

GEORGIA EFI SCOPE Note

January 2019

SECTION 1: Context, challenges and opportunities¹(max. 300 words)

- **Georgia is a lower-middle income small open economy and parliamentary democracy** with a population of 3.7 million. Its tourism and services sector-led GDP is equal to per capita of \$4,047 (2017), a solid increase from \$750 in 2000. Poverty stood at 10.9 percent in 2017². Georgia is vulnerable to geopolitical risks because of tense relations with Russia.
- **Macroeconomic and financial sector management is sound.** Resilience to shocks has been strong thanks to the flexible exchange rate regime and prudent monetary policy. Growth slowed down since 2013 with medium-term outlook of 5%. Public debt is sustainable at about 40% of GDP. The country small government balances good governance with minimizing regulations. Public revenue policies favor limiting the tax burden, while optimizing expenditures toward public priorities (infrastructure and skills). Georgia's reform and governance **achievements** are recognized by international rankings (e.g. Doing Business #6).
- **Macro-financial vulnerabilities** include high external imbalances and external debt, banking concentration, household indebtedness, fiscal risks and contingent liabilities. **Social challenges** include a declining aging population, skills mismatches, low formal employment and high rural-urban disparities. More than 60% of workforce is in subsistence agriculture. Nearly half of the population is vulnerable to falling into poverty. **Other challenges** include balancing development needs with a small government, unfinished reforms in the justice sector and land market, lack of integration with Global Value Chains, the need to strengthen multi-connectivity, building skills, and access to finance for all.
- **Opportunities** include a reform-minded country which builds on strong achievements and an appetite for technological advances and innovation, a location that lends itself for export-led development, strong European aspirations. Greater economic opportunities will be key to poverty reduction and shared prosperity as highlighted by the increasing role of employment and wages over pensions and social assistance as drivers of poverty reduction.

SECTION 2: Current engagement (max. 300 words)

EFI contributes to the poverty reduction and equity agenda by supporting greater competitiveness and jobs on the one hand, and by building greater resilience (macro and micro). A Development Policy Operation under preparation supports the above priorities across the board. In line with the approved May 2018 CPF, EFI priority engagement respond to the challenges and opportunities outlines above as follows:

- **Enhancing inclusive growth and competitiveness (CPF objective 1).** EFI is engaged to support:
 - (i) **greater efficiency-seeking and job-creating investments and competitiveness**, including investment promotion activities, advice on competition policies, improvements in trade facilitation, and sector support such as deep-dives to identify opportunities to leverage tourism growth and encourage the development of higher-value-added-activities, in addition to support for agriculture value chain.
 - (ii) **inclusive access to finance and innovation**, with a large and growing program in the financial sector (insurance, pension reform, capital market development, responsible finance and inclusion, credit

¹ Georgia 2017 SCD and 2018 CPF.

² Lower middle-income poverty line.

infrastructure, corporate governance and financial reporting), support to building an ecosystem aiming at greater innovation by firms and individuals (IBRD GENIE project).

- **Building resilience (CPF objective 3):** EFI is engaged to improve:

(i) **macroeconomic and fiscal management and risks mitigation** through a macroeconomic monitoring (bi-annual economic updates and MPOs, monthly updates, just in time notes), support to PFM improvements following national and subnational PEFAs and an updated PFM strategy, e.g. through improving public investment management, transparent and strategic procurement; and better public accounting and reporting to limit fiscal risks and allow greater efficiency of public asset management.

(ii) **household resilience** through a poverty programmatic engagement (knowledge generation, operational support, statistical capacity building), greater access to responsible finance or SMEs and individuals, implementation of a deposit insurance scheme (building capacity of deposit insurance agency (DIA) and developing sound households' deposit insurance system) and pension reform (establishing legal and regulatory framework for contributory savings scheme).

SECTION 3: Pipeline and future engagement opportunities (max. 300 words)

In line with the above challenges and priorities, **pipeline activities** support:

- **Greater inclusive growth and competitiveness**, by boosting exports and integration into global value chains, through a Development Policy Operation, to be delivered early 2020. We will scale up our support to innovation and financial inclusion to contribute to the above goal, through two Trust Funds in 2019 in partnership with the EU: (i) one on financial inclusion and accountability (Euro 4.5m); (ii) one on innovation capacity building (Euro 2.7m). Trust funded ASA to identify barriers to exports and deeper integration in GVCs will also be pursued. A fiscal governance and public accountability TF planned for mid-2019 (Euro 2.5m) will help strengthen governance. We will continue support greater resilience through a new technical assistance for Deposit Insurance X. We will reengage in the Justice sector, through a Justice sector survey (in the context of EU engagement in several countries of the region) prepared in the first half of 2019 to be implemented subsequently.

Future engagement opportunities may include:

- To follow on reforms and support the broad spectrum of CPF priorities: Development Policy Operations, possibly in FY22 and later.
- To further support inclusive competitiveness and resilience: a growing engagement on competition and market contestability, responsible finance, deposit insurance, insurance, fiscal risks and debt management, export diversification and integration into Global Value Chains, with an EFI integrative approach.
- To support leveraging greater resources for government priorities: an EFI MfD note, building on MfD in energy and transport.
- To build greater resilience: a systematic monitoring of risks at the macroeconomic and microeconomic levels (fiscal, financial risks, household vulnerabilities), poverty/disparities monitoring)
- To build on past achievements in governance: a deepened engagement in PFM in public investment management, fiscal risks, SOE and private sector governance and accountability, and broadening our engagement in public sector efficiency.

TIMELINE

EFI SCOPE Notes

Pilot countries (20 countries)

- First drafts to EFI SCOPE Secretariat: Dec 17, 2018
- Comments from Secretariat on first draft: Jan 8, 2019
- Final drafts to EFI SCOPE Secretariat: Jan 15, 2019
- Uploading of final notes to SCOPE platform: Jan 16, 2019

Remaining countries

- First drafts to EFI SCOPE Secretariat: Jan 15, 2019
- Comments from Secretariat on first draft: Jan 30, 2019
- Final drafts to EFI SCOPE Secretariat; Feb 15, 2019