



The World Bank

First Green and Resilient Georgia Development Policy Operation (P177797)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 15-Feb-2023 | Report No: PIDA35510



BASIC INFORMATION

A. Basic Project Data

Country Georgia	Project ID P177797	Project Name First Green and Resilient Georgia Development Policy Operation (P177797)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Board Date 28-Mar-2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Georgia	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

To support Georgia in greening economic activity, mitigating fiscal risks, and building the institutional capacity for better access to land, water, and financial services.

Financing (in US\$, Millions)

SUMMARY

Total Financing	50.00
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DETAILS

Total World Bank Group Financing	50.00
World Bank Lending	50.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

The proposed operation in the amount of US\$50 million is the first in a programmatic series of two operations to support the Government of Georgia in achieving green and resilient development. The objective is to support Georgia in greening economic activity, mitigating fiscal risks, and building the institutional capacity for better access to land, water, and financial services.



Georgia has an established record of reforms that has contributed to economic success. During the past decade, Georgia experienced one of the fastest growth rates in the Europe and Central Asia Region, and poverty (under the national line) halved. As the pandemic hit, Georgia, reliant on tourism, experienced one of the largest GDP drops in ECA (6.8 percent contraction in 2020). Authorities took advantage of the room created by prudent economic policies to respond to the crisis in a timely manner, mitigating its impacts on lives and livelihoods. As a result, poverty increased by just 1.8 percentage points, to 21.3 percent in 2020. In 2021, the economy rebounded strongly (10.4 percent growth), driven by the recovery of consumptions and exports, and GDP surpassed its 2019 level. Like other economies in the South Caucasus and Central Asia, Georgia has so far benefited from large inflows of money transfers and people in the aftermath of Russia's invasion of Ukraine and the subsequent sanctions on Russia, with growth averaging 10.1 percent in 2022.

Yet Georgia is facing several development challenges, and climate change exacerbates vulnerabilities. Despite robust growth, poverty reduction has decelerated in recent years, and the creation of good jobs has been limited. The World Bank Country Economic Memorandum (2022) finds a series of challenges to sustain strong and inclusive growth. Total factor productivity at the firm level has stagnated in the past decade, limited by challenges in access to finance and technology, as well as low managerial capabilities. Georgia's population is getting old, and firms report skills mismatches, which are an acute problem for doing business and firm growth and are partly driven by low educational outcomes. Structural transformation has accelerated in recent years but remains incomplete. Around 38 percent of the workforce is still employed in agriculture, while rural households lag in connectivity and access to services. Meanwhile, yields in agriculture have been affected by issues regarding land registration and valuation, as well as irrigation and extension services. Despite Georgia's strong macroeconomic management, contingent liabilities and quasi-fiscal activities of State-Owned Enterprises (SOEs), together with climate change, pose significant risks. This series of operations tries to address some of the key priorities highlighted in the CEM, including the need to improve SOE corporate governance and introduce cost-recovery pricing in regulated sectors, pursue land reform, improve access to and quality of irrigation services, and expand payment options and ensure interoperability and non-discriminative access to finance.

Relationship to CPF

The DPO is an important part of the World Bank Group's engagement in Georgia. The proposed DPO is closely linked to the pathways towards reducing poverty and boosting shared prosperity identified in the Georgia Systematic Country Diagnostic (SCD). In particular, it contributes to the SCD priorities of maintaining a sustainable fiscal and financial position and preserving Georgia's natural environment. The latest adjustments to the Country Partnership Strategy (CPF) program reflect new economic and social challenges posed by the COVID-19 pandemic as well as the increased focus on green and resilient development. Prior actions under this operation generally contribute to CPF focus Area 3 (Resilience). For example, improving the monitoring of forest integrity helps to preserve Georgia's natural capital, consistent with CPF objective 3.3 on enhanced management of natural resources and climate risks. Actions under pillar 2 contribute to CPF objective 3.1 on improving macro-fiscal management and mitigating risks. Finally, the third pillar in the DPO, which aims to facilitate efficient access to land, water and finances, contributes both to improving resilience and to the competitiveness focus area of the DPO.

C. Proposed Development Objective(s)

To support Georgia in greening economic activity, mitigating fiscal risks, and building the institutional capacity for better access to land, water, and financial services.



