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INDEPENDENT EVALUATION GROUP

The World Bank in Georgia 1993–2007

Country Assistance Evaluation

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Abbreviations

AAA	Analytic and advisory assistance/activity
ADP	Agricultural Development Project
ARET	Agricultural Research, Extension and Training
BDD	Basic Data and Directions
BEEPS	Business Environment and Enterprise Performance Survey
BTC	Baku-Tbilisi-Ceyhan
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CEN	Country Economic Note
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
CSO	Civil society organization
DB	Doing Business
DFID	Department for International Development (U.K.)
DPT	Diphtheria, pertussis, and tetanus vaccine
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia Region
EDPRP	Economic Development and Poverty Reduction Program
ESW	Economic and sector work
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FY	Fiscal year
GCI	Global Competitiveness Index
GDP	Gross domestic product
GNERC	Georgia National Energy Regulatory Commission
GNI	Gross national income
GORBI	Georgian Opinion Research Business International
HGA	Host Government Agreement
HIES	Household Income and Expenditure Survey
IBC	Institution Building Credit

IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IICCR	Institutional Investor Country Credit Risk Rating
IMF	International Monetary Fund
IRI	International Republican Institute
KfW	Kreditanstalt fuer Wiederaufbau, German Credit Facility for Reconstruction
MCC	Millennium Challenge Corporation
MDF	Municipal Development Fund
MIC	Middle-income countries
MTEF	Medium-Term Expenditure Framework
NBG	National Bank of Georgia
NGO	Nongovernmental organization
ODA	Official development assistance
OEDC-DAC	Organisation for Economic Co-operation and Development, Development Assistance Committee
PEM	Public expenditure management
PER	Public Expenditure Review
PFM	Public financial management
PIU	Project implementation unit
PPAR	Project Performance Assessment Report
PPP	Purchasing power parity
PREM	Poverty Reduction and Economic Management
PRSC	Poverty Reduction Support Credit
PRSO	Poverty Reduction Support Operation
PRSP	Poverty Reduction Strategy Paper
PSD	Private sector development
SAC	Structural Adjustment Credit
SATAC	Second Structural Adjustment Technical Assistance Credit
SDS	State Department of Statistics
SECAC	Sectoral Adjustment Credit
SIF	Social Investment Fund
SME	Small and medium enterprises

TSA	Treasury Single Account
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
VOC	Vehicle operating costs
WBI	World Bank Institute
WDI	World Development Indicators
WDR	World Development Report
WSJ	The Wall Street Journal
WTO	World Trade Organization

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Foreword

This Country Assistance Evaluation (CAE) assesses the outcomes of the World Bank program in Georgia from 1993 to 2007. The CAE identifies three subperiods (1993–97, 1998–2003, and 2004–07) that emerge based on Bank strategy cycles, changes in government and associated policy stances, and exogenous factors such as the Russian financial crisis of 1998. The Bank's program over the entire 15-year period targeted four broad areas: macroeconomic stabilization; governance; private sector development; and human, social, and sustainable development. International Development Association lending commitments to Georgia over the 15-year period totaled $940 million for 49 credits. Over the same period, the International Finance Corporation of the World Bank Group invested nearly $171 million in 25 projects in Georgia's financial, oil and gas, utilities, and manufacturing sectors.

Overall, the Bank's contribution to Georgia's development was positive, and the Independent Evaluation Group rates the overall outcome of the Bank's support to the country over the 15-year period under review as moderately satisfactory. Bank lending was relevant and well targeted in the initial period (1994–97). Combined with good-quality policy advice, it played an important role in helping stabilize the Georgian economy and restore growth. This initial success and restoration of sustained economic growth were, however, overshadowed by growing corruption, economic mismanagement, and adverse external shocks in subsequent years (1998–2003). Bank lending was thinly spread across many sectors, generally with little impact. In response to deteriorating governance conditions, the Bank scaled back its lending in 2001–03, but then quickly lent its support to the new reformist government that took office after the November 2003 Rose Revolution. Thereafter, Georgia achieved impressive results, including high rates of economic growth, an improved business environment, and reduced corruption. The Bank's lending and analytical and advisory services contributed to achieving these results and were in general timely, well-targeted, and effective.

Georgia's impressive recent gains notwithstanding, the country also faces continuing challenges. Among these are laying the groundwork for economic growth to be sustained, notably by cementing and further building on the improvements in governance and the business environment, and being more inclusive by reversing the trend of widening inequality. With Georgia having recently graduated from the International Development Association, the Bank is well poised to sustain a strong partnership with an emerging middle-income country. To do this, the Bank will need to preserve the flexibility to respond to client demand in defining its lending and analytical and advisory services, while keeping the focus on those of its established areas of expertise that are also central to Georgia's development agenda. Depending on the precise (demand-driven) shape that its future program in Georgia takes, the Bank can keep a watching brief on those areas that are central to the country's development agenda but that do not figure directly in the program.

Preface

This Country Assistance Evaluation (CAE) assesses the outcomes of the World Bank's program in Georgia during the period 1993–2007. It focuses on the objectives of that assistance and the extent to which outcomes were consistent with those objectives. It looks at the Bank's contribution to the achievement of those outcomes and the lessons for the Bank's future activities both in Georgia and more broadly. The evaluation has included a review of relevant documents, complemented by interviews with the staff of the Bank and other key donors, as well as representatives of the Georgian government, the private sector, and civil society. A Country Evaluation Note by the Independent Evaluation Group–International Finance Corporation is included as appendix C. The comments received from the government of Georgia, and the Independent Evaluation Group's response, are attached as appendix F.

Georgia: Summary Ratings of the Outcome of the World Bank Program, 1993–2007[1]

IEG's Country Assistance Evaluations *assess and rate the outcomes* (loosely speaking, the "results") *of a given World Bank country program relative to its objectives*. This differs from rating country outcomes or World Bank or client government performance. The central question underlying the table that follows is "To what extent did the World Bank program achieve the outcomes that it set out to achieve?" Distinct ratings and subratings are typically assigned to each "pillar" or set of strategic goals set out in the relevant Bank strategy document(s).

Bank strategic goals	Achievement of associated Country Assistance Strategy results	Bank program outcome ratings
1. Macroeconomic stabilization and public sector reform	In the first few years, most macroeconomic indicators improved, hyperinflation was tamed, and economic growth resumed. Beginning in 1998, several macroeconomic indicators went off target. Tax revenue was low and stagnant, and large-scale privatization slowed down. After 2004, growth, international reserves, and public debt indicators improved, tax revenue increased sharply, and large-scale privatization took off. Large external capital inflows contributed to widening the external current account deficit and put pressure on domestic prices.	Moderately satisfactory
2. Public sector governance		Moderately unsatisfactory
Public finance	Before 2004, legal and structural reforms generated little improvement because of weak enforcement and poor governance more generally. The situation changed after 2004: revenue collection increased, a medium-term expenditure framework was integrated into the budget process, budget preparation followed the International Monetary Fund's GFS-2001 standards, and a Treasury Single Account was established. Many steps were taken to strengthen the legal framework for public financial management and accountability, although its effective application remains in need of attention.	Moderately satisfactory
Anticorruption	Corruption was rampant and corruption perception indices showed steady deterioration until the Rose Revolution of 2003. From 2004 onward, the government took action to reduce corruption, as reflected in improvements in all corruption perception measures, although Bank assistance played a limited role in this effort.	Moderately unsatisfactory
Judicial reform	Rehabilitation of court infrastructure and training of judges was undertaken. There was a modest improvement in firms' perceptions of the workings of the court system, although the general public's perception of the judiciary is unfavorable.	Moderately unsatisfactory
3. Growth and private sector development		Moderately satisfactory
Economic policy and regulation	Before 2003, the government privatized most small and medium enterprises, liberalized prices and trade, and promoted consolidation in the	Moderately satisfactory

Bank strategic goals	Achievement of associated Country Assistance Strategy results	Bank program outcome ratings
	banking sector. The business climate remained poor, a result of onerous regulations and widespread corruption. After 2004, regulations were greatly reduced and the business climate improved significantly. Investors perceive property rights to be in need of greater protection.	
Transport	Road rehabilitation is proceeding successfully. Road conditions have improved, reducing transport costs.	Moderately satisfactory
Energy	In the early years, electricity supply was unreliable because of widespread corruption, political interference, and high technical and commercial losses. Quasifiscal losses attributable to the electricity sector reached 5 percent of gross domestic product. After 2004, electricity supply and collection rates improved. Commercial losses are now close to zero. The sector is fully privatized. The country enjoys better and more diverse access to energy sources (oil and gas).	Moderately satisfactory
Agriculture	Land privatization and registration is almost complete. However, sector productivity remains low, and exports improved somewhat only in the last few years. Access to credit and research and extension services remains low. Rehabilitation of irrigation and drainage networks progressed, but financial sustainability of the system is at risk.	Moderately unsatisfactory
Cultural heritage and tourism development	Several historic sites in Tbilisi were rehabilitated with Bank support, although this is unlikely to have been a major determinant of the observed increase in the number of visitors and tourists. That increase has likely been driven by many factors, including greater security and better economic conditions.	Moderately satisfactory
4. Human, social, and sustainable development		Moderately satisfactory
Social protection and poverty	Living standards fell and poverty increased in tandem with the severe contraction of the economy through about the mid-1990s. After a brief hiatus, unfavorable trends in poverty continued, driven in part by the state's inability to meet its social transfer obligations in the late 1990s. The trend was reversed after 2003, and government data for 2005 show a marked decline in poverty relative to the preceding years. The government has cleared pension arrears and introduced a better-targeted social assistance system.	Moderately satisfactory
Health	Although some efficiency gains have been achieved (for example, a reduction in the number of hospitals and staff), inefficiency remains an issue. Public expenditure on health remained low and, until 2004, there was little improvement in health indicators and quality of services.	Moderately satisfactory
Education	Primary school enrollment and progression rates declined somewhat in the mid- to late 1990s and are currently stable. Public spending on education was low and increased slowly after 2004. Corruption was widespread before 2005; progress was made in higher education after a new system of university entrance exams was introduced. A more efficient school financing mechanism was introduced recently.	Moderately satisfactory
Municipal services and infrastructure	Municipal development and social investment funds supported small-scale investments on the local level. Access to services (education facilities, water, sewerage, bridges, local roads), effectiveness, and financial discipline within most participating municipalities improved. Welfare gains were achieved at the community level, although sustainable maintenance and community involvement remain at risk.	Moderately satisfactory
Environment	A number of policy and institutional reforms advanced with the Bank's assistance (for example, protected areas were established in the coastal zones). However, no integrated management system was put in place, and financial self-sufficiency of protected areas remain at risk.	Moderately unsatisfactory

Bank strategic goals	Achievement of associated Country Assistance Strategy results	Bank program outcome ratings
OVERALL	IEG rates the overall outcome of the Bank assistance in Georgia *moderately satisfactory* based on the weighted aggregate rating of (a) the four pillars, where more weight is assigned to those pillars that constituted the bulk of the Bank's lending and analytical and advisory services and (b) the three subperiods: 1994–97 (moderately satisfactory), 1998–2003 (unsatisfactory), and 2004–07 (moderately satisfactory), where equal weight is assigned to any given year.	Moderately satisfactory

Evaluation Summary

Georgia's development path was highly uneven after the country gained independence in 1991. Civil war, secessionist movements, and economic crises resulted in a sharp and protracted fall in output and hyperinflation in the immediate postindependence years. In 1994–96 the country implemented a successful stabilization program, reining in hyperinflation and restoring growth. But in subsequent years the government failed to overcome problems arising notably from economic mismanagement and widespread corruption, leading to poor public services, a deepening energy crisis, and political and economic uncertainty. After the November 2003 Rose Revolution, the new government executed an ambitious reform program that quickly produced results: rapid economic growth, improved governance, and better living conditions.

During 1994–2007, total International Development Association (IDA) lending commitments to Georgia amounted to $940 million (49 credits). These focused on four broad areas, or "pillars": *macroeconomic stabilization and public sector reform; governance; private sector development and growth;* and *human, social, and sustainable development.* Analytic and advisory activities were relevant, of high quality, and well connected to the lending program. Three distinct subperiods are evident in Georgia's development program: (i) *1994–97, characterized by macroeconomic stabilization and resumption of growth; (ii) 1998–2003, when the early gains in restoring macroeconomic stability were marred by widespread corruption, a poor business climate, and weak implementation capacity;* and *(iii) 2004–07, a period of reforms that resulted in faster economic growth, better living conditions, and an improved business climate.*

During the initial years (1994–97) of the evaluation period, the Bank's assistance was relevant and well targeted and contributed to stabilizing the economy. The approach in subsequent years (1998–2003) was of piecemeal lending in many sectors; that stretched IDA resources and weakened interventions in important areas. The Bank scaled down its engagement in 2002–03 as the governance environment continued to deteriorate, but then quickly boosted its support after the reformist government took office in 2004. Thereafter, Bank support to the country's development agenda was generally effective. The overall outcome of Bank assistance in Georgia over the 15-year review period is rated *moderately satisfactory* (an aggregate rating across the four pillars over all three subperiods).

With Georgia now becoming eligible for International Bank for Reconstruction and Development borrowing, the challenge for the Bank is to sustain a strong partnership with an emerging middle-income country. This will require keeping flexibility to respond to client demand in the definition of its program of lending and analytical and advisory services, with a focus on its established areas of

expertise that also have a direct bearing on Georgia's development challenge: sustaining growth while ensuring its fruits are more equitably distributed.

Country Background

After gaining independence from the Soviet Union in 1991, Georgia followed a development path that saw many ups and downs. An initial period of high expectations—as Georgia was among the most prosperous and strategically located parts of the former Soviet Union—was followed by the catastrophic lows of fratricidal civil war, secessionist movements, economic destruction, and an inflow of hundreds of thousands of refugees (1992–94). Between 1989 and 1994, gross domestic product (GDP) fell by almost three-quarters, annual inflation reached 15,600 percent, and industrial output fell by more than half.

Nevertheless, after implementing a stabilization program in the mid-1990s, the country showed signs of recovery: hyperinflation disappeared, and growth resumed—only to start sliding downward again toward the end of the decade. The government failed to overcome problems associated with economic mismanagement, crony capitalism, and widespread corruption and was slowly losing control over the country. Daily life was marred by corruption, poor public services, a severe energy crisis, and political and economic uncertainty. Yet, against all odds, the country rebounded in a spectacular manner after the November 2003 Rose Revolution, which brought to power a team of reformers. The new government rapidly executed an ambitious reform program that quickly produced results. In 2007 Georgia's GDP grew 12 percent, and gross national income per capita was about $1,920 (Atlas method).

This last chapter took a sudden turn in November 2007, when a political crisis triggered early presidential elections (January 2008). Although the immediate impact on growth and reform appears to have been marginal, the longer-term consequences of the protracted political confrontation remain unclear.[2]

World Bank Support

The World Bank's experience in Georgia closely followed the successes and failures of the country's development. Three distinct subperiods can be identified, based on the timing of the Bank's country strategies, changes in government policy course, and exogenous factors: 1994–97, 1998–2003, and 2004–07.

Georgia joined the Bank in 1992. Political stabilization in late 1993 to early 1994 opened the way for launching an assistance program. All three of the Bank's country strategies during the review period (1995, 1997, and 2005) had similar objectives and sought to achieve results along four pillars: macroeconomic stabilization and public sector reform; governance; private sector development and growth; and human and social development. Overall, the objectives were relevant in that they tried to address the main problems affecting Georgia. The Bank provided about 22 percent of total donor assistance, with total IDA lending commitments of $940 million over the review period. The lending program covered many areas: economic policy, public sector governance, transport, energy, health, education, urban development, agriculture, social protection, private sector development, environmental protection, and cultural heritage and tourism. The Bank's analytic and advisory activities (AAA) were generally relevant, of high quality, and well connected with the lending program.

Key Findings of the Evaluation[3]

Pillar I: Macroeconomic Stabilization and Public Sector Reform

The outcome of the Bank's program for Pillar I over the entire review period is rated *moderately satisfactory*. Bank support was effective in the early period (1994–97). The stabilization program produced the desired results: hyperinflation was eliminated and the economy averaged an annual growth rate of about 8 percent. As a result of the initial success, however, the pressure and urgency to reform abated during 1998–2003. The macroeconomic situation remained stable, but GDP growth slowed to about 5 percent per year. Government revenues fell sharply from poor tax collection and a slowdown in privatization.

In the period after the Rose Revolution (2004–07), two important results stand out: the increase in tax revenues, from 14.1 percent of GDP in 2003 to 24.9 in 2007, and the rapid privatization of large companies that brought in revenues equivalent to about 10 percent of GDP. Growth recovered and capital inflows increased significantly, which mirrored in a widening of the current account deficit and increased pressure on domestic prices.

Pillar II: Governance

IEG's rating for the overall outcome of the Bank's program for Pillar II for the entire review period is *moderately unsatisfactory*. The Bank sought to help improve governance by targeting three areas: anticorruption, public financial management, and judicial reform. Initially, Bank support focused mainly on public financial management, with some early positive results, notably better tax collection. However, enforcement of newly enacted reforms was weak, and the momentum for further reform dwindled. Tax collection remained low until 2004. Corruption was rampant. Bank-financed rehabilitation of court infrastructure and training of judges did not translate into improved public trust and judicial independence.

The situation turned around following the 2004 change in government. Revenue collection increased and arrears in pensions and salaries were cleared. A successful anticorruption campaign was implemented, leading to a significant amelioration in corruption perception indices. Progress in the specific areas of judicial reform supported by the Bank was less evident, and judicial independence remains a serious concern.

Pillar III: Private Sector Development and Growth

The overall outcome rating of the Bank program for Pillar III over the entire review period is *moderately satisfactory*. Bank assistance was effective, except during 1998–2003. During 1994–97 almost all small and medium enterprises were privatized, banking sector assets grew, a Central Bank Law was adopted, and privatization and registration of land advanced. This progress notwithstanding, unreliable energy supply and limited access to credit continued to constrain private sector development.

During 1998–2003, many aspects of the business environment continued to deteriorate. Large-scale privatization virtually stopped. The electricity sector teetered on the brink of collapse because of high technical and commercial losses, low tariff collection rates, and widespread corruption. Access to credit continued to be limited. Growth, productivity, and exports in agriculture—the largest sector of the economy—were stagnant. Again, a turnaround is evident after 2004. Privatization of state-owned enterprises proceeded rapidly. The business climate improved significantly. Electricity supply improved and is now close to uninterrupted. Road conditions improved, driving transportation costs down.

There are, of course, continuing challenges: despite some growth in exports, unresolved issues remain in agriculture, in particular, access to credit for farmers and sustainability of the irrigation system. And despite the major improvements in the business climate more generally, protection of private property rights continues to need strengthening.

Pillar IV: Human, Social, and Sustainable Development

The outcome rating of the Bank program for Pillar IV over the entire review period is *moderately satisfactory*. During 1994–97, the decline in living standards and the rise in poverty slowed but were not reversed. Among other difficulties, the government did not collect enough revenues and had difficulty meeting its social transfer obligations. Poverty increased during 1998–2003, affecting about 50 percent of the population. Health indicators and the quality of health services also did not improve during that period. The sector was underfinanced and inefficiencies were rampant. In education, corruption was widespread, and bribes (for example, to circumvent entrance requirements) were a common practice, especially in higher education. Public spending on the social sectors in general remained low. The Bank's work at the municipal level to help improve basic infrastructure and quality of local services resulted in positive gains for communities, although their sustainability was an issue because of financial insolvency at the local level.

