Report Number: ICRR0022994

1. Operation Information

Operation ID P169913	**Operation Name** Econ. Management and Competitiveness DPO
Country Georgia	**Practice Area (Lead)** Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) IBRD-90630,IBRD-91430	**Closing Date (Original)** 31-Mar-2021	**Total Financing (USD)** 101,091,504.39
Bank Approval Date 26-Mar-2020	**Closing Date (Actual)** 31-Mar-2021	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	49,600,000.00	0.00
Revised Commitment	98,500,000.00	0.00
Actual	101,091,504.39	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The program development objective (PDO), as stated in the Program Document (PD, p. 3) and the ICR (p. i), was:

To support the government’s program of reforms to sustain rapid growth and ensure greater inclusion, job creation, and resilience by: i) strengthening economic management through improving the efficiency of public resource use and ii) enhancing competitiveness through introducing evidence-based policymaking, promoting more competitive markets, diversifying the financial sector, improving teacher deployment and remuneration with a view toward ensuring a more qualified workforce over the long term, and strengthening investment promotion.

The ICR (para. 13) stated the original PDO was: "to support the Government's program of reforms to sustain rapid growth, and ensure greater inclusion, job creation, and resilience."

For the purposes of this ICRR, the objectives are taken as:

- Objective 1: Strengthening economic management through greater efficiency of public resource use.
- Objective 2: Enhancing competitiveness through regulatory and competition policies and development of markets for labor, finance and investment.

b. Pillars/Policy Areas

The pillars/policy areas correspond to the PDOs as follows:

- Pillar 1: Strengthening economic management through improving the efficiency of public resource use:
- Pillar 2: Enhancing competitiveness through regulatory and competition policies and development of markets for labor, finance and investment.

Eight specific policy areas are addressed through one prior action (PA) each; see Table 1.

c. Comments on Program Cost, Financing and Dates

The Georgia Economic Management and Competitiveness (EMC) Development Policy Operation (DPO) was a stand-alone, single-tranche of USD 101,091,504 disbursed. The original commitment of EUR 45 million (USD 49.6 million) as of the program document (PD) in February 2020 and approved on March 26, 2020, was augmented by another EUR 45 million (USD 48.9 million) in a supplemental DPO operation. Additional parallel emergency financing of EUR 45 million came from the Asian Infrastructure Investment Bank (AIIB) in June 2020 "to help the Government of Georgia (GoG) cover an unanticipated financing gap…due to the impact of the COVID-19 outbreak" (ICR p. ii and para. 13). The operation closed as expected on March 31, 2021.

3. Relevance of Design

a. Relevance of Objectives

Relevance to country context

During the decade 2010-19, Georgia experienced robust economic growth (5.3 percent per annum) and "significant reduction in the level of national poverty" (ICR, para. 2). "Robust private sector response to the rapid and far-reaching reforms kept total factor productivity and gross capital formation high." However, despite generally sound macroeconomic management, "significant headwinds" to sustained high growth were emerging in the form of growing macroeconomic imbalances, limited success in creating jobs, and stagnant firm-level productivity (suggesting "misallocation of resources", with "human capital among the biggest constraints to doing business"; PD, para. 56), as well as threats posed by climate change (PD, para. 4; ICR, paras. 3-4). These conditions and constraints—exacerbated by the Covid-19 pandemic—warranted World Bank assistance to improve economic management (for more efficient use of public resources) and competitiveness (for investment and employment growth) – which in turn would support the desired outcome of sustaining rapid growth.

Relevance to CPF and country development strategy

The objectives of the operationwere reasonably well aligned with Georgia's Socio-economic Development Strategy (SDS), "which supported the development of the private sector as the engine of growth and emphasized the role of the state in facilitating inclusion through better delivery of public services and addressing market failures," which identified effective public administration (along with macroeconomic stability) as a precondition for success (PD, para. 31). The EMC DPO's Pillar 2 was consistent with the SDS Pillar 1: Improving private sector competitiveness, and actions to improve teacher deployment were indirectly supportive of the SDS Pillar 2: Strengthening human capital. The rationale for focusing on teachers was that "firms find the lack of adequate skills to be a binding constraint, reflecting the limitations of the education system" (PD, para. 4), and improving teacher quality was a first step toward addressing the human capital constraint. Strengthening regulation of investment funds was related to SDS Pillar 3: Improving access to finance.

The operation was closely attuned to the Georgia Country Partnership Framework (CPF) 2019-2022, which advocated the broad goal of "refining the growth model to enhance labor intensity and productivity by deepening global integration, lowering constraints to firm growth, building a stronger human capital base, and ensuring more effective delivery of public service" (PD, para. 4). The CPF highlighted the areas of: "(i) enhancing inclusive growth and competitiveness; (ii) investing in human capital; and (iii) building resilience" (PD, para. 68). The DPO objectives focused mainly on the first area, with some attention to human capital in the education system. "Resilience" was included in the PDO for the EMC DPO, with relevant actions consisting of draft legislation on telecommunications that would facilitate the deployment of high-speed internet infrastructure and strengthen it with respect to climate-related risks (PD, para. 54), and improving public investment management to better recognize the economic returns of investment projects for more climate change resilient infrastructure (with further reforms planned for the upcoming GRID DPO).

b. Relevance of Prior Actions

Rationale

Table 1: Objectives and Prior Actions for Georgia Economic Management and Competitiveness Development Policy Operation

