Report Number : ICRR0021666

1. Project Data

Country
Georgia

Practice Area(Lead)
Macroeconomics, Trade and Investment

Programmatic DPL

Planned Operations: 3

Approved Operations: 2

Operation ID
P149991

Operation Name
Inclusive Growth DPO

L/C/TF Number(s)
IBRD-85030

Closing Date (Original)
31-Dec-2015

Total Financing (USD)
60,000,000.00

Bank Approval Date
28-Apr-2015

Closing Date (Actual)
31-Dec-2015

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	60,000,000.00	0.00
Revised Commitment	60,000,000.00	0.00
Actual	60,000,000.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Paul Holden	Judyth L. Twigg	Malathi S. Jayawickrama	IEGEC (Unit 1)

Operation ID
P156444

Operation Name
Georgia Inclusive Growth DPO2 (P156444)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-85030,IBRD-87420	31-Mar-2018	53,612,190.80
Bank Approval Date	**Closing Date (Actual)**	
28-Apr-2017	31-Mar-2018	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	50,000,000.00	0.00
Revised Commitment	50,000,000.00	0.00
Actual	53,612,190.80	0.00

2. Program Objectives and Policy Areas

a. Objectives

The Loan Agreement under the first Inclusive Growth Development Policy Operation (DPO-1) did not include a Project Development Objective (PDO) but instead identified two pillars, under each of which appears a list of actions taken by the borrower. Under DPO-2 there appears, similarly, a list of actions taken under the pillars, which were identical in both operations.

The Program Documents (PDs) for both operations stated that the development objectives were:

1. Strengthen fiscal oversight of public institutions and improve budgeting and the framework for civil service reform.
2. Improve coverage and quality of social services and strengthen monitoring of outcomes.

IEG will assess the project against the stated PDOs.

b. Pillars/Policy Areas

Pillar 1 focused on:

i) Supporting actions to improve budgeting: extending the public financial management (PFM) information system to include revenues and expenditures of all municipalities, public legal entities, and nonprofit legal entities into a consolidated financial management system;
ii) Supporting the adoption and implementation of a framework for identifying, preparing, appraising, and selecting capital investment projects at both the central and local government levels;
iii) Strengthening the oversight of state-owned enterprises (SOEs) through providing to Parliament financial

and operational information of SOEs and by attaching their financial information and risk assessments as annexes to budget documents; and
iv) Supporting the development and implementation of new legislation governing the civil service in order to improve its efficiency.

Pillar 2 focused on:

i) Extending coverage of social services by supporting a new methodology for Targeted Social Assistance in order to extend the coverage of the poor;
ii) Promoting a new pharmaceutical policy that would reduce the consumption of medications without a medical practitioner's prescription;
iii) Supporting measures to improve the quality of obstetric and neonatal care;
iv) Supporting measures to improve the quality of teaching and the quality of preschool education;
v) Addressing weaknesses in the management and delivery of preschool education; and
vi) Improving the quality, reliability, and frequency of data collection that could be used in monitoring outcomes and effectiveness of government spending.

c. Comments on Program Cost, Financing, and Dates

The first operation was approved on April 28, 2015 in the amount of US$ 60 million. It closed on schedule on December 31, 2015, and the actual amount disbursed was US$ 60 million.

The second operation was approved on April 28, 2017 in the amount of US$ 50 million. It closed on schedule on March 31, 2018, and the actual amount disbursed was US$ 53.6 million. The ICR (p. 10) points out that the actual dispersed amount for DPO-2 was greater than the original allocation because the loan was denominated in euros, and the exchange rate changed between the signing of the loan agreement and the disbursement of the funds.

