoES – the National Center for Educational Accreditation (NEA), the National Curriculum and Assessment Center (NCAC), and the Teacher Professional Development Center (TPDC).

Since the start of educational reforms in 2004, financing schemes have also diversified. The state provides vouchers to students who can use them at an institution of their choice. This method has been established in general educational institutions and HEIs. In vocational education and training, the voucher system of financing is not practiced so far, though it is envisaged by a new law on Professional Education.

### (4) Status of Donor Activities

The World Bank and JICA have worked together in education reform projects in Georgia. The World Bank provided USD 50 million for the development of basic education. This project is to be completed within 2009. One of the earlier activities included the preparation of a standardized curriculum to be used in all school across the country, and support for teaching

methods. Responding to flash appeal, the World Bank also constructed 7 school buildings through MDF.

According to the report by the Ministry of Education and Science supported by UNDP, there are several donor-assisted projects in the vocational education and training sector as follows:

The EU assisted the MoES with the formulation of a legal basis for vocational education and training (a 2005 Law on Vocational education and training) and development sector strategy. The EU also provided financing for adult education centers, a pilot educational project aimed at the integration of ethnic minorities in 2006–2008.

Since 2006, UNDP has been carrying out a program in a number of VET centers in Georgia to introduce curricula aimed at learning outcomes and competencies demanded on the labor market and based on market research. Under the project, occupational standards and corresponding curricula were developed in agriculture and construction.

This was also the sphere of activities for USAID that provided technical assistance to two VET centers in Tourism and construction. The project in Tourism by the British Councils aims at the development of VET center management capacity and educational opportunities.

In 2007–2008, the IOM, together with USAID, Czech Development Co-operation, and Polish Aid, carried out a survey titled ‘Employers Demand for Labor Force’ in a number of fields of the economy. These organizations, together with the Foundation for Development of Human Resources (FDHR) cooperated with the MoES to develop the methodology and human resources for career services at VET centers.

A partnership project since 2007 between the MoES of Georgia and the Ministry of Education and Research of Estonia has been oriented toward capacity building at all levels of vocational education and training policy making and management, VET school managers, and ministerial staff alike in several areas from monitoring systems to school management and curriculum development.

#### (5) Assistance Needs in Education Sector

Table 3-26 shows the assistance needs in the education sector included in the World Bank report.

**Table 3-26 Assistance Requirement in School Education by WB Study**

Area	Major Issues
Teacher Professional Development	<ul style="list-style-type: none"> <li>• Develop in-service training of teachers</li> <li>• Training in formative assessment of teachers using point systems</li> <li>• Provision of pre-service training</li> </ul>
Social and Physical Environment	<ul style="list-style-type: none"> <li>• Overcome shortage of supplemental learning materials</li> <li>• Improve libraries</li> </ul>
Capacity and Information	<ul style="list-style-type: none"> <li>• Training of directors with a more permanent organization</li> <li>• Consideration of regional and national networks of school boards to share information</li> </ul>
Resources and Finance	<ul style="list-style-type: none"> <li>• Fair distribution of teacher salary</li> <li>• Improved autonomy of Education Resource Center</li> </ul>

Source: PADECO (2007), Evaluation of the *Iliia Chavchavadze* Program in Reforming and Strengthening Georgia’s Schools, Report prepared for the World Bank, August 2007.

Table 3-27 shows the assistance needs in vocation education and training.

**Table 3-27 Assistance Needs in Vocational Education**

<b>Assistance Needs</b>	<b>Description</b>
Development of EMIS	The system enables to provide a framework for a systematic information collection, and gives decision makers with vital information based on statistics and analyses.
Development of Functional Vocational Qualification Systems	It is essential to have functional vocational qualification systems for maintaining a balance between qualified labor and the market.
Improvement of VET Center Facilities and Building	Under the Professional Education Rehabilitation Program the infrastructure and training facilities of 10 VET centers have been partially rehabilitated with budget of GEL 12 million. The number of centers with good training infrastructure should be increased.
Increasing Opportunities for Vocational Education	There are so called geographical “white stains” (gaps) in some of the regions (e.g. Mtskheta-Tianeti region), that lacks VET opportunities.
Coordination of VET programs and the Requirement of Local Economy	The educational profile and programs of the VET centers located in the regions should be relevant to the economic profile and local needs of the region.
Introduction of a System for Initial and in Service Education and Training for VET trainers	Georgian HEIs do not provide programs for VET trainers. Therefore, there are few young trainers. No professional development opportunities for trainers exist.

Source: Prepared by JICA Study Team based on Ministry of Education and Science of Georgia (2009), VET Situational Analysis, February 2009.

References:

- The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, October 9, 2008.
- The United Nations and the World Bank (2008), Georgia Joint Needs Assessment, Donor Funding in Support of Post-Conflict Recovery and reconstruction: Summary Report, Prepared for the Donor’s Conference of October 22, 2008 in Brussels.
- The United Nations and the World Bank (2009), Georgia Joint Needs Assessment, Donor Funding in Support of Post-Conflict Recovery and reconstruction: Progress Report, June 30, 2009.
- PADECO (2007), Evaluation of the Ilia Chavchavadze Program in Reforming and Strengthening Georgia’s Schools, Report prepared for the World Bank, August 2007.
- Ministry of Education and Science of Georgia (2009), VET Situational Analysis, February 2009.

### **3.14 Internally Displaced Persons (IDPs)**

#### **(1) Overview**

Internally Displaced Persons (IDPs) from the conflict of August 2008 are called ‘new’ IDPs in Georgia to distinguish them from IDPs of the 1990s. There were 137,000 ‘new’ IDPs, of which an estimated 106,000 have returned to the Shida Kartli region, who received support in the rehabilitation of damaged houses and in the restoration of their livelihoods. About 18,000 IDPs originating from South Ossetia, Akhgori and Abkhazia have been resettled in 38 newly built settlements. A further 4,700 IDP families chose monetary compensation instead of accepting durable housing. Additional housing construction is taking place as there are an estimated 8,000 people who remain displaced country-wide and are still in need of durable housing solutions. The new settlements for IDPs were constructed by the government in less than four months, with a total of 5,600 housing units being built and the settlements supplied with electricity and water. Distributions of start-up household goods and cash assistance were also made.

Besides these ‘new’ IPDs, there are about 270,000 ‘old’ IDPs in Georgia. The Government amended its National Strategy on Internally Displaced Persons (2007), combining the two types of IDPs. There is a need to provide durable housing for ‘old’ IDPs as some of them are still living in temporary shelters such as kindergarten schools. Required actions include the rehabilitation of existing collective centers, the transfer of residential units in collective centers to the private ownership of IDPs, and the allocation of additional housing.

## (2) IDP Related Donor Coordination

The Ministry of Refugees and Accommodation (MRA) is responsible for implementing IDP related measures. The Ministry coordinates donor support activities through a Steering Committee consisting of the Ministry for Refugees and Accommodation (MRA), the Ministry of Labor, Health, and Social Affairs, the Ministry of Justice, the Ministry of Finance, the Municipal Development Fund, the EU, UNHCR, USAID, the World Bank, NGOs, and others.

Temporary Expert Groups are organized also to provide expert advice to the Steering Committee for their decisions. Currently there are four Temporary Expert Groups, as shown in Table 3-28.

**Table 3-28 Temporary Expert Groups and Their Activities**

Temporary Expert Group	Example Activities
Rehabilitation Standards	<ul style="list-style-type: none"> <li>Investigate acceptable specifications on, for example, the amount of living space required for different sized families, and the minimum water supply required per person per day.</li> </ul>
Livelihoods	<ul style="list-style-type: none"> <li>Means to secure access to markets and the capital city.</li> <li>Coordination with local labor market</li> <li>Development of IDP livelihood improvement</li> </ul>
Legal Protection and Outreach	<ul style="list-style-type: none"> <li>Making IDP beneficiaries aware not only of their rights, but also of their contractual and legal responsibilities associated with support programs.</li> <li>Enhance information dissemination systems ensuring that accurate and timely information flows from and between the MRA to IDPs and partner agencies.</li> </ul>
Social Profiling and Identification of Vulnerable Groups	<ul style="list-style-type: none"> <li>Identify and recommend methodologies and required resources to MRA in undertaking a comprehensive baseline IDP survey as well as in the development of a comprehensive IDP database.</li> </ul>

Source: TORs for the Expert Group Meeting

## (3) Status of Donor Assistance

After the conflict in 2008, numerous donors extended support to the Ministry of Refugees and Accommodation to deal with the IDP issue. The JNA Progress Report indicated that out of USD 164.7 million pledged at the donor meeting last October, USD 143.5 million (about 90%) has actually been disbursed. This basic cash support has allowed IDPs to reestablish themselves in the new settlements as well as to start the process of thinking about future livelihoods for sustainable food security. A number of projects started in March 2009 to support the recovery process, e.g. the fencing of kitchen gardens, the building of barriers to avoid soil degradation, wind belts and wells which contributed to resettlement, created employment opportunities through the implementation of public works activities.

The IDPs in new settlements as well as ‘old’ IDPs remaining in collective centers and the private sector have been receiving basic food rations to avoid deterioration of their food security by the WFP and implementing partners working closely with local authorities. During the winter months, a cash transfer system was put in place to allow the IDPs access to complementary food. Each IDP household was provided with a bank card and an amount of cash was provided. UNICEF and UNHCR provided cash in the same scheme with the aim of having adequate baby food and winter clothes. GTZ is constructing an additional 300 durable housing for IDPs.

#### (4) Assistance Needs for IDPs

Insufficient communication by the Government and their own interventions often resulted unintentionally in the humanitarian community providing protection and assistance in a piecemeal fashion without proper planning, e.g. essential infrastructure and livelihoods concerns.

Other issues included limited involvement of the IDPs in the process, room for greater transparency in decision making, inadequate assessments of the social impact of resettlement / reintegration, and complications resulting from incomplete profiling of the beneficiaries. An improved coordination is expected through the newly established steering committee.

The information received by IDPs was more through verbal communication and bilateral contacts with government officials rather than through a well structured public awareness campaign. It would be desirable to improve the information being provided to beneficiaries, i.e., on how they would benefit and/or be selected.

The 38 settlements are with different types of infrastructure and locations, with some built near Tbilisi or other well established cities and others in remote areas. Some communities have gas, water and electricity supplies with in-door toilets and kitchens, while others have poorly built outdoor toilet facilities. Consequently, some IDPs are more satisfied with their housing than others. The inhabitants of the hastily constructed houses are discovering defects connected with building quickly and in the middle of winter (damp and mold, distorting timber, sewage problems, etc.) and remedial work will be required over the coming months.

#### References

- The United Nations and the World Bank (2009), Georgia Joint Needs Assessment, Donor Funding in Support of Post-Conflict Recovery and reconstruction: Progress Report, June 30, 2009.
- TOR for the Steering Committee
- TORs for the Expert Group Meeting
- Rehabilitation Standards
- Task Request for Legal, Protection and Outreach Temporary Expert Group



## Chapter 4 Potential Future Assistance by JICA

### 4.1 Introduction

The JNA Progress Report indicates that, though gaps in the Georgian economy development (including in budget and external financing) were expected to be largely covered with assistance from donor pledges, the contraction in world output and trade and loss of confidence in the international banking system have exacerbated the economic and social impact of the conflict.<sup>1</sup>

As a result, inflows of foreign direct investment in 2009 are expected to be lower than the amounts projected in the JNA by over USD 200 million. Worker remittances have declined by 22 percent in the first four months of 2009 compared to the same period in 2008 and are projected to be about USD 100 million lower than JNA projections. Exports of goods and services are expected to decline by about USD 90 million compared to the JNA forecasts. In 2009, the economy was projected to grow by 4 per cent, but it is now projected to contract by 1.5 per cent. Similarly, the growth for 2010 has been revised from 6 to 2 percent.

On the other hand, the 2009 contraction is less severe than in some other CIS economies, owing to Georgia's strong pre-crisis fundamentals, an early adoption of countercyclical measures, and weaker linkages with the Russian economy than most other CIS countries.

In this background, it was described in the previous chapters that there are a number of donors involved in supporting the development of Georgia in various sectors. Assistance gaps based on these donor activities have also been indicated. This chapter explores the direction of future JICA assistance by first reviewing the priority issues identified by the Georgian government as well as the policies and experience of Japanese assistance to Georgia.

### 4.2 Priority Issues identified by Georgian Government

The Georgian parliament approved the 'Five Year Plan for Georgia without Poverty' in January 31, 2008. This program recommended priority issues for the period between 2008 and 2012. The government reviewed priority issues by reflecting on the achievements made by the end of 2008, and the changing socio-economic environment due to the military conflict and the global financial crisis. Results of these reviews have been reflected in the 'Basic Data and Directions for 2009–2012 (BDD)<sup>2</sup>' prepared by the Georgian government.

Table 4-1 shows the list of priority issues (excerpt) included in the latest BDD.

**Table 4-1 Priority Issues in the Latest BDD**

<b>Sector</b>	<b>Priority Issues (excerpt)</b>
National Security	<ul style="list-style-type: none"> <li>• Complete all stages that are needed for joining NATO.</li> <li>• Reintegrate Abkhazia and South Ossetia regions.</li> <li>• Usage of 'Four Principles of Freedom' while cooperating with EU – ensuring free flow of goods, capital and service. Increasing the level of free moving for several parts of the society, especially for students, entrepreneurs and scientists.</li> <li>• Improve relationship with Russia by establishing mutual understanding and mutual respect.</li> </ul>

<sup>1</sup> The United Nations and the World Bank (2009), Georgia Joint Needs Assessment: Donor Funding in Support of Post-Conflict Recovery and reconstruction, Progress Report, June 30, 2009.

<sup>2</sup> The Government of Georgia, Basic Data and Directions for 2009–2012 (Georgian Language)

Sector	Priority Issues (excerpt)
Economic, Fiscal and Monetary Policies	<ul style="list-style-type: none"> <li>• Average economic growth rate to be 9% annually for the next five years and the country shall shift to the group of ‘average-high income countries’ by the WB classification.</li> <li>• Decrease share of the state budget against GDP.</li> <li>• Increase annual foreign direct investments (FDI) amount to 10% of GDP.</li> <li>• Taxation policy to be supportive of employment, accumulation and economic growth, income tax to be reduced to 15% and all other taxes on interest income and dividends and personal profit to be abolished.</li> <li>• Develop Georgia as an International Financial Center by simplifying and lowering taxes, making financial regulations transparent, and reforming economics.</li> <li>• Create the Fund for Future Generation.</li> <li>• Increase of export share against GDP by promoting liberal trade policy, economical growth and development of free industrial zones.</li> <li>• Increasing the level of immunity of private property on the basis of improving constitutional, legal and juridical practice.</li> </ul>
Welfare of Population	<ul style="list-style-type: none"> <li>• Increase state expenditure on social program.</li> <li>• Create about 20,000 jobs by means of USD 10 billion foreign investments.</li> <li>• Increase the volume and quality of social pension packages by implementation of pension reform.</li> <li>• Reduce poverty and improve living conditions of social program beneficiaries.</li> <li>• Start operation of 100 hospitals that are equipped according to modern standards.</li> <li>• Provide healthcare service to rural populations and rural areas with 1000 well-equipped doctors.</li> <li>• Provide insurance packages to school teachers, soldiers, policemen and all members of families below the poverty limit.</li> <li>• Allocate GEL 1,000 to newborn babies in poor families.</li> </ul>
Transport and Infrastructure	<ul style="list-style-type: none"> <li>• Start free trade industrial zone in Poti and attract investment of GEL 1.5 billion.</li> <li>• At least 30% of the road infrastructure to be rehabilitated.</li> <li>• Increase the intensity and number of directions of air transport. Double the number of airline companies and air transport passengers. Existence of at least 3 international airports.</li> <li>• Complete construction of Karsi–Akhalkalaki railway and connect Georgian railway to Turkish railway.Karsi–Akhalkalaki.</li> <li>• Create additional 500mgw hydropower capacity by increasing the potential of usage of hydro resources; increasing the share of hydro resources up to 90% in total production of power-resources.</li> <li>• Ensure energy system sustainability through stabilized and diversified energy generation.</li> <li>• Increase export of power by 3 times.</li> <li>• Diversify fuel sources for the rural population through increased number of gasified settlements.</li> <li>• Put Trans-Asia-Europe optical-fiber cable (TAE) into operation for ensuring transfer of high amount of information between Europe and Asia.</li> <li>• Improve access to internet and electronic payment systems in rural areas, including payment by cellular phone.</li> </ul>
Agriculture and Natural Resources	<ul style="list-style-type: none"> <li>• Increase effectiveness of agricultural sector and its commercialization and increase the area provided with irrigation systems by two and a half times.</li> <li>• Set up over 200 new agriculture processing factories and create 10,000 new jobs.</li> <li>• Promote management of natural resources by the private sector.</li> </ul>

Sector	Priority Issues (excerpt)
Education, Culture and Sports	<ul style="list-style-type: none"> <li>• Increase competitiveness of universities through implementing City of Knowledge program.</li> <li>• In addition to the public education system develop private education system as well.</li> <li>• Equip all schools with computers and ensure they have access to the wide area network (internet access).</li> <li>• Rehabilitate the sport infrastructure (about 50 sport complexes) to develop and set up a scholarship program for 3,000 sportsmen.</li> </ul>
Public Sector	<ul style="list-style-type: none"> <li>• Increase public sector efficiency through improved state agency performance evaluation system.</li> <li>• Continue anticorruption reforms. Introduce ethic codes. Secure transparency of employing and promotion systems. Increase mobility between public and private sectors.</li> <li>• Set up electronic signature system and unified governmental network.</li> </ul>
Defense and Law Enforcement Systems	<ul style="list-style-type: none"> <li>• Form an armed forces that meets NATO standards.</li> <li>• Reform law enforcement service.</li> <li>• Continue penitentiary system reform to meet international standards through rehabilitation of prisons, improving living conditions, food and healthcare, increasing the effectiveness of the probation system, and working out of mechanisms for effective re-socialization of prisoners and protecting their rights.</li> <li>• Strengthen property rights protection through policies; enhance crisis management system and increase public confidence in the police.</li> </ul>

Source: Based on a translated version of ‘The Government of Georgia, Basic Data and Directions for 2009–2012 (Georgian Language)’.