Prior Actions

Objective 1: Strengthening economic management through improving the efficiency of public resource use
Strengthen public financial management
PA 1: (the government has introduced a mechanism to support public financial management [PFM] improvements by municipalities, by providing additional financing for capital investment…conditional upon improving identified areas of weakness) was based on Public Expenditure and Financial Accountability (PEFA) findings of "significant material issues, and systemic and control risks" at the local level, in particular, "failure to timely submit annual financial statements for audit …and limited scrutiny of local councils over both internal audit and external audit reports" (PD, para. 38). In fact, municipalities were not required to submit their financial statements, and were only audited every three years via on-site visits by the State Audit Office (SAO; TTL interview). The prior action was appropriate in order to address "the planned decentralization agenda as well as the unequal opportunities stemming from uneven access to public services across the country" (PD, para. 38). An incentive-based approach was adopted, with the Ministry of Finance (MOF) offering supplementary capital investment funds for 27 municipalities, conditional on addressing specified areas of weakness in support of the objective of improving the efficiency of public resource use. However, the SAO was not informed about its intended role in reviewing these audits and providing guidance to the municipalities, and was not adequately staffed "to audit them outside its usual cycle of operation" (ICR, para. 61). Hence, without complementary support to the SAO, there was a weak link in the chain to the intended result. Rating: Moderately Satisfactory. • *Stronger public investment management*
PA 2: (*the Borrower has amended the PIM Guideline and established the Charter of the PIM Working Group*) responded to low PEFA scores for economic analysis, project selection, costing, and monitoring (estimated by the IMF to make Georgia 21 percent less efficient than comparable countries; PD, para. 41) and sought to ensure that "over time, a larger share of investment projects undergo improved pre-selection and appraisal processes and better monitoring" (ICR, Diagram 1). The PIM Working Group was designed to enable the Ministry of Finance (MOF) to better "guide sector agencies in project preparation and policy development" and ensure compliance with PIM Guidelines (PD, para. 42). The action directly addressed the oversight function needed to achieve the desired result of improving the efficiency of public investment expenditures. Rating: Satisfactory.
Improve public procurement
PA 3: (*the government has submitted to Parliament a draft amendment to the Law on State Procurement to strengthen the independence and impartiality of the Dispute Resolution Council and has further restricted the use of single-source procurement*) addressed the findings of a study that the "share of single source procurements remains high at around 19 percent of total procurement value, undermining competition" (PD, para. 44). The Dispute Resolution Council provides a channel for complaints independent of the State Procurement Agency, with a potential indirect effect on the efficiency of public resource use (though implementation of the draft amendment was not assured). The decree restricting the use of single-source procurement was directly related to promoting "competitive procurement methods [that] result in lower costs and less failed tenders" (PD, para. 44). Rating: Moderately Satisfactory.
Objective 2: Enhancing competitiveness through regulatory and competition policies and development of markets for labor, finance and investment
Introduce the regulatory impact assessment function
PA 4: (*the government has begun to facilitate evidence-based policymaking by adopting a methodology for regulatory impact assessments [RIAs] and assigning adequate responsibilities related to RIAs*) was a

response to “rapid deregulation after the Rose revolution,” which had put Georgia out of alignment with the EU and resulted in some arbitrariness and uncertainty about implementation of regulations. The action was needed to bring Georgia in line with the EU Association Agreement and other regulatory regimes” (PD, para. 48; ICR, para. 22). In particular, it promoted “assessment of the environmental impact as well as the social impact, including gender equality (e.g., social, economic, competition, health, environment, and fiscal impact)” in preparing major policy proposals and new legislation. The link to the objective of enhancing competitiveness was indirect, “through lower risk-premiums on investment decisions” and making “regulations more clear, predictable and consistent” (PD, para. 48). Given “limited capacity,” the focus was initially to be on laws related to “product and factors markets (for example, company law, labor law, competition law)…also environment, food and product safety.” The PD (paras. 34 and 49) noted that the DPO only “provided the convening framework for the RIA reform but relies on the EU, USAID, GIZ for the actual delivery on the ground,” and that “efforts will need to continue over the medium term to expand the coverage of RIA and improve the quality.” It was expected that “EU-funded technical assistance support will continue the efforts to build the capacity and implement the RIA reform over the medium term,” but how this would translate into the objective of greater competitiveness (and hence growth) was not well defined. Rating: Moderately Unsatisfactory.
Enhance enforcement of competition policy
PA 5: (the Competition Agency of Georgia has submitted to Parliament a draft amendment to the Law on Competition to strengthen the Governance of the Competition Agency, raise its enforcement capacity, and enhance its relations with other regulators, and the government has submitted to Parliament a draft Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunications Purposes) was a response to concerns of businesses (including potential investors) that “markets in Georgia [were] dominated by a few entities, concentration… [was] high, and the effectiveness of competition policy weak” (ICR, para. 23). The two sub-actions were quite distinct, and could better have been stated separately for ease of monitoring and evaluation. The PD (p. 15) noted that “the Competition Agency of Georgia lacked the necessary enforcement capacity.” The reform was intended, first, to strengthen the institutional framework for dealing with increasingly concentrated businesses (especially network services) and, second, to support “measures to reduce the cost of deploying high-speed electronic communications” (PD, para. 54). With respect to the Competition Agency, the PD (para, 52) noted that “further reforms will be needed beyond the DPO horizon” to fully establish its independence and mandate so that “it will be able to better detect and sanction anti-competitive behavior and curb potential anti-competition effects of economic concentrations to foster better functioning of markets.” How this would be achieved is not indicated, other than an expectation that the “EU will continue with its effort to further develop the capacity of the Competition Agency” (PD, para. 52). The results chain for the Telecommunication Infrastructure Law was clearer in that it was intended to help implement the National Broadband Development Strategy as well as an EU Directive “to reduce the cost of deploying high-speed electronic communications networks” by “making existing telecom-ready infrastructure available to all market participants on a non-discriminatory basis and at reasonable prices” (PD, paras. 53-54). Rating: Moderately Satisfactory.
Improve teacher deployment and remuneration
PA 6:(*provide incentives to improve teacher qualifications and to more efficiently deploy teachers, the Ministry of Education, Science, Culture and Sports had adopted (a) Decree to prioritize the allocation of teaching hours to certified teachers; (b) Decree to introduce criteria and conditions for initiation and termination of teacher employment; and (c) amend Decree on Defining the Minimum Amount and Conditions for Work Remuneration of Public School Teachers to introduce higher salaries for certified teachers*) was a response to the high proportion of teachers who are poorly qualified or part-time, a source of low scores for Georgia on the Program for International Student Assessment and the observation that the education system was not

yielding the skills needed in the labor market (PD, paras. 22 and 56; “businesses complain that undeveloped human capital is among the biggest constraint to doing business”). The actions were intended to utilize teachers more effectively, as well as to incentivize increasing the number of qualified teachers. Although the results chain was well defined, this action was only an initial step in a long process to improve labor market skills through a better education system as a result of more effective use of better-qualified teachers. Given the range of other determinants of educational quality and employable labor skills, it would have been desirable to link this PA to other measures or subsequent operations that would help ensure that the ultimate objective of enhanced labor skills is achieved. Moderately Satisfactory.
Diversify the financial sector
PA 7: (*the government has submitted to Parliament a draft Law on Investment Funds to strengthen the regulatory and supervisory framework applicable to investment fund operations and public issuers’ financial information disclosure*) was intended to address financial constraints on businesses: “financing at affordable terms is inaccessible for many businesses, especially SMEs” (small and medium enterprises; PD, para. 63). (Lagging financial inclusion was also cited as a motivation, but investment funds have little to do with access to financial services by the general population.) The absence of “private equity, venture capital or collective investment funds” was attributed “in part to inadequacies of the investment funds legislation adopted in 2013.” The new Law was intended to make Georgia “better aligned with good international practice” and to bring its “legal framework for investment funds closer to EU directives” (PD, para. 64). The PD (para. 65) noted that facilitating investment funds would complement expected “further reforms in capital markets, including completion of the pension reform, growth of the insurance sector, and FinTech innovations,” which were being supported by other World Bank financial sector operations. The relationship of this particular action to the overall agenda for financial system development and financial inclusion was perhaps somewhat overstated, based on the finding of the “Diagnostic Study of the Capital Markets in Georgia” that “the demand for investment funds’ financing is there” (PD, para. 64). How effective this would be in facilitating greater competitiveness through increased investment in SMEs is unclear. Rating: Moderately Unsatisfactory.
Strengthen investment promotion
PA 8: (*the Ministry of Economy and Sustainable Development has [a] adopted a decree endorsing the strategy for attracting foreign direct investment of the government agency in charge of investment promotion, and [b] implemented key measures from this strategy, including increasing the staffing of the agency*) was intended to support the implementation of the Investment Promotion Strategy and Action Plan of Enterprise Georgia to make “a strategic shift … towards attracting more export-oriented (efficiency-seeking) FDI” (foreign direct investment; PD, para. 66). The intention was to address the concentration of FDI in “market or resource-seeking [sectors,] resulting in limited integration of Georgian businesses in regional and global value chains” in order to drive growth (ICR, para. 26). A necessary condition was to strengthen the mandate and enlarge the staff of the agency for more active outreach to strategic foreign investors who could drive “economic upgrading and transformation.” It was not clear to what extent endorsing the strategy and increasing staff to enhance investment promotion would effectively raise FDI in competitive sectors and thereby increase competition and growth. Rating: Moderately Unsatisfactory.