Originally, a three-operation DPO series had been planned, with the second DPO planned for 2016 and a third DPO planned for 2017. However, in 2015 and 2016 the fiscal deficit rose to more than the equivalent of four percent of GDP. In 2015, this was mainly because of higher than planned spending, primarily due to an expansion of lending to SOEs. In 2016, the larger than planned budget deficit was more broadly based due to both higher current expenditure and higher capital expenditure. As a result, the IMF suspended its program for Georgia, and the DPO operations were also delayed. Furthermore, the 2018 World Bank Systematic Country Diagnostic identified an alternative set of priorities for promoting inclusive growth. This, together with a change in national priorities (explained below), led to the truncation of the operation to a two-DPO series.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The DPO series, according to PD-1 (p. 21), is central to the World Bank Country Partnership Strategy (CPS) for Georgia for 2014-2017. The CPS focuses on: (i) strengthening public service delivery to promote inclusive growth, and (ii) enabling private sector-led job creation through improved competitiveness. The DPO series supported the first pillar of the CPS.

Under the Georgia 2020 strategy, which delineates the country's development vision, macroeconomic stability and stronger public administration were important priorities, along with human capital development. The World Bank FY 2019 – 22 Country Partnership Framework (CPF) has the same priorities as embodied in the Inclusive Growth DPO series, particularly with respect to improving the quality of education and the efficiency of the healthcare system as well as a focus on PFM.

Rating

Substantial

b. Relevance of Design

The CPF FY19-FY22 states (p. 17) that its reform priorities incorporate the conclusions of IEG evaluations in terms of the importance of ensuring strong government ownership and setting priorities for reform. PD-1 (p. 2) states, "while private sector development, which is being supported by another DPO series in Georgia, will help create more jobs, this DPO series will help build human capital and support macroeconomic stability and effective policy making. The policy matrix reflects reforms on multiple fronts and at various stages." PD-2 states (p. 29), "the current DPO series is an essential part of the CPS for 2014-17. The CPS focuses on: (i) strengthening public service delivery to promote inclusive growth, and (ii) enabling private sector-led job creation through improved competitiveness. The current DPO series supports the first pillar of the CPS on strengthening public service delivery."

The causal links between reforms in health and education and more inclusive growth, was not clearly delineated beyond stating that it would enhance human capital. There were also two DPO operations (P149998 and P155553) promoting private sector development through improvements to the business environment, access to finance, and on exports and innovation. Presumably these also related to inclusive growth, but the connection between the series was not clear.

The ICR did not include a convincing explanation of how the prior actions would achieve the PDOs.

The PDOs and what the series aimed to achieve were conflated with and were identical to the pillars (which are not the same as objectives but instead should represent the channels through which the PDOs would be achieved), the measures that were to achieve the development objectives. Furthermore, many prior actions focused on issuing decrees and passing legislation. While this might improve the framework for achieving the development objectives, the impact depends crucially on actual implementation of the legislative framework.

Under Pillar 1, reforms aimed to improve fiscal oversight at all levels of government and improve the efficiency of the civil service This was to be achieved by consolidating financial management information at all levels of government as well as for public entities. Fiscal oversight would also be achieved by strengthening the preparation and oversight of capital investment projects and improving the oversight of SOEs. Civil service reform was to be achieved through passing and implementing new legislation regarding the functioning of the civil service. While the causal chain for achieving the outcomes was plausible in principle, the prior actions were less than adequate; merely creating an SOE financial database and beginning consultations on a proposed new civil service law were weak instruments.

Under Pillar II, reforms were directed at better targeting of social expenditures, strengthening education and health outcomes, and improved monitoring of programs. The ICR (p. 17) notes that there were substantial changes in national priorities that were not reflected in program design in either DPO-1 or DPO-2. This was partly the result of the analysis undertaken in the 2018 World Bank Systematic Country Diagnostic, which reoriented priorities to external connectivity, skills, internal productivity, access to opportunities, fiscal management, environmental protection, and natural resources management as the priorities for inclusive growth. At the same time, government priorities also changed towards these goals. Along with the deterioration in the macroeconomic situation, these constituted the primary reason behind the truncation of the program to a two-operation series.