### 4.3 Assistance by Japanese Government

#### (1) Significance and Policy of Assistance to Georgia

The website of the Japanese Ministry of Foreign Affairs describes the significance of ODA to Georgia by Japanese Government as follows.<sup>3</sup>

Georgia became a democratic country after the collapse of the Soviet Union. The principles of the ODA Charter by the Japanese Government stipulate democratization and a market oriented economy, and support ‘self-reliant effort of the developing countries.’ Hence, Japan has been assisting Georgia to work effectively on issues such as the shortage of human resources, deterioration of the economic infrastructures, environmental deterioration and so on. Assisting Georgia is of great significance in terms of stabilization of the Caucasus region as well.<sup>4</sup>

A principle in carrying out truly effective support for the development of Georgia is through understanding that economic development and the attaining and maintaining of political and social stability are the urgent issues.

Based on the policy consultation in 1999, and the ‘Consultation of JICA Priority Areas for the Caucasus’ in 2005, the priority sectors for assistance to Georgia by the Japanese Government are as follows:

<sup>3</sup> [http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/04\\_databook/03\\_c\\_asia/c\\_asia\\_08/c\\_asia\\_08.html](http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/04_databook/03_c_asia/c_asia_08/c_asia_08.html)

<sup>4</sup> Translated from Japanese text by the Study Team.

- Development of economic infrastructure (especially energy, transportation and communication)
- Social sector (especially health care, medical care and education)
- Human resource

## (2) Assistance by the Japanese Government

Japanese assistance to Georgia in the year 2007 was JPY 87 million of grant aid (based on exchanged official notes (E/N)) and JPY 172 million of technical assistance (based on JICA expense). The assistance until 2007 was JPY 55.3 billion of loans (based on E/N), JPY 7.27 billion of grant aid (based on E/N), and JPY 1.59 billion of technical assistance (based on JICA disbursement).

**Table 4-2 Japanese Assistance to Georgia by Year and by Type (JPY 100 million)**

Fiscal Year	Yen Loan	Grant Financial Assistance	Technical Assistance
2003	4.25	0.84	(0.63)
2004	6.05	1.23	(1.04)
2005	8.54	2.86	(2.67)
2006	0.68	1.54	(1.42)
2007	0.87	1.72	
Total	53.32	72.74	15.94

Source: Web site of the Ministry of Foreign Affairs, Japanese Government.

- Note: 1. The year classification is based on E/N for yen loan and grant aid, and fiscal year for technical assistance.  
 2. The amount for yen loan and grant aid are based on E/N. For technical assistance, it is based on actual disbursement of JICA, ministries and prefectures. Grassroots human security grant aid, grant aid with Japan NGO and grassroots culture grant aid are based on the donation contract.  
 3. Accumulated total of yen loan is excluding rescheduling and exemption of debt.  
 4. The technical assistance for 2003–2006 is for the total of all the programs and projects carried out by Japan, and those done by JICA is shown in the bracket ( ). For the technical assistance in 2007 is still under calculation, only the amount of assistance by JICA is indicated and the accumulated total is for JICA only as well.

The support for Georgia is in many cases carried out by programs and project bases, such as acceptance of trainees mainly in the market economy and various administration sectors, and the study on preparing Digital Topographic Maps.

The grant aid projects for grass roots human security have been implemented in sectors such as health and medical care and environment, and followings are the projects implemented in 2007.

- Clinic establishment plan in Marneuli;
- Development plan of the clinic in Sarpi, Herva Chauri;
- Development plan of Agricultural machinery for five villages in Eastern Georgia;
- Development plan of agriculture service center in Ahalkalaki area;
- Redevelopment plan of shelter for street children in Ortachara, Tbilisi;
- School renovation plan in Ananuri area;
- Development plan of Garbage disposal system in Dusheti;
- Development plan of food factory for visually impaired people in Tbilisi; and
- Development plan of Agricultural machinery for two villages in Sagarejo.

## 4.4 Potential Future Assistance by JICA

In the previous section, the relevance between priority issues in Georgia's development and the assistance principles in the Japan ODA Charter have been elaborated. This section describes potential future assistance by JICA as shown in Table 4-3, with reference to the current situation of each sector described in Chapter 3.

**Table 4-3 Potential Technical Assistance Measures to Support Development of Georgia**

Sector	Current Situation and Issues	Potential Technical Assistance	Relevancy with the Sector Priorities in Georgia, and Aid Policy by Japanese Government
<b>Road and Highways</b>	<p>The development of the East-West Corridor is being carried out by the World Bank and JICA, and one segment of the corridor has been opened by the World Bank. There are more ongoing projects such as road development projects near Batumi by ADB, rural road development from Tbilisi to the border of Armenia by MCGF, and a road development plan in the Eastern mountain region by the World Bank.</p> <p>Large parts of the road network, such as access roads to arterial roads, rural roads, and urban streets are not paved, and donor cooperation is required. JICA assistance in the road sector has started, and is expected to expand.</p>	<ul style="list-style-type: none"> <li>• Master plan and feasibility studies for rural road development</li> <li>• Road traffic safety policy study in mountain regions</li> <li>• Road design safety review</li> <li>• In-house consulting for technical review in the Foreign Project Unit to be established by Road Department.</li> </ul>	<ul style="list-style-type: none"> <li>- Rural road development is one of the priority issues in BDD.</li> <li>- The economic infrastructure (especially transport and communication infrastructure) is prioritized by the Japanese Government.</li> </ul>
<b>Railways</b>	<p>Rail infrastructure repairs were quickly carried out after the conflict and were completed using Georgian Railway's own financing. A signalization project is on-going. A government funded project in the south of the country to the border with Turkey is still on-going; this includes track rehabilitation from Marabda (near Tbilisi) to Ahalkalaki and the construction of a new link from Ahalkalaki to Karsi within Turkey.</p> <p>Other than these, there is a Tbilisi Railway Bypass Plan which includes removal of existing rail line and the utilization plan of the large land area after the removal, comprising some 74 hectares. Preparation of re-development plan and feasibility studies require donor assistance.</p> <p>Georgia Railway has been privatized and has its own financing sources to a certain extent, but financial and technical assistance by donors are still required.</p>	<ul style="list-style-type: none"> <li>• Preparation of development plan and feasibility studies of Tbilisi Railway Bypass and utilization of the land after the existing railway is removed.</li> <li>• Study to improve transport efficiency between Georgia – Azerbaijan (including improvement of a custom clearance system).</li> </ul>	<ul style="list-style-type: none"> <li>- The need for the development of the railway infrastructure is clearly stated in BDD.</li> <li>- The economic infrastructure (especially transport and communication infrastructure) is prioritized by the Japanese Government.</li> </ul>

Sector	Current Situation and Issues	Potential Technical Assistance	Relevancy with the Sector Priorities in Georgia, and Aid Policy by Japanese Government
<b>Airport and Seaport</b>	<p>There are two international airports (Tbilisi and Batumi) and four small airdromes (Kutaisi, Poti, Sukhumi, Senaki) in Georgia. A new airport was built in Tbilisi and Batumi by private funds and have started operations in 2007. In the aviation sector, assistance such as the expansion of air space by proliferation of radars, the improvement of aviation safety, installation of weather radar, installation of the instrument landing system (ILS) at Kutaisi airport, Modernization of taxiway and apron at Tbilisi airport, development of database for digital topographic and obstruction are needed.</p> <p>The development of the seaports in Georgia is carried out by utilizing private funds, while the facilities of Maritime Transport Department of Georgia, who is responsible for supervising water area and commercial shipping operations, has deteriorated and needs to be modernized. Although the seaport administration office is undergoing development using the state budget, facilities such as telecommunication require technical assistance. Donor assistance can possibly to meet the latest GDMSS standard.</p>	<ul style="list-style-type: none"> <li>• Preparation of database for digital topography and obstruction.</li> <li>• Improvement of emergency communication system to Maritime Transport Department of Georgia.</li> </ul>	<ul style="list-style-type: none"> <li>- Development of transport systems is one of the priority issues in Georgia.</li> <li>- The economic infrastructure (especially transport and communication infrastructure) is prioritized by the Japanese Government.</li> </ul>
<b>Urban Transport</b>	<p>The public transport system in Tbilisi is in good condition compared to other Asian cities of the same scale due to the Metro, which was build in former USSR era and the support by EBRD for strengthening the bus fleet improvement. ADB is planning to implement F/S on extension of the Metro. The taxi system can be improved institutionally through establishing a registration system and meter system.</p> <p>Traffic management needs to be improved as there are many traffic accidents. Even though the traffic lights are installed at nearly 200 intersections, they are old models with fixed cycles and the city administration is studying to adopt modern traffic lights such as Area Traffic Control Systems.</p> <p>JICA has experience in this sector for many years and sustainability</p>	<ul style="list-style-type: none"> <li>• Urban traffic improvement study (mainly on improvement of the intersection and traffic light system) (possible coordination with Asia Development Bank).</li> <li>• Capacity building for urban traffic improvement ability.</li> </ul>	<ul style="list-style-type: none"> <li>- Even though the urban traffic improvement is not stated specifically in BDD, the transport and infrastructure sector is a priority area.</li> <li>- The economic infrastructure (especially transport and communication infrastructure) is a prioritized area of Japan's assistance.</li> </ul>

Sector	Current Situation and Issues	Potential Technical Assistance	Relevancy with the Sector Priorities in Georgia, and Aid Policy by Japanese Government
	of positive impact can also be expected, although it needs to coordinate with ADB, which is already working in this sector.		
<b>Water Supply, Sewerage, Solid Waste</b>	<p>Due to the aged water supply system, there are serious problems such as supply cut off and waste mixture in rural areas. The facility improvement projects in provincial cities are being conducted by USAID, EBRD, and KfW. However the facilities in rural area still remain unattended.</p> <p>Many of the electric pumps produced in the Soviet Union era are not functioning anymore. Therefore it is considered that use of gravity water should replace pumping systems. In Georgia, the rate of uncharged water is very high and water pipes are not well managed. Capacity building of newly established Public Water Authority is one of the priority issues.</p> <p>JICA has a number of similar projects in this area in other countries. Sustainability of benefit can also be expected. The supporting of waste control has been treated as part of the grant aid for grassroots level assistance, and the human security grant financial assistance.</p>	<ul style="list-style-type: none"> <li>• Study for introduction of gravity water supply system.</li> <li>• Capacity building of Public Water Authority.</li> </ul>	<ul style="list-style-type: none"> <li>- There is no mention about water supply in the BDD. However, the requirement of support is clearly stated in the USAID's review</li> <li>- The water supply, drainage and solid waste management are closely related to the public health sector and it is considered to be included in the aid policy by the Japanese Government with a high priority.</li> </ul>
<b>Energy</b>	<p>For the power supply field, the new power plant feasibility study is in progress with assistance from USAID. Also, MCGF is conducting feasibility studies for a natural gas storage facility.</p> <p>The other important item in the energy field is the city gas project for West Georgia and technical assistance as F/S will be required.</p>	<ul style="list-style-type: none"> <li>• F/S of city gas supply in West Georgia (possible coordination with the World Bank)</li> </ul>	<ul style="list-style-type: none"> <li>- The diversion of energy source by city gas supply for West Georgia is clearly stated in the BDD as one of the priority issues.</li> <li>- Assistance in energy sector is clearly mentioned in the Japan's ODA policy.</li> </ul>

Sector	Current Situation and Issues	Potential Technical Assistance	Relevancy with the Sector Priorities in Georgia, and Aid Policy by Japanese Government
<b>Agriculture</b>	In the agriculture sector, there are abandoned pump irrigation systems, which are in a similar situation as the water supply. The replacement of the current system to the gravity irrigation system is required.	<ul style="list-style-type: none"> <li>• Study of national water resources (determination of water amount, preparation of database, and feasibility studies of pilot projects)</li> <li>• Study for establishment of gravity water irrigation system.</li> </ul>	<ul style="list-style-type: none"> <li>- The improvement in efficiency in the agriculture sector and the improvement of the irrigation system are clearly mentioned in the BDD.</li> <li>- The support for the economic infrastructure is one of the priority sectors in Japanese ODA.</li> </ul>
<b>Environment</b>	Georgia has rich forest resources providing tourist attractions, which in turn contribute to the country's economic growth. The forest resources suffered war damage and illegal cutting. Therefore a database is required for the planning of sustainable cutting and tree planting. Water resources management is transforming from administration area systems to valley systems under EU supervision. In this background, USAID also plan to implement a technical assistance for the preparation of a valley management master plan. Basic statistics on the forest resource is essential as bases for the valley management systems.	<ul style="list-style-type: none"> <li>• Establishment of Forest Resource Protection Agency (GIS database establishment, aerial photograph, GIS training and guidance and consideration of forest resource management organization)</li> </ul>	<ul style="list-style-type: none"> <li>- The necessity of the efficient management systems for natural resource is mentioned clearly in the BDD.</li> <li>- Efficient response to environmental issues is described in assistance policy to Georgia by the Japanese Government.</li> </ul>
<b>Tourism</b>	<p>Georgia has high potential for tourism development due to their magnificent landscapes and attractive visiting place. There are old church buildings, which are registered as World Heritage, resort area along with Black Sea, winery in the East area. A skiing resort in Southern Georgia is visited by international tourists including Armenia, Azerbaijan, Turkey, and Ukraine. The number of domestic tourists is kept at a relatively low level despite of the promotion of domestic tourism activity. The military conflict last year and global economic recession impacted the tourism industry.</p> <p>The Tourism Division of the Ministry of Economic Development has no master plan for tourism development. Up to now, systematic policy measures have not been implemented.</p> <p>JICA have many experiences in the tourism field, therefore effective support to Georgia is possible.</p>	<ul style="list-style-type: none"> <li>• Study for the Preparation of Tourism Master Plan for Georgia.</li> <li>• Capacity Building for the Development of Tourism Resources</li> </ul>	<ul style="list-style-type: none"> <li>- There is no concrete mention about tourism promotion in the BDD. However, the promotion of agricultural processed goods is a prioritized issue.</li> <li>- Human resource development is an important field in Japan's Georgia supporting policy.</li> </ul>



Sector	Current Situation and Issues	Potential Technical Assistance	Relevancy with the Sector Priorities in Georgia, and Aid Policy by Japanese Government
<b>Finance</b>	<p>The financial sector had not been damaged by the military conflict with Russia last year, however the global economic recession triggered by Riemann brother's bankruptcy damaged Georgian financial sector. They suffered difficulty as losing deposit, swelling non-performing loan. The disbursement of foreign loan funds was also delayed. At the end of June 2008, banks concentrated on lending to trading, financial service and construction sector. The construction sector had 8% of the total amount of lending.</p> <p>From now on, the demand for financial sector support depends on the duration of recession in Europe. Additionally, it depends on domestic market activity and previous financing effectiveness. Depending on the above trends, there is possibility of additional support. It all depends on the development of the economic conditions.</p>	(The lending to private sectors, and/or establishment of micro finance by applying two step loans can be explored)	<ul style="list-style-type: none"> <li>- Emergency financial support was deemed necessary during the donor meeting last year.</li> <li>- Japan had attended the donor meeting and has various methods for supporting.</li> </ul>
<b>Health</b>	<p>Because of the chronic shortage of the national budget in Georgia, budget allocation to the health/medical sector has been limited. The primary medical services are not sufficient, and improvement of the medical service conditions in the rural area and of the medical insurance system are of prime importance to the country.</p> <p>In this situation, the World Bank is implementing the Primary Medical Service Improvement Project for several years and more than 100 medical centers were established at Ajara, Imereti, Shida Kartli. EU is also carrying out a similar project at Khaheti. USAID has provided financial support to employ 1,400 doctors to address the doctor shortage in rural areas.</p> <p>Despite this support, assistance needs are high for the improvement of the primary medical service and donor assistance are required in various sub-sectors particularly in rural or mountainous areas where there is low potential for the application of private funds.</p>	<ul style="list-style-type: none"> <li>• Project to Improve Medical Environment of Rural Areas</li> </ul>	<ul style="list-style-type: none"> <li>- The improvement of the accessibility of the medical facility is mentioned clearly in the BDD.</li> <li>- Health/medical sector is an important field in Japan's Georgia supporting policy</li> </ul>

Sector	Current Situation and Issues	Potential Technical Assistance	Relevancy with the Sector Priorities in Georgia, and Aid Policy by Japanese Government
<b>Education</b>	<p>Education improvement and reorganization are key to Georgia reconstruction and this has been maintained with World Bank support since the 1990s. An education system improvement program called 'Iliia Chavhcavadze' is being implemented to decentralize school management, carry out capacity building, improving the usage of material/human/financial resources, and improve the quality of education.</p> <p>Vocational school facilities, on the other hand, are mostly outdated, and the shortage of instructors is a serious problem resulting in inability to provide appropriate human resources for the reconstruction of the national economy.</p>	<ul style="list-style-type: none"> <li>• Capacity Building to Strengthen School Management Systems</li> <li>• Training of School Teachers to improve Teaching Skills</li> <li>• Support to Improve Vocational Education and Training Facilities (potentially leading to grant financial assistance)</li> <li>• Training of Instructors at the Vocational Education and Training Centers</li> </ul>	<ul style="list-style-type: none"> <li>- The education improvement is mentioned clearly as a prioritized issue in the BDD.</li> <li>- Educational sector is an important field in Japan's Georgia supporting policy.</li> </ul>
<b>IDPs</b>	<p>There are two kinds of internally displaced persons (IDPs): one is 30,000 people from the military conflict last year; and the other is 270,000 people from conflicts in 1990s. For IDPs from the last year 6,000 houses have been provided within a few months following the conflict with financial support from USA, UNCHR, GTZ and various other donors. There are a number of issues to be addressed to restore the refugees' daily lives to normal. Such issues include facility improvement in the settlement, and social harmonization with local communities.</p> <p>Additionally, many of the IDPs from 1990s are still living in abandoned school buildings or other public facilities. There are many problems to be solved before their lives get back to a standard of living above an acceptable level. The Ministry of Refugees and Accommodation, Georgian Government established expert group meetings to address various specific issues.</p>	<ul style="list-style-type: none"> <li>• (Improvement of housing and infrastructure at various settlements by using grant aid schemes)</li> </ul>	<ul style="list-style-type: none"> <li>- Assistance needs of new IDPs were included at the donor meeting last year as one of the top priority issues. The necessity of continuous support for both of new/old IDPs is high.</li> <li>- Japan had attended the donor meeting and has various methods for supporting.</li> </ul>