In this pillar as well, there was a significant turnaround after 2004. Poverty declined, albeit slowly, and a well-designed social assistance targeting mechanism was introduced. Health status indicators generally remained stagnant, but steps were taken to increase efficiency in the sector. Improvements also took place in education. A new, transparent system of university entrance exams was introduced, virtually eliminating corruption. Access to municipal services and local capacity to manage them improved in several municipalities.

To summarize, Bank lending was relevant and well-targeted in the initial period of stabilization (1994–97) and, combined with good-quality policy advice, played an important role in the successful stabilization of the economy. The later approach of piecemeal lending in virtually all sectors (1998–2003) stretched the scarce IDA resources, weakening interventions in important areas. The situation changed after the reformist government took control in 2004. The Bank quickly recognized the potential for change and extended its financial support and advisory services to the new government. With few exceptions, the Bank's lending and AAA work was timely, well-targeted, and effective. Overall, the outcome of World Bank support to Georgia—aggregating all four pillars over the three subperiods—is rated *moderately satisfactory*.

Lessons

Several lessons (conclusions with potentially broader applicability to other country programs) emerge from the review of the Bank's Georgia program since its inception in the early 1990s. In the main, these lessons confirm extant wisdom, although one—on the potential for rapid successes in addressing corruption—is more unique to the Bank's experience in Georgia.

In the absence of government commitment, external support cannot buy reforms and may, in fact, delay them. The Bank overestimated the government's willingness to reform in the late 1990s and continued lending despite clear indications of spreading corruption and declining central government capacity. Its piecemeal lending in a large number of sectors may have obscured major issues, but more importantly its continued support may have strengthened Georgia's ability to postpone necessary reforms.

It is possible to address successfully even the most pervasive and entrenched corruption when the government has the public mandate, political will, and capacity to do so. Georgia's experience demonstrates convincingly that results–notably in the form of more favorable perceptions—can be achieved quickly. External support can help, but it is not decisive. Supporting specially designated anticorruption structures (commissions, councils, and so forth) is not an institutional prerequisite for a successful anticorruption campaign. Judicial independence is a political issue that calls for political remedies, which are generally outside the Bank's mandate, and upgrading hardware is of little use if the objective is judicial independence.

Small-scale investments, combined with institution building at the local level, can produce results even in the presence of poor governance and limited central government capacity. In Georgia, the Municipal Development Fund was able to continue its activities and achieve tangible gains when the central government was all but paralyzed.

Recommendations

Georgia has seen impressive gains under very difficult conditions in recent years and is today well placed to continue on a path toward greater prosperity. Nevertheless, the country's development agenda is not without its challenges, notably the dual challenge of sustaining economic growth while also ensuring its greater inclusiveness in order to reduce poverty (especially in the rural areas) and reverse widening inequality. The agenda is a complex one that calls for attention to many areas, including continued attention to those areas—such as governance and private sector development—where the country has made great strides in recent years.

As Georgia moves closer to "graduation" from IDA and officially becomes eligible for International Bank for Reconstruction and Development financing beginning in fiscal 2009, the challenge for the Bank is to adapt its role as a development partner to the country. To a large extent, the required shift has already been taking place in the past few years. This has happened against a backdrop of steady erosion in IDA's traditional place as a primary source of budget and balance of payments financing, towards a middle-income country partnership with the government firmly in the driver's seat and client demand driving the Bank's program.

Looking forward, the Independent Evaluation Group has the following recommendations:

General

The Bank should continue consolidating and codifying the demand-driven nature of its program, with the choice of its lending and AAA activities kept flexible so it can respond to client demand, subject to two broad criteria. The first is that these should be central to Georgia's development agenda, specifically, the dual challenge of sustaining economic growth while ensuring that the fruits of growth are more equitably distributed, particularly in favor of the poor. Second, the areas of focus should be within the Bank's established fields of expertise, such that it can realistically mobilize the skills needed to respond to client demand. Beyond this, the Bank will need to ensure that its lending and AAA remain selective. The client perspective would ensure complementarity with support from other development partners, although the country may initially require assistance with the relatively complex task of coordination among development partners. Finally, the Bank should consider joint work that involves other World Bank Group institutions—the International Finance Corporation and the Multilateral Investment and Guarantee Agency—where such work can provide a more complete set of services to the client.

Lending

Within the areas of focus identified by the client, given Georgia's relatively advanced state of development, lending operations—either in the form of development policy lending or project lending—would best be geared toward building or strengthening systems, institutions, and associated technical capacity (that is, predominantly "software"), including, for example, monitoring and evaluation systems to enhance transparency and accountability. This need not, of course, rule out investment projects that are predominantly geared toward physical investment, particularly where these have "demonstration" value, potential for scaling up, and/or impact on poverty or employment creation among low-income groups. To support institution building, the Bank should ensure that new investment operations do not lead to the establishment of additional ad hoc project implementation units, but rather help the relevant government structures take on project management responsibilities.

Analytical and advisory activities

The selection of formal AAA, whether self-standing or complementary to (planned) lending, should also be driven by client demand. Given the strong demand for policy advice, the selection of AAA will likely include topics on which the client country authorities face imminent decisions and consider alternatives when making recommendations. In addition, the Bank would be well-advised to maintain some "space" in its informal AAA program in order to maintain and update its knowledge or keep a watching brief on other areas which, while central to Georgia's development agenda, may not immediately be covered in lending or formal AAA.

Management Comments

Management is pleased to provide its views on the Independent Evaluation Group's (IEG's) evaluation of the World Bank Group's assistance to Georgia during 1993–2007. IEG's recommendations are consistent with our current strategy. The principles of prioritizing Bank Group activities on the basis of client demand and Bank comparative advantage, of helping to build institutions while also supporting physical investment, and of integrating project management into government structures are sound and have been reflected in the design and implementation of the fiscal 2006–09 Country Partnership Strategy (CPS). Nonetheless*, management feels that although the Country Assistance Evaluation (CAE) contains useful information and recommendations that will be helpful for design of the next CPS, it falls short of its potential.*

Beyond the main recommendations, a key issue is how the CAE assesses the Bank Group's role in Georgia over such a long and varied period. The CAE divides performance into three periods, which is appropriate: 1993–1998, 1998–2003, and 2004–2007. However, the CAE then combines these into one aggregate rating for most of the discussion, which detracts from the usefulness of the analysis. By combining these periods, the CAE both (i) obscures the large differences among them and (ii) fails to place adequate attention on end results, as each period is weighted equally. It would have been more meaningful to offer a disaggregated view of the three periods up front, pay greater attention to how reforms and other developments in one period may have set the stage for outcomes in the next, and generally give more weight to final results.

For the period 2004–07, management assesses achievements against stated goals as stronger than the CAE rating of *moderately satisfactory*. Highlights include a major reduction in corruption, a dramatic increase in tax revenues, a significant improvement in the business environment, considerably improved infrastructure, greatly improved services in the energy sector, the introduction of a sound and well-targeted social assistance program, and a much improved education framework. The CAE correctly points out that the key factor has been government ownership and commitment, but this should not dilute the importance of the close and deep dialogue and support provided by the Bank Group. Although there are certainly some disappointments, notably on the environment and in rural services, the level of results achieved within a short period of time and the strong support provided by the Bank Group suggest a higher overall rating. Management will review these achievements more fully in the forthcoming Completion Report for the current CPS.

An important omission in the CAE is an assessment of the Bank's efforts in addressing emergency needs in a timely manner. The Bank played a critical role in providing funds to rehabilitate schools damaged by the 2002 earthquake, in rehabilitating irrigation canals and levies damaged by severe floods in 2005 (identifying urgent needs and bringing additional financing for them in less than one month), and supporting government responses to quickly emerging avian influenza and swine fever threats.

Finally, it would also have been helpful to provide a generic evaluation of the Bank's efforts to restructure projects, following a period of deep and rapid change in policy direction. The CAE does discuss changes with respect to individual projects, for example in the roads and irrigation sectors, but it would also have been helpful to draw generic lessons.

Management Action Record

Major monitorable IEG recommendations requiring a response	Management response
General. IEG recommends that the Bank continue consolidating and codifying the demand-driven nature of its program, with the choice of its lending and AAA activities kept flexible so it can respond to client demand, subject to two broad criteria—which are unlikely to be confining. The first is that these should be central to Georgia's development agenda, specifically the dual challenge of sustaining economic growth while ensuring that the fruits of growth are more equitably distributed, particularly in favor of the poor. The second is that the areas of focus should be within the Bank's established fields of expertise, such that it can realistically mobilize the skills needed to respond to client demand. Beyond this, the Bank will need to ensure that its lending and AAA remain selective. The client perspective would ensure complementarity with other development partner support, although the country may initially require assistance with the relatively complex task of coordination among development partners. Finally, the Bank should consider joint work that involves other World Bank Group institutions—the International Finance Corporation and the Multilateral Investment Guarantee Agency—where such work can provide a more complete set of services to the client.	**Agree**. The Bank has indeed taken a focused approach to lending and AAA based on client demand and the Bank's comparative advantage. Policy-based lending has proven particularly effective in the past few years in this regard, as has the use of flexible programmatic approaches to selected AAA tasks. Close coordination within the Bank Group is ongoing and important.

Lending. Within the areas of focus identified by the client, given Georgia's relatively advanced state of development lending operations—in the form of either development policy lending or project lending—would best be geared toward building or strengthening systems, institutions, and associated technical capacity (that is, predominantly "software"), including, for example, monitoring and evaluation systems to enhance transparency and accountability. This need not, of course, rule out investment projects that are predominantly geared toward physical investment, particularly where these have "demonstration" value, potential for scaling up, and/or impact on poverty or employment creation among low-income groups. To support institution building, the Bank should ensure that new investment operations do not lead to the establishment of additional ad hoc project implementation units, but rather help relevant government structures take on project management responsibilities.	**Agree**. Lending operations, including a pooled arrangement with other donors, are actively helping to strengthen systems and institutions while also making improvements in physical infrastructure (for example in transport and education). Although project implementation units played an important role prior to 2004 in ring-fencing Bank financing from wide-spread corruption, all new investment operations have embedded project management responsibilities within relevant government structures; implementation arrangements for ongoing projects were also revised to reflect this goal.
Analytic and advisory services. The selection of formal AAA, whether self-standing or complementary to (planned) lending, should be driven by client demand. Given the strong demand for policy advice, the selection of AAA will likely include topics on which the client authorities face imminent decisions and consider alternatives when making recommendations. In addition, the Bank would be well-advised to maintain some "space" in its informal AAA program in order to maintain and update its knowledge or keep a watching brief on other areas which, while central to Georgia's development agenda, may not immediately be covered in lending or formal AAA.	**Agree**. AAA, like lending, has been, and will continue to be~~,~~ driven by client demand and provided in a flexible and timely manner to support client decision making. Although resource constraints preclude "Watching Brief" activities across many sectors, this has been done selectively—for example, for the financial sector—and proved quite useful.

Chairperson's Summary: Committee on Development Effectiveness (CODE)

On June 15, 2009, the Informal Subcommittee of the Committee on Development Effectiveness (CODE) considered the Georgia Country Assistance Evaluation (CAE) prepared by the Independent Evaluation Group (IEG), including the Management Action Record.

Summary of the Georgia CAE

The overall outcome of Bank assistance in Georgia for the 15-year review period was rated moderately satisfactory. The CAE identified three distinct subperiods based on the timing of the Bank's Country Assistance Strategies, changes in the political and macroeconomic context, and exogenous factors. The Bank's assistance was considered relevant and well targeted during 1994–97 and effective during 2004–07. However, IEG found that during 1998–2003, the International Development Association resources were thinly stretched across many sectors and interventions in important areas were weakened. Of the four pillars of Bank assistance—macroeconomic stabilization and public sector reform; governance; private sector development and growth; and human, social, and sustainable development—the overall outcomes in the area of governance were weaker. CAE recommendations emphasized the importance of consolidating Bank assistance and providing demand-driven and flexible support in its lending and analytic and advisory activities, while ensuring selectivity based on the Bank's comparative advantage and taking into consideration World Bank Group synergy.

Management's Comments

Management generally agreed with IEG's recommendations, noting that they are being addressed in its current strategy. It noted that the CAE provided useful insights for the next Country Partnership Strategy (CPS), which is scheduled for Board consideration at the end of August 2009. It raised some concerns and questions about how the Bank's assistance was assessed over a long and changing period in Georgia's history and the practice of aggregating the ratings.

Government's Comments

The Representative of the Constituency noted that the most important aspect of the CAE is the recommendations. In this regard, he commented on the importance of selectivity and flexibility, particularly as Georgia shifts toward full International Bank for Reconstruction and Development (IBRD) status. He also conveyed the country's appreciation for the Bank's responsive support to its needs and demands.

Main Conclusions

The subcommittee welcomed the CAE and broadly supported its findings and recommendations. Members commented on Bank support to address inequality and to reduce corruption. They also raised issues on the evaluation methodology and ratings, including attribution, which, according to the Chairperson, merited a separate discussion by the CODE subcommittee.

The following issues were raised:

Overall Bank assistance

Support was expressed for flexible Bank support, especially because Georgia is moving from International Development Association to International Bank for Reconstruction and Development status. A member observed that there is a universal trend of growing inequality with economic growth and wondered how management would be tackling this issue in the new CPS. A few others remarked on the importance of ensuring inclusive growth policies that should be considered on an intergenerational basis and of giving priority to employment to reduce poverty. *Management elaborated on the complexity of inequality and its multidimensional aspects, referring to the recent Poverty Assessment for Georgia. The new CPS emphasizes job creation in the short term; infrastructure development, especially on road networks to promote market connectivity regionally as well as between the rural and urban areas; and well-targeted social protection programs, such as ensuring coverage and adequate medical insurance, especially for the poor.*

Sector and thematic areas

Several members raised questions about the Bank's role in helping to reduce corruption and noted that the recent Country Assistance Strategy Progress Report reflected progress in addressing corruption and that the CAE indicated that the effectiveness of support was correlated with the government's commitment in this area. A member observed that an ad hoc project implementation unit or some central unit may be necessary to coordinate efforts to reduce corruption and follow through on judicial reforms. Referring to IEG's recommendation to gear future lending toward strengthening systems and institutions, a member noted that anti-corruption and judicial reform are priority areas. *IEG noted that an important lesson emerging from the evaluation is that corruption may be tackled through existing structures if there is enough political will and determination. Responding to a request for more information on the turnaround in the energy sector, management elaborated that the financial viability of utility companies was in question because of reduced collection rates and little political will for financial discipline up until 2004. Since then, there has been a restoration of political will for financial discipline, and sector performance improved. It was noted that the Bank has been a partner in the efforts to strengthen the energy sector.*

Evaluation methodology and rating

A few members observed that in most evaluations, results of the Bank assistance and the country performance appear to be closely correlated. They wondered whether there have been situations where the results of Bank assistance are good, while the overall country situation is not favorable. They also raised the issue of attribution of results to the Bank's assistance, especially with respect to development policy lending; it was observed that the contribution and development effectiveness of investment lending is easier to assess.

A member noted that the overall CAE rating of moderately satisfactory should be considered positively as an indication that the Bank did well, while another member wondered what the Bank could have done to be rated satisfactory. A member expressed general appreciation for IEG's work and considered the timeframe of the CAE appropriate, as it gave a long-term perspective of Bank's assistance to the country. Responding to the question of timing and value added of discussing this CAE, which was issued in July 2008, *IEG noted that the delay in the CAE discussion was due to scheduling issues and country circumstances. IEG elaborated on the protocol for ratings, which has been agreed with Operations Policy and Country Services. It commented on its work to review the portfolio of assistance and its* *country visits including interviews to better assess the Bank's contribution. IEG emphasized that it focuses on the outcomes, results, and impacts of Bank assistance, and not just outputs or Bank assistance per se. It noted the difficulties of determining attribution, given that country actions, other development partners, and exogenous development also come into play. Therefore, there is a need to rely on a broad range of evidence, including interviews as well as documented information. IEG brought the example of the energy sector as one area where Bank performance was assessed positively even in the period when the overall sector outcomes were poor.*

Disclosure

A member said that the CAE should be disclosed with a statement clarifying that it assessed the outcomes of the Bank's program and did not review the government's performance. *IEG confirmed that in disclosing a CAE, information is included defining the scope of the report.*

Giovanni Majnoni, Chairperson

Chapter 1
Country Background

Georgia, located on the southern flanks of the Caucasus Mountains, has a population of 4.6 million with a land area of 69,700 square kilometers. In 2007, Georgia's gross domestic product (GDP) grew 12 percent; the growth projection for 2008 was about 7.5 percent. Nevertheless, at $1,920 (Atlas method) in 2007, gross national income per capita remained relatively low, a legacy of the severe transitional difficulties and political problems it faced in the first half of the 1990s.

Country Facts

POLITICAL DEVELOPMENTS

Georgia declared independence from the Soviet Union in April 1991 and elected former dissident Zviad Gamsakhurdia as its first president. In January 1992, Mr. Gamsakhurdia was ousted and replaced by Eduard Shevardnadze,[4] who consolidated power and brought an improvement in stability. Mr. Shevardnadze was installed in 1992 by the military junta as the Chairman of the State Council (de-factor ruler of the country). He was elected President in 1995 (after the institution of the Presidency was restored) and reelected in 2000.

Between 1990 and 1994 Georgia was the site of two secessionist conflicts with two of its three autonomous entities (Abkhazia and South Ossetia) and two civil wars.[5] The conflicts crippled the central government and circumscribed its capacity to govern over the whole country. The situation stabilized after the rebel army of former president Gamsakhurdia was defeated in Western Georgia in 1993 and a ceasefire negotiated in Abkhazia in 1994.

Though the conflicts subsided, the central government remained weak. Negotiations over the status of South Ossetia and Abkhazia continued without progress, and relations with the Russian Federation steadily deteriorated. By 2002–03, near paralysis of the central government, widespread corruption, and deepening crisis put the Georgian state on the verge of collapse.

In November 2003, a peaceful mass uprising (the Rose Revolution) forced the resignation of Mr. Shevardnadze, and his government was replaced by a group of reformers led by Mikheil Saakashvili. In January 2004, Mr. Saakashvili swept the presidential election with 96 percent of the vote. The government has since made progress in reducing corruption, attracting foreign investment, and strengthening its central authority.

In November 2007, the government's crackdown on an opposition rally generated a political crisis and led to premature presidential elections in January 2008. Mr. Saakashvili won the elections with 53 percent of the vote, but the opposition disputes the results. The longer-term impact on the economy remains to be seen.

ECONOMIC AND SOCIAL DEVELOPMENTS

Early transition (1991–94). After gaining independence, Georgia lost important economic benefits, specifically, well-established markets for its exports and subsidies from Moscow. By late 1993, industrial output had fallen by more than half. Partial reforms undertaken by the government were insufficient to stem the decline. The country was deeply indebted and the trade system was near collapse. Between 1989 and 1994, GDP fell by a cumulative 72 percent; inflation reached a peak of 15,600 percent in 1994 (see table 1.1). The fiscal base collapsed as the ratio of total public revenues to GDP decreased from 15 percent in 1992 to 2.3 percent by 1993.

Table 1.1: Output and Prices, 1989–94

	1989	1990	1991	1992	1993	1994
Total GDP						
Real change (%)	–4.8	–15.0	–20.1	–44.8	–25.4	–11.4
GDP index (1989 = 100)	100	95	76	42	31	27.8
Inflation (% change)						
Inflation GDP deflator	—	—	61	1,516	11,739	9,354
Retail/consumer prices in Tbilisi (year average)	0.9	4.8	79	810	3,126	15,607

Source: IMF.

Note: GDP = gross domestic product.