While “growth” is overly broad as an objective for a single operation, the more specific objectives of strengthening economic management and enhancing competitiveness made sense in this context and were supported through generally appropriate reforms set forth in the prior actions. The stated PDO also included the very broad objectives of “greater inclusion” and “resilience,” which were not, in fact, well supported by the actions (or the indicators) and have been omitted from the specific objectives under review. On the other hand, some of the objectives would require a more detailed and sustained program of actions for effective implementation. In particular, a draft law to strengthen regulation of investment funds was hardly sufficient to justify “diversifying the financial sector” as an objective, nor was improving teacher deployment and remuneration a sufficient condition for the objective of “ensuring a more qualified work force,” although it is recognized that these represent important first steps as a foundation for potential follow-through in subsequent operations.

This stand-alone DPO had 8 PAs, five with subcomponents, totaling 14 actions/sub-actions. The ICR (Diagram 1) provided a useful “Theory of Change” summarizing the underlying diagnostic and rationale for each PA (drawing on the PD). Several actions contributed to implementing well-defined strategies. Four of the sub-actions required submission to Parliament of a draft law or amendment, in some cases to bring Georgia into compliance with European Union (EU) directives. Although the PD (para. 7) indicated that the operation “paved the way for future engagement in important ‘second-generation reform’ areas such as education, competition, and digitalization,” Georgia had a good “track record of implementing reforms” (PD, para. 35). The specific and “first step” nature of some of the PAs was not sufficient to achieve the broad objectives without fuller articulation of further actions to be taken along the results chain to actually reach the intended outcome. In the absence of a programmatic DPO series with triggers and follow-up actions or specific sectoral operations to ensure follow through, next steps toward the intended results of these actions were not always clear. Nonetheless, several actions did represent suitable follow-through on measures initiated in previous operations (regarding public investment management, procurement and competition.

Objective 1: Strengthening economic management.

PA 1 (*the Government has introduced a mechanism to support public financial management [PFM] improvements by municipalities, by providing additional financing for capital investment…conditional upon improving identified areas of weakness*) was based on Public Expenditure and Financial Accountability (PEFA) findings of “significant material issues, and systemic and control risks” at the local level, in particular “failure to timely submit annual financial statements for audit …and limited scrutiny of local councils over both internal audit and external audit reports” (PD, para. 38). In fact, municipalities were not required to submit their financial statements, and were only audited every three years via on-site visits by the State Audit Office (SAO; TTL interview). The prior action was appropriate in order to address “the planned decentralization agenda as well as the unequal opportunities stemming from uneven access to public services across the country” (PD, para. 38). An incentive-based approach was adopted, with the Ministry of Finance (MOF) offering supplementary capital investment funds for 27 municipalities, conditional on addressing specified areas of weakness in support of the objective of improving the efficiency of public resource use. However, the SAO was not informed about its intended role in reviewing these audits and providing guidance to the municipalities, and was not adequately staffed “to audit them outside its usual cycle of operation” (ICR, para. 61). Hence, without complementary support to the SAO, there was a weak link in the chain to the intended result. Rating: Moderately Satisfactory.

PA 2 (*the Borrower has amended the PIM Guideline and established the Charter of the PIM Working Group*) responded to low PEFA scores for economic analysis, project selection, costing and monitoring (estimated by the IMF to make Georgia 21 percent less efficient than comparable countries; PD, para. 41) and sought to ensure that “over time, a larger share of investment projects undergo improved pre-selection and appraisal processes and better monitoring” (ICR, Diagram 1). The PIM Working Group was designed to enable the Ministry of Finance (MOF) to better “guide sector agencies in project preparation and policy development” and ensure compliance with PIM Guidelines (PD, para. 42). The action directly addressed the oversight function needed to achieve the desired result of improving the efficiency of public investment expenditures. Rating: Satisfactory.

PA 3 (*the Government has submitted to Parliament a draft amendment to the Law on State Procurement to strengthen the independence and impartiality of the Dispute Resolution Council and has further restricted the* *use of single source procurement*) addressed the findings of a study that the "share of single source procurements remains high at around 19 percent of total procurement value, undermining competition" (PD, para. 44). The Dispute Resolution Council provides a channel for complaints independent of the State Procurement Agency, with a potential indirect effect on the efficiency of public resource use (though implementation of the draft amendment was not assured). The decree restricting the use of single-source procurement was directly related to promoting "competitive procurement methods [that] result in lower costs and less failed tenders" (PD, para. 44). Rating: Moderately Satisfactory.

Objective 2: Enhancing competitiveness.

PA 4 (*the Government has begun to facilitate evidence-based policy-making by adopting a methodology for regulatory impact assessments [RIAs] and assigning adequate responsibilities related to RIAs*), which had put Georgia out of alignment with the EU and resulted in some arbitrariness and uncertainty about implementation of regulations. The action was needed to bring Georgia in line with the EU Association Agreement and other regulatory regimes (PD, para. 48; ICR, para. 22). In particular, it promoted "assessment of the environmental impact as well as the social impact, including gender equality (e.g., social, economic, competition, health, environment, and fiscal impact)" in preparing major policy proposals and new legislation. The link to the objective of enhancing competitiveness was indirect, "through lower risk-premiums on investment decisions" and making "regulations more clear, predictable and consistent" (PD, para. 48). Given "limited capacity," the focus was initially to be on laws related to "product and factors markets (for example, company law, labor law, competition law)…also environment, food and product safety." The PD (paras. 34 and 49) noted that the DPO only "provided the convening framework for the RIA reform but relies on the EU, United States Agency for International Development (USAID), and German Gesellschaft fur Internationale Zusammenarbeit (GIZ) for the actual delivery on the ground," and that "efforts will need to continue over the medium term to expand the coverage of RIA and improve the quality." It was expected that "EU-funded technical assistance support will continue the efforts to build the capacity and implement the RIA reform over the medium term," but how this would translate into the objective of greater competitiveness (and hence growth) was not well defined. Rating: Moderately Unsatisfactory.