The ICR (p. 17) points out that one of the shortcomings in the original program design became evident as the series progressed. Specifically, a threshold had been introduced that applied the methodology of public investment management only to projects that involved the expenditure of more than Georgian Lari 5 million (approximately US$1.9 million). This was far too high a threshold for local municipal (and other) investment projects, so that the methodology that had been designed was not used for the vast majority of investments. This shortcoming also rendered the results framework unrealistic. Thus, the causal chain for this DPO was severely weakened.

A further issue regarding the relationship between achieving inclusive growth and the PDOs was that the causal connections are so broad that making a direct connection was essentially meaningless. For example, while neo-natal care is undoubtedly important, relating it to higher growth over a period related to the operations is tenuous. The implication was that inclusive growth could be attributed to almost any policy actions in any area. While it is undoubtedly true that improving human capital leads to more inclusivity and higher growth, the relationship is extremely loose. There are countries where the level of education is high, yet growth rates are low. Without well-functioning institutions, inclusive growth is difficult to achieve; improved human capital is a necessary but not sufficient characteristic of well-functioning economies. The relationship between social services and inclusive growth is, if anything, even looser.

As a result of these shortcomings, the relevance of program design is rated modest.

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

Strengthen fiscal oversight of public institutions and improve budgeting and the framework for civil service reform

Rationale

Objective 1 was composed of three distinct sub-objectives.

Strengthen fiscal oversight of public institutions: The fact that the public financial management (PFM) information system excluded municipalities and other entities that received budget transfers reduced fiscal oversight and weaken budgetary management. To address this issue, prior action one (DPO-1) required an amendment to the budget code to incorporate into the budget the revenue and expenditure estimates for all entities, including municipal governments, SOEs, and other legal entities of public law. While the amendment to the budget code was necessary, it was essentially an input into improving PFM, and there is no information in the ICR regarding whether PFM did actually improve.

SOEs were perceived as a significant weakness in the fiscal framework due to the fact that their losses had to be covered by budgetary transfers, with a corresponding impact on the fiscal deficit. The goal of the sub-objective was to greatly increase fiscal transparency for these entities. A prior action for SOE fiscal reform under DPO-1 was that the Ministry of Finance register all state-owned enterprises in Georgia, and under DPO-2 that a financial database be established that covered more than 95% of the total turnover of SOEs in Georgia, covering four years of data. This target was achieved. By the end of 2015, five years of data were available, covering 99% of all revenue of SOEs. World Bank technical assistance was a valuable input in developing the SOE financial database (ICR, p. 27). However, the 2017 IMF Article IV report refers (p. 15) to future efforts to improve the coverage and measurement of fiscal aggregates to reflect the activities of SOEs by accounting for their losses, suggesting that there was still progress to be made. In addition, the report contains a statement by the Georgian government regarding its intention to privatize loss-making SOEs.

An additional indicator related to the financial position of SOEs was that their quasi-fiscal relationship be included in the Fiscal Risk Annex by the time of the 2019 budget. This target was achieved a year earlier than expected, and the results of the annual analysis will be included in all future budgets.

Improve budgeting: Under DPO-2, the prior action for the sub-objective was the establishment, through decree, of a framework that would include appraisal, selection, budgeting, implementation, and evaluation for all public investments that exceeded a pre-established threshold. The associated target was the availability of budget and actual data for these entities. This target was achieved, with all municipalities and other entities covered by the law and decree providing real-time data by the end of 2015. However, the effect on PFM is unknown.

The results indicator related to improved public investment management under DPO-1 was that the selection criteria for capital projects would be strengthened for 70% (revised downwards from 100%) of all new investment projects above an agreed threshold, and that all investment projects from six municipalities would be included. These targets were not achieved, although the ICR states (p. v) that there was progress in developing the necessary decision criteria for making investments. However, this was an input.