1994–97. By 1994, the improving political situation made it easier for the authorities to start a stabilization program with the support of the international community. The program consisted of a broad set of actions aimed at liberalizing the economy and improving public sector performance. The adjustment program succeeded in its initial phase: government expenditures fell, the economy resumed growth, hyperinflation was brought under control, and privatization of state-owned enterprises progressed.

1998–2003. The government maintained macroeconomic stability and a liberal trade and payments system and carried out some reforms in the financial sector. However, weakening tax collection and the 1998 Russian financial crisis disrupted the momentum; the *lari* depreciated sharply, growth slowed, and inflation rose. Droughts in 1998 and 2000, increases in the price of imported energy in 2000, and the Turkish financial crisis of 2001 also contributed to the slowdown.

Poor budget preparation, inadequate controls, and bad cash management resulted in expenditure arrears, including pensions, wages, and social allowances. Tax revenues stagnated, caused by a complex tax code, poor tax administration and collection, tax evasion, corruption, and smuggling. The financial market remained underdeveloped, and there were few indirect monetary instruments. Privatization advanced all but ceased: only one large enterprise, the Tbilisi electricity distribution company (TELASI), was privatized.

Overall, despite stability and some growth, living conditions improved little. Daily life was marred by corruption, poor public services, and political and economic uncertainty. A severe energy crisis caused serious disruption in electricity supply and heating, particularly in winter. Pressure for change built up; change did become possible after the Rose Revolution of November 2003.

Post-Rose Revolution (2004–08). The new government, which took over in January 2004, rapidly and forcefully executed an ambitious reform program, producing fast results in many directions: resumption of growth (table 1.2), less corruption, more tax revenues, better business environment, and successful implementation of institutional and legal reforms. Following a creditworthiness assessment conducted in November 2007, in February 2008 Georgia was officially declared eligible for International Bank for Reconstruction and Development (IBRD) financing, starting from July 2008 (the start of the World Bank fiscal 2009).

Table 1.2: Selected Indicators

	1992–94	1995–97	1998–2003	2004–06	2007[a]
Real GDP growth rate	–28.2	8.1	4.9	8.3	12
GNI per capita ($, atlas based)	560	617	743	1310	1920
Tax revenue to GDP	3.25[b]	9.2	10.1	20	25
End of period CPI inflation, % change	6,981	26	7	8	11
Infant mortality rate	24.0	26.7	23.05	21.75	
Life expectancy at birth	71.4	70.6	71.5	72.1	
Poverty (minimum subsistence level)	—	43	48	43	
Unemployment rate	—	10.1	12.3	13.4	

Source: IMF; World Development Indicators, Department for Statistics of Georgia.
Note: GDP = gross domestic product; GNI = gross national income.
a. Preliminary values.
b. Total revenue.

Summary of Development Outcomes

Despite continuous growth since 1995, Georgia has not yet recovered from the economic fallout that followed independence in 1991. Total GDP in 2007 was still only 66 percent of the 1990 figure. With positive growth rates beginning in 1995, Georgia veered back to a high growth path, but it was not an inclusive growth, missing opportunities to reduce poverty effectively. The *poverty rate* increased between 1997 and 2003, varying between 43 and 51 percent, and only began to decline beginning around 2004[6]—although the data vary (table 1.3). Georgia quickly reestablished macroeconomic stability, but it was less successful in bringing about job-creating growth.[7]

Employment declined sharply after independence and thereafter remained below the level of the early 1990s, indicating that obstacles to more inclusive growth remained. Many social indicators improved only after 2004.

Life expectancy fell in 1989–93 but recovered by 2004, reaching the levels of 1990. The *fertility rate* dropped from 2.13 in 1989 to 1.54 in 1993, reaching a low of 1.37 in 2003. *Infant and maternal mortality* rates increased, reaching a peak in 1993–96, and then stabilized by 2005–07. In education, *enrollment rates* declined, more markedly so for preprimary and secondary school. Enrollment in basic education fell slightly but recovered quickly, even when the crisis intensified (enrollment in higher education increased).

Table 1.3: Poverty Indicators (percent)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Subsistence minimum (government data)										
	42.9	45.2	45.7	49.1	51.2	45.4	50.7	51	36.1	—
World Bank data										
a. Poverty incidence at international poverty line of 2.15 PPP dollars per capita per day										
Total	45	42	50	53	55	49.6	52	43.7	44	45.4
Urban						43.7	41.4	36.3	36.7	40.3
Rural						55.9	62.2	51.1	51.3	50.4
b. Income-based poverty incidence										
Overall poverty										
Total							46.6	42.4	40.9	42.2
Urban							49.8	47.6	43.7	43.9
Rural							43.5	37.5	38.1	40.5
Extreme poverty										
Total							24.9	21.7	19.8	20.9
Urban							27.7	25.3	21.9	21.6
Rural							22.3	18.3	17.8	20.2

Source: State Department of Statistics Yearbook; Georgia Household Income and Expenditures Survey 2003–06; World Bank staff calculations.
Note: Due to a change in Georgia's Household Income and Expenditures Survey questionnaire, the data sets before 2003 are not fully comparable with more recent ones.

Note: PPP= purchasing power parity.

In sum, development outcomes were far from satisfactory over much of the review period, particularly in the initial years. This was inevitable, given what Georgia experienced in the early post-independence years: civil war, political turmoil, large external shocks, an inappropriate stock of physical capital for a market economy, and policy makers unprepared to handle an economy based on market principles. The country could not avoid the consequences of the early shocks (1991–94), but even after the authorities succeeded in stabilizing the economy and stopping hyperinflation (1994–97), they failed to capitalize on that success and instead brought the country to the brink of collapse (1998–2003). Change became possible with political will and determination, as demonstrated in the post-2004 period.

Chapter 2

The Bank's Strategy and Program

Georgia became a member of IBRD in August 1992, if the International Development Association (IDA) in August 1993, and the International Finance Corporation in 1995. During the first two years of membership, development of a comprehensive assistance program was hindered by internal constraints (armed conflicts, lack of commitment, and poor capacity), and the Bank focused on building macroeconomic and sector knowledge and providing limited technical assistance.

The Bank Program

In 1993 the Bank prepared a Country Economic Memorandum "From Crisis to Recovery: A Blueprint for Reform" (World Bank 1993) and fielded scoping missions in transport, agriculture, and environment. Stabilization of the political situation and a new emphasis on economic reform in late 1993 to early 1994 opened the way for broader dialogue and a more comprehensive assistance program.

Total IDA lending commitments during fiscal 1995–2008 amounted to $940 million, only slightly short of the $1,008 million planned. Investment lending reached $576 million and adjustment/development policy lending $364 million. Lending commitments over the period were broad based and covered economic policy, public sector governance, transport, energy, health, education, urban development, agriculture, social protection, private sector development (PSD), environmental protection, and cultural heritage and tourism. The lending program was supported by analytical and advisory activities (AAA). IDA commitments represented about 22 percent of total donor assistance.

The Bank's Board discussed the first "limited" Country Assistance Strategy (CAS) in March 1995. Two "full" strategies were presented in 1997 (fiscal 1998–2000) and 2005 (fiscal 2006–09) (World Bank 1997, 2005).[8] In November 2003, a country strategy document covering fiscal 2004–06 was withdrawn from Board discussion because of the change in government.

The strategies had similar objectives and sought to achieve results in four broad areas, or pillars (table 2.1): macroeconomic stability and public sector reform; governance; PSD and growth; and human, social, and sustainable development. The earlier strategies also listed "protecting the environment" as a strategic objective, but knowledge of the problems and solutions in that area were rudimentary. Overall, the country strategy objectives were relevant, as they tried to deal with the main problems affecting Georgia.

Table 2.1: Summary of Country Strategy Objectives

	Period covered			
Subject	Fiscal 1995–97	Fiscal 1998–2000	Fiscal 2004–06 (withdrawn)	Fiscal 2006–09
Macroeconomic stability and public sector reform	Reverse economic decline; assist in transition to a market economy	Secure medium-term sustainability of macroeconomic stabilization		
Public sector governance	Redefine the role and improve the efficiency of the public sector	Strengthen public finance	Improve governance and efficiency of public expenditures	Improve efficiency in public services
PSD and growth	Promote PSD	Strengthen and diversify sources of growth	Attain faster and more broad-based private sector growth	Enable income and employment-generating growth
Human, social ,and sustainable development	Alleviate poverty	Alleviate poverty	Develop and strengthen human capital and social protection	Human development and social protection

Source: World Bank.

Note: PSD = private sector development.

To a large extent, the Bank's lending (table 2.2) captured the ranking of problems: stabilization and adjustment, needed for recovery and growth; infrastructure rehabilitation, necessary to encourage PSD; support to the agriculture sector, given the increased share of rural population and need for higher productivity; and investment in social sectors, needed to develop human capital.

Table 2.2: Lending by Major Groups: 1995–2008 ($US million)

	1995–97	1998–2003	2004–08	Total	Share (%)
Economic policy	135	125	84	344	37
Infrastructure	84	145	83	312	33
Rural	15	50	30	95	10
Human capital and social protection	14	110	15	139	15
Governance/PSD	15	28	3	46	5
Environment	0	4	0	4	0
Total	263	462	215	940	100

Source: World Bank internal database.
Note: PSD = private sector development.

Portfolio Performance

The internal Independent Evaluation Group (IEG) outcome ratings of 22 projects that closed between fiscal 1995 and 2007 show that 77 percent (by number) had a satisfactory outcome. These ratings are higher than the Bank average of 74 percent but lower than the Europe and Central Asia Region average of 82 percent. Georgia performed better than both the Region and the Bank on institutional development impact. The country also scored higher than the Region and the Bank on sustainability (table 2.3).

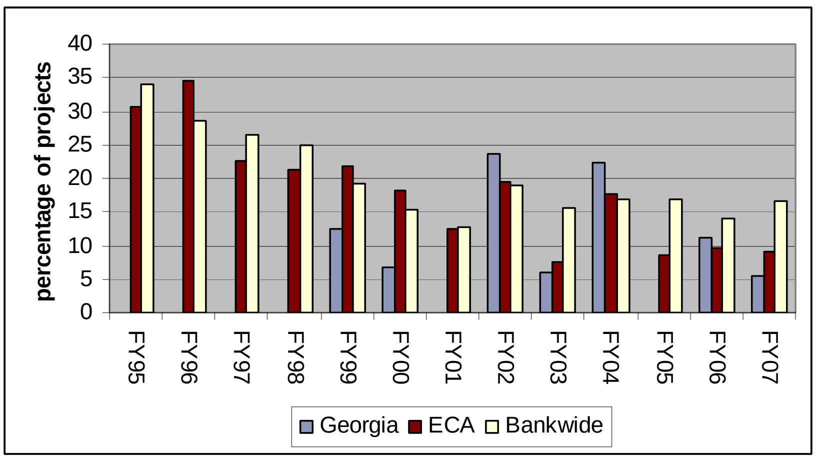
Nevertheless, portfolio quality has seen some volatility. Between fiscal 1995 and 1998 there were no projects at risk, which was far better than the Region average of 20–30 percent. Yet in fiscal 2002, 24 percent of projects were at risk in Georgia and in fiscal 2004, 22 percent, both over the Region and Bank average (figure 2.1). According to the latest project supervision rating, only one project is currently performing in an unsatisfactory manner out of 16 active projects. For the portfolio as a whole, disbursements have been around 30 percent per year, well above the Bank average.

Table 2.3: IEG Internal Ratings of Closed Operations, Fiscal 1995–2007

Country/group	Number closed	Outcome (%satisfactory)	Institutional development impact (%substantial)	Sustainability (% likely)
Georgia	22	77	58	95
Armenia	25	92	73	95
Azerbaijan	16	69	36	88
Kyrgyz Republic	19	79	47	65
Moldova	18	76	36	55
Europe and Central Asia Region	626	82	55	81
Bank-wide	3,413	74	45	65

Source: World Bank internal database as of March 2008.

Figure 2.1: Percentage of Projects at Risk, Fiscal 1995–2007



Source: World Bank, internal database as of March 2008.

Note: ECA = Europe and Central Asia Region.

Quality of Lending and Advisory Services

The Bank's lending program in Georgia was diverse and covered many segments of the economy. In the initial period (1994–97) it was relevant and well targeted and, combined with good quality policy advice, played an important role in stabilizing the economy.

Subsequent years (1998–2003) were characterized by an initially enthusiastic foray into many sectors at once—on top of adjustment lending that was the cornerstone of the Bank's assistance. The Bank was trying to capitalize on the success of the stabilization program and reemerging economic growth by aggressively diversifying its portfolio. Nevertheless, this approach, a wide frontal attack on all problems at once, stretched the scarce IDA envelope, weakening interventions in important areas. In combination with limited government capacity and deteriorating governance, this hampered achievement of sector objectives and delayed the implementation of many projects. During this later period, the government welcomed any financing—especially in the form of IDA credits—as the financial resources at its disposal were severely constrained.

In hindsight, the Bank's response may have been overly forthcoming, with not enough regard for evident inefficiencies. During the last few years of the Shevardnadze government, however, the Bank did recognize the declining effectiveness of lending and adjusted it accordingly. A high-level Georgian government official noted in an interview with IEG, "If it wasn't for the Bank and other donors, the revolution could have happened [a] few years earlier. At the same time, it might not have happened at all had the government found resources it was looking for."

The situation changed from 2004 onward, after the new government took control. It is now firmly in charge of the reform agenda, and the Bank provides a helping hand when and where it is asked. Bank projects perform satisfactorily, but as the country moves closer to graduating from IDA, the Bank faces the challenge of "reinventing" its role, given that the country is no longer in need of IDA budget financing and is capable of implementing projects on its own.

The Bank's AAA was relevant, of high quality, and well connected with the lending program. Some of the analytical pieces produced by the Bank stand out as essential inputs to establishing the reform agenda in general as well as in specific sectors. The quality of policy dialogue was good. The candor and technical expertise in the Bank's analytical work were appreciated by the client at all times, but especially in the early years of transition.

The capacity and governance constraints in the years before 2004 often led to poor implementation. The situation has been reversed since 2004. Lately the Bank has often had to catch up with the government's pace of reform and has occasionally struck a note of caution in response to the sometimes radical reform measures espoused by the government (for example, in irrigation and in the health sector).

Partnerships

DONORS

Over the period 1994–2006, Georgia received a total of $3.38 billion in official development assistance, equivalent to about $260 million per year (table 2.4).

Multilateral agencies. The International Monetary Fund (IMF) has had the leading role in assisting Georgia in improving macroeconomic stability, pursuing fiscal reforms, and designing monetary policy (see box 2.1 for more details on the IMF program in Georgia). The European Bank for Reconstruction and Development has focused its efforts on private sector business development. The United Nations Development Programme has provided assistance in democratic governance, environmental conservation, poverty reduction, and crisis prevention.

Table 2.4: Development Assistance and World Bank Lending, 1994–2006

Development partners	Total net ODA disbursement ($US million)[a]							Cumulative 1994–2006	% of total
	1994	1997	2000	2003	2004	2005	2006		
All donors, total	177.0	241.9	169.4	225.6	314.5	309.1	360.6	3382.4	100.0
DAC countries, total	67.3	70.3	120.3	163.9	209.1	197.2	210.4	1750.4	51.8
United States	53.0	32.0	74.6	75.0	92.3	72.1	103.2	889.0	26.3
Germany	2.1	15.4	19.1	31.7	58.4	51.1	46.4	349.5	10.3
Japan	0.0	4.4	11.4	16.4	10.6	7.3	11.6	110.9	3.3
Netherlands	1.8	5.3	2.2	5.0	7.5	12.0	11.1	91.7	2.7
Multilateral, total	109.0	167.4	43.1	53.0	95.4	102.8	137.0	1552.0	45.9
IDA	1.0	64.3	18.1	43.5	64.4	59.2	75.8	741.3[b]	21.9
EC	91.9	21.5	13.8	28.3	36.2	35.9	55.1	429.1	12.7
IMF		76.4	39.3	–20.4	–9.5	–8.0		221.8	6.6
UN	16.0	2.9	8.9	6.6	6.0	6.2	6.1	104.6	3.1

Source: OECD (2009).

Note: DAC = Organisation for Economic Co-operation and Development Assistance Committee; EC = European Commission; IDA = International Development Association; IMF = International Monetary Fund; UN = United Nations; ODA = official development assistance.

a. Grants or loans to countries and territories on Part 1 of the DAC list of aid recipients, that is, developing countries that are (i) undertaken by the official sector; (ii) have promotion of economic development and welfare as their main objective; and (iii) are granted on concessional financial terms (the loan has a grant element of at least 25 percent).

b. Actual disbursements by 2006.

Bilateral aid. The US government is the single largest donor in Georgia. The US Agency for International Development has provided assistance in democratic reforms, rule of law, private enterprise, energy, and social programs. The Millennium Challenge Corporation will finance the rehabilitation of regional infrastructure and PSD. Part of the Corporation resources will be channeled through the Municipal Development Fund, established through a Bank project. The European Commission has provided assistance for the rule of law, business climate, and security policy.

In June 2004, Georgia was given the opportunity to participate in the European Union's (EU) European Neighborhood Policy. The German Agency for Technical Cooperation and Kreditanstalt für Wiederaufbau (KfW) provided investments and advisory services; KfW is the largest donor in the Georgian energy (electricity) sector. The Netherlands government co-financed several projects with the World Bank, focusing mainly on poverty reduction, governance, and transition to a market economy. The UK Department for International Development has funded technical assistance programs in health and welfare, good governance, and EU integration.

Box 2.1: The International Monetary Fund in Georgia

Georgia joined the IMF in May 1992. The first IMF-supported reform program in the country was launched in 1994. The IMF lending portfolio to Georgia consisted of a Systemic Transformation Facility (1994), a Stand-by Credit (1995–96), and three Poverty Reduction and Growth Facility commitments (1996–99, 2001–04, and 2005–07). A synopsis of the IMF's contribution in Georgia is as follows.

1994: The Systemic Transformation Facility program was successful in halting hyperinflation and stabilizing the exchange rate. Important strides were made with structural reforms, including liberalization of nearly all prices and of most trade and current account transactions, downsizing of government, and privatization of small-scale enterprises.

1995–96: Georgia began to reap the benefits of the reform program launched in 1994 as economic recovery continued at a brisk pace. Growth resumed in 1995 for the first time since 1990 and accelerated in 1996. The introduction of the *lari* to replace the coupon in September 1995 reversed the trend toward using US dollars. Fiscal consolidation succeeded in reducing the fiscal deficit, and the ongoing stabilization program led to the further decline of inflation.

1996–99: Continuing governance problems and pervasive corruption hampered program implementation. Virtually all drawings on IMF resources took place with substantial difficulty and delay. Nonetheless, growth and inflation outcomes were better than IMF projections each year except 1998 (the year of the Russian crisis). Part of IMF assistance for liberalizing the trade regime culminated in Georgia's entry into the World Trade Organization in 2000. The National Bank of Georgia introduced new regulations to reform the financial sector.

2001–04: Difficulties continued to mount during this period, and the IMF stopped its lending operations in 2001 and 2003 because of weak fiscal performance and slow progress on the structural front. The program lapsed in 2003, and more than half of the resources available under the program went undisbursed. Lending resumed after the Rose Revolution in late 2003.

2005–07: New tax policies caused a dramatic fiscal turnaround, and economic performance was strong in general. Georgia received its final disbursement under the Poverty Reduction and Growth Facility arrangement in August 2007 and graduated from the IMF's facility designed to support low-income countries. Georgia has not requested a successor arrangement and currently has a surveillance-only relationship with the Fund.