PA 5 (*the Competition Agency of Georgia has submitted to Parliament a draft amendment to the Law on Competition to strengthen the government of the Competition Agency, raise its enforcement capacity and enhance its relations with other regulators, and the Government has submitted to Parliament a draft Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunications Purposes*) was a response to concerns of businesses (including potential investors) that "markets in Georgia [were] dominated by a few entities, concentration… [was] high, and the effectiveness of competition policy weak" (ICR, para. 23). The two sub-actions were quite distinct, and could better have been stated separately for ease of monitoring and evaluation.[MOU1] The PD (p. 15) noted that "the Competition Agency of Georgia lacked the necessary enforcement capacity." The reform was intended, first, to strengthen the institutional framework for dealing with increasingly concentrated businesses (especially network services) and, second, to support "measures to reduce the cost of deploying high-speed electronic communications" (PD, para. 54). With respect to the Competition Agency, the PD (para, 52) noted that "further reforms will be needed beyond the DPO horizon" to fully establish its independence and mandate so that "it will be able to better detect and sanction anti-competitive behavior and curb potential anti-competition effects of economic concentrations to foster better functioning of markets." How this would be achieved is not indicated, other than an expectation that the "EU will continue with its effort to further develop the capacity of the Competition Agency" (PD, para. 52). The results chain for the Telecommunication Infrastructure Law was clearer in that it was intended to help implement the National Broadband Development Strategy as well as an EU Directive "to reduce the cost of deploying high-speed electronic communications networks" by "making existing telecom-ready infrastructure available to all market participants on a non-discriminatory basis and at reasonable prices" (PD, paras. 53-54). Rating: Moderately Satisfactory.

PA 6 (*provide incentives to improve teacher qualifications and to more efficiently deploy teachers, the Ministry of Education, Science, Culture and Sports had adopted (a) Decree to prioritize the allocation of teaching hours to certified teachers; (b) Decree to introduce criteria and conditions for initiation and termination of teacher employment; and (c) amend Decree on Defining the Minimum Amount and Conditions for Work Remuneration of Public School Teachers to introduce higher salaries for certified teachers*) was a response to the high proportion of teachers who are poorly qualified or part-time, a source of low scores for Georgia on the Program for International Student Assessment and the observation that the education system was not yielding the skills needed in the labor market (PD, paras. 22 and 56; "businesses complain that undeveloped human capital is among the biggest constraint to doing business"). The actions were intended to utilize teachers more effectively, as well as to incentivize increasing the number of qualified teachers. Although the results chain was well defined, this action was only an initial step in a long process to improve labor market skills through a better education system as a result of more effective use of better qualified teachers. Given the range of other determinants of educational quality and employable labor skills, it would have been desirable to link this PA to other measures or subsequent operations that would help ensure that the ultimate objective of enhanced labor skills is achieved. Rating: Moderately Satisfactory.

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PA 8 (*the Ministry of Economy and Sustainable Development has [a] adopted a decree endorsing the strategy for attracting foreign direct investment of the government agency in charge of investment promotion, and [b] implemented key measures from this strategy, including increasing the staffing of the agency*) was intended to support implementation of the Investment Promotion Strategy and Action Plan of Enterprise Georgia to make "a strategic shift … towards attracting more export-oriented (efficiency-seeking) FDI" (foreign direct investment; PD, para. 66). The intention was to address the concentration of FDI in "market or resource-seeking [sectors,] resulting in limited integration of Georgian businesses in regional and global value chains" in order to drive growth (ICR, para. 26). A necessary condition was to strengthen the mandate and enlarge the staff of the agency for more active outreach to strategic foreign investors who could drive "economic upgrading and transformation." It was not clear to what extent endorsing the strategy and increasing staff to enhance investment promotion would effectively raise FDI in competitive sectors and thereby increase competition and growth. Rating: Moderately Unsatisfactory.

Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

Four RIs are rated Satisfactory and six Moderately Satisfactory. In two cases, no clear system for monitoring progress toward the target was in place or specified. For actions involving submission to Parliament of a draft law or amendment, the absence of a clear results chain and follow-on operations for implementation made it difficult in some cases (especially where implementation lagged) to attribute results to the associated PAs.

Table 2: Results indicators by Objective and PAs; baseline and target values; status and achievement							
Results indicator (RI)	**Associated PAs**	**RI Relevance**	**Baseline** (year)	**Target** (2021)	**Actual at target date**	**Actual as % of targeted change**	**RI Achievement rating**
Objective 1: Strengthening economic management							
RI 1: (*number of municipalities submitting financial statements for audit within 3 months after end of financial year*) monitored one of several areas of weaknesses of PFM at the local level identified in the PEFA, and is a reasonable indicator of the responsiveness of the municipalities to the incentive provided conditional upon increased compliance (to improve identified areas of weakness as per public expenditure and financial accountability assessment reports, under PA1). Since the capital budget subsidy	PA 1	MU	3 (2018)	≥ 14	14	100%	Modest

was pro-rated according to the extent of compliance (ICR, para. 18), the actual subsidy as a proportion of the maximum might have been a more direct measure of the overall degree of compliance. Nevertheless, since audits provide an entry to assessing PFM and their submission is recorded by the State Audit Office (SAO), this appeared to be a reasonable indicator that was in principle readily monitorable, with a clear baseline and target. Audited reports were expected to "be scrutinized by local councils … to use the findings to ensure more efficient and transparent operations of local governments" (PD, para. 39). However, the design did not take into account that the SAO lacked adequate staffing (or even mandate) to undertake the analysis and follow up with the municipalities (ICR, para. 61). Hence the indicator did not necessarily reflect substantive improvements in economic management at the local level as a result of the actions taken. Rating: Moderately Unsatisfactory.							
RI 2:(*public investment projects screened, appraised and selected in compliance with PIM Guidelines*) was a suitable indicator of the extent to which the actions (under	PA 2	S	0 (2019)	40% of new projects above GEL 5m	50% (2020) 70% (2021)	175%	High