Improving the framework for civil service reform: The capacity of the Georgian civil service was considered to be weak and was a constraint to inclusive growth. The prior action for civil service reform under DPO-1 was that a new framework for civil service personnel policy be adopted as evidenced by Decree 627 dated November 19, 2014. Under DPO-2, the prior action was that a new Law on Civil Service be adopted. The indicator for civil service reform was that all entrants to the public sector take a pre-qualification test. The target was that 100% of new entrants hired would have taken the test by the end of December 2017. This target was not achieved; according to the ICR, no new entrants took the test. However, the ICR emphasizes that substantial progress was made in improving the budgetary framework and setting the foundation for future improvements in civil service capacity, though it provides no evidence to support this claim, and in particular no information on the number passing the test.

Rating
Modest

Objective 2

Objective
Improve coverage and quality of social services and strengthening monitoring of outcomes

Rationale
This objective had three sub-objectives, namely extending the coverage of social services; improving the quality of social services; and strengthening the monitoring of outcomes.

Although Georgia had in place a program of targeted social assistance that provided cash transfers to the very poor, its benefits were limited because they covered only 60% of the lowest decile of the population. Furthermore, the ICR states (p. 2) that "the vulnerability to a fall into poverty is high in Georgia because of the large share of out-of-pocket spending by households on healthcare."

To improve the coverage of targeted social assistance, a prior action under DPO-1 required that a new methodology be introduced to better target the poor. This was to be achieved through the passing of a resolution that was published in the Legislative Herald on December 31, 2014. The results indicator was that the share of the bottom decile receiving targeted social assistance would increase from the baseline of 60% to 75%. This was revised downwards in DPO-2 to 65% because of delays in the completion of policy actions. This target was achieved, with the proportion in the lowest decile receiving social assistance increasing to

69% by end 2018. The prior action regarding legislation was achieved, but passing a resolution is an input into the process.

To improve the coverage and quality of health services, prior action 5 established a requirement that specified that certain pharmaceutical products could only be purchased with a physician's prescription. This prior action was met through the publication of an Order in the Legislative Herald on July 18, 2014. There is no information on whether health care service improved or whether coverage increased.

Prior action 6 of DPO-1 and prior action 4 of DPO-2 were aimed at improving obstetric and neo-natal care through an Order under DPO-1 and implementation of an Order under DPO-2. The indicator was that the share of perinatal facilities providing services increase from a base of zero to 100% by 2018. This was achieved. A further indicator was that the maternal mortality rate would decline from a base of 27.7% in 2013 to 26% by 2018. This was significantly surpassed, with the mortality rate declining to 13.1% by late 2018.

In education, under DPO-1, the prior action was an amendment to the Law on General Education to raise the qualification requirements for entry to the teaching profession and improve the regulation of teacher recruitment. This law was amended on November 18, 2014. A further requirement was a prior action under DPO-1 that called for the adoption of a “Framework for Teachers Entry into the Profession, Professional Development and Career Advancement Scheme” through a decree, which was achieved on February 20, 2015. The results indicator was the proportion of teachers accumulating at least one credit as defined in the credit accumulation manual. The target was that this proportion would rise from 21% in 2015 to 65% in 2018. It was exceeded, with the actual number being 75%, although the indicator was an input, and its impact on the provision of quality education was not possible to discern.

Under DPO-2, a prior action was the adoption of a new law on Early and Preschool Education, which was achieved on June 8, 2016. The indicator was the proportion of pre-school education institutions using the pre-school curriculum increasing from a baseline of zero to 50% in 2018, with the actual number achieved being 75%. This is also an input, and while it might be important to establish a framework, without data on its impact, no judgment on its effectiveness can be made.

On monitoring and evaluation (M&E), the prior action under DPO-1 was the submission to Parliament of a bill to amend the Law on Statistics, that would require a three-year preparation time for the population census. Under DPO-2, the prior action was the adoption of the amendment. This was achieved in June 2016. A further prior action under DPO-2 was a requirement to undertake a separate labor force survey with a larger sample size and a higher frequency of surveying. This was completed in March 2017. These prior actions are also inputs, and there is no way to assess their impacts.

Some of the results indicators were inputs rather than measures of impact and provided little evidence on the ultimate impact. However, on the basis of the achievement of the labor force survey, the rating for this PDO is substantial.