IMF and the World Bank: The IMF maintained close collaboration with the Bank throughout the lending period. The fiscal framework, reforms in tax policy, tax and customs administration, and economic statistics were areas in which the IMF took the leading role, and its analysis served as input to the Bank program. In contrast, PSD, public sector management, energy, and municipal finance were areas where Bank analysis provided inputs for the IMF program. The areas of shared responsibility included the poverty reduction strategy, budget planning and execution, and financial sector reforms.

Source: IMF.

The donor community in Georgia maintains regular dialogue and shares information. The 2004 Country Group Donors' Conference was an example of successful donor coordination. The conference, facilitated by the Bank and the EU, generated an unprecedented amount in pledges to support the new reformist government. Potential joint work could involve assisting the government to revise the country's Poverty Reduction Strategy (World Bank 2002x). The strategy document, developed in 2002 (a progress report was prepared in 2005; World Bank 2005x), is perceived with some skepticism by the present government, which effectively shelved it.[9]

Civil Society

Since independence, Georgia has been endowed with an open and vibrant nongovernmental sector comprised of numerous civil society organizations. The Bank has a good record of collaborating with such organizations and private sector representatives, both from the standpoint of dialogue with civil society more broadly and in implementing projects. Several Bank projects contributed directly to establishing nongovernmental organizations that now play a visible role in such areas as judicial reform and private sector consulting. Many current high-ranking government counterparts were formerly involved in the nongovernmenal sector or the Project Implementation Units (PIUs) for Bank projects.

At the same time, in the past few years, the productive partnership with the authorities appears to have come at a certain price relative to the Bank's relationship with nongovernmental entities and civil society in general. The IEG mission heard recurring views to the effect that the Bank is now more cautious than it used to be outside of its dealings with the government, and that it is less willing to listen to or accept opposing views. Whatever the validity of such views, there is clearly an appetite for more dialogue and direct interaction with the Bank from the nongovernmental sector, which deserves the Bank's attention.

Chapter 3

Pillar I—Macroeconomic Stabilization and Public Sector Reform

Under this pillar, the Bank sought to support macroeconomic stability and reform of the public sector. A more effective and efficient public sector would help maintain stability, promote PSD, and foster higher rates of growth.

Bank Program and Outcomes[10]

The Bank provided the assistance through lending and AAA.[11] The Bank's analytic work was of good quality: the reports correctly diagnosed the causes of the instability and the reasons why reforming the public sector could help accelerate growth. They pointed out the need to pay more attention to government expenditure in social sectors (education, health, and pensions) and to the convenience of liberalizing foreign trade, reducing foreign exchange controls, and abolishing export taxes.

To establish whether the assistance achieved its objectives, this report compares the results for each indicator with the goal or projection in a CAS. If there is no target value, it compares the results at the end of the period with the baseline value. Of the three strategies discussed, only the 1997 CAS defined performance indicators. To evaluate performance and the efficacy of the assistance, this report uses the indicators defined in the 1997 strategy and other relevant indicators.

Macroeconomic Stability

All three strategies sought this objective, albeit with different emphases, targets, and indicators. To have a more complete picture, this report breaks the evaluation period into three sub-periods: 1994–97, 1998–2003, and 2004–07 (table 3.1).

The numbers show that the situation improved considerably in 1994–97, as most targets (except for external debt-to-GDP ratio) were met. The stabilization program worked and produced the desired results. The government reined in hyperinflation, and the economy started growing at a fast pace. The economy stabilized in 1998–2003, but despite overall positive macroeconomic performance, only the target for inflation was met. The results for 2004–08 show that growth, international reserves, and public debt achieved or exceeded their baseline values, but inflation rose, and the current account and resource balance deficit and total external debt increased.[12]

Table 3.1: Results for Macroeconomic Performance and Stabilization

Indicators/ period	Included in CAS?	Met / increased?	Baseline		CAS goal projection	Results	
			Period	Value		Period	Value
1995–97							
GDP growth rate (% per year)	No	Yes	1991–94	–25.4	—	1995–97	8.1
CPI inflation (% per year)	No	Yes	1991–94	4905	—	1995–97	69.7
Gross international reserves +	No	Yes	1994	0.7	—	1995–97	2.5
Current account balance (% of GDP)	No	Yes	1992–94	–25.5	—	1995–97	–14.6
Resource balance (% of GDP)	No	Yes	1992–94	-34.9	—	1995–97	–19.2
Total external debt (% of GNI)	No	No	1992–94	27.3	—	1995–97	44.5
Public debt (% of GDP)	No	Yes	1992–94	46.7	—	1995–97	43.2
1998–2003							
GDP growth rate (% per year)	Yes	No	1995–96	6.9	8–10	1997–99	5.5
GDP growth rate (% per year)	Yes	No	1995–96	6.9	8–10	1999–2003	5.2
CPI inflation (% per year)	Yes	Yes	1995–96	101	< 10	1999–2003	7.7
Gross international reserves +	Yes	No	1995–96	2.6	2.5–2.9	1999–2003	1.4
Current account balance (% of GDP)	Projection	No	1997–98	–11.3	–6.35	1999–2003	–7.5
Resource balance (% of GDP)	Projection	No	1997–98	–5.6	–5.55	1999–2003	–12.8
Total external debt (% of GNI)	Actual	No	1997–98	41.8	—	1999–2003	52.5
Public debt (% of GDP)	Actual	No	1997–98	44.1	26.8	1999–2003	51.5
2004–07							
GDP growth rate (% per year)	No	Yes	2004–05	7.6	—	2006–07	9.7
CPI inflation (% per year)	No	No	2004–05	7.0	—	2006–07	10.1
Gross international reserves +	No	Yes	2004–05	1.7	—	2007	3.5
Current account balance (% of GDP)	No	No	2004–05	–9.1	—	2006–07	–14.9
Resource balance (% of GDP)	No	No	2004–05	–13.1	—	2006–07	–22.9
Total external debt (% of GNI)	No	No	2004-–05	34.5	—	Jun 2007	42.5
Public debt (% of GDP)	Actual	Yes	2004–05	31.7	—	2007	17.5

Source: World Bank and IMF reports, data from National Bank of Georgia, Ministry of Finance compiled by World Bank Resident Mission, Tbilisi, Georgia.

Note: CAS = Country Assistance Strategy; CPI = consumer price index; GDP = gross domestic product; GNI = gross national income.

Public Sector Reform

Bank assistance supported public sector reform early on, but as conditions in Georgia changed, the strategies emphasized different aspects of that reform. The 1995 strategy supported "redefining the role and improving the efficiency of the public sector," without specifying what this meant. The adjustment credits that followed dealt mainly with privatization and legal reforms. The 1997 CAS emphasized strengthening public finance by increasing tax revenues, downsizing the budgetary sector, and improving the efficiency of public expenditure. The 2005 Country Partnership Strategy (CPS) sought to increase efficiency in public services by addressing corruption, improving public expenditure management, and modernizing the judiciary.[13]

Table 3.2: Public Sector Reform Indicators (percent of GDP, unless indicated otherwise)

Indicators	Included in CAS?	Achieved?	Baseline		CAS goal, projection	Results	
			Period	Value		Period	Value
1995–97							
Budget balance—including grants (cash basis)	No	Yes	1992–94	–26.7	N/A	1995–97	–6.0
Tax revenues	No	Yes	1993–94	2.5	N/A	1995–97	9.2
Government expenditure	No	Yes	1993–94	37.5	N/A	1995–97	18.3
Revenue/current expenditure (%)	No	Yes	1992–94	18	N/A	1995–97	50.0
Government employment (1000)	No	Yes	1992–94	1,172	N/A	1995–97	667
Privatization							
a. Small-scale privatization index[a]	No	Yes	1994	2.0	N/A	1997	4.0
b. Large-scale privatization index	No	No	1994	1.0	N/A	1997	3.3
c. Cumulative revenues	No	Yes	1994	14.6	N/A	1997	20.5
1998–2003							
Balance—including grants (cash basis)	Yes	Yes	1997–98	–6.7	< 3%	2000–03	–1.7
Tax revenues	No	Yes	1997–98	12.9	N/A	2000–03	14.2
Current expenditure	No	Yes	1997–98	21.3	N/A	2000–03	16.8
Revenue/current expenditure (%)	Yes	No	1997–98	70.7	> 100 by 2000	2000–03	92.4

Employment reduced by (1,000)	Yes	Yes	1997–98	579	> 30,000[b]	1999–2003	454
Privatization							
a. Large-scale privatization index	No	No	1997–98	3.33	N/A	2003	3.33
b. Cumulative revenues	No	Yes	1998	21.8	N/A	2003	23.6
2004–07							
Balance—including grants (cash basis)	No	No	2004–05	–2.6	N/A	2006–07	–3.4
Tax revenues	No	Yes	2004–05	19.1	N/A	2006–07	23.3
Current expenditure	No	No	2004–05	17.2	N/A	2006–07	23.6
Revenue/current expenditure (%)	No	Yes	2004–05	127.2	N/A	2006–07	111.7
Government employment	No	?	2004–05	404	N/A	2006–07	N/A
Privatization							
a. Large-scale privatization index	No	Yes	2004	3.33	N/A	2007	4.0
b. Cumulative revenues	No	Yes	2004	24.5	N/A	2006	33

Source: World Bank; IMF; State Department of Statistics; National Bank of Georgia; EBRD Economic, Statistics and Forecasts (http://www.ebrd.com/country/sector/econo/stats/index.htm) EBRD

Note: CAS = Country Assistance Strategy; GDP = gross domestic product.

a. In the EBRD transition indicators 1represents little progress and 4 represents complete privatization with tradable ownership rights.

*b. Staff of budgetary sector reduced by at least 30,000 by end-1999.

Available data show that the assistance achieved its objectives fully in 1995–97 and partially in 1998–2003 and 2004–07 (table 3.2). For 2004–07 not all performance indicators improved over their baseline values, but two important results stand out: the increase in tax revenues, from 14.1 percent of GDP in 2003 to 24.9 in 2007, and the rapid privatization of large companies (brought to a halt between 1997 and 2003), bringing in revenues equivalent to about 10 percent of GDP.

These results should be contrasted with those of 1998–2003: although tax revenue increased over the baseline value, the gains in tax collection ceased in 1999, when collection reached 13.9 percent of GDP, just below the 14.1 percent achieved in 2003. In 1999, the drive for reform had ceased, and the Ministry of Finance had lost control of tax collection to the new Ministry of Revenue, which had little interest in collecting more taxes. Privatization revenues suffered the same fate, indicating a lack of political will to sell large state-owned companies.

Bank Contribution to Outcomes

Bank assistance was more effective earlier in the rating period (1994–97). Finding itself in a dire situation, the government needed both advice and funds to stop hyperinflation and finance its large budget deficit. Whether out of necessity or conviction, the government cut expenditures, increased tax collection, and stopped financing its deficit with loans from the Central Bank. Because of this initial success, the pressure and urgency to reform abated and the Bank lost leverage. By 1999, reforms had stopped.

Despite that, the Bank stayed closely engaged and expanded financial support through investment operations; during 1998–2003 those represented about 75 percent of total financing, up from 50 percent in 1995–97. The continuing support signaled the Bank's readiness to forgo its demands for reform as long as the country was willing to borrow. It could be argued that providing financing during this period extended the "life support" for the ailing government and delayed the reforms that Georgia needed so badly.

After the Rose Revolution, the new government found fertile terrain for structural and policy reform. The Bank supported this effort with advice and money, but its influence was limited. The government had the will and conviction to reform, knew what it wanted, and executed the reforms fast, sometimes faster and deeper than the Bank thought possible and desirable. Despite its limited influence, the Bank has been engaged, through the Poverty Reduction Support Operations (PRSOs) and selective investment in infrastructure, in areas where the government feels Bank assistance can be useful.

Outcome rating

The outcome rating of the Bank assistance for Pillar I (macroeconomic stabilization and public sector reform) over the 15-year review period is *moderately satisfactory* (*satisfactory* for 1994–97, *moderately unsatisfactory* for 1998–2003, and *moderately satisfactory* for 2004–07).

Lessons and Recommendations—Pillar I

Bank assistance can be effective in promoting and supporting change when the authorities are ready. When commitment and political will are missing, the Bank's financing weakens the need for change and temporarily strengthens the capacity to maintain the status quo.

Box 3.1: Statistical Capacity

The Bank helped the State Department of Statistics to improve its capacity and, in particular, to establish a system of household surveys. It helped build the framework for the surveys and provided technical assistance to undertake them on a regular basis. As a result, the quality and quantity of data coming out of the department improved.

More recently, however, many observers contend that the integrity of the statistics and the credibility of data produced by the State Department of Statistics are in peril. According to that perception, political motivation and convenience has tainted the preparation of sensitive indicators such as poverty, inflation, employment, and growth.

Source: IEG.

Piecemeal lending to a large number of sectors can neither buy change for those sectors nor enhance the Bank's policy dialogue or the assistance effectiveness. Conversely, the lending gives an illusion of progress, thereby shifting the Bank's attention away from the fundamental problems. When a country carries out macroeconomic stabilization but still needs substantial reforms, as Georgia did in 1997–98, the Bank should avoid the temptation to expand lending to all sectors in the hope that reform will resume. Bank assistance should concentrate on the country's key problems, otherwise it becomes ineffective.

Chapter 4

Pillar II—Governance

In the mid-to-late 1990s, after growth resumed, it became increasingly evident that the lack of an adequate legal framework and judicial enforcement system delayed enterprise adjustment and discouraged private investment.

Bank Strategy and Outcomes

The growing corruption and deteriorating governance had some clear and deleterious effects on the performance of many sectors (including electricity), the quality of public services, and the quality of life. Bank assistance sought to improve governance and efficiency in public expenditure (the "withdrawn" 2003 CAS) and to increase efficiency in public sector service (the 2005 CPS). With its assistance, the Bank expected to help bring about less corruption, a more independent and effective judiciary, and improved public expenditure management. The Bank delivered its support through analytic work and lending.[14]

Anticorruption

The 1997 Bank strategy expected the government to initiate a program that would lead to better enforcement of laws and regulations and a decline in corruption, particularly the payment of bribes. The Bank supported the establishment of a high-level working group (in 2000) to define the government's anticorruption strategy. The working group prepared the Guidelines for the National Anti-corruption Plan of Georgia (Anti-Corruption Policy Coordination Council and Anti-Corruption Bureau of Georgia2000), which had little, if any, impact on corruption. In fact, public perception of corruption steadily deteriorated in the two to three years after the plan was published.

The situation began to change after the new government took over in 2004. Bank assistance included a condition for the government to prepare/update the anticorruption plan, which the government issued in mid-2005 (National Security Council of Georgia 2005). By that time, however, the government had already launched a vigorous and effective anticorruption campaign, especially at the lower levels of state administration, such as traffic police, customs, and tax inspection. Public opinion surveys indicate that petty corruption has almost disappeared, but it still exists at the higher levels (table 4.1). The data in table 4.2 summarize the perceived evolution of corruption since 1994. They show pervasive corruption throughout most of the period, reaching its peak in 2001–04 and declining after 2004.

Table 4.1: Indicators of Results—Proliferation of Corruption

	1998	2001	2003	2005	2006	2007
1. Percent of households or companies saying corruption is worse than 4 years ago						
a. Households	57					
b. Enterprises	44					
2. Percent of respondents who believe public sector officials are involved in corruption						
a. GORBI corruption surveys		60.4	92			
b. GORBI survey on tax code and citizens awareness			89		58	
3. Perception of corruption after the Rose Revolution (from IRI survey)						
a. Percent of people answering NO to question: Over the last 12 months have you been in a situation when you had to pay a bribe in order to get a service or a decision?					96	95
b. Percent of people who believe that corruption in ordinary people's lives has been reduced slightly, substantially				63	54	
c. Percent of people who believe that corruption has been reduced slightly or substantially at the highest levels of state administration (leading political elites)				50	47	

Source: International Republican Institute (IRI) surveys; GORBI surveys/The Gallup Organization. Georgian National Voter Study (2004– 07).

Note: GORBI = Georgian Opinion Research Business International.

The outcome of Bank assistance in this area is rated *moderately unsatisfactory (unsatisfactory for 1998–2003* and *moderately satisfactory* for 2004–07).

Table 4.2 Corruption Perception Dynamics in Georgia, 1994–2007

	1994	1996	1999	2001	2002	2003	2004	2005	2006	2007
Corruption as a problem										
Public perception of corruption as a problem (1 most important problem)	7/12	—	—	2/12	2/12	5/13	5/11	7/11	No mention	No mention
Percent of firms indicating a problem with corruption	—	54	72	—	66	—	—	39	—	—
Corruption trends										
Transparency International	—	—	—	—	—	—	—	—	—	—
a. Score (1–10; 1 is highly corrupt)	—	—	2.3	N/A	2.4	1.8	2.0	2.3	2.8	3.4

b. Ranking	—	—	84/99	N/A	85/102	124/133	133/146	130/158	99/163	79/179
Freedom House (1 is highest score; scale of 1-7))	—	—	5.00	5.25	5.50	5.75	6.00	5.75	4.75	4.75

Sources: World Bank reports; GORBI (Georgian Opinion Research Business International, member of The Gallup International Association) surveys; International Republican Institute (IRI) surveys (funded by USAID); EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS); Transparency International; Freedom House.

Judicial reform

Bank assistance strategies (1997 CAS and 2005 CPS) sought to support improvements in the legal and judicial framework and expected to help modernize the judiciary and make it more independent and efficient. At the government's request, the Bank stepped up its support for judicial reform in 1998.[15] The strategies planned to measure progress based on focus group discussions and survey results (Business Environment and Enterprise Performance Survey [BEEPS]). The judicial reform credit financed court infrastructure rehabilitation, improved court administration, training for judges and staff, and a public campaign to increase awareness of and trust in the legal system.

Bank assistance was generally effective in delivering most of the planned outputs (rehabilitating court buildings, delivering and installing equipment, and providing training), but it did not achieve its ultimate goals: improving the independence and professionalism of the judiciary, raising ethical standards, and increasing Georgians' trust in the system. Two reasons stand out. First, better infrastructure (court buildings, computers, and so forth) and some training are not sufficient to build institutions and change behavior. Second, the government has undermined judicial independence with its actions.[16]

Although the government took steps after 2004 to tackle judicial corruption, various surveys present a mixed picture. According to BEEPS, which the Bank used as the main source of performance indicators (table 4.3), Georgian firms believe that the ability of courts to enforce decisions has improved and that the courts are more honest and impartial. Nevertheless, firms supporting the latter view are still in a minority (less than one-third of firms surveyed).

Table 4.3: Indicators of Judicial Performance—The View of Firms

Percent of firms saying…	1999	2002	2005
Going to court in past three years (% of firms going to court to settle problems)		24	18
Implementation of laws is consistent and predictable	24.8	26	39
Courts are able to enforce their decisions			
All firms	34.8	23	62
Firms using courts		30	70
Courts are affordable			
All firms	41.6	28	35
Firms using courts		52	45
Courts are quick			
All firms	24.1	18	22
Firms using courts		30	22
Courts are honest/uncorrupted			
All firms	22.1	18	28
Firms using courts		27	32
Courts are fair/impartial			
All firms	23.3	18	28
Firms using courts		29	32

Source: EBRD (1999, 2002, 2005).

Table 4.4: Public Perceptions about Institutions*

	1998	2002	2003	2004	2005	2006	2007
Confidence in institutions							
Church			1/16	1/16	1/16	1/16	1/16
Police			Not listed	7	4	4	4
Courts			Not listed	10	11	13	14
Prosecutor's office			Not listed	8	10	12	13
Organized crime			Not listed	16	15	16	16
Ranking of institutions for honesty and integrity							
Religious	1/22			1/16	1/16	1/16	1/16
Traffic police/ police	22			7	4	4	4
Courts	16			10	11	13	14
Prosecutor's office				8	10	12	13
Organized crime				16	15	16	16

Source: World Bank (2000); IRI surveys; GORBI surveys.