PA2) to improve oversight by amending the PIM Guidelines and implementing the PIM Working Group resulted in increased compliance. Compliance, in turn, was expected to result in stronger economic management through better economic analysis, project selection, costing, and monitoring (as well as improving consistency with environmental and social objectives) – i.e., "better-prepared projects with higher returns that will be implemented more smoothly" (PD, para. 41). Although it was not explicitly stated how the relevant data would be captured and monitored, it is implicit in the ICR (para. 30) that this was done by the "strengthened PIM Working Group established at the MOF … the Budget Department assumed its secretariat support function, centralizing information on public investment projects; evaluating and prioritizing projects; and ensuring integration with the budget process." Rating: Satisfactory.							
RI 3: (*single source procurement as % of total procurement value*) directly monitored reduction in a well-identified source of higher costs and failed tenders (PD, para. 44 and footnote 35), which was the second	PA 3	MS	19% (2018)	16%	16%	100%	High

part of PA 3. However, it at best reflects only one aspect of enhanced oversight by the Dispute Resolution Council, which was to be strengthened by a draft amendment supported under the first part of PA 3 [implemented in January 2021 (ICR, para. 34)]. Although not specified in the PD, the SPA gathered and monitored detailed data on procurement (ICR, paras. 35 and 52 and Figure 1). The baseline and target were credible. Rating: Moderately Satisfactory.							
Objective 2: Enhancing competitiveness							
RI 4: (*number of RIAs completed on laws and regulations*) was directly related to the implementation of the associated PA 4 to introduce RIAs as a means of overseeing new and amended laws and regulations being developed as Georgia "strengthens its systems for regulatory management in-line with the EU Association Agreement" (PD, para. 48). Besides ensuring that environmental and social factors are considered, the "more evidence-based and consultative approach embedded in RIAs" was expected to result in "enhanced competitiveness through lower risk-premiums on investment decisions" through clearer and more	PA 4	MS	n.a.	10	0	0%	Negligible

predictable regulations – "a key demand of the Georgian business community" (PD, para. 49). However, the usefulness of the indicator was compromised by the lack of a system and clear responsibility for monitoring it (as well as for implementing the PA) (ICR, para. 37). Rating: Moderately Satisfactory.							
RI 5: (*number of cases examined by Competition Agency*) referred to the implementation of draft amendments to the Law on Competition (which was subsequently passed) supported under PA 5 that were intended to enhance oversight of competition policy for "a better system of concentration control [and] an improved model of competition in regulated sectors" (ICR, para. 39). Since the actual degree of competition is difficult to measure and monitor directly, this was a reasonable indicator of the extent to which oversight to enhance competitiveness was being implemented, but it does not measure the intended result of number of companies sanctioned. Using a two-year average for the baseline and target provided a simple, credible measure. Rating: Moderately Satisfactory.	PA 5	S	6 (2017-18)	8 (2-yr. ave.) [+ 2]	10 (2020-21) [+ 4]	200%	Substantial
RI 6: (*number of telecommunication service providers using data*	PA 5	MS	0 (2019)	2	0	0%	Negligible

transmission services through electricity network) was a direct measure of the potential impact of draft legislation (under PA 5) to facilitate sharing of telecommunications infrastructure in order to reduce the costs of doing business and enhance competition. The PD was not clear on responsibility for monitoring the indicator, given "the absence of a 'champion' to lead the process" (ICR, para. 41). Rating: Moderately Satisfactory.							
RI 7: (*teachers with full workload as % of all teachers*) directly measured allocation of teaching hours, which was the action under PA 6 most relevant to the intermediate objective of improving the quality of education through more effective use of qualified teachers. (PA 6 also included actions regarding employment and remuneration, intended to increase the supply of qualified teachers – an intermediate objective with too long a time horizon to warrant a separate indicator.) Although at best only an indirect indicator of the ultimate objective of a more educated and skilled workforce, that outcome was achievable over a much longer term, and the quality of education per se is difficult to measure. Hence this was a	PA 6	MS	44.9% (2018)	55% [+10.1% -pts]	58.1% [+13.25%pts]	131%	High

reasonable proxy for progress in that direction through the implementation of the action supported under the PA. The baseline and target were credible, with the PD (paras. 56-62) citing detailed data available from the Ministry of Education. Rating: Moderately Satisfactory.							
RI 8: (*female teachers with a full workload, as % of all teachers*) provided a gender-specific counterpart to RI 7, but did not provide relevant additional information on implementation of PA 6 or on the objective of competitiveness. An indicator on remuneration would have been more relevant to the expectation that actions under PA 6 would help close the gender pay gap (PD, para. 62) – although this is a separate objective that is not clearly related to the PDOs of this operation. Unsatisfactory.	PA 6	U	38.6% (2018)	49% [+10.4% -pts]	51.5% {+12.9%-pts]	124%	Modest
RI 9: (*number of investment funds established*) was a direct measure of the impact of implementing the draft Law on investment funds supported under PA 7 and a step toward increasing funds available to businesses, but only indirectly related to the objectives of enhancing competitiveness and growth. (It was not, however, as useful as an	PA 7	MU	0 (2019)	2	2 (2021) 4 (2022)	100%	Substantial

indicator of the stated, broad objectives of financial deepening and inclusion [PD, paras. 62-63], which were beyond the scope of this DPO.) The baseline (nil) and target were straightforward. Rating: Moderately Unsatisfactory.							
RI 10: (*number of targeted companies responding [to investment promotion outreach]*) was directly related to the impact of implementing PA 8 to improve the investment promotion outreach of Enterprise Georgia. Although it did not capture the extent to which foreign direct investment actually increased as a result (the next step on the results chain toward enhanced competitiveness and growth), it represented a first step on that path. The PD and ICR were not clear on whether Enterprise Georgia or the Ministry of Economy and Sustainable Development was primarily responsible for monitoring. Staffing of the investment promotion agency was not formally stated as a RI, although it was part of PA 8 and specifically mentioned in the PD (para. 66) as an expected result ("staffing for investment promotion to be increased in the first stage from six to ten"). Since staffing was an important step toward achieving the objective and readily monitorable, it	PA 8	MS	n.a.	200	385	193%	Substantial

would have been desirable to include and monitor it as a formal RI. Rating: Moderately Satisfactory.							

Objective 1:Strengthening economic management

RI 1 (*number of municipalities submitting financial statements for audit within 3 months after end of financial year*) monitored one of several areas of weaknesses of PFM at the local level identified in the PEFA, and is a reasonable indicator of the responsiveness of the municipalities to the incentive provided conditional upon increased compliance. Since the capital budget subsidy was pro-rated according to the extent of compliance (ICR, para. 18), the actual subsidy as a proportion of the maximum might have been a more direct measure of the overall degree of compliance (to improve identified areas of weakness as per public expenditure and financial accountability assessment reports, under PA1). Nevertheless, since audits provide an entry to assessing PFM and their submission is recorded by the State Audit Office (SAO), this appeared to be a reasonable indicator that was in principle readily monitorable, with a clear baseline and target. Audited reports were expected to "be scrutinized by local councils … to use the findings to ensure more efficient and transparent operations of local governments" (PD, para. 39). However, design did not take into account that the SAO lacked adequate staffing (or even mandate) to undertake the analysis, and follow up with the Municipalities (ICR, para. 61). Hence the indicator did not necessarily reflect substantive improvements in economic management at the local level as a result of the actions taken and needed a complementary measure of follow-up or changes undertaken. Rating: Moderately Unsatisfactory.