# **Appendices**

## Appendix A

### Details of Pledge at the Donor Meeting in October 2008

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
<b>WB</b>	<b>530</b>	<b>USD</b>						
WB	40	USD	Poverty Reduction Support Operation	budget	10,08	10,08	12,08	disbursed
WB	40	USD	Development Policy Lending (2009)	budget	7,09	7,09	9,09	work in progress, disbursement expected in Q3, 2009
WB	30	USD	Development Policy Lending (2010)	budget	7,10	7,10	9,10	works to start in February 2010
WB	70	USD	Secondary and Local Roads Project	road infrastructure (RDMED)	02,09	03,09	11,10	negotiations on February 18, 2009
WB	250	USD	East-West Highway (Sveneti-Rikoti, including tunnel rehab)	road infrastructure (RDMED)	07,09	04,09	20,11	FS done, design works underway (IBRD terms), timeline to be precised
WB	60	USD	Vaziani-Gombori-Telavi	road infrastructure (RDMED)	07,09	04,09	12,10	FS, design works underway
WB	40	USD	Municipal and regional infrastructure devt.	MDF	10,08	09,08	12,12	implementation underway
<b>EBRD</b>	<b>703</b>	<b>Euro</b>						
EBRD	65	Euro	Railway rehabilitation	Georgian railway	2009	2009	TBD	consultations underway
EBRD	11	Euro	Tbilisi airport runway etc.	TBD	TBD	TBD	TBD	consultations underway
EBRD	10	Euro	Airport navigation system etc (tbc)	TBD	TBD	TBD	TBD	consultations underway
EBRD	50	Euro	500 kv transmission line (co-funded by KfW, EBRD and EIB)	TBD	2009	2009	2011	consultations underway
EBRD	40	Euro	Paravani HEP	direct private lending	TBD	TBD	TBD	consultations underway
EBRD	50	Euro	Oni cascade	direct private lending	TBD	TBD	TBD	consultations underway
EBRD	18	Euro	Municipal water projects (multi-donor pooled funding, Ajara, Bakuriani, Poti, Kutaisi, Borjomi, Tskhaltubo)	MDF	2009	2009	2012	EBRD sovereign loans part of multi-donor funding for municipal development projects handled by MDF
EBRD	351	Euro	Banking sector financing (loans, equity) - 157 mln Euro in 2008, 84 mln Euro in 2009, 110 mln Euro in 2010	direct private lending	2008, 2009, 2010	2008, 2009, 2010	2008, 2009, 2010	EBRD works directly with banking sector
EBRD	108	Euro	Enterprise financing (44 mln Euro in 2008, 24 mln Euro in 2009, 40 mln Euro in 2010)	direct private lending	2008, 2009, 2010	2008, 2009, 2010	2008, 2009, 2010	EBRD works directly with real sector

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
<b>EIB</b>	<b>222</b>	<b>Euro</b>						
EIB	56	Euro	500 kv transmission line (co-funded by KfW, EBRD and EIB)	TBD	2009	2009	2011	consultations underway
EIB	90	Euro	Hydro power plants	government loan or direct private lending with EBRD	TBD	TBD	TBD	
EIB	65	Euro	Railway rehabilitation	Georgian railway	2009	2009	TBD	consultations underway
EIB	11	Euro	Tbilisi airport runway etc.	TBD	TBD	TBD	TBD	consultations underway
EIB	TBD	Euro	Samtredia-Grigoleti road	TBD	TBD	TBD	TBD	
<b>ADB</b>	<b>300</b>	<b>USD</b>						
ADB	70	USD	direct budget support	budget support	11,08	12,08	12,08	disbursed
ADB	40	USD	municipal-regional infrastructure project (MDF implementing entity)	MDF	11,08	10,08	12,12	implementation underway
ADB	70	USD	Ajara bypass roads	road infrastructure (RDMED)	2009	2010	TBD	feasibility study in progress
ADB	40	USD	Development policy lending	budget support (2009)	2009	2009	2009	consultations underway, likely disbursement period Q3 2009
ADB	40	USD	Development policy lending	budget support (2010)	2010	2010	2010	consultations will start in Q1 2010
ADB	40	USD	Urban development facility	urban infrastructure development in Tbilisi	2009	2009	2011	negotiate Q2 2009, start implementation in 2009, discussion with ADB underway
<b>IFC</b>	<b>350</b>	<b>USD</b>	<b>Support to banking and real sectors</b>	<b>direct private lending</b>	<b>2008</b>	<b>2008</b>	<b>2010</b>	<b>implementation underway</b>
<b>CEB</b>	<b>1</b>	<b>Euro</b>	<b>post-conflict rehabilitation grant - possibly implemented through UNHCR, UNDP, UNICEF, Council of Europe</b>	<b>managed by donor through IOs</b>				
<b>USA</b>	<b>1000</b>	<b>USD</b>						
MCC	60	USD	Samtskhe Javakheti road construction	GOG/MCG	11,08	03,09	11,10	implementation underway
MCC	26	USD	MDF (municipal infrastructure projects)	GOG/MCG	11,08	11,08	03,11	implementation underway
MCC	13	USD	Energy/Gas Storage Pre-construction Design	GOG/MCG	11,08	10,08	12,10	implementation underway
MCC	1	USD	Program administration and technical assistance	GOG/MCG	11,08	10,08	03,11	implementation underway
OPIC	176,3	USD	Lending to private institutions with U.S. interest or ownership for residential mortgages, construction of hotels, multi-use buildings, business centers and apartments, and food processing development	direct private lending	12,08	01,09	12,10	implementation underway

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/Year (signing, board approval)	Month/Year start of the project	Month/Year end of the project	Comment
USAID	250	USD	Direct budgetary support	budget support	10,08	11,08	11,08	disbursed
USG agencies	70,8	USD	Humanitarian assistance	managed by donor	Beginning 08.08	8,08	ongoing	implementation underway
USG agencies	47	USD	Police support package; priority food, shelter, and livelihood requirements for IDPs in Shida Kartli	managed by donor	12,08	12,08	12,09	exact break-down and composition of costs announced, implementation underway by USAID
USG agencies	50	USD	Subject to final approval: Recovery in Shida Kartli region phase 2; employment and vocational training in construction trades; rebuilding school and municipal infrastructure; recently displaced persons resettlement assistance; security	managed by donor	TBD	2009	TBD	work in progress to agree break-down
USG agencies	57,1	USD	Subject to final approval: Reestablish agriculture production in Shida Kartli; municipal infrastructure development; regional trade; hydropower; health insurance; vocational education; removal of landmines; civil society; media; criminal procedure code, etc.	managed by donor	TBD	2009	TBD	work in progress to agree break-down
USG agencies	Remainder	USD	projects not yet identified and subject to approval by the new administration and Congress in 2009					exact form of assistance to be decided in QQ1-2, 2009
<b>EC</b>	<b>480,6</b>							
EC	10	Euro	targeted budgetary support to reimburse expenses incurred by GOG from 2008 budget for IDP housing construction	budget	12,08	12,08	12,10	disbursed
EC	9	Euro	ECHO humanitarian assistance - delivered / being delivered through NGOs	NGO implementation	2008,00	2008,00	2009,00	
EC	15	Euro	To be implemented through UNHCR/UNDP/NGO, then sub-contract to NGOs (winterization of collective IDP centers, microfinance, VET, small infrastructure development)	NGO/IO implementation	12,08	10,08	06,10	
EC	6	Euro	2008 action program under Georgian ENPI allocation	NGO/IO implementation				Final allocation depends on IDP strategy orientations

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
EC	51,5	Euro	Targeted budgetary support related to IDP housing construction in 2008 and 2009	budget	12,08	03,09	12,10	To be disbursed in three tranches in 2009
EC	4	Euro	2007 ENPI allocation for conflict resolution (Abkhazia)	NGO/IO implementation				No decision taken yet - Decision is pending at GoG level
EC	11,5	Euro	Macro-financial assistance	budget				Might be provided by end 2009 - discussion underway
EC	36,6	Euro	For ongoing assistance under various EC programs, including 16 mln Euro criminal justice reform budget support, to be provided in 2009-2011 in three tranches; TWINNING, TA, Grants	Budget support, project support, Twinning, Grants	06,08	2009,00	2011,00	Criminal justice reform budget support program signed
EC	35,4	Euro	EU Monitoring Mission in Georgia	managed by donor				
EC	172,9	Euro	Mix of sector policy support programmes, IDP housing, TA, Twinning, Grants, EU MM, Macro-Financial Assistance	Budget support, project support, Twinning, Grants	01,09	03,09	12,12	Tentative 2009 allocation as announced at donor conference. Still needs to be concretized and confirmed
EC	128,7	Euro	Mix of sector policy support programmes, IDP housing, TA, Twinning, Grants, EU MM, Macro-Financial Assistance	Budget support, project support, Twinning, Grants	01,10	03,10	12,13	Tentative 2010 allocation as announced at donor conference. Still needs to be concretized and confirmed and is contingent on the recovery and evolution of Georgian Economy
<b>Japan</b>								
JICA	190	USD	Samtredia-Kutaisi-Zestaponi road rehabilitation	road infrastructure (RDMED)	2009	2010	TBD	Consultations underway (feasibility study, technical appraisal etc.)
GoJ	12	USD	non-project grant	agricultural tractors	2008	2009	2009	signed on December 25, 2008 (due to JPY appreciation vs USD, dollar equivalent is circa 13.5 mln USD)
<b>Germany</b>								
German Foreign Office	2,2	Euro	Humanitarian aid (UNHCR, ICRC, CARE, Caritas, HALO-Trust etc – implementation underway)	managed by donor	in implementation	in implementation	spring 2009	

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/Year (signing, board approval)	Month/Year start of the project	Month/Year end of the project	Comment
German Foreign Office	8	Euro	GTZ IDP housing project (German Foreign Office Emergency Project for Gori)	managed by donor	12,08	in implementation	summer 2009	signed
German Foreign Office	2	Euro	Different measures in implementation (e.g. UNICEF for displaced and conflict affected children in Georgia and mine risk education for children, World Vision recovery assistance in Gori, special care for EUMM, back-up datacenter for the Civil Registry Agency)	managed by donor	in implementation	in implementation	spring 2009	
BMZ	6	Euro	Rehabilitation of IDP housing in West Georgia, handled by KfW, MDF implementing agency	MDF - implementing agency	12,08	in implementation	summer 2009	signed
BMZ	9	Euro	Black Sea high voltage power transmission project - interest rate subsidy for €100 million loan from KfW	managed by donor	spring 09	spring 2009	open	
BMZ	2	Euro	TC - adaptation of the GTZ Private Sector Program to include one project component for IDPs in conflict-affected areas	managed by donor	agreement can sign soon	asap	open	New intergovernmental agreement on technical cooperation with Germany signed
BMZ	4	Euro	Microfinance support project handled by KfW (invest in equity of microfinance institutions, channeled directly to microfinance institutions)	direct private lending	agreement can sign soon	Mar-08	open	
BMZ	0,5	Euro	foreseen for ERP-Projekt in SOS, now available for other Regions	managed by donor	2006 in Vienna	open	open	
KfW	100	Euro	High voltage power transmission line	TBD	2009	2009	2011	co-funded by KfW, EBRD and EIB. <b>NOTE:</b> formal commitment not made yet, discussion underway
<b>Poland</b>	<b>3,3</b>	<b>Euro</b>						
Poland	3,3	Euro	€1.3 mln. in 2008, €2 mln. in 2009, €2 mln in 2010. Call for proposals by the Polish MFA will be answered by Polish institutions implementing development projects. Focus on post-war situation and future development.	managed by donor				Consultations on exact structure of assistance ongoing



Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
<b>Sweden</b>	<b>49</b>	<b>Euro</b>						
	3	Euro	humanitarian support through Flash Appeal	managed by donor, 2008 pledge				
	3	Euro	Swedish MFA allocation (1 mln Euro for UN Flash Appeal, 2 mln Euro for municipal/ environment infrastructure (co-funded with EBRD, implement via MDF)	managed by donor, 2008 pledge				
	10	Euro	Includes 3 mln Euro for municipal infrastructure co-funding with EBRD (MDF), 7 mln Euro for ongoing SIDA projects	managed by donor, 2008 pledge				
	3	Euro	municipal investment (with EBRD-MDF)	managed by donor, 2009 pledge				
	0,7	Euro	capacity building	managed by donor , 2009 pledge				
	6,3	Euro	contracted for ongoing SIDA projects	managed by donor, 2009 pledge				
	4	Euro	municipal investment (with EBRD-MDF)	managed by donor, 2010 pledge				
	4	Euro	ongoing SIDA projects	managed by donor, 2010 pledge				
	15	Euro	2011 contribution, to be discussed	managed by donor				
<b>Netherlands</b>	<b>12,5</b>	<b>Euro</b>						
NL	7,5	Euro	direct budget support - 2.5 mln Euro 2008, 2.5 mln Euro 2009, 2.5 mln Euro 2010	budget support				2008 budget support in the amount of Euro 2.5 mln received
NL	5	Euro	Contribution to EBRD's ETC Fund	managed by donor				
NL	TBD		project support in area of justice	managed by donor				
NL	TBD		ORIO, PSI, matchmaking	managed by GOG/donor, discussion underway				
<b>FMO</b>	<b>30</b>	<b>USD</b>	<b>support to banking sector</b>	<b>direct private lending</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>
<b>France</b>	<b>7,53</b>	<b>Euro</b>						
France	4,6	Euro	Tbilisi airport equipment	loan to GOG				signed, ratified
France	1,2	Euro	humanitarian aid / in-kind	managed by donor				
France	1	Euro	environment, health	managed by donor				
France			miscellaneous	managed by donor				
<b>Ukraine</b>	<b>14,5</b>	<b>USD</b>						
Ukraine	10	USD	budget support	budget				received

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
Ukraine	4,5	USD	special healthcare programs for children from affected areas in Crimea and West Ukraine, enhanced trade cooperation	managed by donor				
Malta	0,01	Euro	budget support	budget support	12,08	12,08	12,08	received
Czech Republic	8,4	USD	Support via IOs: IOM, UNHCR, International Fund for Demining, NGOs; open procurement towards private infrastructure projects etc.	managed by donor				
Denmark	12,5	USD	private sector development in rural Georgia, good governance, youth soccer schools	managed by donor				
Estonia	1,45	USD	TA, humanitarian aid etc	managed by donor				
Finland	3	Euro	humanitarian assistance - Red Cross, UN, NGOs; environment	managed by donor				
Belgium	1,32	USD	2009 pledge, consultations in progress	managed by donor				
Bulgaria	0,66	USD	2008-10 pledges, 0.22 mln USD p.a., consultation in progress	managed by donor				
Hungary	0,31	USD	2008 pledge, consultations in progress	managed by donor				
Ireland	2,64	USD	allocated to NGOs/IOs to respond to emergency; devt progr. for children, disabled etc. Support to UNICEF-Georgia, EU and OSCE monitors	managed by donor				
Italy	3,69	USD	IDP resettlement + social support (shelter, IDP housing, agriculture, irrigation - focus on Shida Kartli)	managed by donor				
Latvia	0,76	USD	TBD	managed by donor				
Lithuania	1,32	USD	TBD	managed by donor				

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
Luxemburg	0,37	USD	IDP support, emerg. reconstr. through NGOs ICRC, Caritas, WFP, Care.	managed by donor				
Romania	2,2	USD	support through WFP, UNHCR, reconstr. proj. (ferry boat line Poti-Constansa) etc	managed by donor				
Slovenia	0,03	USD	Humanitarian Mine Action, implem. by International Trust Fund for Demining and Mine Victims Assistance (ITF). MOU signed bw MOD and ITF.	managed by donor				
Spain	1,32	USD	TBD	managed by donor				
Canada	4,97	USD	Demining/security measures through Global Peace Security Fund, other	managed by donor				
Norway	39,55	USD	Pending Parliament approval (humanitarian assistance (NRC, Red Cross), good governance (justice), hydro-greenfield projects)	managed by donor				
Austria	1,78	USD	Through trust fund, civil society-youth, child protection through UNICEF	managed by donor				
Switzerland	18,88	USD	Shelter, water/sanitation, food aid, IDP psychosocial rehabilitation, social housing, rural devt					
United Kingdom	3,39	USD	TA to NBG and FSA-Georgia; IDP/human. support through UNHCR, UN, ICRC, Halo Trust, support to OSCE/EU monitors, DFID phasing-out support, regional confl. prevention through Conflict Prevention Pool	managed by donor				

### Update Donor Project List (as of June 2009)<sup>1</sup>

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/Year (signing, board approval)	Month/Year start of the project	Month/Year end of the project	Comment
<b>WB</b>	<b>520</b>	<b>USD</b>						
WB	40	USD	Poverty Reduction Support Operation	<b>IDA (budget support credit)</b>	10,08	10,08	12,08	disbursed
WB	<b>85</b>	USD	Development Policy Lending (2009)	<b>IDA (budget support credit)</b>	7,09	7,09	9,09	<b>negotiated</b> , disbursement expected in Q3, 2009
WB	<b>45</b>	USD	Development Policy Lending (2010)	<b>IDA (budget support credit)</b>	7,10	7,10	9,10	works to start in February 2010
WB	70	USD	Secondary and Local Roads Project	<b>IBRD invest. loan</b>	2,09	3,09	<b>10,11</b>	<b>ongoing</b>
WB	<b>160</b>	USD	East-West Highway Improvement (Sveneti-Ruisi, and Rikoti tunnel rehab)	<b>IBRD invest. loan</b>	<b>8,09</b>	<b>9,09</b>	<b>9,13</b>	<b>negotiations planned in July, 2009</b>
WB	60	USD	Vaziani-Gombori-Telavi	<b>IBRD invest. loan</b>	<b>09,09</b>	<b>10,09</b>	<b>10,13</b>	FS, design works underway by IBRD
<b>WB</b>	<b>20</b>	<b>USD</b>	<b>East-West Highway Improvement additional financing</b>	<b>IDA invest. credit</b>	<b>10,08</b>	<b>11,08</b>	<b>2,12</b>	<b>ongoing</b>
WB	40	USD	<b>Regional and Municipal Infrastructure devt.</b>	<b>IDA invest. credit</b>	10,08	09,08	12,12	implementation underway
<b>EBRD</b>	<b>937</b>	<b>Euro</b>						
<b>EBRD</b>	<b>125</b>	<b>Euro</b>	<b>Tbilisi Railway Bypass</b>	<b>Loan</b>	<b>2010</b>	<b>2012</b>	<b>TBD</b>	<b>Co-financing loan agreement between EBRD, EIB, and Georgian Rail Ltd. To be signed by Dec 2009</b>
<b>EBRD</b>	<b>65</b>	<b>Euro</b>	<b>Railway rehabilitation</b>	<b>Georgian-railway</b>	<b>2009</b>	<b>2009</b>	<b>TBD</b>	<b>consultations-underway—</b>
EBRD	11	Euro	Tbilisi airport runway etc.		<b>2008</b>	<b>2008</b>	<b>2009</b>	<b>completed</b>
EBRD	10	Euro	Airport navigation system etc (tbc)		<b>2008</b>	<b>2008</b>	<b>2009</b>	<b>completed</b>
EBRD	<b>60</b>	Euro	500 kv transmission line (co-funded by KfW, EBRD and EIB)	<b>Ministry of Energy</b>	<b>2009</b>	<b>2009</b>	<b>2011</b>	<b>Construction underway</b>
EBRD	40	Euro	Paravani HEP	direct private lending	TBD	TBD	TBD	<b>Concession process underway</b>
EBRD	50	Euro	Oni cascade	direct private lending	TBD	TBD	TBD	<b>Concession process underway</b>
EBRD	18	Euro	Municipal water projects (multi-donor pooled funding, Ajara, Bakuriani, Poti, Kutaisi, Borjomi, Tskhaltubo)	MDF	2009	2009	2012	EBRD sovereign loans part of multi-donor funding for municipal development projects handled by MDF

<sup>1</sup> Updated by the JICA Study Team as of June 2009 for the donors who provided the information.