- *Note*: Twenty-two institutions ranked in 1998-2002, Sixteen institutions ranked in 2003-2007. Scale: 1—most trusted, 22 or 16—least trusted.

The public is more skeptical than firms (table 4.4). Interviews conducted by IEG also indicate a prevalence of views to the effect that a strong and dominating state prosecution is undermining judicial independence. There was a general sentiment, for example, that judicial independence was sacrificed for the sake of quick changes in many areas. At the same time, many interviewees concurred that bribery in the judiciary has decreased, reflecting a general trend in the public sector.

The overall outcome of Bank assistance for judicial reform over the latter two sub-periods of the review period is rated *moderately unsatisfactory*.

Public Financial Management[17]

All Bank strategies supported better management of public resources. In the mid-1990s, as part of the program to stabilize the economy, the strategy sought to reduce the budget deficit and to mobilize revenues to enable more social spending. Suggested stabilizing measures included process improvements, such as establishment of a treasury to cover all expenditure accounts. Subsequent strategies (both the "withdrawn" 2003 CAS and the World Bank 2005) specifically sought improvements in governance and the efficiency of public expenditures.

During the 1990s the government reduced expenditures but was not able to increase revenues. Revenues remained at around 14 percent of GDP during 1999–2003, and social spending fell to about 4.5 percent of GDP in 2003, down from 5.4 percent in 1996–99. After 2003, both government revenue and social spending increased, reaching about 25 percent and 8.5 percent of GDP, respectively, in 2007. In addition, beginning in 2004 the government reduced its arrears, an important part of which were owed to pensioners and public sector employees. Today, pensions and salaries are paid on time.

Bank assistance also encouraged improving the procedures and the quality of the organizations that were in charge of planning and executing the budget. During the 1990s, despite adopting some good-practice procedures pertaining to fiscal transparency,[18] the system remained flawed, as judged by the Country Policy and Institutional Assessment and World Bank Institute governance indicators: the Country Policy and Institutional Assessment indicator for public sector management and institutions remained consistently low during 1999–2003. Similarly, the Institute indicator for government effectiveness shows a decline between 1998 and 2004.

Beginning in 2004, the government introduced reforms that improved the quality of budget management. Bank assistance supported: (1) the development of a medium-term expenditure framework; (ii) the adoption of new budget legislation; (iii) the improvement of the fiduciary framework; and; (iv) the strengthening of treasury operations and introduction of robust accounting standards. The first medium-term expenditure framework was produced in 2005, and the Treasury Single Account became operational in early 2006. The latter has helped improve the timeliness, transparency, and accountability of fiscal performance, as well as improve the quality of expenditure management; this has been possible because the government has better information on, and more control over, revenues and expenditures.

The authorities also sought to improve their Basic Data and Directions document, which was their equivalent of a medium-term expenditure framework. The 2006 budget had a fiscal framework in line with the Poverty Reduction Strategy Paper and the medium-term expenditure framework, and social spending reflected expected increases in minimum pensions as well as the targeted poverty benefit program launched in late 2006.

In line with the government's commitment to improve transparency and accountability, most of the Georgian ministries and some institutions of control (such as the Chamber of Control) have working Web sites, although the quality and quantity of information and ease of access are still poor. In addition, although the authorities made an effort to improve fiscal transparency, until recently they also operated quasi-fiscal funds outside the budget and without oversight. Two of those funds have since been closed, and one has been converted into a private foundation.

Although improvement in public financial management procedures is clear, the Bank's strategies (and the credits supporting them) lacked good indicators to measure performance on financial accountability. Several recent efforts to measure the quality of public financial management and fiduciary arrangements shed some light on the possible results. The first comes from the Global Integrity and covers 2006 and 2007: indicators show that access to information and government accountability deteriorated between 2006 and 2007.[19] Except for the legislation that protects citizens' right of access to information, performance in all other categories has deteriorated.

The second comes from the Bank and the EU, which at the time of this report were in the process of preparing a Public Expenditure and Financial Accountability Review. The review uses seven categories to evaluate public financial management in Georgia. Preliminary indications are that there are areas of excellence as well as of weaknesses in each category. Lower marks were given to predictability and control in budget execution; accounting, recording, and reporting; and external scrutiny and audit. These are some of the areas that Global Integrity also found weak.

Finally, a recent Bank review of the procurement system found that Georgia had made little progress since 2002 and considered the procurement environment "high risk," based on Organisation for Economic Co-operation and Development–Development Assistance Committee/World Bank Group indicators.

Overall, IEG rates the outcome of Bank assistance for improving public financial management over the 15-year review period as *moderately satisfactory (moderately satisfactory* for 1994–97, *unsatisfactory* for 1998–2003, and *moderately satisfactory* for 2004–07).

Bank Contribution to Outcomes

Bank assistance was more effective in supporting outcomes in the early years of the review period. Initial assistance covered public financial management and helped define the economic strategy and the stabilization plan. During this period the Bank did not target corruption per se largely because that was not the most important or pressing problem at the time.

During the subsequent period, 1998–2003, the Bank contributed little to improving governance, despite multiple efforts. Corruption was rampant and mounting. Taxes and customs were important nests of corruption, and they operated as much for the benefit of those controlling them as for the benefit of the government. The government lacked the political will to remedy this state of affairs and let it fester. Against this backdrop, Bank efforts to reduce corruption and improve the judicial system and financial management were bound to fail.

After the Rose Revolution the government had both the interest and the will to attack corruption and improve financial management. The Bank supported the efforts in financial management with positive but limited impact. It had very few interventions to influence results on corruption, but it should be noted that the government uses the Bank's business surveys (BEEPS) and the Doing Business reports as benchmarks to guide its actions on regulation.

Bank assistance had little impact on judicial reform and the performance of the judiciary, even though the outputs of the judicial reform project (buildings, equipment, and training) were delivered. The independence of the Georgian judiciary is compromised by the continued dominance of the executive branch. The authority of the courts was undermined in part by the heavy-handed tactics the government had employed earlier to eliminate corruption and tax evasion.

Outcome rating

The overall rating for the outcome of Bank assistance for Pillar II (governance) over the entire review period is *moderately unsatisfactory* (*unsatisfactory* for 1998–2003, and *moderately satisfactory* for 2004–07). [20]

Lessons and Recommendations—Pillar II

One clear lesson is that it is possible to tackle even the most pervasive and entrenched corruption in a short period when the right conditions are in place—broad public mandate, strong commitment, and political will. If the will and the determination exist, specially designated anticorruption structures (agencies, councils, commissions, and so forth) are not an institutional prerequisite to fighting corruption. Simple measures undertaken through traditional structures (courts, law enforcement, legislative oversight, and civil society oversight) will suffice. Enforcement is fundamental, but simplifying regulations and increasing freedom of action for people and businesses is essential to enforcement. External assistance can help but is not a decisive factor. This conclusion, drawn from the Georgian experience, also finds broader confirmation in the recent IEG evaluation of Bank support for public sector reform (IEG 2008b).[21]

Box 4.1: A Lesson on Fighting Corruption: The Case of the Traffic Police

During Shevardnadze's presidency the traffic police were ubiquitous on Georgia's streets and notorious for accepting bribes instead of enforcing laws. At the root of corruption in the traffic police force was a system in which officer positions were purchased (rather than earned on the basis of demonstrated competence), and salaries were rarely delivered. The cash that traffic police officers extorted from unassuming drivers on the side of the road helped compensate them for the cost of purchasing their positions and served as an unofficial—if readily available and highly institutionalized—source of income at the same time.

As with the removal of Shevardnadze-era elites, the measures taken to reform Georgia's traffic police were swift and drastic. Nearly all the old traffic police force were abruptly dismissed, and a new "patrol police" force was instituted in July 2004. New officers were hired and promised significantly higher salaries than their predecessors. The most immediately apparent change, however, was the patrol force's new image: new vehicles were purchased and outfitted with the necessary equipment, and every officer was provided with a new uniform. Police academy reform was launched in May 2004. The establishment of the patrol police force is widely regarded as one of the current government's most significant successes.

Source: Horoschak (2007).

The Bank's direct assistance for reducing corruption has been limited, but its analytic and diagnostic studies and surveys produced useful information for the authorities to inform their decisions and define areas for intervention or adjustment. The Bank should continue using these types of exercises to help avoid recurrence of corruption by monitoring results and identifying trends and threats.

Another related lesson is that investment in infrastructure and hardware does not produce institutional or behavioral change by default. A vivid example of this arises in connection with the assistance for judicial reform. Although proper operating conditions for courts are important, their presence does not automatically lead to a more independent and professional judiciary. The new, state-of-the-art court facilities in Georgia did not influence the public perceptions about judicial independence and effectiveness.

Chapter 5

Pillar III—Private Sector Development and Growth

Bank strategies sought to help foster PSD to promote growth. The 1995 CAS objective was to *assist the transition to a market economy* through *program support for PSD*. The 1997 CAS supported PSD through actions aimed at mobilizing resources, increasing productivity, removing infrastructure bottlenecks, and increasing Georgia's ability to benefit from new growth opportunities (oil transit sector).

The 2005 CPS supported *income- and employment-generating growth* and planned to do so by addressing corruption and governance issues, removing barriers to PSD, increasing access to financial services, and improving access to infrastructure. The strategies presented common elements, and as some problems ceased to be relevant (such as price policy), strategies involved other issues.

This chapter evaluates Bank support in connection with the following elements of the strategy: economic policy and regulations, transport infrastructure and regulation, energy infrastructure and regulation, agriculture and forestry, and tourism and cultural heritage.

Economic Policy and Regulation

Bank program and outcomes

Lending, policy advice, and economic and sector work (ESW) supported this element of the strategy. Most of the ESW was relevant and took adequate account of the conditions in Georgia.[22] Although generally sound, the recommendations sometimes lacked country-specific context, affecting their relevance. In some cases (accounting and audit) the recommendations were sound, but it is legitimate to query whether implementing them *at the time* was important for private sector growth. The strategies lacked good indicators of PSD and tended to equate inputs and outputs with results.

Price and trade liberalization.[23] The Bank provided limited assistance on matters of price and trade policy, as Georgia had substantially liberalized prices and part of its trade by 1995. By 1997, the country had a fairly liberal trade regime, and the last significant price controls had been eliminated. In 2000, Georgia joined the World Trade Organization. Six years later, Georgia adopted a new liberal customs code that significantly reduced import tariffs.

Privatization.[24] The Bank-supported mass privatization program began in mid-1995. It used vouchers and later cash auctions. By the end of 1998, nearly all of the 10,000 small enterprises had been sold. Bank support to the privatization of medium and large companies was less effective. After the sale of the Tbilisi Electricity Distribution Company (Telasi) in 1998, the government did not try to privatize more medium- and large-scale companies.

In sum, privatization advanced over 1994–97, stalled over 1998–2003, and advanced rapidly from 2004 to 2007. The government raised about 33 percent of GDP in revenues from privatization, about 15 percent of which (5 percent of GDP) came during the period of Bank support (1995–2003).

Financial sector. The Bank's assistance strategies sought to foster financial sector development as a way to increase productivity and to strengthen and diversify the sources of growth. Measures to promote financial sector development included privatizing state-owned banks and adopting legislation to strengthen the legal and institutional framework. The assistance initially succeeded: the number of banks fell by half, the remaining banks restructured, and the government established a sound legal basis (Central Bank law, securities law) that empowered the National Bank of Georgia.

After 1997, however, banking reform stalled. The Bank stopped sector-related lending after fiscal 1998 (SATAC II), but in the 2000s it carried out a joint program with the IMF: the Financial Sector Assessment Program. The reports from that program found that the National Bank of Georgia had improved its supervision and called attention to the weak securities market and the poor accounting and financial reporting practices.

Until 2004, the financial sector developed in an uneven and generally weak manner. The ratio of domestic credit to the private sector to GDP grew from 0.1 percent of GDP in 1995 to

7.4 percent of GDP in 1999, reflecting the elimination of hyperinflation and the restoration of economic stability. The ratio remained unchanged at 8.7 percent of GDP over 2000–03, but during 2005–07 the financial sector grew threefold (World Bank 2008b) and several foreign banks entered the Georgian market. The credit-to-GDP ratio increased as well, to 19.7 percent—most likely a result of faster growth, more economic security, and a lower perceived risk of keeping savings in the banking sector, but hardly directly attributable to the Financial Sector Assessment Program.

Regulation, licensing, and business environment.[25] Bank assistance tried to promote a better business environment by helping remove administrative barriers to PSD (World Bank 2005) and to tackle corruption and improve the legal and judicial framework (1997 CAS). The 1995 and 1997 strategies did not specify the steps to achieve the goal or present a results chain and results indicators, but the 2005 CPS did provide a better outline of outcomes and indicators. This report uses the BEEPS indicators to look at results since 1996 (table 5.1).[26]

Regulations constituted a significant problem for businesses throughout the period. Some relief came in 2005 (the year of the BEEPs survey): the situation improved on almost all fronts, especially on frequency of bribery and quality of tax administration. As for the role of the judiciary, the surveys present a mixed picture: the number of firms that thought the judiciary was a problem for doing business declined between 1996 and 1999, but that number later increased again; in contrast, bribery in courts declined.

Table 5.1: Regulation and Licensing as Problems for Enterprises

	1996	1999	2002	2005
1. Licensing, customs, taxes, and judiciary (percent of firms indicating ...)				
a. Business licensing				
i. Is a problem for doing business	16	36	26	23
ii. Bribery is frequent		45	20	7
b. Customs regulations				
i. Are a problem for doing business	29	35	40	29
ii. Bribery is frequent		40	24	10
c. Tax rates and tax administration				
i. Tax rates are a problem for doing business	64	92	71	60
ii. Tax administration is a problem for doing business	64	74	84	23
iii. Bribery is frequent for tax collection purposes		47	44	11
d. Judicial system				
i. Judiciary is a problem for doing business	46	21	28	30
ii. Bribery (“additional payment”) is needed		100	15	7
e. Contract violations are a problem in doing business			28	49

f. Regulations on foreign currency are a problem	14	14		
2. Regulations: Costs, uncertainty ,and policy instability (percent of ...)				
a. Senior management time spent negotiating with officials about changes and interpretation of laws and regulations	25–50	47	12	5
b. Firms considering general uncertainty of policy instability and regulatory policies as problem for doing business	29	—	76	73
c. Firms that consider inflation or macroeconomic instability as problem for doing business	18	88	75	57

Source: Pfeffermann and Kisunko (1999); BEEPS 2002 and 2005, World Bank.

Dealing with government officials was a serious problem and took a heavy toll on firms. Changes in regulations since 2004 have reduced that burden, a result echoed in interviews during IEG's field visit. The managers interviewed confirmed the trend of less government intrusiveness but also expressed concern about the uncertainty caused by the instability in policy and regulations—they found the frequent changes distracting and hard to follow.

Box 5.1: Doing Business Report in Georgia

The Doing Business report of 2008 ranked Georgia 18th in the world on the ease of doing business, up from 112th in 2006. How was that rapid improvement possible, and what are the lessons to be learned from this experience?

The country did indeed take a number of drastic steps to improve the legal and regulatory environment for the private sector. As a result, in 2006 foreign direct investments in Georgia amounted to $1.147 billion, up from only $131 million in 2000. Although the government deserves full credit, it is worth noting that many of the regulatory reforms were supported by the Bank's PRSO program.

The Georgian government used the Doing Business Indicators for benchmarking in an effective and almost unprecedented manner. A part of the government's legislative agenda was directly driven by the indicators, and a number of cabinet meetings were dedicated to discussing Georgia's progress therein. A high-ranking official told the IEG mission with regret, "Had the parliament acted a month earlier, Georgia would have made it to the top 15."

However, a high ranking on the ease of doing business does not necessarily reflect all the realities of *operating* a business; it simply indicates that the government has created a set of regulations *conducive to operating a business*. Improved legislation alone cannot improve the business environment.

Despite overall progress, there are several factors in today's Georgia that are barriers to conducting business: (i) uncertainty and ambiguity about regulatory policies—a side effect of adopting many new laws and regulations with lightning speed; (ii) lack of independent judiciary (discussed under Pillar II); and (iii) weak protection of private property rights. The last issue is especially interesting: Georgia had climbed to the 18th position mainly because of the bold laws it passed to protect investors. Yet the Doing Business Indicators failed to capture the insecurities the investors face in protecting private property (as opposed to the Heritage Foundation/Wall Street Journal Index of Economic Freedom; see table 5.2). There have been several cases of confiscation and demolition of private property, some of them quite recent. One of the better-known cases is the attempted demolition of a 13-story residential building in Tbilisi, when the residents were forced to vacate their property. Interestingly, *Doing Business 2008* (World Bank 2007a) cites this case as an example of laws being appropriately used for the greater good of the country.

How do the Doing Business Indicators compare with other indices? Although they generally do indicate profound changes in the business environment, the progress has not been as meteoric as reported. For example, the World Economic Forum's Global Competitiveness Index ranked Georgia 90th among 131 countries surveyed and placed the country in the bottom 30 percent of the countries surveyed in the categories on private property rights and judicial independence.

Source: Doing Business 2008. World Bank, International Finance Corporation.

To summarize, the business environment advanced haltingly during 1994–2007. Although overall economic freedom improved, some elements essential for businesses growth and prosperity did not improve and at times deteriorated (table 5.2). From the discussion above it is clear that (i) early gains in monetary and fiscal management were sustained and provided general economic stability; (ii) the overall business environment in Georgia improved consistently only since 2004; and (iii) despite clear progress in many areas, much remains to be done, especially in two areas fundamental for investors—protection of property rights and judicial independence.

Table 5.2: Indicators of Performance—Overall Business Environment

	1996	1998	2000	2002	2004	2005	2006	2007	2008
1. BEEPS—Rank among Europe and Central Asia countries				26		17			
2. Doing Business Indicators—world ranking						112	35	18	
3. World Economic Forum Global Competitiveness Index (GCI)					94	87	85	90	
Business Competitiveness Index					92	96	100	100	
Quality of the National Business Environment					93	94	101	93	

Countries surveyed					*104*	*117*	*125*	*131*	
Score for GCI (7 highest, 1 lowest)					3.14	3.65	3.73	3.83	
4. Heritage Foundation Index of Economic Freedom Ranking	123	122	107	104	78	93	54	31	32
Overall score (100 = highest)	40.1	44.8	51.1	51.1	56.2	55.6	64.8	68.7	69.2
Fiscal freedom	92.0	94.5	93.9	93.8	93.7	93.3	96.0	94.2	90.7
Freedom from government	54.9	94.7	84.6	84.8	92.2	92.5	92.0	91.3	81.3
Property rights	30	30	30	30	30	30	30	30	35
Freedom from corruption	10	10	10	0.0	24.0	18.0	20.0	23.0	28
Labor freedom						76.5	81.2	99.9	99.9

Source: BEEPS; Doing Business Reports; Global Competitiveness Report, World Economic Forum; The Heritage Foundation/Wall Street Journal Index of Economic Freedom.

Note: BEEPS = Business Environment and Enterprise Performance Survey.GCI = Global Competitiveness Index.

Note: Reflects years of available surveys and data.

Bank contribution to outcome

Bank assistance helped the government in its efforts to mobilize resources and establish the institutional and regulatory foundations for the financial sector. In mobilizing resources the assistance supported the increase in tax revenues and the reduction in the deficit to combat hyperinflation (1995–97) and the divestiture of government enterprises (1995–2003). Once the government gained control of hyperinflation, however, the assistance failed to achieve the desired increase in government revenues and in the sale of medium and large enterprises.