RI 2 (*public investment projects screened, appraised and selected in compliance with PIM Guidelines*) was a suitable indicator of the extent to which the actions (under PA2) to improve oversight by amending the PIM Guidelines and implementing the PIM Working Group was resulting in increased compliance. Compliance in turn was expected to result in stronger economic management through better economic analysis, project selection, costing and monitoring (as well as improving consistency with environmental and social objectives) – i.e., “better-prepared projects with higher returns that will be implemented more smoothly” (PD, para. 41). Although it was not explicitly stated how the relevant data would be captured and monitored, it is implicit in the ICR (para. 30) that this was done by the “strengthened PIM Working Group established at the MOF … the Budget Department assumed its secretariat support function, centralizing information on public investment projects; evaluating and prioritizing projects; and ensuring integration with the budget process.” Rating: Satisfactory.

RI 3 (*single source procurement as % of total procurement value*) directly monitored reduction in a well-identified source of higher costs and failed tenders (PD, para. 44 and footnote 35), which was the second part of PA 3. However, it at best reflects only one aspect of enhanced oversight by the Dispute Resolution Council, which was to be strengthened by a draft amendment supported under the first part of PA 3 [implemented in January 2021 (ICR, para. 34)]. Although not specified in the PD, the SPA gathered and monitored detailed data on procurement (ICR, paras. 35 and 52 and Figure 1). The baseline and target were credible. Rating: Moderately Satisfactory.

Objective 2: Enhancing competitiveness

RI 4 (*number of RIAs completed on laws and regulations*) was directly related to implementation of the associated PA 4 to introduce RIAs as a means of overseeing new and amended laws and regulations being developed as Georgia “strengthens its systems for regulatory management in- line with the EU Association Agreement” (PD, para. 48). Besides ensuring that environmental and social factors are considered, the “more evidence-based and consultative approach embedded in RIAs” was expected to result in “enhanced competitiveness through lower risk-premiums on investment decisions” through clearer and more predictable regulations – “a key demand of the Georgian business community” (PD, para. 49). However, the usefulness of the indicator was compromised by the lack of a system and clear responsibility for monitoring it (as well as for implementing the PA) (ICR, para. 37).Rating: Moderately Satisfactory.

RI 5 (*number of cases examined by Competition Agency*) referred to the implementation of draft amendments to the Law on Competition (which was subsequently passed) supported under PA 5 that were intended to enhance oversight of competition policy for “a better system of concentration control [and] an improved model of competition in regulated sectors” (ICR, para. 39). Since the actual degree of competition is difficult to measure and monitor directly, this was a reasonable indicator of the extent to which oversight to enhance competitiveness was being implemented, but it does not measure the intended result of number of companies sanctioned. Using a two-year average for the baseline and target provided a simple, credible measure. Rating: Moderately Satisfactory.

RI 6 (*number of telecommunication service providers using data transmission services through electricity network*) was a direct measure of the potential impact of draft legislation (under PA 5) to facilitate sharing of telecommunications infrastructure in order to reduce the costs of doing business and enhance competition. The PD was not clear on responsibility for monitoring the indicator, given “the absence of a ‘champion’ to lead the process” (ICR, para. 41). Rating: Moderately Satisfactory.

RI 7 (*teachers with full workload as % of all teachers*) directly measured allocation of teaching hours, which was the action under PA 6 most relevant to the intermediate objective of improving the quality of education through more effective use of qualified teachers. (PA 6 also included actions regarding employment and remuneration, intended to increase the supply of qualified teachers – an intermediate objective with too long a time horizon to warrant a separate indicator.) Although at best only an indirect indicator of the ultimate objective of a more educated and skilled workforce, that outcome was achievable over a much longer term; and the quality of education per se is difficult to measure. Hence this was a reasonable proxy for progress in that direction through the implementation of the action supported under the PA. The baseline and target were credible, with the PD (paras. 56-62) citing detailed data available from the Ministry of Education. Rating: Moderately Satisfactory.

RI 8 (*female teachers with a full workload, as % of all teachers*) provided a gender-specific counterpart to RI 7, but did not provide relevant additional information on implementation of PA 6 or on the objective of competitiveness. An indicator on remuneration would have been more relevant to the expectation that actions under PA 6 would help close the gender pay gap (PD, para. 62) – although this is a separate objective that is not clearly related to the PDOs of this operation. Unsatisfactory.

RI 9 (*number of investment funds established*) was a direct measure of the impact of implementing the draft Law on investment funds supported under PA 7 and a step toward increasing funds available to businesses, but only indirectly related to the objectives of enhancing competitiveness and growth. (It was not, however, as useful as an indicator of the stated, broad objectives of financial deepening and inclusion [PD, paras. 62-63], which were beyond the scope of this DPO.) The baseline (nil) and target were straightforward. Rating: Moderately Unsatisfactory.

RI 10 (*number of targeted companies responding [to investment promotion outreach]*) was directly related to the impact of implementing PA 8 to improve the investment promotion outreach of Enterprise Georgia. Although it did not capture the extent to which foreign direct investment actually increased as a result (the next step on the results chain toward enhanced competitiveness and growth), it represented a first step on that path. The PD and ICR were not clear on whether Enterprise Georgia or the Ministry of Economy and Sustainable Development was primarily responsible for monitoring. Staffing of investment promotion agency was not formally stated as a RI, although it was part of PA 8 and specifically mentioned in the PD (para. 66) as an expected result (“staffing for investment promotion to be increased in the first stage from six to ten”). Since staffing was an important step toward achieving the objective and readily monitorable, it would have been desirable to include and monitor it as a formal RI. Rating: Moderately Satisfactory.

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
Strengthening economic management

Rationale
All three RI targets were achieved, but RI 1 was flawed as an indicator of results in strengthening economic management.

Although the number of municipalities submitting financial statements to the SAO reached the target (after an extension due in part to "lack of awareness at the municipal level," as well as the impact of the Covid-19 pandemic), the effectiveness of this prior action was limited by the failure of MOF to communicate to the SAO "that it would receive the financial statements from the concerned municipalities outside the regular procedures," the inadequate staffing (or even mandate) of the SAO to undertake the analysis, and limited follow-up with the Municipalities regarding what was expected of them (ICR, para. 61). Since the deadline for submission had to be extended due to "lack of awareness at the Municipal level" (as well as the Covid-19 pandemic), and there was "no clear feedback from the SAO to the municipalities on what they need to improve other than the regular feedback after a regular audit" (ICR, para. 52), achievement of the target did not necessarily indicate substantive improvements in economic management at the local level as a result of the actions taken. The act of preparing and submitting an annual financial statement to access the incentive was considered a beneficial step toward better planning and accountability, and the World Bank team is now providing assistance to improve manuals and build capacity in the SAO (TTL interview). Overall, only modest progress has actually been made in ensuring that changes are recommended and implemented at the local level. Rating for RI 1: Modest.