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
EBRD	<b>450</b>	Euro	<b>Banking sector financing (loans, equity) - 150mln Euro in 2008, 300 mln Euro in 2009, amount for 2010 to be determined</b>	direct private lending	2008, 2009, 2010	2008, 2009, 2010	2008, 2009, 2010	EBRD works directly with banking sector
EBRD	108	Euro	Enterprise financing (44 mln Euro in 2008, 24 mln Euro in 2009, 40 mln Euro in 2010)	direct private lending	2008, 2009, 2010	2008, 2009, 2010	2008, 2009, 2010	EBRD works directly with real sector
<b>EIB</b>	<b>282</b>	<b>Euro</b>						
EIB	<b>56</b>	Euro	500 kv transmission line (co-funded by KfW, EBRD and EIB)	TBD	2009	2009	2011	consultations underway
EIB	90	Euro	Hydro power plants	government loan or direct private lending with EBRD	TBD	TBD	TBD	
<b>EIB</b>	<b>125</b>	<b>Euro</b>	<b>Tbilisi Railway Bypass</b>	<b>Loan</b>	<b>2010</b>	<b>2012</b>	<b>TBD</b>	<b>Co-financing loan agreement between EBRD, EIB, and Georgian Rail Ltd. To be signed by Dec 2009</b>
<del>EIB</del>	<del>65</del>	<del>Euro</del>	<del>Railway rehabilitation</del>	<del>Georgian railway</del>	<del>2009</del>	<del>2009</del>	<del>TBD</del>	<del>consultations underway</del>
EIB	11	Euro	Tbilisi airport runway etc.	TBD	TBD	TBD	TBD	consultations underway
EIB	TBD	Euro	Samtredia-Grigoleti road	TBD	TBD	TBD	TBD	
<b>ADB</b>	<b>338</b>	<b>USD</b>						
ADB	70	USD	direct budget support	budget support	11,08	12,08	12,08	disbursed
ADB	40	USD	municipal-regional infrastructure project (MDF implementing entity)	MDF	11,08	10,08	12,12	implementation underway
ADB	<b>118</b>	USD	Ajara bypass roads	road infrastructure (RDMED)	2009	2010	TBD	feasibility study in progress; <b>negotiations to start in August 2009, and the project will start by the end of this year.</b>
<b>ADB</b>	<b>80</b>	<b>USD</b>	<b>Development policy lending</b>	<b>budget support (2010)</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>50 m by regular ADF, and 30 m by hard term ADF; negotiation completed and board approval expected in July.</b>
ADB	<b>30</b>	USD	Urban development facility	urban infrastructure development in Tbilisi	2009	2009	2011	<b>Negotiation completed in early June 2009; board approval is expected in July 2009, and start implementation by the end of this year.</b>

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/Year (signing, board approval)	Month/Year start of the project	Month/Year end of the project	Comment
<b>USA</b>	<b>1000</b>	<b>USD</b>						
MCC	60	USD	Samtskhe Javakheti road construction	GOG/MCG	11,08	03,09	11,10	<b>Construction started on three sections; tendering for the remaining 3 sections started last year.</b>
MCC	26	USD	MDF (municipal infrastructure projects)	GOG/MCG	11,08	11,08	03,11	<b>implementation underway in five cities</b>
MCC	13	USD	Energy/Gas Storage Pre-construction Design	GOG/MCG	11,08	10,08	12,10	<b>feasibility studies for underground storage facilities is underway</b>
MCC	1	USD	Program administration and technical assistance	GOG/MCG	11,08	10,08	03,11	<b>implementation underway as scheduled</b>
OPIC	176.3	USD	Lending to private institutions with U.S. interest or ownership for residential mortgages, construction of hotels, multi-use buildings, business centers and apartments, and food processing development	direct private lending	12,08	01,09	12,10	implementation underway
USAID	250	USD	Direct budgetary support	budget support	10,08	11,08	11,08	disbursed
USG agencies	70.8	USD	Humanitarian assistance	managed by donor	Beginning 08.08	8,08	ongoing	implementation underway
USG agencies	47	USD	Police support package; priority food, shelter, and livelihood requirements for IDPs in Shida Kartli	managed by donor	12,08	12,08	12,09	exact break-down and composition of costs announced, implementation underway by USAID
USG agencies	50	USD	Subject to final approval: Recovery in Shida Kartli region phase 2; employment and vocational training in construction trades; rebuilding school and municipal infrastructure; recently displaced persons resettlement assistance; security	managed by donor	TBD	2009	TBD	work in progress to agree break-down
USG agencies	57.1	USD	Subject to final approval: Reestablish agriculture production in Shida Kartli; municipal infrastructure development; regional trade; hydropower; health insurance; vocational education; removal of landmines; civil society; media; criminal procedure code, etc.	managed by donor	TBD	2009	TBD	work in progress to agree break-down

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
USG agencies	Remainder	USD	projects not yet identified and subject to approval by the new administration and Congress in 2009					exact form of assistance to be decided in QQ1-2, 2009
<b>Japan</b> <b>193.3</b> <b>USD</b>								
JICA	<b>180</b>	USD	Samtredia-Kutaisi-Zestaponi road rehabilitation	road infrastructure (RDMED)	2009	2010	TBD	Consultations underway (feasibility study, technical appraisal etc.)
GoJ	<b>13.3</b>	USD	non-project grant	agricultural tractors	2008	2009	2009	signed on December 25, 2008 (due to JPY appreciation vs USD, dollar equivalent is circa 13.5 mln USD)
<b>Germany</b> <b>133.7</b> <b>Euro</b>								
German Foreign Office	2.2	Euro	Humanitarian aid (UNHCR, ICRC, CARE, Caritas, HALO-Trust etc - implementation underway)	managed by donor	in implementation	in implementation	spring 2009	
German Foreign Office	8	Euro	GTZ IDP housing project (German Foreign Office Emergency Project for Gori)	managed by donor	12,08	in implementation	summer 2009	<b>Implementation underway</b>
German Foreign Office	2	Euro	Different measures in implementation (e.g. UNICEF for displaced and conflict affected children in Georgia and mine risk education for children, World Vision recovery assistance in Gori, special care for EUMM, back-up datacenter for the Civil Registry Agency)	managed by donor	in implementation	in implementation	spring 2009	
BMZ	6	Euro	Rehabilitation of IDP housing in West Georgia, handled by KfW, MDF implementing agency	MDF - implementing agency	12,08	in implementation	summer 2009	<b>Implementation underway</b>
BMZ	9	Euro	Black Sea high voltage power transmission project - interest rate subsidy for €100 million loan from KfW	managed by donor	spring 09	spring 2009	open	
BMZ	2	Euro	TC - adaptation of the GTZ Private Sector Program to include one project component for IDPs in conflict-affected areas	managed by donor	agreement can sign soon	asap	open	New intergovernmental agreement on technical cooperation with Germany signed

Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/Year (signing, board approval)	Month/Year start of the project	Month/Year end of the project	Comment
BMZ	4	Euro	Microfinance support project handled by KfW (invest in equity of microfinance institutions, channeled directly to microfinance institutions)	direct private lending	agreement can sign soon	Mar-08	open	
BMZ	0.5	Euro	foreseen for ERP-Projekt in SOS, now available for other Regions	managed by donor	2006 in Vienna	open	open	
KfW	100	Euro	<b>500 kv transmission line (co-funded by KfW, EBRD and EIB)</b>	<b>Ministry of Energy</b>	2009	2009	2011	<b>Under implementation</b>
	3	Euro	humanitarian support through Flash Appeal	managed by donor, 2008 pledge				<b>Disbursed 2008, NB ca 1 MEUR does not refer to Flash but to other IDP supprt</b>
	3	Euro	Swedish MFA allocation (1 mln Euro for UN Flash Appeal, 2 mln Euro for municipal/ environment infrastructure (co-funded with EBRD, implement via MDF)	managed by donor, 2008 pledge				<b>Flash appeal disbursed 2008</b>  <b>Disbursed to TF with EBRD 2008 for projects prepared/ implemented 2009 – 2011</b>
	10	Euro	Includes 3 mln Euro for municipal infrastructure co-funding with EBRD (MDF), 7 mln Euro for ongoing SIDA projects	managed by donor, 2008 pledge				<b>Disbursed to TF with EBRD 2008, for projects prepared/ implemented 2009 – 2011 + 0,7 MEUR for on-going EBRD project to be completed in 2009</b>  <b>Pledged amount, ca 5.5. MEUR disbursed</b>
	3	Euro	municipal investment (with EBRD-MDF)	managed by donor, 2009 pledge				<b>TF with EBRD to be replenished when additional funds are required for projects prepared/ implemented 2009 – 2011</b>
	0,7	Euro	capacity building	managed by donor, 2009 pledge				<b>Unclear what this refers to</b>
	6,3	Euro	contracted for ongoing SIDA projects	managed by donor, 2009 pledge				<b>Combination of on-going and planned contributions to be disbursed by end 2009.</b>



Donor organisation/ Country	Amount mln	Currency USD Euro	Description	Financial mechanism (budget, MDF, MCC, direct private lending, managed by donor etc)	Month/ Year (signing, board approval)	Month/ Year start of the project	Month/ Year end of the project	Comment
	4	Euro	municipal investment (with EBRD-MDF)	managed by donor, 2010 pledge				<b>TF with EBRD to be replenished when additional funds are required</b>
	4	Euro	ongoing SIDA projects	managed by donor, 2010 pledge				<b>Combination of on-going and planned contributions to be disbursed by end 2010.</b>
	15	Euro	2011 contribution, to be discussed	managed by donor				<b>Not included pledge</b>
	3	Euro	humanitarian support through Flash Appeal	managed by donor, 2008 pledge				<b>Disbursed 2008, NB ca 1 MEUR does not refer to Flash but to other IDP supprt</b>
<b>Ukraine</b>	<b>14.5</b>	<b>USD</b>						
Ukraine	<b>10.4</b>	USD	budget support	budget				received
Ukraine	4.5	USD	special healthcare programs for children from affected areas in Crimea and West Ukraine, enhanced trade cooperation	managed by donor				

## Appendix B

### Schedule of Visiting Donors and Government Organization

Date	Time	Organization	Interviewees
June 11 (Thu)	13:00	World Bank	<ul style="list-style-type: none"> <li>- <b>Inga Paichadze</b>, Head of External Affairs Department</li> <li>- <b>Elene Imnadze</b>, Sr. Public Sector Specialist</li> </ul>
June 12 (Fri)	15:00	KfW	<ul style="list-style-type: none"> <li>- <b>Carsten Kilian</b>, Director, South Caucasus Regional Office</li> <li>- <b>Nino Shanidze</b>, Local Project Coordinator</li> </ul>
June 15 (Mon)	13:00	Ministry of Agriculture	- <b>Tornike Mgaloblishvili</b> , Chairman, International Relations Department
	15:00	French Embassy	<ul style="list-style-type: none"> <li>- <b>Hubert Duhot</b>, Attaché in the Field of Cooperation</li> <li>- <b>Joël Bastenaire</b>, Advisor</li> </ul>
June 16 (Tue)	11:00	FAO	- <b>Cristiano F. Mandra</b> , Emergency Coordinator
	12:00	EBRD	- <b>Irakli Mekvabishvili</b> , Senior Banker
	16:00	Presentation by Water Supply Agency: at the Ministry of Regional Development and Infrastructure	- <b>Irakli Kvashilava</b> , Chairman
June 17 (Wed)	11:00	Ministry of Finances of Georgia	- <b>Dimitri Gvindadze</b> , Deputy Minister
	12:00	Ministry of Finances of Georgia	- <b>Mamuka Shalikashvili</b> , Head of Transport Department
	15:00	Ministry of Education and Science	<ul style="list-style-type: none"> <li>- <b>Irine Kurdadze</b>, First Deputy Minister</li> <li>- <b>Thea Siprashvili</b>, Deputy Head of the Department of Vocational Education</li> </ul>
June 18 (Thu)	10:30	SIDA	- <b>Maria Israelsson</b> , Counselor, Head of Development and Co-operation,
	15:00	GTZ	<ul style="list-style-type: none"> <li>- <b>Zeno Reichenbecher</b>, Head of program</li> <li>- <b>Peter Wunsch</b>, Vocational training consultant</li> <li>- <b>Anna Halfmann</b>, Communications Manager</li> </ul>

Date	Time	Organization	Interviewees
June 19 (Fri)	11:00	Ministry of Labour, Health and Social Protection	– <b>Nino Morzikashvili</b> , Head of the International relations Department
	11:00	Ministry of Regional Development and Infrastructure, Water Supply Agency	– <b>Irakli Kvashilava</b> , Chairman
	13:00	Ministry of Environment and Natural Resources	– <b>Nino Tkhilava</b> , Head of Environmental Policy and International Relations
	15:00	Ministry of Refugees and Accommodation	– <b>Beka Toria</b> , Deputy Minister – <b>Valeri Kopaleishvili</b> , Advisor
June 22 (Mon)	10:30	Ministry of Energy	– <b>Nino Kikacheishvili</b> , PR Advisor
	11:00	Ministry of Regional Development	– <b>Jambul Bakuradze</b> , First Deputy Minister – <b>Ramaz Nikolaishvili</b> , Chairman of Road Department of Georgia – <b>Nino Danibegashvili</b> , Head of the International Relations Service – <b>Maya Bichikashvili</b> , Coordinator of International Assistance Programs
	12:00	Municipal Development Fund	– <b>Lasha Gotsiridze</b> , Executive Director
	12:00	ADB	– <b>Giorgi Kizirra</b> , Country Coordination Officer
June 23 (Tue)	11:00	Ministry of Economic Development	– <b>Davit Aleksidze</b> , Head of the Department for Foreign Trade and International Economic Relations
	12:00	Ministry of Economic Development (Tourism Department)	– <b>Beka Jakeli</b> , Deputy Head of the Department of Tourism and Resorts
	16:00	USAID	– <b>Anne Patterson</b> , Director of Office of Health and Social Development – <b>Joakim Parker</b> , Program Officer – <b>Craig K. Hart</b> , Deputy Mission Director
	16:00	Road Department	– <b>Irakli Litanishvili</b> , Deputy Chairman, Road Department of Georgia
June 24 (Wed)	12:00	MCGF	– <b>Khatuna Kunchulia</b> , Regional Infrastructure Development Project Director – <b>Zurab Kvitaishvili</b> , Project Coordinator – <b>Vakhtang Beridze</b> , Road Project Coordinator, Energy

<b>Date</b>	<b>Time</b>	<b>Organization</b>	<b>Interviewees</b>
	16:00	Railway Department, Department of Strategic Projects and Development	– <b>Dimitri Kemoklidze</b> , Head of Strategic Projects and Development
June 25 (Thu)	12:00	Transport Administration, Ministry of Regional Development and Infrastructure	– <b>Giorgi Bokuchava</b> , Head of United Transport Administration – <b>Archil Khojelani</b> , Head of Civil Aviation Department – <b>Konstantine Tevdoradze</b> , Deputy Head of United Transport Administration – <b>Vladimer Kveladze</b> , Head of Road Transport Department
	14:00	Tbilisi City Hall Municipal Transport Department	– <b>George Kevkhishvili</b> , Assistant Chief, Municipal Transport Department
June 26 (Fri)	12:30	World Bank (Transport and Infrastructure Sector)	– <b>Tamara Sulukhia</b> , Senior Infrastructure Specialist – <b>Christopher R. Bennett</b> , Senior Transport Specialist
	15:00	World Bank (Public Health Sector)	– <b>Nino Maroshkina</b> , Health Specialist
June 29 (Mon)	11:00	USAID	– <b>John Hansen</b> , Director, Office of Energy and Environment
	14:00	Ministry of Agriculture of Georgia	– <b>Alexander Imerlishvili</b> , the Head of Melioration Policy Division – <b>Zurab Kajaia</b> , Deputy Head of Melioration Policy Division
	16:30	World Bank (Education Sector)	– <b>Nino Kutateladze</b> , Education Specialist



## Appendix C

### List of Interviewees

#### Ministry of Finances of Georgia

##### **Dimitri Gvindadze**

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## Appetidix D

### Meeting Memos

<b>Organization: World Bank</b>	
Location: World Bank Office in Tbilisi	
Date: June 11, 2009	
Time: 13:00	
Interviewees:	JICA Study Team Attendees:
Inga Paichadze, External Affairs	Chiaki Kuranami
Elene Imnadze, Senior Public Sector Specialist	Giorgi Kajaia
<b>Summary of Meeting</b>	
<p><u>Policy/Strategy changes before and after the conflict</u></p> <p>There is no change before and after the conflict. The WB Country Strategy Paper for Georgia, however, for 2009-2011 will be issued soon. The previous CSP was for 2006-2009. Draft strategy for consultation can be found in the WB homepage:</p> <p><a href="http://siteresources.worldbank.org/INTGEORGIA/Resources/CPS2010-12.pdf">http://siteresources.worldbank.org/INTGEORGIA/Resources/CPS2010-12.pdf</a></p> <p><u>Primary Sectors</u></p> <p>Ms. Paichadze explained that primary sectors of the World Bank Group are: (i) infrastructure and the transit corridor; (ii) the education sector; (iii) public sector management; (iv) Avian Influenza Control Project; and (v) poverty reduction advisory.</p> <p><u>Sectors NOT assisting</u></p> <p>The World Bank Group is not assisting in the military development of the Georgian Government for obvious reasons.</p> <p><u>Level of Commitment by the WB Group</u></p> <p>Ms. Paichadze stated that the WB and IFC commitment to Georgia for the next three years is USD 800 million.</p> <p><u>Projects</u></p> <p>Total of 11 projects are approved and ongoing. One transport project, 1 or 2 budget support. IFC is working on private sector lending. The latest status of those projects is being updated by the Bank HQs and the report will be available in next week. Ms. Imnadze agreed to send us the report when available.</p> <p><u>Flagship Project</u></p> <p>Ms. Paichadze agreed that the E-W Highway project is the flagship project of the WB at the moment, and the Transport Sector is and will be a key part of the WB assistance to Georgia.</p>	

Project Delays

Ms. Paichadze stated that there is no significant delays in the implementation of the Bank committed projects. Projects in Georgia have higher rates of disbursement among the WB projects.