Rating
Substantial

5. Outcome

The relevance of objectives was rated substantial, given consistency with the World Bank strategy for Georgia and congruence with Georgia's country priorities, although the dissonance between the loan title and the PDOs would seem to warrant more explanation. Relevance of design was rated modest on the grounds that the causal chain was less than robust, and that design focused on issuing decrees and passing legislation, the effects of which would depend crucially on how the laws and decrees were implemented in the face of weak capacity of the Georgian civil service. Efficacy of the first objective was rated modest; although the fiscal framework improved and there was better tracking of SOE financial results, the ultimate impact on the fiscal position is unclear. The efficacy of the second objective was rated modest even though many of the results indicators were achieved, because many were primarily inputs. While laws and decrees were passed in accordance with the prior actions, final data on achievement of the targets were not available in the ICR.

As a result of a modest relevance of design, modest efficacy of one objective and substantial for the other, the outcome rating is moderately unsatisfactory.

a. Outcome Rating
Moderately Unsatisfactory

6. Rationale for Risk to Development Outcome Rating

The ICR (p. 24) states that "the government has demonstrated full commitment to sustaining the gains from the program." There was no evidence that key elements of the reform program were reverting to previous practices. While there were still issues related to civil service reform that needed further attention in order to resolve outstanding issues, the government appeared committed to doing so. Risks from external factors appeared to be low, according to World Bank assessments (ICR, p. 25). Further reduction in risks will accrue from the follow-on operation (ICR, p.16), as well as institutional strengthening that took place as part of the operation (ICR, p. 24).

a. Risk to Development Outcome Rating
Negligible

7. Assessment of Bank Performance

a. Quality-at-Entry

The ICR (p. 25) states that the cooperation between the World Bank and the government of Georgia in preparing the program was strong and generally effective. Furthermore, the ICR (p. 13) points out that the program had extensive analytical underpinnings. The Bank also undertook extensive public outreach in preparing the program and worked well with development partners. A shortcoming of the program was the failure to ensure that appropriate thresholds were set for public investment management projects with respect to local governments. The results framework also had weaknesses in the choice of indicators (see Section 9). A result of this, for example, was that the effect of a number of processes, such as measuring the impact of the pre-qualification exam for the civil service, was not measured.

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

The ICR (p. 25) states that the Bank provided the government of Georgia with useful assistance during the implementation of the program, particularly with respect to the deterioration of the macro-economic framework which led to the decision to truncate the series from three DPOs to two. This demonstrated to a number of policymakers that excessive spending had clear consequences with respect to World Bank assistance. The ICR also states that, although DPO-2 was delayed, there was ongoing dialogue between the World Bank and the government. At least partly because of this, the government of Georgia committed to taking steps to restore macro-economic stability. The strong commitment also contributed to the perception that the risk to development outcomes was low.

However, the ICR (p. 16) points out that there were no ISRs done under DPO–2 even though the period between DPO-1 and DPO-2 exceeded a year. This resulted in the failure to establish centralized reporting of the results indicators, necessitating the collection of these data at the ICR stage.

Because of the failure to conduct ISRs during the implementation of DPO-2, quality of supervision is rated moderately satisfactory.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

8. Assessment of Borrower Performance

a. Government Performance

The Ministry of Finance was responsible for the overall implementation of the program. According to the ICR, the government remained committed throughout the program to achieving its objectives and ensuring the passage of key legislation in order to provide a foundation for many of the reforms. This occurred, even though the macro-economic situation went off track for a period due to the need to finance SOE losses. Despite the deterioration in the fiscal deficit, the Ministry of Finance continued to engage in extensive dialogue with the World Bank team, which led to the completion of almost all of the required policy actions under an anticipated DPO-3, which in the event was canceled. Nevertheless, the lack of fiscal discipline that resulted in the second operation being delayed and the third cancelled leads to a rating of Moderately Unsatisfactory.