The proportion of new large public investment projects in compliance with PIM Guidelines (RI 2) was surpassed in 2020 and rose substantially further in 2021, indicating highly effective implementation of PA 2. Rating for RI 2: High.

The proportion of procurement value under single source procurement was successfully reduced to the target of 16 percent (RI 3), despite the potential for emergency single-source procurements under the Covid-19 pandemic. Rating for RI 3: High.

Rating

Satisfactory

OBJECTIVE 2

Objective
Enhancing competitiveness

Rationale
Five targets were fully achieved or exceeded, while there was no progress on two. In some cases, further evidence is needed to support the conclusion that achievement of the target is leading to success in achieving the downstream objective.

While the legal, methodological and procedural conditions were in place for RI 4 to be implemented, no RIAs were in fact conducted. The ICR (paras. 62 and 68) noted that, despite initial high interest by donors (which nonetheless waned), “authorities were clearly not pursuing the RIA agenda,” perhaps in part because “the new methodology was too complex,” while “the private sector probably perceives RIAs as a burden to their operations.” Furthermore, the system for monitoring it (as well as for implementing the PA) was not established – indeed, “no formal oversight unit was established,” and the functional responsibility was moved, which “likely created a capacity gap” (ICR, para. 37). Rating for RI 4: Negligible.

The increase in cases examined by Competition Georgia for anti-competitive behavior or complaints was double the target of two over a two-year period (RI 5). However, no evidence is given as to the findings and results of these cases, so it is difficult to ascertain whether achievement of the target in fact led to improvement in competitiveness. The Team notes that intensive data collection would be needed to obtain such evidence, and that more active anti-competitive scrutiny with the threat of fines up to 10 percent of total annual turnover is considered sufficient to inhibit anti-competitive behavior (TTL interview). Rating for RI 5: Substantial.

The RI 6 target was not achieved because the necessary legislation (for which the PA was to submit a draft) was not passed. Rating for RI 6: Negligible.

The increases in the percentage of total teachers, and of female teachers, with full workloads exceeded the targets for RI 7 and RI 8. This represented a first step toward improving the efficacy and quality of the education system, expected eventually to enhance the quality of the labor force and thereby promote the objective of greater competitiveness and growth. However, the indicator for female teachers did not provide additional relevant evidence of achievement of this operation’s objective. Although it is too soon to expect evidence on the extent to which the expected chain of results is being realized, current preparation of a USD 400 million Georgia Human Capital Program provides some confidence that the educational reforms will be complemented by more comprehensive measures to address the human capital constraint (TTL interview). Rating for RI7: High. Rating for RI 8: Modest.

The target of two investment funds established (RI 9) was achieved by the target date, with an additional two established by mid-2022 and an initial transaction reportedly in the works (TTL interview), indicating a positive impact of the passage (in July 2020) of the draft law that was supported under PA 7. This enables a response to the reported unmet demand for financing from investment funds (PD para. 64), but the actual result in financing provided remains to be monitored going forward. While this adds a useful financial instrument for certain businesses, the claims that this “provides a solid anchor for further reforms in capital markets” (ICR, para.25) and promotes financial inclusion are less convincing. Rating for RI 9: Substantial.

Enterprise Georgia received responses from 385 of 650 foreign companies contacted, substantially exceeding the target (RI10). While the ICR (para. 53) indicated that “the amounts invested are substantial,” data on the actual number of companies and amounts invested are lacking in order to confirm that the ultimate objective is being met. Rating for RI 10: Substantial.

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

Objective 1 is rated Satisfactory and Objective 2 Moderately Satisfactory. Overall achievement is weighted toward the latter in view of the larger number of actions and indicators and negligible progress on two of them.

Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

The PAs were Moderately Satisfactory overall, with a clear underlying diagnostic and rationale for each and several actions contributing to implementing well-defined strategies. However, four of the sub-actions involved only submission to Parliament of a draft law or amendment, without clarity on how implementation would be achieved.

Although 8 out of 10 indicators were nominally fully achieved, in two cases, the RIs did not adequately relate to the intended objective, and no progress was made with respect to two actions/indicators, yielding an overall Efficacy rating of Moderately Satisfactory.

With both relevance of prior actions and efficacy rated Moderately Satisfactory, the outcome is likewise rated Moderately Satisfactory.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

Inadequate institutional capacity in both the Municipalities and the SAO may continue to limit the effectiveness of incentives provided (under PA 1) to improve PFM at the local level. The ICR (para. 61) noted that “the SAO is already overstretched and…is not in a position to audit them outside its usual cycle of operation.” Although the ICR (para. 64) indicated that “municipalities got motivated by the top-up,” it is not clear that enough is being done to address limited capacity at both the municipal and SAO levels to ensure results in terms of improved PFM.

Covid-19 pandemic fiscal pressures could undermine the ability of the Government to continue providing incentives to municipalities for PFM reform, and emergency procurements associated with pandemic response may offset progress toward reducing single-source procurement.

Lack of ownership or political will may continue to stall implementation of RIAs. The Ministry of Justice has shown little interest, the oversight unit was disbanded, and “there is no demand from the private sector” (ICR, para. 66). Even the EU’s support was eroded by “the lack of ownership on the part of the authorities,” although “it remains ready to provide assistance if there is a strong revival of this reform” (which appears unlikely in the absence of a “champion”). Similarly, although other draft laws/amendments supported by PAs were subsequently enacted, the draft Law on Telecommunication Infrastructure (PA 5) does not yet appear to have garnered enough support to be passed. The ICR (para. 66) appears somewhat optimistic that this could be overcome with “an outreach effort on the part of the Bank to convince the parties involved.”

Teacher reforms may be insufficient to affect labor force quality. The implementation may be impeded by backsliding: “there is a high risk that teachers who had been ousted from the system because they did not meet the requirements come back” (ICR, para. 64). Budgets may be insufficient to implement higher salaries for certified teachers. And labor quality and skills are affected by numerous other factors, including training, technology and complementary capital investment.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The objectives were generally sound and relevant to the country context and strategy, Nevertheless, the excessive generality and compound nature of some of the objectives makes meaningful tracking of results difficult, thereby undermining accountability. Some of the PAs represented only preliminary steps in a results chain, and would require a more detailed and sustained program of actions for effective implementation. Some RIs related only to these preliminary steps and did not adequately represent achievement of the stated objectives.

Stakeholder consultation and donor coordination were minimal.

Lessons from prior experience:

The only lessons from prior operations explicitly cited in the PD (para. 34) were that: “(a) targeted technical assistance (TA) can be a valuable contribution from the Bank; [and] (b) partnering with other institutions to overcome resource constraints and lack of in-country presence.” The analytical underpinnings (PD, Table 5) cited the Systematic Country Diagnostic (SCD), PEFA, and public expenditure reviews and also drew on expertise from IFC Advisory Services and the WB governance and education teams (ICR, para. 58).