On Recent Donor Group Meeting

A donor group meeting on Transport Sector was held in Paris last Friday: The report will from this meeting will be available next week, which will contain updated list of ongoing/committed projects by each donor. A DCG for Georgia will meet also on 23 June.

Level of Assistance before/after the Conflict

Level of assistance by the WB Group are USD 143 million (2006-2009), and USD 756-906 million (post-conflict). Assistance to Georgia by the WB is increasing. More detail can be found in the WB homepage.

Level of Pledged Fund Disbursed:

Up to now USD 100 million of the committed funds has been disbursed. The Bank could provide details if necessary.

Assistance Gaps

Ms. Paichadze said that, in her personal opinion, assistance gap exists in private sector lending as foreign investors pulling out their investment.

Documents Received:

Ms. Paichadze provided the JICA Team by email a list of useful contacts on international organization operating in Georgia.

<b>Organization: KfW</b>	
Location: KfW Office in Tbilisi	
Date: June 12, 2009	
Time: 15:00	
Interviewees:	JICA Study Team Attendees:
Carstein Kilian, Director, South Caucasus Regional Office	Chiaki Kuranami
Nino Shanidze, Local Project Coordinator	Giorgi Kajaia
Summary of Meeting	
<u>Priority Sectors</u>	
Mr. Kilian explained that KfW operates in 5 main areas in Georgia:	
<ol style="list-style-type: none"> <li>1. Health Sector;</li> <li>2. Natural Resources;</li> <li>3. Municipal Infrastructure;</li> <li>4. Financial Sector; and</li> <li>5. Energy Sector.</li> </ol>	

Health Sector assistance have been phasing out as the sector approaching sufficient level of standards. TB and drag problems are less serious now. Assistance in water and waste water sector is main line of operation in the Municipal Sector assistance. Water treatment systems in Georgia, for example, is getting extremely old and most of the cases they are not functioning. There is an urgent need to rehabilitate/restore those systems. KfW is a co-founder of ProCredit Bank that facilitates credit guarantees to small/medium sized enterprises. As the foreign investors withdrawing their investment from the country, assistance to local enterprises is urgently required. Energy Sector assistance is focusing on power distribution (e.g. high voltage power transmission projects) rather than power generation. KfW's current commitment is about 20 million euro, but the assistance in this sector is most likely to double in the future. KfW is the second biggest donor after US in the energy sector assistance in Georgia. USAID is working on regulatory and institutional reforms of the power sector.

#### Policy and Strategy

KfW do not prepare policy/strategy papers. The German government and the recipient government meet every 2 years and the both sides agree on the nature of assistance to be provided. The agreement is called 'protocol' that is treated as confidential.

#### Change in Levels of Assistance before/after the 2008 Conflict

No large commitment has been made since last August, but Emergency Relief Fund consisting of 10 million euro has been allocated.

#### PPP involvement

There are only a few examples in KfW's involvement in PPP projects in Eastern Europe, but none in Georgia.

#### Project Lists

A complete list of ongoing projects is shown on the organization's web site (KfW Development).

#### Existence of Special Loan Conditions

KfW do not apply special loan conditions for post-conflict countries. Operates essentially under IDA conditions, but apply also other concessionary conditions as well as commercial rates based on international capital markets.

#### Assistance Gaps

It seems that gaps exist in the areas of (i) village electrification; (ii) agricultural/rural development; (iii) medical service improvement; and (iv) solid waste.

Medical service deteriorated after the collapse of Soviet Union. Doctors are there with knowledge of medicine, but there is not enough medicine or equipment. TAs on public hospital management may also be required. Medical insurance system has been introduced recently, but still in its stage of development.

#### Printed Materials Obtained

1. Project sheets for ongoing projects in Georgia, Armenia, and Azerbaijan by KfW.

<b>Organization: Ministry of Agriculture of Georgia</b>	
Location: #6 Gelovani street, Tbilisi	
Date: June 15, 2009	
Time: 13:00	
Interviewees:	JICA Study Team Attendees:
Mr. Tornike Mgaloblishvili, Head of Department, Cooperation with International Organizations and Projects Management	Chiaki Kuranami, Christopher Rose, Hiroshi Nishimaki, Giorgi Kajaia
Summary of Meeting	
<p><u>Sector Overview</u></p> <p>There are 802 thousand hectares arable land in Georgia in total and 550 thousand hectares are ploughed. Agriculture is an undeveloped sector in Georgia, though donor assistance is helping. All farming in Georgia is private and mostly small-sized, less than a hectare holding. The Government is selling land under state ownership to local investors with certain conditions, such as job creation. The Agro100 Program aims to develop 100 enterprises. So far, not many have been realized. Hazelnut orchards have been successful.</p> <p><u>Policy and Strategy:</u></p> <p>The Ministry of Agriculture has developed a document “Agricultural Development Strategy – 2008”, which include priorities, but not specific measures. Another document with Ministry of Finance has details of budget planning, but this is not a published document.</p> <p>The Ministry intends to start negotiations with donors to identify priority areas. The aim is to make a donor committee with a forum to meet on a regular basis. JICA would be invited.</p> <p><u>Donor Activities</u></p> <p>The main donors in the agricultural sector are USAID, Japanese Government (grant of tractors), SIDA, GTZ (but reduced lately). Milk collection centres have been established with SIDA assistance.</p> <p>There is a need for low rate loans, so that beneficiary repayments are realistic. Mr. Mgaloblishvili suggested creation of an agribusiness counterpart fund from donors and low rate micro finance loans.</p> <p><u>Needs and Priorities</u></p> <p>Agriculture needs significant assistance as it is poorly developed in Georgia.</p> <ul style="list-style-type: none"> <li>• Infrastructure: irrigation, rural roads, storage facilities, and consolidation centers are required. There are huge lands that are left without irrigation. Need for gravity-based schemes without use of pumping stations.</li> <li>• Milk and Dairy: There is a lack of dairy farms and milk production still needs to be increased. Livestock (cattle) can be imported. Artificial insemination centres are required. The domestic agriculture market needs to be increased to offset imports.</li> <li>• Import of agricultural products is very large in Georgia due to the lack of technology and distribution system. Meat as well as grain is imported.</li> </ul>	

- There is a lack of greenhouses and storage facilities in Georgia. Therefore, much agricultural produce, such as tomato, is imported from countries such as Turkey. Use of hot springs may be a possibility for greenhouses and there are many hot springs in the west.
- Rehabilitation of tunnel to Kakheti (wine) Region is important<sup>1</sup>.
- There are no consolidation centers.
- There is a lack of technology among farmers, including tea production technology and also HACCP<sup>2</sup> technologies among agro-producers.
- Exports are a high priority. The Russian market was large so the export market is quite well developed. Wine is a main export, previously to Russia, but now to Ukraine, Kazakhstan Europe, and US, which has allowed some diversification of markets. Herbs are exported to Europe and Ukraine. Hazelnuts and citrus fruits are exported to CIS countries. Apple concentrate is exported to Europe. The changing market from Russia to Europe has not caused problems in logistics. Processing quality control can be a problem. Meat products are not exported and this is an undeveloped area. Beef and pork are imported.

Post-Conflict Assistance: No changes have been noticed in USAID donor assistance to agriculture after the war.

Documents Obtained:

Mr. Mgaloblishvili promised to send the following documents:

- Agricultural development strategy (2009-2011); and
- Mid term Action Plan (2010-2013).

These were duly obtained. He also sent the following:

- Agricultural-Based Livelihoods Assessment and Rehabilitation Programme Formulation Mission Report (October 2008);
- Joint FAO/UNICEF/WFP Assessment Report (February-March 2009).

<b>Organization: French Government</b>	
Location: French Embassy, 13 rue Goguebachvili, Tblisi	
Date: June 15, 2009	
Time: 15:00	
Interviewees:	JICA Study Team Attendees:
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Joël Bastenaire, Conseiller de coopération et d'action culturelle	Hiroshi Nishimaki
	Christopher Rose
	Giorgi Kajaia
	Ketevan Chitanava

<sup>1</sup> World Bank is now providing a loan to construct a new road to Telavi.

<sup>2</sup> Hazard Analysis and Critical Control Point



<p><b>Summary of Meeting</b></p> <p><u>Policy and Strategies:</u> France does not formally prepare policy/strategies papers for its assistance. There is no bilateral agreement or ‘protocols’ and assistance is organised within the Embassy itself. It follows EU Action Plans, and operates within this framework. France generally supports small-sized projects in the area of technical and cultural cooperation, environment, and medical care.</p> <p><u>Priority Areas:</u> There are three areas of assistance by France identified with high priority for the next 3 years are:</p> <ol style="list-style-type: none"> <li>1. Cultural cooperation including education</li> <li>2. Excellency access</li> <li>3. Rule of law, good governance, and human rights</li> </ol> <p>An example project in the dissemination of French culture is the Picaso Exhibition, which cost EUR 170,000. There are also efforts to increase education of the French language within schools as the level of teaching has reduced from 20% to 5%. As for Excellency Access, projects are mainly in the medical sector and agricultural sector, where France has a competitive edge. In the medical sector, projects included supply of medical equipment for blood testing, breast cancer etc., and provision of training to public hospitals. The project cost for blood testing equipment was EUR 800,000, and EUR 1 million for breast cancer. Human rights projects involving training are implemented through Georgian NGOs.</p> <p><u>Status of Pledged Projects:</u> France pledged a total of EUR 7.53</p> <p><u>Project Lists:</u> Projects are indicated in their website. They have carried out several projects. For example, they have supplied local public hospitals with blood test equipment. Another project that aimed breast cancer prevention was also implemented. Environmental assistance has been completed and construction in rebuilding radar equipment is almost complete.</p> <p><u>Change in Levels of Assistance before/after the 2008 Conflict:</u> The actions taken to the conflict were to provide a special low rate loan for airport radar equipment, to maintain the original pledge amount, and to assist humanitarian aid in the immediate aftermath.</p> <p><u>Existence of Special Loan Conditions:</u> For the Tbilisi Airport radar project there is a special low rate loan with only 1% interest over 20 years and a 5-7 year grace period.</p>
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<b>Organization: EBRD</b>	
Location: Office in Tbilisi	
Date: June 16, 2009	
Time: 12:00	
Interviewees:	JICA Study Team Attendees:
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Toshiaaki Sakatsume, Principle Economist	Hiroshi Nishimaki
	Ketti
<b>Summary of Meeting</b>	
<p><u>Policy</u></p> <p>The conflict of 2008 did not alter EBRD’s country development strategies toward Georgia. The focus areas for Georgia are:</p>	

- 1) Finance
- 2) Energy
- 3) Transport Infrastructure
- 4) Enterprise Development

As for the lending conditions of EBRD, EBRD lends to the government at 0.75% above Libor while to the private sector at 4-6% above Libor.

#### Projects – Financial Sector

After the financial crisis, emphasis has shifted to the protection of financial system by reinforcing capitalization of Georgian financial institutions. Prior to the conflict, foreign direct investment and foreign lending created unprecedented economic boom in Georgia. Most of the investments were related to real estate development such as hotels and condominiums. Roughly 25% of banks' lending was absorbed by real estate development. After the financial crisis, all real estate development halted, creating serious downturn in the economy. Exports declined 30-35% and imports contracted more than 40%. Now, even major banks' non-performing loans stand at the level of 10% to 15%. Among them, two large banks are TBC and Bank of Georgia which have the market share of 55%. EBRD and IFC provided USD 100 million each to the Bank of Georgia in the forms of subordinated debt, convertible subordinated debt, and senior loan. Similarly to TBC, EBRD provided USD 70 million, IFC 70 million, FMO 21 million, and DEG 12 million in the forms of subordinated debt, convertible subordinated debt, and senior loan.

For the overall banking sector, EBRD has provided an amount of 500 million USD to the banking sector in Georgia together with another 500 million USD from IFC, FMO(Dutch), and DEG(Germany). After the capital injection, the banks' tier 1 capital levels were raised to 15-20%, which adequately buffers the large NPL for the time being.

#### Projects - Infrastructure Sector

One of the important infrastructure projects is a high voltage power transmission connection to Turkey. This will not only stabilize power supply in Georgia, but will bring export income to the country. Another important sector is water sector.

The current status of the EBRD pledged infrastructure projects is as follows;

<b>Description</b>	<b>Financial mechanism</b> (budget, MDF, MCC, direct private lending, managed by donor etc)	<b>Month/Year (signing)</b>	<b>Month/Year (start of the project)</b>	<b>Month/Year (end of the project)</b>	<b>Status</b>
Railway rehabilitation	Georgian railway	TBD	TBD	TBD	consultations underway having some technical problems
Tbilisi airport runway etc.	TBD	Signed	TBD	completed	
Airport navigation system etc (tbc)	TBD	Signed	TBD	completed	

500 kv transmission line (co-funded by KfW, EBRD and EIB)	TBD	2009	2009	2011	Construction underway
Paravani HEP	direct private lending	Signed	Started	End of 2009	Construction underway
Oni cascade	direct private lending	TBD	TBD	TBD	consultations underway
Municipal water projects (multi-donor pooled funding, Ajara, Bakuriani, Poti, Kutaisi, Borjomi, Tskhaltubo)	MDF	2009	2009	2012	EBRD sovereign loans part of multi-donor funding for municipal development projects handled by MDF

The detailed project information of 500 kV transmission project and Oni Cascade, please refer to the attached project information sheet.

**Organization: Ministry of Regional Development and Infrastructure**

Location: Office in Tbilisi

Date: June 16, 2009

Time: 14:00

Interviewees:

JICA Study Team Attendees:

Presenter: Irakli Kvashilava, Chairman, Water Supply Regional Development Agency

Chiaki Kuranami

Hiroshi Nishimaki

Chris Rose, Ketti

Summary of Meeting/ Donor Coordination Meeting hosted by the above ministry

Sector Overview

All the water companies in Georgia are financially unsustainable in their operation. The total subsidies including indirect ones such as discounted power tariff are estimated at GEL 100 million. In 2007, the Georgian government transferred the responsibility of municipal water supply infrastructure development to the central government. Thus, they created the Ministry of Regional Infrastructure Development.

The ministry has created an agency named “Water Supply Regional Development Agency.” The main objective of the agency is to restructure the whole sector to be self-sustainable. However, there are no financial records regarding assets or liabilities. Therefore, it is not possible to make a rational planning of restructuring.

Consolidation of water companies

The agency is intending to consolidate the water supply companies into three regional water companies, namely West Water LLC, East Water LLC, and Adjara Water LLC.

Technical Assistance Needs

The agency has identified technical assistance needs as follows;

1. Management Information System

They are proposing a web-based accounting system to cover all the companies in the same format by providing web-based application server of accounting. Absence of financial as well as management information poses as the first obstacle in planning for restructuring of the sector. They believe that it will require no more than GEL 100,000 to develop the system and it would not cost anything in data entry since there is excess of workers in the sector<sup>3</sup>.

2. GIS system

They would like to create a centralized GIS database for all the facilities of water production and delivery that reflect most updated changes in the facility configuration.

3. Hydro-geological Survey

Most water distribution systems in Georgia are based on pump-lifting supply method. This method was sustainable during Soviet period purely because of highly subsidized electricity tariff system. In order to improve efficiency of water supply operations, it is necessary to shift the system to rely on gravity based system. Local consultants have indicated that it would take GEL 1 million to conduct the survey.

Organization: **Ministry of Finance**

Location: Ministry of Finance

Date: June 17, 2009

Time: 11:00

Interviewees:

Dimitri Gvindadze, Deputy Minister

JICA Study Team Attendees:

Chiaki Kuranami, Christopher Rose, Hiroshi Nishimaki

Keti Chitanava

Summary of Meeting

Status of Donor Pledges

Mr. Gvindadze confirmed the \$4.5 billion total pledge made at the Brussels donors' conference.

He divided the pledges into three timeline phases:

Phase 1. Emergency component: October 2008 – March 2009

Phase 2. Short: April 1 2009 to 1 April 2010

Phase 3. Medium: 2010-2012

The first phase is for the "immediate period". Mr. Gvindadze provided a tabulated list of sectors with donor allocations for Phase 1. These are approved and committed with binding agreements. The total committed is US\$1,707.7 million of which 1003.2 million has been disbursed to April 1 2009.

He also provided a similar list for Phase 2. However, although this Phase 2 list represents the latest situation, the allocations are not yet binding and may be subject to change. The Phase 2 total amount currently stands at US\$1865.7 million. (The Phase 1 & 2 tabulations are shown in the main report).

<sup>3</sup> According to them, there are 2800 employees in this sector in Georgia. It is a relatively small figure compared to other countries of the same economic development status.

The pledges are currently on course without significant delay.