Government Performance Rating

Moderately Unsatisfactory

b. Implementing Agency Performance

The implementation of the program was spread over a significant number of implementing agencies, and the ICR (p. 26) reports that these agencies generally performed well in implementing the program. Even though there were shortcomings in some of the reforms such as public investment management, in a number of areas reforms exceeded expectations and many of the triggers for DPO-3 were fulfilled.

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The design of the monitoring and evaluation framework was mixed. Although some indicators were adequate to measure the effect of prior actions, others were not; some indicators measured inputs while there were no indicators for some of the prior actions. For DPO–1, the fiscal portion was adequately measured with respect to budget coverage and public investments. Fiscal performance was badly affected by SOE losses, necessitating transfers from the budget. The monitoring and evaluation indicator was the availability of budgeted and actual data for 95% of the total turnover of SOEs in Georgia, which was achieved by the end of 2015. Furthermore, an additional indicator was their inclusion in the Fiscal Risk Annex to the state budget. Other indicators had weaknesses; a further problem was that the indicators measured inputs rather than outputs. This, for example, applied to the indicator related to how many new entrants to the civil service took a prequalification test rather than to the pass rate. In the event, no new entrants took this test, which raises questions regarding its usefulness. Indicators in the areas of health, particularly obstetric and perinatal care, were adequately measured, showing substantial improvements. In the area of education, the indicators all measured inputs.

b. M&E Implementation

The ICR (p. 16) indicates that the project results framework could have been more closely monitored. While implementing agencies tracked results indicators, the fact that there was no centralized reporting of program results indicators meant that it was not possible at the macro level to keep track of program results. Nevertheless, the ICR reported that “utilization was adequate because it informed the needed adjustments to the program during DPO-2 preparation” (ICR, p. 16).

c. M&E Utilization

As the operation evolved, monitoring and evaluation was used to modify the indicators in DPO–2 as well as enable modifications to the program in the second operation.

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

There were no environmental effects. There were positive social effects arising from the improved social assistance coverage of the bottom decile of the population.

b. Fiduciary Compliance

No fiduciary compliance issues were reported.

c. Unintended impacts (Positive or Negative)

None reported.

d. Other

N/A

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Both design and efficacy were based on prior actions that were essentially inputs.
Risk to Development Outcome	Negligible	Negligible	---
Bank Performance	Moderately Satisfactory	Moderately Unsatisfactory	Quality at Entry is modest, and, given the overall outcome of MU, this makes Bank Performance MU
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Modest	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

IEG takes the following lessons from the ICR, with some modification of language:

- Even if a program goes off track because of adverse fiscal developments, it is important to continue a dialogue with the government so that if the fiscal issue is solved, the program can continue. In the case of Georgia, the World Bank continued to have dialogue with the government, with the result that even though the third operation was canceled, most of the triggers were met.
- Results indicators should be directed at outcomes rather than inputs. In the case of Georgia, a number of indicators measured inputs, which hampered assessment of the overall impact of the program.

IEG offers the following additional lessons:

- It is important to distinguish between development objectives – what the program is trying to achieve, and the pillars – how the objectives will be achieved. In the case of the Georgia DPO series these are conflated, which makes the impact of the program and the clarity of the results chain difficult to assess.

- Political resistance can be overcome by extensive outreach and simplification of processes. In the case of Georgia, making budget processes easier to navigate overcame the resistance of local entities to the reforms, as did outreach.
- Eliminating an operation in a series if prior firm undertakings the government with respect to fiscal discipline are broken sends a clear signal to countries that these commitments are important. In the case of Georgia, the delay in processing DPO-2 and the cancellation of DPO-3 were appropriate responses to the lack of fiscal discipline that led to the deterioration of the macroeconomic situation.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

While the ICR was comprehensive, it failed to highlight the conflation of development objectives with pillars, thus confusing the overall objectives of the program with the means to achieve the objectives. Furthermore, it failed to clarify the disconnect between the inclusive growth title of the two operations and the development objectives. Following its arguments on the results chain was also difficult.

a. Quality of ICR Rating
Modest