Results chain:

The ICR (Diagram 1) provides a clear “Theory of Change” summarizing the underlying diagnostics and rationale (drawn from the PD) for each policy action in relation to the Pillars and PDOs. The PAs were based on an analysis of constraints and solutions appropriate to the specific country context. However, in terms of implementation, some PAs were based on unrealistic assumptions or had missing links in the results chain – e.g., how to ensure enactment of draft laws/amendments, such as that on

Telecommunications (PA 5); ensuring that the SAO could play its intended role in implementing PA 1; and how examination of cases by the Competition Agency (PA 5) would in fact lead to changes that improved competitiveness (lacking an indicator of their power to implement sanctions). Although improving the utilization of qualified teachers was a reasonable input to eventually enhancing labor force quality, the results chain and further actions needed to achieve this outcome was not fully elaborated.

Risk identification and mitigation:

The PD (para. 87) assessed the risks to the achievement of development objectives as moderate or low, except for “geopolitical tensions in the region” and “health pandemic” (prescient but not readily amenable to mitigation within the operation). Prudent fiscal policies and continued strong macroeconomic management were expected to mitigate fiscal risks. The PD (para. 8) recognized “political risks that the proposed laws may not be adopted” (mainly in the context of the 2020 election), but considered that “this risk is significantly mitigated by Georgia’s strong track record in implementing reforms, an effective ongoing policy dialogue between the World Bank Group and the GOG, and a broad political consensus on national priorities” (PD, para. 8).

Stakeholder consultation:

There is no discussion in the PD or ICR of stakeholder consultations in preparing the operation. The RIAs were intended to “ensure adequate consultation with relevant stakeholders in the process of policy-making on key legislation” (PD, para. 74), but they have not yet been implemented.

Coordination with Development Partners:

The design of support to Enterprise Georgia drew on technical assistance from the IFC. Implementation of RIAs (PA 4) relied on support from the EU (also German Gesellschaft fur Internationale Zusammenarbeit and USAID) – although this partnership proved insufficient (ICR, para. 70). Implementation of PA 8 (investment promotion) depended on subsequent support from USAID (ICR, para. 70). The AIIB was successfully brought in to provide parallel financing as a response to budgetary implications of the Covid pandemic, one of the first times it has collaborated with policy-based financing. The DPO provided a basis for AIIB to provide budget support, which it had not done before and would have had difficulty preparing on its own. There is little other indication of coordination with development partners.

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

Monitoring

The MOF had primary responsibility for monitoring based on data obtained from line ministries and institutions. The PD (para. 85) indicated that “given the long history of budget lending operations in Georgia, there is sufficient institutional capacity built up on monitoring requirements for DPOs. In general, government agencies have the capacity to provide good and timely data." The ICR had adequate data.

Adaptation

As a single operation rather than a series, there was little opportunity for observing weaknesses and adapting accordingly. The problem of poor communication between the MOF and SAO was recognized and improved.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

Both design and implementation are rated Moderately Satisfactory, yielding an overall rating of Moderately Satisfactory.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

The ICR indicates that it is too early for evidence to be available on anticipated social and poverty impacts.

b. Environmental

The ICR indicates that t is too early for evidence to be available on anticipated environmental impacts.

c. Gender

The important role of female teachers was supported in terms of workload, but it is too early for evidence to be available on recruitment and remuneration.

d. Other

N.A.

10. Quality of ICR

Rationale

The ICR presented a concise, coherent narrative, drawing on a clear "theory of change" (Diagram 1) and adequate evidence. The PAs and results were adequately explained, and shortcomings were analyzed (notably the "design flaw" regarding PA 1). Specific suggestions were provided on how to better achieve objectives in the "next phase" (meaning subsequent operations and technical assistance; para. 71).

The ICR is consistent with the guidelines. Useful information was provided (para. 61) on a miscommunication on the implementation of PA1, which compromised the relevance of RI 1 in terms of its ability to reflect actual changes at the local level.

The ICR laid out the inappropriate assumptions about the role and capabilities of the SAO in relation to both the MOF and the local municipalities, as well as how the situation may change (and improve) going forward. Nevertheless, the ICR did not adequately downrate PA1 and the efficacy of RI 1 for this design flaw (which it highlighted under Bank Performance) or note the incomplete results chain that undermined the implementation of PA4. Likewise, it could have noted that improving the allocation of teacher hours alone was insufficient to achieve the objective of developing a more skilled labor force without complementary measures to enhance skills.

Although this "was one of the first Policy-Based Financings (PBF) by AIIB….with the objective of buttressing the ongoing EMC reforms program," this is only footnoted in the ICR (p. 1), with no discussion of how well the co-financing worked and prospects for further coordination.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	

Relevance of Results Indicators	---	Moderately Satisfactory
Quality of ICR	---	Substantial

12. Lessons

1. **Undertaking first-step reforms in a single-tranche development policy operation limits the scope for achieving objectives without complementary operations**. Four of the sub-actions only involved draft laws or amendments, with no clear path for follow-up if they were not passed (the failure to pass laws resulted in the negligible achievement of two targets). The ICR noted that “three PAs that were not fully implemented … may succeed in time if continuous support is well targeted….the purpose of a single tranche should be to target a useful steppingstone for the ongoing operations in the sector” (ICR, para. 67). Whereas a programmatic DPO series can undertake a series of implementation steps and adjust if problems arise, a single-tranche DPO depends on sectoral operations for follow-up. While an education operation is expected to follow through on teacher reforms, and support from the private sector may be sufficient to motivate the further implementation of investment funds and foreign direct investment (PAs 7 and 8), further progress in PFM in municipalities, RIAs and competition policy appear less assured. A two-tranche DPO operation would have provided greater opportunity to carry through on initial reforms and build momentum
2. **Development partner backing is insufficient for policy reforms to be implemented in the absence of adequate government support and institutional capacity.** First, the ability to implement reforms to introduce RIAs for “evidence-based policymaking,” as put forward by other development partners and Bank reports, was not examined carefully in terms of responsibility for implementation (“should have been led by the Ministry of Justice but there was little interest”; ICR, para. 66) as well as stakeholder commitment (“no demand from the private sector”). Second, although “the PEFA report correctly diagnosed that municipalities did not submit their financial statements to the SAO,” the focus on submission led to neglect of the other steps needed to ensure the result of improved PFM (ICR, para. 69). The implication is that even if the government agrees to a donor-driven reform at a high level, having a “champion” who can drive implementation is critical.
3. **Assessments and recommendations from other sources are not necessarily implementable and need to be reviewed carefully to ensure appropriate conditions and measures for implementation.** While the PEFA Report had correctly diagnosed the problem of municipalities failing to submit financial statements for audit, the focus on submission (RI 1) failed to address the shortcomings in communication between MOF and the SAO and the capacity constraints of the SAO.

13. Project Performance Assessment Report (PPAR) Recommended?

No