Key Results

The actions supported by this operation are expected to support the country in monitoring and achieving the targets for GHG emissions reduction set under the Nationally Determined Contributions (NDCs), as well as adaptation and mitigation goals under Georgia's 2030 Climate Change Strategy and 2021-2023 Action Plan. The actions in this series of operations are also expected to boost resilience by mitigating contingent liabilities and fiscal risks (from disasters and SOEs). Finally, it is expected to result in strengthened land ownership and valuation, improved use of water resources, and eased access to e-money.

D. Project Description

Pillar 1 aims at greening economic activity and supports Georgia in achieving the targets for GHG emissions reduction set under the NDCs, as well as adaptation and mitigation goals under Georgia's 2030 Climate Change Strategy and 2021-2023 Action Plan. The proposed areas of support under Pillar I therefore include: (i) reducing industrial emissions and air pollution; (ii) introducing climate change and gender tagging in public finance management; (iii) requiring financial sector institutions to report loans according to a sustainable finance taxonomy; (iv) promoting the development of renewable energy; and (v) protecting natural capital.

Pillar 2 focuses on increasing resilience by mitigating fiscal risks stemming from SOEs and the physical impacts of climate change and natural disasters. The Georgian authorities have initiated an ambitious reforms aimed at strengthening SOE governance and mitigating fiscal risks, including by empowering the Ministry of Finance to undertake the financial surveillance of key public corporations and by requiring SOEs that belong to general government entities to become part of the budget preparation process and the Treasury Single Account. In addition, the authorities are planning to adopt a National Disaster Risk Finance Framework to help better respond to natural disasters and climate change related events.

Pillar 3 aims at building the institutional foundations for better access to land, water, and financial services. A new draft Law on National Spatial Data Infrastructure (NSDI) is expected to help unlock the potential of leveraging spatial data—currently siloed across different agencies—for multiple uses. This complements the systematic land registration reform that the authorities are currently implementing. A new methodology to set irrigation water tariffs, currently outdated, is being prepared; this is expected to allow a better use of this scarce resource. In addition, the financial sector has developed substantially, and the National Bank of Georgia aims to make further progress toward European standards in terms of payment systems and use of e-money, which currently suffer from constraints that limit competition and further growth in financial services.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance of Georgia (MoF) is the Borrower and main counterpart for this DPO series. Key agencies in charge of the implementation include the Ministry of Environmental Protection and Agriculture, the Ministry of Economy and Sustainable Development of Georgia, the Ministry of Justice, the Georgian National Energy and Water Supply Regulatory Commission, and the National Bank of Georgia.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Overall, the policy actions supported by this DPO are expected to yield positive impacts on the poor and the vulnerable in the medium- to long-term. In particular, the actions supported by the proposed operation are expected to improve



the living conditions of poor and vulnerable people engaged in agricultural activities in rural areas, including women, and ethnic minorities. Actions under Pillar 1 are expected to be welfare-enhancing in the medium to long term, while there could be initial transition costs. Actions under Pillar 2 can boost pro-poor growth by mitigating macroeconomic and fiscal risks and are expected to have neutral to positive impacts on poverty reduction and shared prosperity. Prior actions under Pillar 3 are expected to positively contribute to poverty reduction and inclusive growth by generating opportunities and improving access to resources, although there could be some negative impacts in the short run.

Environmental, Forests, and Other Natural Resource Aspects

The operation features some actions that are expected to have positive effects, as they directly address climate change mitigation and adaptation aspects, as well as environmental protection. Prior actions under Pillar 1 are expected to bring positive environmental impacts, including from reducing emissions and supporting the development of renewable energy. Prior actions under Pillars 2 and 3 are expected to have a neutral impact on the environment, except for the prior action on water tariff setting for irrigation, which is expected to have a positive environmental impact. Georgia has a well-developed policy and regulatory framework for environment and natural resource management and for responding to climate change.

G. Risks and Mitigation

The overall risk of this operation achieving the developing objective is moderate. Risks that the proposed laws may not be adopted (or be adopted in a modified form) are mitigated by Georgia's strong track record in implementing reforms and the effective policy dialogue between the World Bank Group and the Government of Georgia. Macroeconomic risks are rated moderate. Further monetary tightening in advanced economies, turmoil in the region, or a reversal in money inflows, could hinder growth, put pressure on the currency, and increase debt levels and financing needs. On the other hand, Georgia's track record of sound macroeconomic management coupled with healthy buffers mitigate these risks. In addition, geopolitical pressures could exacerbate domestic tensions.

CONTACT POINT

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The World Bank

First Green and Resilient Georgia Development Policy Operation (P177797)

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APPROVAL

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