Key Needs

Mr. Gvindadze mentioned key needs for Georgia as:

- Fiscal Gap requiring budget support. The gap is equivalent to 8% of GDP.
- Infrastructure: the East – West Highway is a particularly important infrastructure need for the country.
- Loans with preferential rates. In particular, for the yen loan there is risk of currency appreciation, so the loans terms are very important.

General budget support is well covered by donors’ pledges. Also, allocations for displaced persons are sufficient and coordination is well organized under the Ministry of Refugees and Accommodation.

<b>Organization: Ministry of Education</b>	
Location: Ministry of Education Building	
Date: June 17, 2009	
Time: 15:00	
Interviewees:	JICA Study Team Attendees:
Irine Kurdadze, First Deputy Minister	Chiaki Kuranami
Thea Saprashvili, Deputy Head of the Department of Vocational Education and Training Development	Giorgi Kajaia
Summary of Meeting	
<p><u>General Background</u></p> <p>The education system in Georgia has changed dramatically in recent years. Schools are decentralized and are provided with greater responsibilities. Each school is now managed by a board of directors. However, there are problems in teacher quality, and lack of incentives for skills development. This is partly caused by the low level of salary to teachers. For the Ministry side, there is a need to provide guidelines for developing systematic training programs.</p> <p>There are 70,000 teachers and 2,300 schools. In schools, students can receive primary, basic and secondary education. Primary and basic education is compulsory. Every year 65,000 students graduate from high schools. Half of them enroll in universities.</p> <p>There are 62 accredited universities in the country. Half of them are public universities. There are three or four universities that provide a wide variety of programs. The Ministry developed a system of providing scholarship to university students. The amount of scholarship is 2500 GEL per year per student.</p> <p><u>Vocational Training</u></p> <p>There are 39 Vocational Training Centers in Georgia and only ten of them comply with new standards. Infrastructure (center buildings and laboratory equipment) is a big problem and the Ministry requires assistance in this respect.</p>	

The way of financing of each educational centre by the government has to be changed. Currently, budget is allocated lump sum to each center, and monitoring is not performed. The Ministry has to develop more appropriate funding systems for those centers.

Needs Assessment

Currently EU is assisting the Ministry to review the education systems in Georgia and identifying the areas where further assistance is required. The report will be available within 2 weeks.

<b>Organization: SIDA</b>	
Location: Embassy of Sweden, 12 T.Tabidze street, Tbilisi	
Date: June 18, 2009	
Time: 10:30	
Interviewees:	JICA Study Team Attendees:
Ms. Maria Isralsson, Counsellor, Head of Development Co-operation	Chiaki Kuranami
	Hiroshi Nishimaki
	Christopher Rose
	Giorgi Kajaia

Summary of Meeting

Policy/Strategy:

The Swedish Ministry of Foreign Affairs is currently reviewing the policy and strategy paper. A new 4 year strategy for the period 2010 – 2013 covering Georgia will be developed in this year. The latest version of published policy paper available is the version for 2006 – 2009. (The Study Team obtained ‘Strategy for development cooperation with Southern Caucasus; January 2006 – December 2009’). A greater focus will be made on Georgia within Southern Caucasus due to political interest and ending support for Armenia.

Priority Sectors:

There are four priority sectors in Swedish assistance for Georgia:

- Humanitarian
- Agricultural
- Environment
- Sustainable Development

The new 2010 strategy will replace agriculture with trade as EU integration is considered the greater priority.

Funding Level before/after the 2008 Conflict

Swedish pledge of SEK 400 million is made up on ‘on-going’ and ‘new’ fund. In connection with the donor conference, the Swedish Ministry for Foreign Affairs added SEK 30 million to the 2008 funding through SIDA. Of this SEK 10 million is intended for humanitarian support, and SEK 20 million for municipal investments needs. The planned budget in 2010 is SEK 150 million which is a substantial increase as compared to the commitment in 2009. Funds are disbursed in cooperation with EBRD.

Mode of Assistance

Swedish assistance can be classified into two types:

- Policy Support: e.g., Municipal Infrastructure Fund
- Trust Fund: directly managed by SIDA

Documents Obtained:

- SIDA Project List – Georgia, May 2009
- Strategy for Development Cooperation with Southern Caucasus, January 2006 – December 2009

<b>Organization: GTZ (German Technical Cooperation)</b>	
Location: GTZ, Tbilisi	
Date: June 18, 2009	
Time: 15:00	
Interviewees:	JICA Study Team Attendees:
Zeno Reichenbecher (Programme Manager, Legal and Judicial Reforms)	Chiaki Kuranami
Peter Wunsch (Project Manager)	Christopher Rose
Anna Halfmann (Communications Manager)	Ketevan Chitanava
Summary of Meeting	
<p>The GTZ representatives confirmed the Euro 133 million pledge from the Brussels conference. It was explained that GTZ is an implementing agency under the client of the German Federal Ministry for Economic Cooperation and Development (BMZ). All assistance to Georgia is through Technical Assistance. Additionally, KfW is concerned with the financial sector. GTZ first started operations in Georgia in 1992.</p> <p><u>Strategy</u></p> <p>GTZ's strategy is embodied within the conceptual framework of the Caucasus Initiative, as explained in the South Caucasus Strategy for Georgia, Armenia, and Azerbaijan - German Development Cooperation (2007 revision). This brochure format document sets out the principles of the strategy.</p> <p><u>Priority Sectors</u></p> <p>Four main components are targeted:</p> <ul style="list-style-type: none"> <li>• Legal advisory services</li> <li>• Private sector development</li> <li>• Democratic principles</li> <li>• Biodiversity</li> </ul> <p>Two main projects are being implemented for IDPs.</p> <p>1. Housing Project: This has an allocation of Euro 8 million. This is being implemented with the Ministry of Refugees and aims to provide 300 houses for 300 IDP families. This will be completed in August/September 2009.</p>	

2. The second project has 3 main components: (i) Private sector development mainly concerning food safety for export to the European market; (ii) Vocational education and training with the Ministry of Education & Science; (iii) Economic support for the re-integration of IDPs, including training, equipment, and micro-loans.

GTZ are seeking further cooperation for these components. The Polish are showing interest with a budget of Euro 10 million for health or education. The European Commission are providing budgetary support of approximately Euro 19 million.

Documents Received

GTZ South Caucasus: Partner on the Road to Europe, German Development Cooperation (2007)

Other

GTZ provided contacts within the Embassy of Germany for follow up meetings. However, the personnel are currently being changed.

<b>Organization: Ministry of Labour, Health and Social Protection</b>	
Location: Ministry, 30 Pekini Street, Tblisi	
Date: June 19, 2009	
Time: 11:00	
Interviewees:	JICA Study Team Attendees:
Nino Mirzikashvili, Head of International Relations Department	Christopher Rose
	Giorgi Kajaia
Summary of Meeting	
<u>Donor Activity</u>	
<p>Ms. Mirzikashvili briefly listed the active donors in Georgia's healthcare sector including USAID, EU, and WB as the main three. She also mentioned DFID and SIDA. The Ministry organizes a donor conference every two months on average. Donors are assisting the health reforms that are actively being pursued by the Ministry and provided good humanitarian assistance following the conflict.</p>	
<u>Policy and Strategy:</u>	
<p>Ms. Mirzikashvili stated that there is no overall policy document, which is a weakness of the Ministry. However, a Master Plan for hospitals is available (Hospital Sector Development Master Plan, 2007).</p> <p>Ms. Mirzikashvili also mentioned a WHO publication 'Healthcare System in Transition (HiT)' which reviews the past 5 years of health care in Georgia.</p>	
<u>Priority Sectors:</u>	
<p>Ms. Mirzikashvili stated two priority areas as primary health care and health insurance.</p>	



Within primary healthcare there is a village doctors program assisted by USAID. This commenced in January 2009. Independent medical practitioners are paid GEL450/month to participate. Around 1,400 doctors are contracted by the government under this scheme, which is currently considered a sufficient number. USAID are assisting the program by providing study courses to the doctors. Good management is needed for this program.

Ms. Mirzikashvili described the health insurance program and stated that it still needed expansion. In the two years since it started, the number of people in Georgia who have taken health insurance has increased from 200,000 to around 1.5 million. There are nine main insurance companies in Georgia. The Government's Federal health program only covers people for urgent health care e.g. HIV, Malaria, so over 70% of the population rely on out-of-pocket fees to cover their medical expenses.

#### Areas Requiring Donor Assistance

Ms. Mirzikashvili did not indicate specific areas for further assistance, but broadly suggested there were many needs within health care, as indicated by various statistics e.g. mortality rates.

#### Problems in Implementation

Ms. Mirzikashvili stated that delays in implementing policy and projects often came from changes in personnel within the Ministry.

#### Project Lists

Ms. Mirzikashvili was not able to provide a comprehensive list of on-going projects as the information is too diverse and has not been compiled within the Ministry.

#### Documents Received From Meeting

Hospital Sector Development Master Plan, 2007

<b>Organization: Ministry of Environment</b>	
Location: Ministry of Environment Office in Tbilisi	
Date: June 19, 2009	
Time: 13:00	
Interviewees:	JICA Study Team Attendees:
Ms Nino Tkhilava, Head of Department of Environmental Policy and International Relations	Hiroshi Nishimaki
	Keti
Summary of Meeting	
<u>Policy and Strategies</u>	
There are five areas of focal policy:	
<ul style="list-style-type: none"> <li>• Forest Management</li> <li>• Solid Waste Management</li> <li>• Water Resource Management</li> </ul>	

- Disaster Prevention and Management
- Climatic Change

On-going Projects and Technical Assistance Needs by Sector

1. Forest Management

Although Georgia is endowed with rich forest resources, the problem of forest degradation is becoming serious. The causes are multifold. There is illegal cutting as well as legal cutting with permits issued years ago without much consideration to the impact. War damage and forest fires add to degradation. One of the projects under implementation is Borjomi forest rehabilitation project. The forest was burnt during the August war.

2. Solid Waste Management

The Dutch government has assisted Georgia for the last 10 years in the formation of solid waste management policies. EBRD is financing solid waste project in Batumi. British Petroleum has funded a landfill project at Rustavi/Gatabani.

3. Water Resource Management

EU and UNDP have assisted the Georgian Government in its shift from administration-based management to watershed management of water resources. They are preparing for a new law on water according to this new principle. The main water sources for water supply in Georgia is groundwater. However, there is no systematic survey done or data on groundwater. Thus, TA is needed on this issue. EU is now conducting two projects: 1. Mtkvari-Araks project –the objective is to monitor water quality of these rivers; 2. Water governance project – establish water classification system.

4. Disaster Prevention and Management

Not much work is done in this field but flooding and landslides are the main disasters in Georgia.

5. Climatic Change

Georgia ratified Kyoto Protocol. Also Long-range Transboundary Pollutant Treaty as well as Montreal Ozon Depeletion Treaty. GEF have been the main donor in this sector. The Ministry has requested JICA for a solar panel project.

<b>Organization: Ministry of Refugees and Accommodation of Georgia</b>	
Location: 15a Tamarashvili Street, Tbilisi	
Date: June 19, 2009	
Time: 15:00	
Interviewees:	JICA Study Team Attendees:
Beka Toria, Deputy Minister	Chiaki Kuranami
Valeri Kopaleishvili, Advisor	Keti Chitanava
	Giorgi Kajaia
<b>Summary of Meeting</b>	
<u>Major Activities of the Ministry:</u>	
<p>Mr. Toria stated that the Ministry’s main priority is in implementing measures for Internally Displaced People (IDPs). There are about 270,000 IDPs in Georgia. IDPs generally include those who had to leave their houses after the conflicts of the 1990s, and 30,000 IDPs after August 2008 due to the Russian conflict. With the assistance by donors (including the Japanese Government’s budgetary support of USD 10 million), the Ministry was able to provide 6,000</p>	

houses for the 2008 IDPs. Regarding IDPs from the 1990s, however, the Government has not been able to provide adequate assistance.

Mr. Toria pointed out that while the Government built 6,000 houses for the IDPs from the August conflict with the assistance of donors, the IDPs from the 1990s conflict were relatively unattended. He elaborated on the four patterns of housing status for IDPs from 90s: (i) occupying public properties like kindergartens, community centers, and schools; (ii) renting privately owned houses; (iii) living with relatives; and (iv) purchased own houses. Some IDPs migrated to Russia.

The Ministry intends to reconstruct and repair properties that are occupied by IDPs and provide them with ownership. The Ministry intends to involve the private sector to implement the programs. If the property is owned privately, the Ministry can negotiate with the owner and try to find the solution, so that the IDPs can remain in the properties concerned.

#### Policy and Strategy:

Mr. Toria explained that the Ministry's activities on IDPs are following recommendations made by the Steering Committee headed by USAID, UNCHR, and other donors. The Committee is created under the Prime Minister's Office, and addressed issues relating to all types of IDPs, and prepared a strategy for the next 3 years. Many of them have been left without any property, therefore, providing them with houses (and letting them own the properties) is a high priority.

The Steering Committee established Expert Groups in the following fields:

1. Livelihood;
2. Rehabilitation;
3. IDP legal right protection; and
4. Social and economic integration.

#### Main Donors Activity on IDP Activities:

USAID and UNCHR provided assistance to the IDP support activities. The Ministry has received emergency funding from many donors after the 2008 conflict to deal with thousands of people who were left without houses or other properties. Most of the donors are providing budgetary support to the Ministry's IDP operation, while there are a few donors who are operating directly; e.g., GTZ is constructing 300 houses for IDPs with a budget of 8 million Euros. They are also working on the social and economic integration of IDPs.

#### Documents Received:

Mr. Kopaleishvili agreed to send the JICA Team information regarding the activities of the Steering Committee. Several important documents were duly received by email on June 19, 2009, which include:

- TOR for the Steering Committee
- TORs for the Expert Group Meeting
- Rehabilitation Standards
- Task Request for Legal, Protection and Outreach Temporary Expert Group

Organization: <b>Ministry of Energy</b>	
Location: Office in Tbilisi	
Date: June 22, 2009	
Time: 10:30	
Interviewees:	JICA Study Team Attendees:
Mariam Valishvili,	Hiroshi Nishimaki
	Ketti
Summary of Meeting	
<p><u>Electricity Sector</u></p> <p>Power distribution sector is totally privatized in Georgia and generation for small hydropower stations are totally privatized. Guri Power Station, i.e., the largest power station in Georgia, is still state owned company. Transmission sector is still owned.</p> <p>In the case of Paravani Hydropower Project, Turkish enterprise, called Anadol Group is now constructing with the finance from EBRD/EIB. They are given a state land to produce energy and export it to Turkey with 100% own funding with only obligation to provide 3 winter months of about 50 GWh to Georgia at the wholesale price of US cent of 4.2 per kWh. Namahvani Cascade Hydropower 450 MW connects a series of three hydropower stations. It has a F/S completed during Soviet time and the estimated cost is USD 900 million. Several companies including a Korean company have expressed their interest in the project. Hudoni Hydropower's capacity is 70 MW. Oni Cascade Hydropower has a capacity of 280 MW with the estimated project cost of USD 600 million. EBRD is investigating the financing of Paravani and Oni Hydropower projects.</p> <p>In terms of future hydropower generation, they have identified 80 potential sites, out of which they are screening them down to 25 sites. With the grant from the USAID they intend to have 5-6 full-fledged F/S conducted with the budget of USD 9 million. The actual implementation will be done on concession basis and EBRD, EIB and IFC have submitted their letter of interest and support for duly identified projects according to their guidelines.</p> <p>As for transmission project, USAID providing fund for 400kV transmission line project between Senaki and Poti at the cost of USD 30 million. There is a plan to construct a 400kV transmission line between Georgia and Armeia. However, the cost accruing to Georgian side is only USD 20 million or so since the largest segment belongs to Armenian side. One Amerian side is committed to the project, Georgia is ready for their share of the investment.</p> <p><u>Gas Sector</u></p> <p>At present, there are two main gas pipelines crossing Georgia, one is north-south connecting Russia to Armenia and the other is east-west from Azerbaijan. USAIS is conducting a F/S for a gas pipeline Millenium Challenge Corporation is now conducting a F/S for gas storage of 480 million m3 working volume near Tbilisi. The project cost is estimated about USD 150 -180 million. As for Caspian and Black Sea gas pipeline projects, BP will construct three gas pipeline in total.</p> <p><u>Oil Sector</u></p> <p>G Government has given concession for exploration in Blacksea but no discovery is reported yet.</p>	

<b>Organization: Ministry of Regional Development and Infrastructure</b>	
Location: Ministry, Ingorokva str., 0134 Tbilisi	
Date: June 22, 2009	
Time: 11:00	
Interviewees:	JICA Study Team Attendees:
Mr. Jambul Bakuradze, First Deputy Minister	Chiaki Kuranami
Mr. Ramaz Nikolaishvili, Chairman, Road Department of Georgia	Christopher Rose
Ms. Nino Danibegashvili, Head of the International Relations Service, Ministry of Regional Development and Infrastructure	Ketevan Chitanava
Ms. Maya Bichikashvili, Coordinator of International Assistance Programs, Water Supply Regional Development Agency	
Summary of Meeting	
<p><u>Overview</u></p> <p>Mr. Bakuradze commenced meeting proceedings by highlighting the importance of the relationship between Georgia and Japan. The Ministry was formed in February 2009, so is relatively new. The Ministry is responsible for regional development and infrastructure within the entire country including transport infrastructure (land, sea, air), and construction including buildings. One month ago a water supply department was created.</p> <p>Although some achievements have already been made within the energy and road sectors, there are still many needs and there are large-scale plans for power expansion. There are up to 4 power projects, each costing about US\$1billion.</p> <p><u>Strategy</u></p> <p>Mr. Bakuradze stated that the strategy or priority areas were decided by the Government and there had not been any significant changes in strategy or priority since the previous administration or prior to the Ministry. However, the Water Supply Regional Development Agency was newly formed.</p> <p><u>Priority Sectors</u></p> <p>Mr. Bakuradze stated that the main priority sectors are energy/power and road infrastructure. He also mentioned the importance of water supply and agriculture to the country.</p> <p>Ms. Maya Bichikashvili gave a summary of the water supply sector. The Government requested USAID to make a needs assessment of the water sector. The study concluded that US\$438 million is necessary for existing rehabilitation and an additional US\$280 million is required for supply to areas which currently have no water (total US\$718 million). A priority is Kutaisi rehabilitation project, as well as a water management and GIS system including a billing system and hydrogeological surveys.</p> <p><u>Projects</u></p> <p>Mr. Nikolaishvili talked about the Zestafoni-Samtredia Bypass scheme, which has recently been discussed with JICA officials. The Ministries of Finance and Regional Development have made an agreement with JICA and construction is expected around May/June 2010. He then</p>	

mentioned the Azerbaijan-Turkey route via Georgia and a junction financed by the Government of Japan. He indicated that JICA were interested in other segments and junctions of this route and hoped for further cooperation. He also mentioned the Gori-Ruisi route, which has been completed by WB, and Ajara bypass is being funded by ADB.