Bank assistance in developing the financial sector was effective. Its support for the legislation to create the Central Bank and empower it with regulatory power has paid off. Inflation has been kept under control, the government has divested its banks, and the number of banks in the system has shrunk. The assistance did not achieve the desired deepening in the financial sector, but this was probably out of its control. Although the government managed to keep the deficit and inflation low, it created uncertainty by tolerating and promoting corruption, which prevented commercial banks from mobilizing savings and intermediating resources.

Bank assistance also helped liberalize prices and the trade regime. The impact on price policy was limited, but assistance was important in promoting necessary adjustments in the prices of key commodities (bread) and services (electricity).

Bank assistance sought to help establish a less-intrusive licensing and regulatory regime for businesses, but that environment came only after the Rose Revolution. This was to a large extent a result of the government's volition, not the Bank's prodding. Bank economic reports documented the grim state of business regulations in Georgia and identified areas where regulations could be abolished and simplified. Although these reports did not push the government to act, the information in them provided a service to the government, triggering actions aimed at improving the business environment.

Overall, IEG rates the outcome of the Bank assistance in this area *moderately satisfactory (moderately satisfactory* for 1994–97, *moderately unsatisfactory* for 1998–2003, and *satisfactory for 2004–07).*

Transport Infrastructure and Regulation

Background

Economic crises and internal strife took a heavy toll on Georgia's transport infrastructure, as budgets for maintenance and investment dried up and the administrative infrastructure weakened. Roads quickly fell into disrepair, and transport flows fell significantly, as little maintenance was performed. Road maintenance expenditures declined from $59.5 million in 1988 to $12.4 million in 2002.

Bank strategy

Bank strategies supported rehabilitating infrastructure, improving provision of public services, and building management capacity in the public sector to help the private sector grow. The 2005 CPS emphasized highway infrastructure, whose poor state was seen as a serious constraint to economic activity and to exploiting Georgia's location as a transit hub. The Bank lent for road rehabilitation and institutional reform and prepared sector studies.[27]

The primary objectives of Bank assistance were to (i) improve road infrastructure; (ii) attract private capital to the sector; and (iii) aid the transition to a market economy. The Bank financed six transport projects, three of which have closed. The Bank expected the government to privatize transport services and, to the extent possible, recover the rehabilitation and maintenance costs from users.

Outcomes

By 2007, the condition of Georgia's roads had improved significantly. This improvement was partly a result of the Bank's support but was also due to the dramatic increase in the road maintenance budget (see table 5.3). That budget reached about $320 million in 2005–07, much more than the $220 million estimated as a necessary minimum to maintain roads in the Bank-funded Road User Charges Study (Louis Berger, 2003, 2004). Road transport was privatized and tariffs liberalized. The quality of the roads improved, vehicle operating costs fell significantly, and fuel efficiency increased an estimated 45 percent.[28] Road improvement reduced driving times, which brought down transportation costs. For example, the driving time from Tbilisi to the Turkish border fell from about 8.5 hours to 5.7 hours, from Tbilisi to the Armenian border from 3.5 to 1.3 hours, and from Tbilisi to the Russian border from 6 to 3 hours.

Institutional changes were undertaken: The Ministry of Transport was merged with the Ministry of Economic Development (as the Roads Department), the staff complement has been reduced, and the operational autonomy of transport agencies has been completed. Road transport companies have been privatized and transport charges fully deregulated.

Table 5.3: Summary of Transport Sector Outcomes

Objective	Outcome
Improve road infrastructure	70% of roads in good condition in 2007, compared with 23% in 1995
Attract private capital	• All road transport and road maintenance done by private companies • Transport costs reduced • Time savings for major transport routes increased • Reduction of vehicle operating costs by 16% • Doubling rates of vehicle utilization
Transition to market economy	• Ministry of Transport reorganized, focuses on sector policy • Increased efficiency of design standards

Source: Georgian International Road Carriers Association, Ministry of Economy of Georgia, and World Bank.

Bank contribution to outcomes

Bank assistance helped rehabilitate critical sections of the main roads and introduce modern road management tools and techniques. The Bank's ESW provided valuable guidance for the lending program. The Ministry of Transport was transformed into a policy-making body responsible for design and oversight of maintenance and rehabilitation. The assistance also promoted privatizing activities and liberalizing prices (World Bank 1993). Privatization was quite effective, covering all road transport operators and the contracting industry for road maintenance and reconstruction. All road transport tariffs were negotiated directly with customers.

Institutional strengthening can be considered successful as well. The Roads Department now has modern road management tools and is using them to better manage the country's road network. Some institutional reforms and modern design standards not achieved under the Ministry of Transport Restructuring project (1999) were eventually adopted by the government after the Rose Revolution. Highway Design Model (HDM)-4[29] training for improved maintenance planning, law enforcement, development of a new roads law, and streamlined standards for bidding documents are now all part of ongoing projects. Initially, the Bank sought to improve financial sustainability by developing a road user fee system. The government used the system to finance the Road Fund with its proceeds during 1995–2003 but abandoned it after closing the Road Fund.

The outcome of the Bank assistance for transport sector is rated *moderately satisfactory* (*moderately satisfactory* for 1994–2003 and *satisfactory* for 2004–07).

Energy Infrastructure and Regulation

Background

The economic implications of independence were especially challenging for the energy sector in Georgia: infrastructure had been designed to function as part of a much larger system and relied heavily on imported natural gas. Georgia inherited highly reticulated electricity and gas networks, but its ability to supply energy over those networks was crippled after independence. Energy demand decreased with the collapse of Soviet-era industry, but so did Georgia's ability to pay for energy imports and network maintenance. By 1994, gas transport routes from Russia were closed and the war in Abkhazia caused the destruction of a major thermal power plant and difficulties in operating the country's largest hydro plant.

Compromised by a lack of generating capacity and by the poor condition of the transmission and distribution networks, electricity service dwindled to roughly two to four hours per day by 1994. Generating plants operated at 20–25 percent of capacity in1996, covering only about 40 percent of peak demand. Technical and commercial distribution losses ranged from 25 to

35 percent. All the state electricity sector organizations were insolvent because of corruption, poor customer payment, and tariffs below the cost of supply. In 1995, Sakenergo, the vertically integrated utility, was collecting just four percent of power billed. Total quasi-fiscal debt attributable to the sector reached five to six percent of GDP. Operating arrears for gas and electricity imports stood at $1.1 billion.

The energy sector found itself in a vicious cycle of low revenues, underinvestment, and poor service quality. Sector revenues were inadequate to finance new capital expenditure or even maintain the existing capital stock. That caused high transmission and distribution losses and frequent outages. Poor service quality made tariff increases politically difficult to justify. Without gas supply or district heating and only limited electricity supply, Georgians suffered through cold, dark winters. Many switched to less efficient, dirtier, and often dangerous energy sources for heating and cooking.[30]

The government began electricity sector reforms in 1994 by raising end-user tariffs for regulated energy services and working to improve collections and losses. Other measures included an overhaul of the legal and regulatory frameworks, including the creation of an independent regulatory body in 1997, the Georgia National Energy Regulatory Commission (GNERC). These reforms paved the way for privatization. In 1999, the government sold the electricity distribution utility for Tbilisi to US energy giant AES.

Bank strategy

The 1995 CAS identified the energy sector as a key constraint to development and stressed the need to rehabilitate the existing infrastructure and strengthen sector policies and institutions. The 1997 CAS confirmed that assessment and proposed measures to improve financial sustainability, restore system capacity, increase private sector participation, and promote improvements in energy efficiency. Bank assistance also sought to help the government enhance its capacity to negotiate and implement oil and gas transit agreements, maximize their benefits, and minimize social and environmental costs. Bank projects[31] focused on improving the financial sustainability of electricity sector companies and increasing diversity of energy supply for Georgia.

Analytical work complemented the Bank's credits (World Bank 1998 [private participation in infrastructure study], 1999 [energy update], 2004x [working paper on energy sector reform] 2004x [rural infra study]). Bank assistance to the energy sector has been somewhat less direct since the Rose Revolution. The 2005 CPS aimed to improve reliability of energy supply and financial management through PRSOs.

Outcomes

Significant improvements had taken place by 1997: collections of electricity billed reached 65–70 percent (compared to 10 percent in 1996); tariffs were brought to cost-recovery levels; AES's investments and donor funding gradually helped rehabilitate electricity sector assets; and the reliability of supply improved. GNERC established an electricity tariff-setting methodology and gradually phased out cross-subsidies from industrial to residential customers.

Such advances regressed during 1998–2003. In the winter of 1998–1999 electricity supply was about four to six hours per day to households in Tbilisi and less outside Tbilisi. Total electricity losses remained around 25–28 percent, a result of nonpayment by state budgetary institutions and corruption and political interference in the dispatch. Gas supply was intermittent, and losses for the distribution system were as high as 50 percent; nonpayment and corruption were rampant. Bill collectors in the municipal distribution utilities colluded with customers, taking a payment in return for reporting lower consumption. Collections are estimated to have dropped to 10–11 percent by 2002. Only a portion of payments made to Sakenergo by the distributors made it to the generators, leaving the utility with insufficient revenues to pay for gas purchases. Efforts to attract private sector interest in buying municipal electricity companies failed.

After the Rose Revolution, the tide turned: interference in the dispatch ceased, the government endorsed disconnection for nonpayment of bills, and institutions (that is, institutions financed through the budget such as government institutions, state-owned enterprises, and so on) began to pay their bills. The benefits of the government's new commitment and the effects of nearly a decade of reforms have started to emerge. Within Tbilisi, a privatized distribution company[32] provides 24-hour electricity service. The company claims to have reduced commercial losses to zero percent of the power produced and is able to collect payment on 100 percent of the power billed. As a result, the sector has become financially viable (see table 5.4).

Table 5.4: Indicators of Performance in the Energy Sector

	1995	1997	1998	2002	2003	2006–07
Electricity service for paying customers (hours per day)	2–4		4–6 hours in Tbilisi 2–3 hours in others		7–8	24
Collection rates (as % of power sold)	4	67		10	28	95
Electricity transmission and distribution losses (as percentage of production)	23	22	15	17	16	0
Quasifiscal losses attributable to the electricity sector (as percentage of GDP)	6	3	4.6	6		0

Source: World Bank.

Note: GDP = gross domestic product.

State-owned electricity companies have been privatized, but the terms of many of the privatizations have not been made public. Thus it is difficult to know whether the government has incurred any contingent liabilities through those contracts. At the same time, the privatization should have protected the government from the risk of incurring more fiscal or quasi-fiscal debt through the energy sector, which is now close to zero.

However, the problem of accumulated energy sector debt remains with Georgia. The Georgia State Elektrosystem—the successor to electricity dispatch and transmission monopolies—and the Georgia Wholesale Electricity Market had about $1 billion in accumulated debt on their books when they declared bankruptcy in 2004. Roughly $850 million of this debt is owed to other government entities, the remaining $150 million to private creditors that were vendors to the utilities. Ostensibly, privatization proceeds will be used to repay private creditors, but most sector experts doubt private creditors will ever be repaid.

In general, all indicators against which progress is typically measured in the electricity sector—collections,[33] prices, losses, and quasi-fiscal debt—have improved since 1994, but much of the improvement did not start until 2004.

Oil and gas. Georgia has become an important regional player in oil and gas transit, which has bolstered budget revenues and energy security. The Baku-Supsa oil pipeline (operational since 2000) earns Georgia roughly $6–7 million annually, and the Baku-Tbilisi-Ceyhan (BTC) oil pipeline (operational since 2005) brings around $17 million per year in transit fees (expected to increase to $50 million per year by 2011).

The country now has access to gas from three different pipelines and earns substantial transit revenue from each. Gas losses have decreased to 12–15 percent, and average collections are now at 85 percent. The customer base has expanded from 60,000 to 160,000, and new connections are growing at a rate of 20–30 percent per year.

Overall, the sustainability of Georgia's energy sector reforms is likely, but two risks need to be addressed: weak sector regulation and vertical and horizontal reintegration. The nature of privatization has threatened to undermine the strong foundations built for sector regulation at GNERC. The Commission has become a technically competent regulator, but its involvement in decisions on tariffs and on the terms of privatization has been little more than rubber stamps to ministry decisions. Some of the energy sector privatizations have caused concern that the sector is reintegrating vertically (up the supply chain) or horizontally (across segments of the energy sector). There is (as in other countries in the Region) speculation about the extent to which the various companies owning Georgia's electricity and gas assets truly represent different ownership interests. Vertical and horizontal integration are a threat to the sector in that they expand the task of regulation to include the regulation of competition, in addition to the economic regulator's standard tasks of tariff and service quality regulation.

Bank contribution to outcomes

The Bank has contributed to the present successes in the sector. Bank strategies were highly relevant to the sector's problems and to the need for capital investment and administrative reform. The electricity dispatch and the transmission and distribution companies, sources of most of the problems, are new organizations in name, management, and the way they operate. GNERC's relevance and the sustainability of the reforms within the Georgia State Elektrosystem remain in question, but the risks come more from political will than from past shortcomings in design and implementation.

The Bank's analytical work was relevant and of high quality. As the first country in the former Soviet Union to privatize an electricity distribution company, Georgia's experience offered lessons for many of its neighbors (World Bank 2003f [revisiting reform]). Some ESW in Georgia helped pioneer thinking about calculating the quasi-fiscal deficit and about the impact on the poor of energy sector reform in transition economies.

The important measures of efficacy in the energy sector relate to reliability of energy supply (number of hours of service available to a customer each day); energy prices (affordability and the price a customer pays as a percentage of total expenditures, less any subsidies); and financial sustainability of the electricity sector (measured by dependence on government subsidies, or the sum of fiscal and quasi-fiscal deficits attributable to the sector).[34] The Bank's perseverance in the sector, especially throughout the 1998–2003 period despite the paralysis of government, has been crucial to achieving these gains.

Oil and gas. Bank assistance helped diversify Georgia's access to oil and (more importantly) gas and thereby increase its security of supply. The Bank's technical assistance to negotiate transit deals clearly made a difference: the signed Host Government Agreement for the BTC pipeline project differed substantially from the original draft submitted to Georgia by the private investors and benefitted the government more. This was an interesting development, as one part of the World Bank Group (the International Finance Corporation) was a member of the investment consortium for the BTC, whereas the other part of the Bank Group (IBRD/IDA) was providing advice on negotiating transit tariffs to the government. This created a sensitive situation with a potential for conflict of interest, which, judging by the results of BTC investment and the outcomes of the Bank project, has been avoided.

Overall, the outcome of Bank assistance for the energy sector (electricity and oil and gas) is rated *moderately satisfactory* (*moderately satisfactory* for 1994–97, *unsatisfactory* for 1998–2003, and *satisfactory* for 2004–07).

Agriculture and Forestry

Background

Agriculture has traditionally been the mainstay of Georgia's economy. The country was a supplier of vegetables, fruits, tea, wine, and brandy to the rest of the Soviet Union. In 1990, the sector employed nearly one-third of the country's labor force and accounted for 33 percent of GDP. The shocks that followed the collapse of the Soviet Union resulted in a sharp decline in output and exports, to about one-third of 1990 levels in 1993. The state order system, which underpinned agricultural trade and production, had collapsed and was abolished in 1995. By that time, key constraints to sector growth were unfinished privatization, lack of access to credit, weak management capacity, poor infrastructure (irrigation, drainage, roads), and an unreliable energy supply.

Bank strategy

The 1997 CAS sought to relax the existing policy and institutional constraints and redirect scarce public resources to infrastructure (irrigation and drainage) and agricultural technology. Bank assistance supported: (i) the completion of land reform, (ii) the development of a domestic market for agricultural products and services, (iii) the creation of a financial intermediary system, and; (iv) the development of an institutional framework to support the private sector. Bank assistance consisted of analytical work (World Bank 1996c, 1996d, 2006b and seven credits.[35] The thematic range of the Bank's assistance was diverse: agricultural credit, land privatization, research and extension, irrigation and drainage rehabilitation, forests development, and response to a possible emergency caused by avian flu. The 2005 CPS proposed no new agriculture projects.

Outcomes

Overall, progress in increasing *agricultural growth and productivity* and *in alleviating rural poverty* has been limited (table 5.5). Agricultural growth has been negligible and output is only about one-third of pre-independence level. Agricultural exports nevertheless increased from $40 million in 1995 to almost $300 million in 2005—the single most important export line in the country. Restrictions on access to the Russian market in 2006 led exports to fall to about $232 million.[36]

Productivity is low, and a number of institutional issues remain unresolved: Small farmers do not have easy access to credit; the agricultural market is underdeveloped; and the research, extension, and education systems are not consistently able to help farmers adopt modern technology and practices. The irrigation and drainage system is incomplete, and food safety issues continue to impede export. It is noteworthy, however, that agriculture sector outcomes were affected by many external factors, including political events and natural disasters (droughts and floods).

Bank contribution to outcomes

The Bank's analytical work identified the subsectors and themes to be included in the assistance strategies and informed the lending program. Bank studies (1996b and 2002c) contributed to the government's decision to end direct price interventions, liberalize trade, privatize land and distribution systems, and establish a financial intermediary system for agribusiness and large farmers through commercial banks.

Table 5.5: Rural Poverty Indicators (percent)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Subsistence minimum (government data)										
	39.4	40.0	37.0	45.0	49.9	43.7	54.2	54.4	39.3	
World Bank data										
a. Poverty incidence at 2.15 PPP dollars						55.9	62.2	51.1	51.3	50.4
b. Income-based poverty incidence										
Overall poverty							43.5	37.5	38.1	40.5
Extreme poverty							22.3	18.3	17.8	20.2

Source: State Department of Statistics Yearbook ECAPO; Georgia HIES 2003-2006; World Bank staff calculations.
Note: Because of a change in Georgia's Household Income and Expenditures Survey questionnaire, the data sets before 2003 are not fully comparable with more recent ones. PPP = purchasing power parity.

Agricultural credit.[37] The Bank was effective in providing long-term credit financing to large agribusinesses through commercial banks, but improving access to credit for small farmers was largely unsuccessful, and few of the projected outcomes have been achieved (table 5.6). A sustainable credit union system was never established, and none of the five to six financially viable credit unions out of the approximately 15–20 that still operate has been able to intermediate project credit funds.[38]

Land registration and privatization. This is perhaps the most successful program in agriculture. The results exceeded the original targets for landholdings registered and the volume of fees collected (table 5.6). The Bank was one of the earliest donors to support land privatization and registration and the development of a sound cadastre system. The process is expected to be concluded in the next two to three years with almost complete privatization of agricultural land.

Table 5.6: Major Output and Outcome Indicators for the Agricultural Development Project

Indicator	Expected	Actual
Access to credit		
Productivity of agroprocessors	> 15%	18%—26%
Number of small-scale farmers with access to credit	14,600	5,831
Total deposits held by credit unions	$1.45 million	$1.2 million
Total funds lent by credit unions	$6 million	Stock not available[a]
Number of credit unions in operation	120	58
Privatization		
Number of holdings registered (after privatization)	50,000	88,700
Registration fees collected	$3.94 million	$4.42 million

Source: World Bank.
a. Flow was $1.0 million in 2005.

Research and extension—the Agriculture and Research Extension Project. The goal of this project was to develop a demand-driven research and extension system by financing an innovative competitive grant scheme to associated groups of farmers and researchers. Although most of the about 150 schemes were technically successful, the grant system was suspended two years after its start at the request of the government. No household surveys were carried out at the start of the project to establish baseline productivity and income data at farm level. Without appropriate data to back up the claims of success, the government was not convinced of the efficiency of the approach, the component was cancelled, and the remaining money reallocated.

Overall, despite the innovative character of the competitive grant scheme and successful technical implementation, there is no evidence of system effectiveness or efficiency, as no baseline data were established. Sustainability is questionable, as the government policy has changed, resulting in insufficient budgetary resources for the operation of research centers.

Irrigation and drainage. The objective in this area was to rehabilitate 16,000 hectares of irrigation infrastructure, 4,000 hectares of drainage infrastructure, and about 60,000 hectares of on-farm infrastructure (secondary and tertiary canals) under the command of amelioration associations (or water user associations; see table 5.7). In addition, these associations were to be established and strengthened to enable them to carry out operation and management.

The work continues, and the targets for the area of drainage and irrigation rehabilitation are likely to be achieved. Rehabilitation of on-farm works is behind schedule and is unlikely to be meet the schedule goals. The targets for establishing water user associations will not be met—

to a large extent because of changes in government policy. There are serious risks to sustainability: if the planned transfer of maintenance responsibilities to the private sector (instead of to water user associations, as initially planned) does not work and the farmers refuse to pay the much higher water charges, most of the rehabilitated areas could deteriorate rapidly.

Table 5.7: Irrigation and Drainage Work Progress

Program	Command hectares (expected)	Command hectare (actual as of January 2007)
Irrigation rehabilitation	16,300	1,000 completed
		4,300 ongoing
		9,500 under preparation
Drainage rehabilitation	3,700	3,400 completed
		500 ongoing
AA program (on-farm)	60,000	18,000 under way
		9,523 expected in 2007

Source: World Bank.

Forestry. The main objective here was to establish sound forest management systems with strong a policy, institutional, and management focus. The ongoing operation is at a standstill because of differences of opinion between the government and the Bank concerning the respective roles of the government and the private sector in forestry. There is also a more general debate about the ability or willingness of the private sector to manage forest resources in a sustainable manner. The standstill is partly a result of the lack of flexibility on both sides.

Overall, the IEG rating of the outcome of Bank assistance for the agriculture and forestry sector is *moderately unsatisfactory*.

Tourism and Cultural Heritage

The Bank's only investment in this area was the Cultural Heritage Project (1998, $4.49 million). The objective of this project was to improve the management and promotion of Georgia's cultural heritage by testing approaches to revive the tourism industry and thereby to engender social cohesion and national identity. This was to be done by restoring four sites of significant historic importance. At least one objective—developing the tourist industry—was and remains relevant for achieving the growth goals of the government Economic

Development and Poverty Reduction Program and the Bank's CAS. But the means adopted to achieve these ends and the funding for this project were not adequate. No effort was made to develop a comprehensive program to promote international tourism.

The restoration of a few historic sites—valuable as that may be—could hardly be expected to have a significant impact on social cohesion at a time when teachers and pensioners were not being paid, when corruption at all levels of government was evident to everyone, and when half the population, by some estimates, could not afford basic necessities. Bank reports list numerous accomplishments: new jobs; private investor interest in renovating other sites; public awareness of the importance of cultural heritage; strengthened capacity of the Ministry of Culture, nongovernmental organizations, and community groups; an increase in the number of tourists visiting various sites; etc. While all these things have happened, or are now happening, they are not necessarily a consequence of this project. After a good start, the government failed to continue to provide counterpart funds in a timely manner and did not, at the time, provide funds for the continuation of the project's activities after closing. There is no evidence that during or immediately after project completion the private sector and local communities picked up the approaches that were found to work and continued to apply them.

Some years later, investments around these sites did begin in earnest, and time series data on visits to Georgia and to these sites are now showing substantial increases. But factors responsible for the increases are most likely the country's generally improved economic and social conditions and the government's aggressive promotion of Georgia as an international tourist destination. The project did encourage some investments and helped preserve archeological sites and artifacts, but it is not clear if this was enough to justify the Bank's credit. As a Learning and Innovative Loan, the project was supposed to test alternative approaches to reviving the tourist industry and protecting cultural heritage—and there is nothing that points to systematic efforts to do so. The outcome of the Bank assistance in this area is rated *moderately satisfactory*.

Outcome rating

Overall, the outcome of the Bank's assistance for Pillar III (PSD and growth) is rated *moderately satisfactory* (*moderately satisfactory* for 1994–98, *moderately unsatisfactory* for 1998–2003, and *satisfactory* for 2004–07).

Lessons and Recommendations—Pillar III

- Georgia's experience shows how a complex regulatory system can be taxing for businesses and how large the gains can be from streamlined regulations, for both corruption costs and management time. Adopting a few simple regulations can sharply curtail corruption and release managerial resources to work for the companies. "Better" and more "elaborate" regulations tend to increase the power of discretion, encourage corruption, and strengthen the opposition to change.
- Private ownership can achieve only limited gains if the government is not prepared to play by its own rules (purchase of Telasi by AES)—abstaining from interfering in operations, enforcing payment, and disconnecting nonpaying customers. AES's work and investments in Georgia came at great cost to AES shareholders—the company was forced to sell its assets.
- Despite resumption of electricity supply and the overall financial health of the sector, attention needs to be paid to the regulation function to avoid recurrence of inefficiencies. The Bank needs to consider helping the country think about other ways of regulating private sector operators in energy, in case the regulator (GNERC) is further sidelined.
- Subsidization as a way to help institutional development or to effect institutional change can lead to high economic costs and wasted resources. The examples are subsidies to develop a credit union system and the grant scheme to link farmers with researchers.
- Achieving and sustaining results in agriculture requires continuity of engagement, including through nonlending activities. Agriculture is an important sector for Georgia, and a gap in institutional memory will limit the Bank's ability to contribute effectively in the future. High-quality analytical work was not followed up—which might have been a factor behind the apparent absence of a sector strategy or lack of the client's interest therein.

Chapter 6

Pillar IV—Human, Social, and Sustainable Development

Background

This chapter examines the outcomes of the Bank's assistance in the health, education, social protection, municipal services and infrastructure, and environmental protection sectors.

Health

The health system that Georgia inherited from the Soviet Union consisted of virtually free curative services provided by public institutions. Preventive and primary care were underdeveloped. Quality of care was mediocre to poor. Public spending on health care as a percentage of total public expenditure dropped from 5 percent in 1995 to an average of 2.5 percent in 1996–2000. The health system required substantial resources and reform to improve quality, efficiency, and equity.

Education

Although the impact of the economic collapse was less devastating than in health, the education sector was operating with grossly inadequate salaries, dwindling supplies of teaching materials, and deteriorating infrastructure. The sector faced a number of policy, institutional, and structural problems: misalignment of primary and secondary education objectives; inadequate quality and relevance of learning outcomes; inefficiencies in the use of resources; growing inequities; and weak governance and management capacity. Public spending on education as a percentage of total public expenditure averaged about 4 percent in 1995-2005.[39] Public spending has risen since, reaching almost 10 percent in 2006.

Social protection

The Soviet system of social security was based on generous social spending, which independent Georgia was not able to afford. The government struggled to address the deterioration of social welfare between 1990 and 1994, as resources were limited and the targeting system outdated and ineffective.

Municipal infrastructure and services

The quality of municipal infrastructure and services declined sharply in the early 1990s, as budget financing for investment and maintenance dried up. The administrative structure and managerial and financial capacity at the local level were inadequate. Payment for formerly subsidized services now had to come from users, although there was no charging and collection mechanism. A severe energy crisis further exacerbated the situation. Central heating was discontinued, forcing many schools to close in winter and leaving hospitals without heat and hot water.

Bank Strategy and Outcomes

The Bank's objectives for health, education, and social protection and services were to promote recovery, transformation, and development in ways consistent with and affordable by a market economy, and protecting the poor. The 1995 CAS noted the need for reforms in health, but there was hardly any mention of other social programs. The 1997 CAS focused on reducing poverty, which was seen as requiring improvements in quality and access to social services. The goals of the 2005 CPS included addressing: corruption and governance; improving management of health, education, and social security systems; and improving municipal and community provision of infrastructure and services. In the end, specific sector outcomes present a mixed picture.

Health

The core elements of the government reform program included: privatization; provision of a basic package of services; greater emphasis on primary care and prevention; reduction of hospital beds, facilities, and staff; and reorientation of the Ministry of Health toward planning, policy formulation, regulation, and monitoring. Bank assistance supported the government's reform program and included ESW (World Bank 1996b, 2002b; 2002c; 2003e) and lending.[40]

Health status indicators improved little between 1996 and 2005 (table 6.1), [41] with some progress emerging only recently. There is also evidence of improvement in some aspects of service delivery, such as a modest increase in visits to public health clinics. Other variables indicate some improvement in hospital efficiency (for example, reduction in hospital beds and length of stay). However, there were few reductions in the largest cost item—personnel—after 1996.

Education

The reform program in education, developed in 2001–02, included: curriculum, teaching methods and teacher training, increased autonomy for schools to manage their own budget, allocation of funds based on numbers of students (as opposed to numbers of teachers), the university entrance examination system, and development of new agencies to implement these programs. The Bank supported the reform program through AAA (World Bank 1996b; 2002b; 2007c) and lending.[42]

Table 6.1: Health, Nutrition, and Population Indicators

	1990	1995	1998	2000	2003	2005–06
Infant mortality rate	20.7	28.2	22.0	22.6	24.8	19.7
Under-5 mortality rate (per 1,000 live births)	24.8	32.7	25.1	24.9	27.6	19.4
Maternal mortality rate (per 100,000 live births)	40.9	53.2	66.0	47.1	45.5	42.4
Life expectancy at birth	71.4	70.3	71.2	71.3	72	73.1
Immunization rates (%)						
DPT	41.4	52.0	86.7	97.6	91.0	93.5*
Measles	42.0	50.8	100.0	94.8	99.0	91.6
Tuberculosis	40.3	33.6	82.3	95.6	85.0	77.6*
Newly registered cases of HIV	3.0	2.0	25.0	79.0	100.0	242.0
Physicians (per 100,000 population)	489.3	482.3	465.9	478.6	485.8	454.0
Nurses (per 100,000 population)	615.2	520.5	399.0	372.0	328.5	385.9
Number of hospitals	407	304	288	229	248	242
Number of hospital beds per thousand	58.7	35.8	23.5	21.2	18.2	17.1

Source: TransMonee; Ministry of Labor, Health and Social Affairs of Georgia; Health and Health Care Statistics, Centre for Disease Control 2005.
a.Latest data available are for 2004.

DPT=diphtheria, pertussis, and tetanus; HIV= human immunodeficiency virus.

The sector achieved some successes, but challenges remain as well. International programs[43] to compare test scores across countries place Georgia near the bottom of its income class, but also indicate some improvements. For example, a comparison of 2003 examinations with preliminary results from 2006 suggests improvement in various dimensions of reading and comprehension skills. Corruption in education appears to have been substantially reduced.

The most dramatic example of progress has resulted from the administration of university entrance examinations by an independent agency (since 2005) (World Bank 2007c). The shift from per-teacher funding to per-student funding (introduced in 2005), combined with the transfer of control to local school boards, stopped the tendency to add staff and induced the consolidation of some 800 small schools. However, as yet, it has not resulted in a reduction in staffing.

Two trends deserve continued attention: primary and secondary enrollment and progression rates, which have yet to reach 1991 levels; and the growing inequity in quality of schooling between rich and poor, a result of continued low level of funding in public schools.

Table 6.2: Education Indicators

	1991	2000	2001	2002	2003	2004	2005
Gross enrollment ratio							
Preprimary	58	40	41	44	46	49	51
Primary	97	100	97	94	93	95	94
Secondary	95	79	80	81	83	82	83
Tertiary	37	38	39	41	42	41	46
Primary completion rate, total (% of relevant age group)	88	101	103	100	91	86	87
Pupil–teacher ratio in basic education	7.8	9.2	8.8	8.7	8.2	8.9	

Source: TransMonee, UNESCO, WDI.

UNESCO=United Nations Educational, Scientific and Cultural Organization; WDI= World Development Indicators.

Social protection

With rising poverty and unemployment in the early 1990s, better poverty measurement and targeting became more urgent. The Bank attempted to help in several ways. It sponsored work to understand the magnitude of the problem and how to improve the efficacy and efficiency of existing programs. In addition, it helped improve targeting of the limited poverty alleviation funds. By 2006, the government was able to clear arrears in the pension system and increase the pensions—although this was not sufficient to lift the bottom third of the population out of poverty. In that same year, the government introduced a well-designed social assistance program targeted to the extreme poor, as measured by household surveys using consumption data.

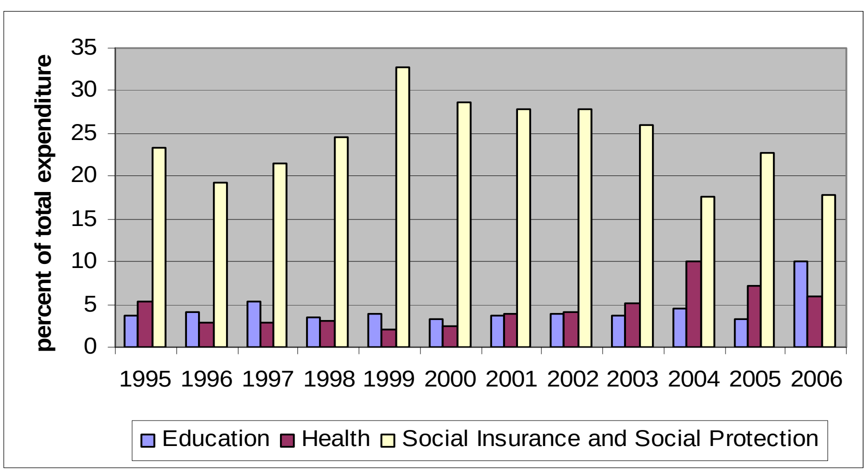
Municipal infrastructure and services

The Bank's program included lending[44] for emergency rehabilitation of critical municipal services, and assisting local governments to plan and administer municipal services in a more efficient manner. The mechanism of the Municipal Development Fund (MDF) was used to guarantee repayment of loans, and strengthen ownership and financial responsibility within local government units. The Georgia Social Investment Fund (GSIF) program aimed at by–passing the government's inability to fund and implement infrastructure projects for poor communities. The program focused on micro projects, with the objectives of: poverty alleviation through demand-driven rehabilitation of social infrastructure; capacity building of local communities and private contractors; and generation of local employment.

Bank Contribution to Outcomes

Three factors are worth keeping in mind when evaluating the Bank's contribution. First, before 2003, much of what the Bank did was to keep the situation from further deterioration. Second, Bank-supported reforms have been implemented in earnest only in the past few years. Third, these sectors were not given the highest priority by the government, as suggested by the low level of public spending in health, education, and social protection for most of the period under review—and especially before 2004 (see figure 6.1).

Figure 6.1: Expenditure on Social Services as a Percentage of Total Expenditure



Source: Ministry of Finance of Georgia.

With only a few qualifications, all Bank actions were relevant for the achievement of the country strategy objectives. However, they yielded few results, especially in the early years. Some of the Bank's ESW could have addressed more explicitly the pros and cons of the reform proposals the government was considering, especially in health and social protection. The monitoring and evaluation framework in Bank projects (health, education, GSIF) varied in quality, but on average fell below the best practice threshold. Baseline and target values were often missing, output measures were substituted for indicators of outcome, and some important indicators were specified but never measured.

Education

The Bank's AAA in education was generally of good quality, relevant, and useful to the government. An Education Policy Note (2007) served as background resource for the government's consolidated education action plan. An evaluation of the reform program in the sector (PADECO, 2007) found that the learning environment improved as a consequence of the curriculum and teacher training reforms, but was held back by physical constraints, such as lack of infrastructure.

The Bank's lending program sought to improve the quality and relevance of learning outcomes and was relevant to the country strategy goals. However, its objectives (Education APL Project, Phase I) were stated vaguely, some key performance indicators were of questionable relevance, and others simply restated the objectives. In addition, the project was launched at a time when the government was highly dysfunctional (2001), resulting in slow implementation. The second phase (2006) had a better monitoring and evaluation framework and initially aimed to continue the reform program. However, a newly added component of construction of eight schools absorbed nearly all project funds, which was partly compensated for by a grant from the government of Japan.

Box 6.1: International School of Economics at Tbilisi State University

In 2004, the government asked for the Bank's help to establish an economics school. The idea evolved into creating a regional center for the South Caucasus that provides training in economics up to the master's level, and that meets international standards. This activity was not reflected in the country strategy but was broadly consistent with its goals. The Bank provided a $250,000 grant to initiate a research program to be undertaken by its staff and students, and helped to raise funds. The first class started in September 2006 and consisted of 57 students. The school seems to be on track to achieving its objective of producing students with master's degrees who will be acceptable into PhD programs elsewhere. The main shortfall has been the inability to attract many students from other Caucasus countries.

Source: IEG mission

The outcome of the Bank's assistance for the education sector is rated *moderately satisfactory*.

Health

The Bank's analytical work was relevant to the sector objectives and useful in helping to understand sector problems. But acceptance at the practical level has lagged.

The Bank's lending helped the government in designing the initial reform program, provided training in new managerial and medical methods, and financed the upgrading of hospital and primary care facilities. Adjustment loans included conditions related to health, such as increasing the budget allocation for health, and scaling down the number of facilities and staff. The number of hospitals and beds were reduced (albeit below target), but there was no decline in total medical staff (table 6.1). The efforts to increase the budget allocated to health were largely unsuccessful (see figure 6.1). There is no evidence that planned rehabilitation and downsizing took place or that the quality of care improved (under Health Credit 1996). The impact on human resource development was substantial at the central level, but much less at the local level. The Bank's effort to establish a revolving fund to accumulate the hospital sale proceeds and reinvest them into the facilities and management capacity was unsuccessful.[45] The outcome of Bank assistance to the health sector is rated *moderately satisfactory*.

Social protection

The most important aspects of Bank activities were ESW and assistance in developing the poverty targeting system. The ESW was relevant, of good quality, and proved valuable to both the government and the donor community.

The Bank's lending provided technical assistance and policy support. The Structural Reform Support Project (1999) helped to design a system to keep track of social payments, but was never fully implemented. The PRSO program (2006–07) support for targeted assistance was highly successful. It was able to identify some 700,000 persons eligible to receive welfare and health subsidies with a high degree of accuracy, and without generating any major public criticism. Preliminary assessments of the new approach to poverty targeting suggest that it works much better than the old categorical approach. [46] The outcome of Bank assistance for social protection is rated *moderately satisfactory* (*moderately unsatisfactory* for 1994–2003, *and satisfactory* for 2004–07).

Municipal services and infrastructure

Both the MDF and GSIF programs were generally successful, delivering on their promise of better services for the population. The establishment and successful operation of the MDF can be considered an institutional development outcome in and of itself. It is now a sustainable source of funding for municipal infrastructure projects and is used as a conduit for funding from other donors[47] and the government. In addition, it has stimulated greater financial discipline within municipalities. Municipalities developed stronger collection systems of user charges for services, reducing subsidies to service providers. Remarkably, the MDF produced results at the municipal level even at the time when the country was mired in economic crisis and the state apparatus was utterly ineffective.

The *first GSIF (1998, $25 million)* financed small-scale infrastructure projects proposed by the communities on the condition that they co-finance, and commit to a satisfactory maintenance program after completion. The key performance indicators were the proportion of micro-project funds devoted to the poorest and least-serviced areas, and the proportion of micro-projects generating benefits after the investments.[48]

Investments appear to have generated improvements in a number of welfare indicators (such as gains in school enrollment and attendance rates, reduced health risks; increased number of small and medium enterprises, better access to emergency health services; and so on), as demonstrated in a Bank study (World Bank 2003a). At the same time, several difficulties have been observed. First, community contribution and participation was uneven. Second, although the targeting of poor districts was generally adequate, sometimes richer communities within these districts captured the funds by gaining approval for larger projects than poorer villages were able to afford. Third, although beneficiary assessments found considerable appreciation for the resources provided, they also indicated that, in some cases, few within the community participated in project selection or felt responsibility for the finished product.