Documents Received

- Mr. Bakuradze agreed to send a summary of sectors and donors involvement under the Ministry (To date, pending).
- Ms. Bichikashvili agreed to send the water sector needs assessment conducted by USAID (Water Utility Reform Plan and Implementation Strategy). To date, this was duly received.

<b>Organization: ADB</b>	
Location: 12 <sup>th</sup> floor, JSC Cartu Group Building, 39a, Chavchavadze Avenue	
Date: June 22, 2009	
Time: 12:00	
Interviewees:	JICA Study Team Attendees:
Giorgi Kiziria, Country Coordination Officer, Georgia Resident Mission	Chiaki Kuranami
	Chris Rose
	Keti Chitanava
<b>Summary of Meeting</b>	
<u>Policy and Strategy:</u>	
<p>Mr. Kiziria explained that the Interim Operational Strategy (IOS) 2008-2009 for Georgia is the latest, and no equivalent strategy paper has been issued after the conflict. ADB, however, has prepared a policy document for emergency assistance. (This policy paper titled 'Proposed Loan Georgia: Emergency Assistance for Post-Conflict Recovery (EAPCR)' has already been obtained by the consultant).</p>	
<u>Change in Levels of Assistance before/after the 2008 Conflict:</u>	
<p>After the conflict they have increased the fund. Biannual country allocation to be disbursed by 2009 is now increased from US\$ 40 million to US\$ 80 millions (\$50 from 'regular' ADF, and \$30 from 'hard' ADF). These are mostly in budget support and will be signed by July. The fund will be paid in to National Bank of Georgia and used through the Ministry of Finance in the areas of IDP housing, primary schools, and other areas requiring budget support.</p>	
<u>Priority Sectors:</u>	
<p>Mr. Kiziria confirmed that the ADB's priority sector in Georgia is mainly in the following three areas:</p> <ul style="list-style-type: none"> <li>• municipal infrastructure;</li> <li>• national highways; and</li> <li>• renewable energy.</li> </ul>	
<u>Project Status:</u>	
<p>Mr. Kiziria elaborated on the status of the projects pledged in Brussels in October 2008.</p>	

1. The first project – *Direct budget support (US\$ 70 million)* – has been disbursed. It was an emergency post conflict response and it is completed.
2. The second project – *Municipal-regional infrastructure project (\$ 40 million)* – is under implementation. It started last year.
3. As for the third project - *Ajara bypass roads* – they will start negotiations in August. The project will start this year. The budget has increased as it is \$ 118 million already.
4. The fourth project – *Developing policy lending (\$ 80 million)*. \$ 50 million are ‘regular’ ADF and \$ 30 million are ‘hard’ ADF. \$ 80 million is already negotiated. Board meeting is scheduled in July.
5. The fifth project – *Urban development facility (\$ 30 million)* – is a hard term ADF. Loan was negotiated 3 weeks ago. It will be reviewed by board in July.

#### Additional Ongoing Projects:

Mr. Kiziria added that the ADB have additional transport infrastructure projects, which includes subway (extension) and bridge projects. Bridge feasibility study has been financed by WB. The ADB TA will review the WB study. As for subway extension project, the upcoming TA will conduct a pre-feasibility study.

#### Mode of operation:

Mr. Kiziria explained that ADF has two types of funds: OCR (Ordinary Capital Resources), and ADF (Asian Development Fund - concessional fund). OCR utilizes ordinary capital resources for its operation. It is a commercial based resources and the interest rates are usually LIBOR plus. ADF, on the other hand, is concessional funds, and has ‘regular’ and ‘hard’ terms depending on the borrowing environment of the recipient countries. Georgia qualifies both OCR and ADF, but most of the ADB operation has been through ADF. OCR in Georgia will start from the next year.

Mr. Kiziria later provided us by e-mail detailed information on the ‘regular’ and ‘hard’ term ADFs as follows:

In general, the lending terms for ADF loans are the following: 32-year maturity, including an 8-year grace period, 1% interest charge during the grace period and 1.5% during the amortization period, and equal amortization. ADF financed Program loans offer the same terms except have a shorter maturity of 24 years. This is ‘regular’ ADF.

ADF Hard Term Facility includes a facility with harder lending terms to help cover the foregone interest income from ADF grants. The loan terms are the same as the current ADF terms, i.e., equal amortization, 8-year grace period, 32-year maturity for project loans and 24-year maturity for program loans. The interest rate, however, is 150 basis points below the weighted average of the 10-year fixed swap rates of the special drawing rights component currencies plus the OCR lending spread, or the applicable ADF interest rates, whichever is higher. The interest rate is reset every January and applied to all hard-term loans approved during that year. The interest rate is fixed for the life of the loan.

#### Assistance Gaps:

There is a gap in financing water sector in Georgia. As USAID identified, additional \$ 200 million dollar will be required.

<b>Organization: Municipal Development Fund</b>	
Location: Municipal Development Fund Office in Tbilisi	
Date: June 22, 2009	
Time: 12:00	
Interviewees:	JICA Study Team Attendees:
Lasha Gotsiridze Executive Director	Hiroshi Nishimaki
	Georgi
<b>Summary of Meeting</b>	
<p>Municipal Development Fund was established in 1997 with the direction of World Bank as a Project Implementation Unit for a municipal infrastructure project at the time. MDF has evolved into a full-fledged implementation agency for the development of municipal infrastructure including water supply, road, school and recently Internally Displaced Persons's housings. Their current number of staff is 103 with an annual budget of Gel 300 million.</p> <p>Since the August War 08, they built 1300 units of IDP housing in 2 months. Currently they have 80 ongoing water supply projects and 70 road projects. The projects are either under tender processes or under construction. These projects are funded by WB, EBRD, EIB, MCC and KfW. The main cities with water supply projects are Kobuleti, Poti, Kutaisi, Borjomi nad Tskhaltubo. First four cities are at advanced stage of development and the last city of Tskhaltubo is still at infant stage. In the case of Poti, they have identified a spring as its water source at some 50 km upland of the city. Thus the project is to construct intake headwork as well as 50 km transmission line. It is a case in which they were able to switch from pumping system to gravitation system to reduce water supply costs.</p> <p>As for the need for future development needs, it is right time to develop feasibility studies and engineering designs for sewerage treatment systems for all the cities of Georgia though the economic situation does not permit immediate implementation of projects but it will be needed in a few years span. However, Tbilisi water supply is totally privatized and cannot receive official development assistance. Therefore it is better to investigate other cities such as Kutaisi.</p>	

<b>Organization: Department of Tourism and Resorts, Ministry of Economic Development of Georgia</b>	
Location: Ministry of Economic Development, 12 G.Chanturia St. 0108, Tblisi	
Date: 23 June, 2009	
Time: 12:00	
Interviewees:	JICA Study Team Attendees:
Mr. Beka Jakeli, Deputy Head	Chiaki Kuranami
Ms. Medea Janiashvili, Head of Domestic Tourism and Analysis Office	Christopher Rose Giorgi Kajaia
<b>Summary of Meeting</b>	
<p>Mr. Jakeli explained that the tourism department has two main functions: marketing and planning &amp; development. The marketing role includes both international and domestic tourism, which has a demand ratio of approximately 20:80. The planning functions and responsibilities of the department include legislation, market surveys, monitoring of training, some infrastructure (signage and public utilities), and international relations.</p> <p>The department's budget is around US\$2 million of which \$400k supports the cost of general administration. The main target country markets are Ukraine, Baltic countries and Russia (but currently no direct flights). He stated that some proposals to donors to assist in promoting the Japanese market had been made in the past, but perhaps not implemented. The main tourism</p>	



activities within Georgia are culture and adventure, and visits to ski resorts, national parks, the Black sea coast, UNESCO sites. Eco-tourism is an increasing area.

Policy and Strategy:

Mr. Jakeli mentioned that Georgia's tourism strategy was developed with US assistance.<sup>4</sup>

Needs

Mr. Jakeli stated that the needs of the sector, with potential for donor assistance were:

- Short-term training for small and medium sized enterprises;
- Production of guidelines for small and medium sized enterprises on how to operate their businesses;
- Road access (the tourism department informs the road department on needs for tourism access, such as secondary roads).

Documents Received

Mr. Jakeli provided a breakdown of tourist arrivals (?) and agreed to send a list of tourism development projects 2008. This was duly received (see main report).

<b>Organization: Road Department</b>	
Location:	
Date: June 23, 2009	
Time: 16:00	
Interviewees:	JICA Study Team Attendees:
Irakli Litanishvili, Deputy Chairman, Road Department of Georgia	Chiaki Kuranami
	Hiroshi Nishimaki
	Ketevan Chitanava
Summary of Meeting	
(Mr. Litanishvili appeared to be very busy therefore; we had a very short meeting. He pointed out that he has provided to JICA details of all the road projects recently.)	
<u>Status of Projects by Different Donors:</u>	
(ADB Sections)	
<ul style="list-style-type: none"> <li>• Ajhara Bypass – Fact finding mission has arrived recently. F/S is to start soon.</li> </ul>	
(WB Sections – EW Corridor)	
<ul style="list-style-type: none"> <li>• Agaiani-Igoeti section is completed</li> <li>• Ruisi-Agara will start in August</li> </ul>	

<sup>4</sup> Postscript: The Georgian Department of Tourism & Resorts has introduced a new tourism strategy for the country called 'The Georgian Way'. Developed and presented by the Washington, DC-based America-Georgia Business Council (AGBC) and tourism consulting firm SW Associates, the strategy is forecasting an increase of 150% in international tourism arrivals, and over US\$1 billion in export earnings by 2015.

<ul style="list-style-type: none"> <li>• Rikoti tunnel – under feasibility study</li> </ul> <p>(Government Initiatives)</p> <ul style="list-style-type: none"> <li>• Rikoti-Zestafoni section is under feasibility study that is financed by the Georgian Government;</li> <li>• Samtredia-Grigoleti – is under feasibility study also financed by the Georgian Government budget. They have no donor interested in these sections yet.</li> </ul> <p>(Rural Roads)</p> <ul style="list-style-type: none"> <li>• Feasibility study from Tbilisi to Rustavi is finished. The highway takes us to Azerbaijan. There is no donor for another part of the highway from Rustavi to Azerbaijan.</li> <li>• Highway from Tbilisi to Marneuli is under feasibility study</li> </ul> <p><u>Document Received:</u></p> <p>Mr. Litanishvili promised to provide the study team with a complete list of donor financed sections with length, cost, and the latest status. A map showing the location of these entire projects is also to be provided by the Road Department. (up to now, no documents have been received yet)</p>
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<b>Organization: USAID</b>	
Location: US Agency for International Development, 11 George Balanchine St., Tbilisi	
Date: 23 June, 2009	
Time: 15:00	
Interviewees:	JICA Study Team Attendees:
Joakim Parker, Deputy Mission Director	Chris Rose
Craig Hart, Program Officer	Hiroshi Nishimaki
Anne Patterson, Director, Office of Health and Social Development	Giorgi Kajaia
Summary of Meeting	
<p><u>Overview</u></p> <p>Mr. Parker gave a brief overview of USAID’s activities and provided documents including a country profile, a summary of USAID’s commitment to Georgia, and a list of current projects with brief descriptions. However, a precise list of the status of all projects and funding has not been compiled. He said further details of specific projects can be provided by request.</p> <p><u>Policy and Strategy:</u></p> <p>The former USAID strategy (2003-2008) will be replaced by a new 3 year strategy, which is still being drafted within Washington. This strategy and period is made in regard to the anticipated expenditure of \$1 billion.</p> <p><u>Budget</u></p> <p>Mr. Parker confirmed the US\$1 billion pledge made at the Brussels donor conference in October 2008 and stated that there is a regular program allocation of US\$35 million/year. As of January 2009, USAID has provided US\$250 million in budget support and over \$40 million in</p>	

humanitarian assistance.

Priority Sectors:

Mr. Parker and Mr. Hart assessed USAID's priority sectors as:

- Economic Growth
- Democracy & Governance
- Health
- Energy
- Environment

Mr. Parker stated that areas which USAID are not actively seeking involvement are rail, which has too many uncertainties, and gas storage which is expensive and the needs are not certain.

Assistance Gaps

Mr. Parker mentioned that the Joint Needs Assessment (JNA) will be updated shortly. He also suggested that there were large needs within the following areas:

- IDP: including housing, rehabilitation, livelihood etc. There is an estimated \$800 million need, which still has a large shortfall.
- Banking Sector: There is an estimated need of \$110 million. EBRD have been active in this area.

**Healthcare:** Ms. Patterson gave a brief summary of the health sector problems and explained that there are large needs. The government provides vouchers the people to purchase health insurance with subsidy but still only 1.5 million people have insurances and 2 million are left without. The government decided to privatize the entire public health sector. It was envisaged that all the hospitals could sell their prime real estate land and rebuild and refurbish the facilities with the proceeds. However, the plan did not work out as the real estate market crashed recently. The private investors who bought hospitals are now forced to fold their businesses or sell out the land at a discount. On the other hand there are a handful of private hospitals which were bought up before the land speculation time are now just surviving. The sector needs immediate injection of cheap finance.

Potential Project in Public Health

A two-step loan by which the government borrows the Japanese ODA loan and subsequently relends to private medical institutions at subsidized interest rates. The size of finance USD 50 - 100 million.

Other important areas that require support were discussed as:

- Roads: there is a need for secondary and rural road improvement.
- **Education:** Ms Patterson explained that there are 2,300 primary schools in Georgia and the majority require significant rehabilitation. Many schools do lack in proper doors, windows, heating or sewerage systems. World Bank (WB) are assisting US\$26 million for basic renovation and have made a priority list based on population. However, there is much scope for further assistance. The loan was only able to cover the basic repairs of windows, doors and

heating facilities. The Infrastructure Agency of the Ministry of Education & Science is currently compiling a status report of each school.

#### Potential Project in Education

A program loan to Infrastructure Agency of Ministry of Education to cover rehabilitation needs of public schools so that the students can focus on learning in safe environment.

- Water/Sanitation: Although USAID are not currently supporting this sector, there are large scale needs.
- Agriculture: the agriculture sector was briefly discussed including the need for irrigation. Mr. Parker mentioned that a problem of gravity-based systems is territorial rights of the upstream area.
- Energy: Mr. Parker quoted the Minister of Energy as stating that US\$190 million is required for the energy sector.

Mr. Parker also mentioned that during a recent video conference call for joint needs assessment among donors, the conclusion was that the greatest needs were for budget support, IDPs, and rail infrastructure.

#### Possible Areas for Donor Cooperation

Kutaisi-Poti gas pipeline: Mr. Parker mentioned the concept of the Kutaisi-Poti gas pipeline, which would provide industrial capacity to the free trade zone area, as well as serving the city of Poti and providing an alternative energy supply route. The cost is estimated at US\$140-\$150 million. USAID currently have no commitment for this opportunity, but are interested in partnering with other donors. It could be a project for USAID's last tranche at around US\$70 million allocation.

Other areas that USAID are proposing to assist or where there may be opportunity for donor cooperation are:

- Water resources and watershed management
- Health sector
- Education facility rehabilitation

#### Change in Levels of Assistance before/after the 2008 Conflict: .

Mr. Parker confirmed that other than humanitarian assistance immediately following the conflict, there is no large-scale change in policy for assistance to Georgia.

#### Documents Received

Mr. Parker provided documents including a country profile and a summary of USAID's commitment to Georgia and a list of current projects with brief descriptions.

Organization: **Millennium Challenge Georgia Fund (MCGF)**

Location: Sanapiro street #4, Tbilisi

Date: June 24, 2009

Time: 12:00

Interviewees:	JICA Study Team Attendees:
Khatuna Kunchulia, Regional Infrastructure Development Project Director	Chiaki Kuranami
Vakhtang Beridze, Project Coordinator, Energy	Chris Rose
Zurab Kviriashvili, Project Coordinator, Road	Keti Chitanava
Summary of Meeting	
<p><u>Background of MCGF:</u></p> <p>In 2004 Fund Millennium Challenge for Georgia was established. In August 2005 Georgia passed through the second stage and was awarded USD 295.3mln grant to implement 5 year program. The Millennium Challenge Georgia program entered into force on April 7, 2006. MCGF is created to implement the MCC funded projects, and expected to complete its mission by April 2011. By 2010, MCGF plans to complete all road projects and hand over them to the Road Department.</p> <p>Although MCGF is located in the building of the Ministry of Culture, there is no relation to the activities of the Ministry. MCC is created during George Bush administration intending to encourage the recipient countries with the ownership of their projects. Unlike USAID operation, project preparation is mainly done by the recipient government.</p> <p><u>Priority Sectors:</u></p> <p>Ms. Kunchulia explained that main priority for MCGF is in the following sectors:</p> <ul style="list-style-type: none"> <li>• Roads and highways;</li> <li>• Gas pipeline;</li> <li>• Water supply system rehabilitation; and</li> <li>• Tourism.</li> </ul> <p><u>Change in Levels of Assistance before/after the 2008 Conflict:</u></p> <p>MCGF hasn't changed strategy after the August war but additional US\$ 100 million was allocated. The total budget for ongoing or committed projects at that time was \$ 300 million.</p> <p><u>Project Status:</u></p> <p>They have 5 projects at the moment; 3 in infrastructure development and 2 in agro business.</p> <p>Infrastructure development projects:</p> <ol style="list-style-type: none"> <li>1. Samtskhe – Javakheti road rehabilitation;</li> <li>2. Gas pipeline rehabilitation project;</li> <li>3. Regional infrastructure rehabilitation project (water supply).</li> </ol> <p>Mr. Kviriashvili explained that there are 6 sections in the Samtskhe-Javakheti Road Rehabilitation Project. Total length is 223 kilometers and total amount is \$ 183 million. Three sections started implementation last year. They are still under construction. Tendering for the remaining sections has been started already: Kartsakhi section – construction started last year; Khertvisi-Vardzia section has been tendered already and will start construction within this year; and tendering for Teleti-Kola-Asureti section will be starting soon. Land acquisition and</p>	

resettlement cost in highway projects is covered by the MCGF budget.

The second project – gas pipeline project is divided into three phases. 1<sup>st</sup> one is finished, 2<sup>nd</sup> is ongoing. As for the 3<sup>rd</sup> component, bidding documents for underground gas storage facilities are being prepared for pre-construction design study. The cost of design study was initially \$ 5 million but \$ 13 million more was added totaling \$ 18 million, and tendering for the consultant selection will be announced by the end of the year. It will be implemented in Ninotsminda depleted oil field. Georgia can claim 10% of gas (from Russia, Azerbaijan, and Armenia) passing through the country. This project has strategic purposes. Detail of the project can be obtained in Georgian Oil and Gas Corporation (GOGC).

As for the third project – it is water supply project; they are rehabilitating water supply system in 5 cities – Poti, Kutaisi, Kobuleti, Borjomi, Bakuriani. They are rehabilitating pipelines and water reservoir. The water systems in Kutaisi, for example, are very old from 1930's; pipes are left damaged, and water often contaminated. There is a need to upgrade reservoirs as well. The project is co-financed by EBRD/KfW/MCGF.

Documents Received:

Leaflet titled: COMPACT GOAL

**Organization: Georgian Railway Ltd.**

Location: Georgian Railway, 15, Tamar Mepe Ave., Tblisi

Date: June 24, 2009

Time: 16:00

Interviewees:

Mr. Dimitri Kemoklidze, Head of Strategic  
Projects & Development, Georgian Railway

JICA Study Team Attendees:

Chiaki Kuranami

Christopher Rose

Giorgi Kajaia

Summary of Meeting

Overview

Mr. Kemoklidze stated that Georgian Railway Ltd. is a state owned profit-making company, which was established in December 1988. He provided a brief overview of rail operations in Georgia. He stated that 95% of railways operations are freight, and only 5% is passenger. There are 120 rail stations in Georgia and 600 (unprotected) level crossings.

In terms of freight transport, mainly oil is transported (47%) as well as dry goods and chemicals. He briefly summarized the output of Georgian Railway as follows (full breakdown figures were later obtained).

2006: 22.7 million tonnes

2007: 22.3 million tonnes

2008: 21.2 million tonnes

He stated that passenger transport is not profitable. In 2007, 3.9 million passengers were transported by rail, and 3.4 million in 2008.

### Donor Assistance

Previously, the following studies were carried out within the rail sector:

- Strategy for Restructuring Georgia Railway (USAID, Booz Allen, 2005)
- Study on Azerbaijan-Georgia Railway Transportation Modernization Project (JETRO, 2007)
- Railway Marketing Project (WB, 2007)

### Level of Assistance before/after the 2008 Conflict:

No projects with donor assistance were carried out in 2008 and 2009, and no donor assistance was forthcoming for the rail sector in the aftermath of the conflict to repair rail infrastructure damage.

### Projects:

The main project concerning donor cooperation is Tbilisi Rail Bypass.

- Tbilisi Bypass:

The newly adopted master plan for Tbilisi includes options for the Tbilisi railway bypass. Mr. Kemoklidze explained the project, which includes removal of the existing rail line between Didude and Nautlugi Stations in the central area. The large space in this central area, comprising some 74 Ha, would be commercially sold for business and residential development and the proceeds would assist funding of the rail bypass. Due to the sensitivity of environmental impact, EBRD provided a small grant for an environmental expert to study the area.

Funding for Tbilisi Rail Bypass would be split as follows:

- EBRD: Euro 125
- EIB: Euro 125
- Georgian Railway: Euro 5.3 (for engineering design) plus VAT expenses

A special purpose company will be created to implement the project. Regarding access to the city centre from suburban areas after removal of the central line, he stated that the terminal rail stations of Didude and Nautlugi are very close to metro stations, so inter-modal transfer would be available. He also mentioned a conceptual plan under the (Urban Development Concept Plan of the Municipality) to construct a tram line in the city

- Other Projects

Rail infrastructure repairs were quickly carried out after the conflict and are completed using Georgian Railway's own financing. A signalization project is on-going

A government funded project in the south of the country to the border with Turkey is still on-going. This includes track rehabilitation from Marabda (near Tbilisi) to Ahalkalaki and construction of a new link from Ahalkalaki to Kars within Turkey. A new company has been established to implement the project and additional funding was provided by a loan from the Government of Azerbaijan. The project will facilitate movement between Azerbaijan and Turkey via Georgia.

In the west of the country, a new rail line connecting the Senaki-Poti link to Kuleui at the Black

Sea coast is on-going.

#### Needs within Rail Sector

Mr. Kemoklidze mentioned a project proposal for a new rail line from Khasuri to Zestaponi to replace the existing track. However, this would be a very expensive undertaking (around US\$500 million) due to the topography of the area. The project, which would include tunnels and bridges, would relieve a major bottleneck for national rail transport by allowing rail speed to increase from 64km/h to 100-120 km/h, which is an overall aim of the rail company. This project is mentioned in the 2007 JETRO Report.

Mr. Kemoklidze mentioned that there were needs for training of personnel and that the trainings would be most beneficial for technical engineers, rather than general personnel of the Ministry. He also agreed with the consultant's comment that there is scope to improve the level crossings, which have safety and transport capacity implications.

Mr. Kemoklidze agreed to provide the consultants with a 'wish-list' of rail projects that Georgian Railway would like to implement within 5 years.

#### Documents Received:

Mr. Kemoklidze agreed to send the following materials:

- Breakdown of freight transported by rail (2002-2009) by direction and O/D
- Current and future capital expenditure
- Presentation on damage caused to rail infrastructure during conflict
- Wish-list of projects to implement within a 5 year period (pending)
- Overview of rail sector

These were duly received. Further information is also available at [http://www.railway.ge/portal/lang\\_en/default.aspx](http://www.railway.ge/portal/lang_en/default.aspx)

**Organization: United Transport Administration of the Ministry of Regional Development and Infrastructure of Georgia**

Location: Kazbegi street 12, Tbilisi

Date: June 25, 2009

Time: 12:00

Interviewees:

JICA Study Team Attendees:

Giorgi Bokuchava, Head of United Transport Administration

Christopher Rose

Archil Khojelani, Head of Civil Aviation Dept, United Transport Administration

Keti Chitanava

Konstantine Tevdoradze, Deputy Head, United Transport Administration

Vladimer Kveladze, Head of Road Transport Dept, United Transport Administration

Summary of Meeting

#### Overview of Airports

Mr. Bokuchava explained that there are 3 international airports in Georgia: Kutaisi, Batumi, and Tbilisi. The airport in Kutaisi was destroyed during the August war. However, the runway has



been repaired and works will finish completely in ten days. The other two airports, Batumi and Tbilisi airport are managed by the Turkish company Tav Urban Georgia. Only Kutaisi airport is under state ownership. This airport is important for cargo services.

#### Needs

Reconstruction of Kutaisi airport was financed by government. Still much work is to be done there. A new navigation building and tower has been constructed, but other infrastructure requires renovation.

#### Overview of Seaports

Mr. Bokuchava explained that there are four seaports in Georgia. These are Batumi, Poti, Sufsa and Kulevi ports. They are 100% private or partially private owned. For example, Batumi has been under Kazakhstan ownership for 49years. 100% of Poti port belongs to Arab owners, Kulevi port to Azeri owners and Supsa to BP. They are all private ports and their development is implemented by the owners. The Government observes security and safety in the ports.

The ports have several needs. For example, the capacity of Poti port should be increased. Batumi port needs expansion of storage for containers. Kulevi port is relatively new but some dredging problems will be completed within about 12 months. Following this work, Kulevi port will operate at 100% capacity.

#### Needs

The Government has created a Department of Maritime, which is responsible for controlling the Georgian marine area, overseeing waters and merchant shipping operations. The department has a search and rescue division with 24 hour operation. The equipment within this department is outdated and requires modernization. Harbour master offices are being improved from the state budget but technical support is required for equipment, such as telecommunications.

The consultants queried a ferry boat project financed by Romania. Mr. Bokuchava declared that to date, they only had discussion about it.

#### Documents Received

No documentation was received at the meeting. However, the representatives agreed to send information on needs for UTA's Maritime and Civil aviation departments to fulfill international and domestic regulations regarding safety and security of transportation of people and goods. This was duly received.

<b>Organization: Municipal Transport Department, Tbilisi City Hall</b>	
Location: 7, Shartava st., 0160 Tbilisi	
Date: June 25, 2009	
Time: 14:00	
Interviewees:	JICA Study Team Attendees:
Mr. George Kevkhishvili, Assistant Chief, Municipal Transport Department	Christopher Rose
	Ketevan Chitanava

## Summary of Meeting

### Overview

Mr. Kevkhishvili provided an overview of urban transport in Tbilisi as follows.

- **Bus**

The total public bus fleet in Tbilisi is currently 943 units. In 2005, EBRD assisted the city with bus fleet renewal. 86 new Bogdan buses were purchased with a \$3.1 million loan as well as 50 second-hand DAF buses. Another 27 buses were acquired with a grant which included technical assistance. 34 buses were purchased with a Japanese grant of 150 million yen (from a total grant of 300 million, of which the remainder went to water services). 530 buses have been acquired from the City's own budget including 34 buses designed for disabled users.

In addition to public buses provided by the City, there are currently 2,200 privately operated minibuses operating on 189 routes. This figure has reduced from around 5,000 due to competition from the expanded public bus fleet. Private minibuses are basically operating under free market entry conditions. There are around 7 private minibus companies with large fleets of 50+ units, which are considered strong. A permit to operate a minibus costs about GEL 50/bus/month. The passenger fare for a minibus is GEL 5, and GEL 4 for a public bus.

- **Taxi**

There is no licensing system for taxis, so it is not possible to know the number of taxis plying in the city. It is common practice for any person with a private car to operate it as a taxi by fixing a taxi sign to the car (available for about GEL 5). There is no taxi metering, so trip fares are negotiated with the customer.

- **Parking**

Parking operations have been contracted to the foreign company 'ParkCity'. This company is now responsible for all on-street parking installations and operations in the city. Paid parking money is collected by scratchcard, mobile phone, and meter. To date, only 10 meters have been installed.

- **Traffic Signals**

There are 178 locations in Tbilisi operating with (diode) traffic signals. Timings are fixed. Except for some parts of the city centre, the lights have a fixed blinking yellow operation from 11pm to 7am. The signal equipment is old, but condition is adequate. The City would like to implement a new automated system and would be interested in international donor assistance. A ballpark figure for the cost of the scheme is US\$20 million.

- **Signs**

There are 8,500 road signs in the city and 40-45% are over 20 years old. Every year, around 2,000 signs are replaced.

- **Traffic Safety**

Accident details are the responsibility of the Police and no data is kept within the City government.

- **Donor-Assisted Studies**

A World Bank study in 2007 focused on road safety, traffic management, parking policy, and public transport

Priority Projects:

There are two main projects being proposed. The first is an extension of Tbilisi Metro to the university in the Vazha Pshavela district. The tunnel was partially excavated some years ago, but construction needs to resume. Another project is for construction of a bridge over Mtkvari River. It is expected that ADB loans will finance these two projects. An ADB Project Preparatory Technical Assistance (PPTA) will shortly conduct feasibility studies for the two projects as well as delivering an urban transport road map for Tbilisi.

Documents Received

World Bank Study (2007)

**Organization: World Bank (Public Health Sector)**

Location: Office in Tbilisi

Date: June 26, 2009

Time: 15:00

Interviewees:

Nino Moroshkina, Health Specialist

JICA Study Team Attendees:

Hiroshi Nishimaki

Summary of Meeting

Overview of Social Sector

The government spends 4% of GDP for social sector out of which 2-2.5% goes to pension and the rest goes to health related expenditure. The share is very low in any international comparison.

Recently the government has introduced a cash assistance to the needed people based on the indicator-based assessment, under which the person of need can receive 30 lari per month and his or her dependent received additional 24 lari per month. The program has proved to be the most effective as social service. The government also provides voucher for the needed to purchase health insurance but still the coverage of insurance is at around 1.2 million people.

Primary health centers are still under public ownership but there is a policy to privatize each institution by selling the facilities to the staff at nominal costs. Urban hospitals are already privatized but due to crash in real estate market, the privatization scheme is at a standstill. The government still owns 9 state hospitals. Blog Georgia is the largest hospital and privatized early on. It has 35% of total national hospital beds.

Role of World Bank in the sector

WB has assisted the sector since 2002 under the name of "Primary Health Care Improvement Project." The goal of the project is to increase the coverage of primary healthcare in the country. Under this project, it financed the development of over 100 primary health care centers in mainly three regions, namely, Ajara, Imereti and Shita Kartli. After the government has shifted its policy to privatization, the focus of funding shifted more toward to human capital development sector as there was a concern for the privatization of primary healthcare centers<sup>5</sup>. Thus the project changed its name to "Health Sector Development Project." The project provided the primary healthcare centers with training facilities and provided general practitioner doctors with 6 month healthcare trainings and nurses with 4.5 month trainings with an emphasis of team work between the two. The difference in performance before and after is quite

<sup>5</sup> These primary healthcare centers are still owned and operated by the government at present.

impressive according to their evaluation. The project also financed the development of public health management information system together with USAID as well as public information. The project renovated the hospital in Gori as well. Another health facility was the construction of 25 bed hospital in a mountainous region in Raja Province. It is not possible to privatize medical care in mountainous region thus requires much public support. Such development needs are numerous.

Another project WB is working on is “Avian Flu Project”, which is scheduled for the period of 2006 and 2010. The project has three components of 1) animal health (with Ministry of Agriculture), 2) Human health (with Ministry of Health and Labor), and 3) strategic communication (with Ministry of Health and Labor). The project has procured some facilities and devices such as artificial ventilators, medicine as part of anti-pandemic measures but the provision is far from adequate.

With regard to general Poverty Reduction Support Operations, the program has changed its name to DPL- Development Policy Lending with USD 55 million. The programs lends directly to the government fiscal budget with the social conditionalities to be met.

#### Joint Needs Assessment

Last October, WB and UN developed the report called, Joint Needs Assessment as basis for the donor conference. WB staff from each sector and government officials gathered all the data and provided fiscal requirements for reconstruction. The prime minister himself headed the conference and spend full five hours every time to review the figures together with the staff, giving more pressure to provide authentic document to call for the much needed assistance in reconstruction.

#### Potential Needs for Assistance

Since WB has focused on only three provinces of Imereti, Ajara and Shita Kartli. The project only covered 40-50% of Imereti and almost 100% in two others. EU has covered the Khaheti region but was able to cover only 50% of the needs. There is more areas to cover even in the field of primary healthcare.

<b>Organization: Ministry of Agriculture (Irrigation and Drainage)</b>	
Location: 6 Marshal Gelovani Avenue, Tbilisi, Georgia	
Date: June 29, 2009	
Time: 14:00	
Interviewees:	JICA Study Team Attendees:
Alexandre Imerlishvili, Head of Melioration Policy Division	Hiroshi Nishimaki
Zurab Kajaia, Deputy Head of Melioration Policy Division	Giorgi Kajaia
Summary of Meeting	
<u>Organizational Structure of Irrigation Systems:</u>	
There are 4 companies (Ltds), which provide irrigation water in Georgia:	
Kokheti M (for drainage and irrigation) – West Georgia	

Mtkvari M – (for irrigation) West Georgia, Shida Kartli and Samtskhe-Javakheti  
Sioni M – (for irrigation) Kvemo Kartli, Tbilisi  
Alazani M – (for irrigation) East Georgia, Kakheti.

Water is supplied to agricultural land through water associations. There are 279 associations in Georgia, of which 52 associations are in the western part of Georgia.

Drainage System:

There are 24 drainage systems. Due to years of negligence in cleaning, the large portion of drainage channels are clogged and causing water logging problems in a large area of cultivated land in the western coastal areas. The World Bank has cleaned up 12 systems. Total amount of USD 15-16 million was allocated by the government to drainage systems. The project is to be completed within 2009. Drainage systems for about 80 thousand hectares are to be reconstructed. Irrigation systems for 45-50 hectares need to be repaired more urgently at the same time. It would require additional USD 100 million for the entire clean up.

Irrigation system:

During Soviet time, some 300,000 hectares of land was irrigated, now only 120,000. The World Bank started funding the program to double the irrigated area, and spent USD 7-8 million in restoring irrigation systems for 4,000 hectares. But the project was suspended for some technical reasons.

During the Soviet times there were 300 pump stations. Only 36 are considered to be operational now and actually 10-14 are in working condition. The reason for such a dramatic decline of the number of operational pump stations was the fact that they were built in wrong places. The cost of electric power has increased about 30 times since then. So there is no point in reconstructing of most of the pump stations. Now, the secondary and tributary networks also need to be reconstructed. In Meskhet-Javakheti 8 pump station are to be replaced by gravity systems. That kind of replacement can also be done in Akhalkalaki, Kaspi, Tetri Tskaro. One pump station is now being constructed. It is divided into two parts: One of them is financed by the Ministry of Agriculture and another by the Municipal Development Fund.

The most important places to be irrigated are: Kvemo Kartli, Shida Kartli, Kakheti. There are 279 water user associations in Georgia now.

<b>Organization: The World Bank (Education Sector)</b>	
Location: Office in Tbilisi	
Date: June 29, 2009	
Time: 15:00	
Interviewees:	JICA Study Team Attendees:
<b>Nino Kutateladze</b> , Education Specialist	Hiroshi Nishimaki
Summary of Meeting	
<p><u>Padeco Study</u></p> <p>It is a public available document that we can use freely.</p> <p>WB and JICA cofinanced the reform of education sector.</p>	

Education Project

JICA provided TA portion;

- curriculum development
- publication of textbooks
- training of school principals
- development of new standards for teachers' certification
- teachers' trainings

World Bank Project

WB provided USD 50 million for K1 –K12 education development and the project will be closing in 2009. First component established the development of national curriculum standards and education methodologies in cooperation with JICA.

As for the physical contribution, the project built seven new schools under emergency needs through Municipal Development Fund. Another project was the construction of State School at Jakogebashilati.

The Country Support Strategy is under preparation by WB, the details of investment composition are not clear until the report is published.



## **Appendix E**

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