The *second GSIF (2003, $ 15 million)* focused on efforts to improve community participation in local development planning and decision-making. To encourage participation, GSIF-II reduced the share of required co-financing by communities. However, the government decided to eliminate this cost altogether and take on full financial responsibility for maintenance of these projects.

As of 2008, all planned micro-projects were under implementation and Bank reports claim improved local government capacity and more active community participation (key performance indicators selected to reflect progress were mostly qualitative). In March 2006, the GSIF became a department—the Social Investment Department—of the MDF. The outcome of Bank support for municipal development and services is rated *moderately satisfactory*.

Environmental Protection

Environmental protection received little attention before independence. The primary challenges included: uncontrolled pollution of the Black Sea and its littoral zone from the Danube drainage basin; coastal erosion; over-fishing; alien species introductions; and offshore dumping. The expected transshipment of Caspian Sea oil through Georgia to the Black Sea and the construction of an oil pipeline terminal created substantial risks of oil spills and threatened prospects for managing pollution risks. It was particularly important to: (i) strengthen the institutional capacity for environmental management; (ii) establish a legislative and regulatory framework, and (iii) allow for the participation of local stakeholders.

Bank interventions helped to develop the policy and institutional framework for natural resource protection, although much remains to be done. Bank/Global Environment Fund projects helped advance a number of policy and institutional reforms, including improving the capacity at the Ministry of Environment to monitor implementation of the conditions of the environmental permit for the BTC oil pipeline.

The Integrated Coastal Management Project (1999–2007) aimed to establish two protected areas in western Georgia, and to strengthen the legal, regulatory, and institutional framework for the management of the coastal areas of the Black Sea. Although the protected areas were established as planned, some problems arose shortly after completion, calling into question sustainability and impact. For example, there was no integrated management of the coastal areas, with responsibilities divided among different agencies. Sustainability of the protected areas was questionable as environmental protection was not a priority area for the government and there was no clear strategy. Further, the Integrated Coastal Management Law had not been approved by the Parliament. Finally, only one of the three seawater pollution laboratories financed by the project was operational (others closed down or were transferred to a different jurisdiction). The outcome of the Bank's support for environmental protection is rated *moderately unsatisfactory* (*moderately satisfactory* for 1998–2003, *and moderately unsatisfactory* for 2004–07).

Outcome rating

The overall outcome of the Bank's assistance for Pillar IV (Human, social, and sustainable development) is rated *moderately satisfactory* (*moderately satisfactory* for 1994–98, *moderately unsatisfactory* for 1998–2003, and *moderately satisfactory* for 2004–07).

Lessons and Recommendations—Pillar IV

- When a government is weak and ineffective, consider limiting assistance to non-investment activities. The Bank spent considerable resources attempting to reform the health sector from various angles—but to no avail, as the government was not able to deliver on its promises.
- The Bank may want to consider winding down direct lending operations in health, education, and social protection in Georgia. Reforms in these sectors are in place or well under way, and the government has the resources and capacity to move forward. At the same time, it should be recognized that the Bank has an important role to play in providing advice and early warnings about problems, and in helping to develop a permanent nongovernmental capacity to undertake this kind of work, including capacity for monitoring and evaluation.
- In order to stay relevant, the Bank's ESW should address the approaches being considered by the client and consider alternatives when making recommendations.

- A ring-fenced operation at the municipal level geared toward concrete results and quick welfare gains (MDF) is capable of becoming an island of success, even under generally volatile country circumstances and a poor governance environment.

Chapter 7

Conclusions, Lessons, and Recommendations

There are three distinct subperiods into which this 15-year review period evaluation covered can be divided: (i) 1994–97, a period characterized by macroeconomic stabilization and resumption of growth; (ii) 1998–2003, a period when the overall macroeconomic stability was marred by poor governance and weak implementation capacity; and (iii) 2004–07, a period of reforms that resulted in faster economic growth, better living conditions, and an improved business climate.

1994–97: Georgia had two fundamental problems after independence: hyperinflation and a large decline in output. Bank assistance sought to address these problems and create the conditions for rapid and sustained growth. Working with the IMF, the Bank helped the government—through lending, advice, and analytical work—to prepare and execute its stabilization plan.

Beginning in September 1994, with annual inflation running at some 15,000 percent, the Central Bank stopped financing the government deficit and inflation eased immediately. By 1997, inflation had come down to 7 percent and the economy had grown at an average of 8 percent per year beginning in 1995. Support for reforms (in price policy, the foreign trade regime, government expenditure, institutions and organizations, as well as rehabilitation of infrastructure damaged by war and years of neglect) set the conditions for structural change and private sector-led growth. *Bank assistance succeeded in achieving most of its objectives during this period and the outcome is rated moderately satisfactory.*

1998–2003: In seeking to capitalize on the success of the stabilization program, the Bank expanded its lending. There was a growing emphasis on investment lending, as the government's reluctance to reform mounted. Eventually, in an environment of poor governance and resistance to reform, the Bank spread its lending thinly across sectors, thereby losing focus. Lack of accountability and economic mismanagement within the government seriously compromised the effectiveness and efficiency of the Bank's assistance.

The Bank's adjustment lending provided budget support at times when the government had no recourse to other sources of financing. However, little changed as a result of this assistance, as very few, if any, reform measures were actually implemented or made a difference. In retrospect, adjustment lending was excessive, as the Bank miscalculated the government's commitment and willingness to reform, perhaps based on the political history of Georgian leadership. Analytical work and policy advice were of good quality, but had little impact, as reform stalled and the government lost interest in having a policy dialogue. *As a result, the outcome of the Bank's assistance was moderately unsatisfactory*. Not all of the assistance was lost, though. Some of the policies adopted after 2004 were developed during this period, and many policymakers involved in the new wave of reforms gained experience through engagement with the Bank.

2004–07: Changes came after the Rose Revolution of November 2003. The new government had a solid public mandate and brought new ideas, capacity, and political will to carry out reforms. Economic reforms and better management led to freer markets, substantial increases in tax revenues, lower public debt, and more effective expenditure management. Organizational and institutional reforms led to better service delivery (electricity) and less corruption in government (customs, traffic police). These changes resulted in a better business climate, faster growth, more foreign direct investment, and generally better living conditions.

The Bank quickly recognized the potential for change and extended its financial support and advisory services to the new government. The Bank's lending (with few exceptions) and AAA work was timely, targeted, and effective. Currently the Bank provides assistance mainly through budget support (PRSO) and infrastructure financing (roads). The Bank is no longer a primary source of budget and balance of payments financing, as the government no longer needs it. Indeed, tax revenues and GDP have almost doubled, as have foreign reserves in terms of imports. In addition, the fiscal deficit has been contained. The Bank maintained good rapport with its main government counterparts, but seemed to have reduced its interaction with the broader civil society. *The country made progress on many fronts, and the outcome of the Bank assistance for the last period was moderately satisfactory*.

Today, as Georgia is progressing toward graduation from IDA (it will be eligible for IBRD financing from FY09), some of the findings of the recent IEG evaluation (IEG 2007) of Bank assistance to middle-income countries can be used to address ways in which the Bank can stay relevant in the new environment. For example, the Bank can be more effective on issues where its work has not yielded pronounced advancements (such as dealing with inequality. The Bank can also look at reinvigorating its relationship with clients by: drawing on local capacity; demonstrating best practice; becoming more agile by offering a new menu of support (fast-track procedures, faster response times, and more flexible strategies); and making the most of harmonizing Bank Group cooperation.

Overall rating: The outcome of the Bank assistance has been positive overall (*moderately satisfactory*), despite the limited progress on human development, as well as some challenges that will need to be addressed by the country in the near future: sustaining economic growth and also ensuring its more inclusive nature, aimed at reducing poverty (especially in the rural areas); reversing the widening inequality gap; consolidating achievements in governance (for example, ensuring judicial independence and transparency and accountability in managing public financial resources); and removing remaining barriers for PSD (such as weak private property rights).

Lessons

❖ The Bank's experience in Georgia appears to validate the common conclusion that donor assistance cannot bring about reform without government commitment. In seeking to capitalize on the success of the stabilization program in the mid-1990s, the Bank overestimated the government's willingness to reform and continued lending for budget support and investment in many sectors— despite clear indications of spreading corruption and declining central government capacity to control the situation. Piecemeal lending to a large number of sectors diverted the attention from major issues, and the Bank's continued assistance may have also strengthened the propensity to postpone the reforms.

❖ The main lessons that can be drawn about governance are:

- It is possible to successfully address even the most pervasive and entrenched corruption in a short period of time if the right conditions are in place, that is, a strong public mandate, political will, and capacity. Donor assistance is useful, but not decisive. Creating and supporting specific anticorruption structures (councils, commissions, and so forth) that are capable of producing voluminous and detailed reports and strategies, is not an institutional prerequisite for a successful anticorruption campaign. Determined enforcement and simple measures undertaken through traditional structures (courts, law enforcement) can suffice to achieve good results.

- The Bank's support for judicial reform in Georgia provides an illustration that infrastructure and hardware (equipment) do not automatically bring about the desired institutional or behavioral change. Upgrading infrastructure and hardware is not an effective approach if the objective is achieving judicial independence and raising ethical standards. The new state-of-the-art court facilities financed through a Bank project neither improved the judiciary's independence nor elevated its standing with the general public. Judicial independence is first and foremost a political issue that needs to be addressed by political means, which are generally outside of the Bank's mandate.
- Well-defined, closely supervised small-scale investments combined with institution-building at the local and community levels are capable of producing results even in the presence of poor governance and limited central government capacity. For example, the MDF was able to continue its activities and perform relatively well throughout the most turbulent periods in Georgian history, when the central government was all but paralyzed. Today, the MDF is a well-established, free-standing structure used by the government and other donors (such as the MCC-Georgia).
- Substituting local institutions for Bank-financed PIUs for much longer than is necessary can become an obstacle to institutional development. The PIUs might have been necessary in the early years to speed up disbursements and ensure adherence to the Bank's fiduciary regulations. In the longer term, however, they distort the structure and salaries of the civil service and increase the cost of lending. Moreover, there is no evidence that establishing PIUs insulated the projects from the common practices and procedures of the organizations for which they substituted.

Recommendations

❖ *General.* The Bank should continue consolidating and codifying the demand-driven nature of its program, with the choice of lending and AAA activities kept flexible in order to respond to client demand. This would be subject to two broad criteria—which are unlikely to be confining—on the areas of focus. The first criteria is that lending and AAA should be central to Georgia's development agenda, specifically the dual challenge of sustaining economic growth and ensuring that the fruits of growth are more equitably distributed. The second criteria is that the areas of focus should be within the Bank's established fields of expertise, such that it can realistically mobilize the skills needed to respond to client demand. Beyond this, the Bank will need to ensure that its lending and AAA remain selective. The client perspective would ensure complementarity with other development partner support, although the country may initially require assistance with the relatively complex task of coordination among development partners. Finally, the Bank should consider joint work that involves other World Bank Group institutions—the International Finance Corporation and MIGA—where such work can provide a more complete set of services to the client.

❖ *Lending:* Within the areas of focus identified by the client—and given Georgia's relatively advanced state of development— lending operations, either in the form of development policy lending or project lending, would best be geared towards building or strengthening systems, institutions, and associated technical capacity (that is, predominantly "software"). This would include, for example, monitoring and evaluation systems to enhance transparency and accountability. This need not, of course, rule out investment projects that are predominantly geared towards physical investment, particularly where these have "demonstration" value, potential for scaling up, and/or an impact on poverty or employment creation among low-income groups. To support institution building, the Bank should ensure that new investment operations do not lead to the establishment of additional ad hoc project implementation units. Rather help should be provided for the relevant government structures to take on project management responsibilities.

❖ *Analytical and Advisory Activities*: The selection of formal AAA, whether self-standing or complementary to (planned) lending, should also be driven by client demand. Given the strong demand for policy advice, the selection of AAA will likely include topics for which the client country authorities face imminent decisions. In addition, the Bank would be well-advised to reserve some "space" in its informal AAA program in order to maintain and update its knowledge. It could also keep a watching brief on other areas which, although central to Georgia's development agenda, may not immediately be covered by lending or formal AAA.

Appendix A
Statistical Supplement

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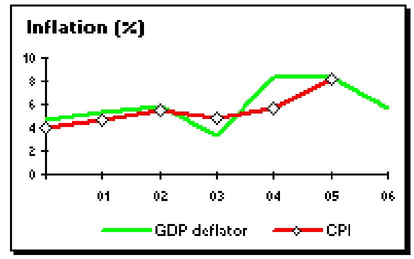
Appendix Table A.1: Georgia at a Glance

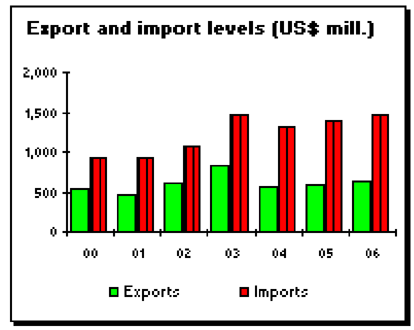
PRICES and GOVERNMENT FINANCE

	1986	1996	2005	2006
Domestic prices				
(% change)				
Consumer prices	..	39.4	8.2	..
Implicit GDP deflator	6.1	43.0	8.3	5.7
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	12.9	..	..
Current budget balance	..	-4.8	..	..
Overall surplus/deficit	..	-7.3	..	..



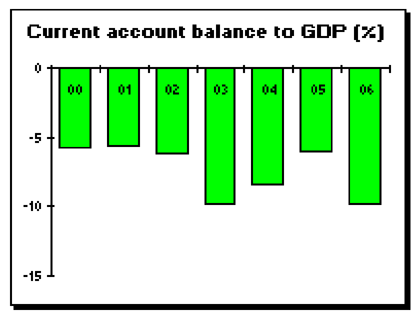
TRADE

	1986	1996	2005	2006
(US$ millions)				
Total exports (fob)	..	417	594	633
Aircraft, spacecraft and parts thereof (HS88)	..	0	..	..
Beverages, spirits and vinegar (HS 22)	..	20	..	..
Manufactures	..	321	..	..
Total imports (cif)	..	768	1,386	1,463
Food	..	219	..	..
Fuel and energy	..	266	..	..
Capital goods	..	53	..	..
Export price index *(2000=100)*	..	117	..	..
Import price index *(2000=100)*	..	119	..	..
Terms of trade *(2000=100)*	..	99	..	..



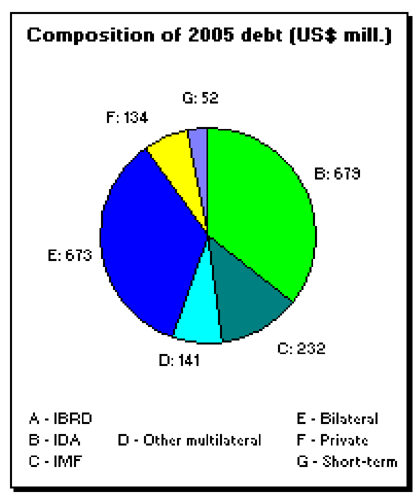
BALANCE of PAYMENTS

	1986	1996	2005	2006
(US$ millions)				
Exports of goods and services	..	511	2,695	3,044
Imports of goods and services	..	867	3,486	4,060
Resource balance	..	-356	-791	-1,016
Net income	..	-27	90	-105
Net current transfers	..	141	314	380
Current account balance	..	-243	-386	-740
Financing items (net)	..	163	477	1,244
Changes in net reserves	..	79	-91	-504
Memo:				
Reserves including gold *(US$ millions)*	..	160	475	972
Conversion rate *(DEC, local/US$)*	..	1.2	1.8	1.8



EXTERNAL DEBT and RESOURCE FLOWS

	1986	1996	2005	2006
(US$ millions)				
Total debt outstanding and disbursed	..	1,361	1,911	..
IBRD	..	0	0	0
IDA	..	157	679	785
Total debt service	..	13	187	..
IBRD	..	0	0	0
IDA	..	1	7	10
Composition of net resource flows				
Official grants	..	83	120	..
Official creditors	..	91	-4	..
Private creditors	..	0	46	..
Foreign direct investment (net inflows)	..	54	450	..
Portfolio equity (net inflows)	..	..	3	..
World Bank program				
Commitments	..	91	31	0
Disbursements	..	76	54	76
Principal repayments	..	0	2	4
Net flows	..	76	52	72
Interest payments	..	1	6	6
Net transfers	..	76	47	67



Note: This table was produced from the Development Economics LDB database. 9/28/07

Appendix Table A.2: Georgia—Key Economic and Social Indicators, 1990–2005

Series Name	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Growth and inflation																	
GDP growth (annual %)	−14.79	−21.10	−44.90	−29.30	−10.40	2.60	11.20	10.52	3.10	2.88	1.83	4.79	5.50	11.10	5.85	9.28	9.4
GDP per capita growth (annual %)	−14.64	−20.41	−44.07	−27.93	−8.58	4.51	12.97	12.04	4.34	4.05	3.00	6.00	6.69	12.30	6.94	10.34	10.4
GNI per capita, PPP (current international $)	3760	3090	1760	1280	1200	1240	1460	1770	1890	2000	2070	2190	2380	2720	3010	3410	3880
GNI per capita, Atlas method (current US$)	..	..	690	510	480	510	610	730	770	730	700	670	730	860	1050	1320	1580
Inflation, consumer prices (annual %)[1]	3.30	78.50	887.40	3125.40	15606.50	162.72	39.36	7.09	3.57	19.19	4.06	4.65	5.56	4.78	5.70	8.23	8.8
Composition of GDP (%)																	
Agriculture, value added (% of GDP)	31.55	28.74	52.89	58.58	65.86	52.45	34.14	29.24	27.56	26.24	21.93	22.43	20.61	20.55	17.92	16.69	12.97
Industry, value added (% of GDP)	33.45	37.18	23.94	21.99	10.29	15.87	23.73	23.62	22.89	22.53	22.36	21.97	24.34	25.65	26.42	27.44	24.90
Services, etc., value added (% of GDP)	35.00	34.08	23.16	19.43	23.85	31.68	42.14	47.14	49.54	51.23	55.71	55.60	55.05	53.80	55.66	55.87	62.14
Exports of goods and services (% of GDP)	39.95	27.78	35.67	46.89	57.77	25.50	13.33	15.61	16.46	19.06	22.99	24.46	29.23	31.84	42.04	42.13	32.88
Imports of goods and services (% of GDP)	45.69	31.07	66.26	71.75	109.13	42.33	32.37	42.14	37.11	38.10	39.67	38.87	42.40	46.42	53.90	54.50	57.04
Gross domestic savings (% of GDP)	24.98	24.91	−7.20	−18.86	−48.71	−12.79	0.66	−8.52	0.36	3.05	4.70	7.48	8.95	9.86	16.41	13.95	2.54
Gross fixed capital formation (% of GDP)	23	19	16	3	3	4	19	19	19	22	20	21	21	23	27	26	26
External accounts																	
Current account balance (% of GDP)[a]			−2.4	−40.3	−33.8	−18.3	−12.5	−13.1	−12.8	−10	−7.9	−6.4	−5.9	−7.3	−12.8	−9.8	−13.8
Total debt service (% of GNI)	..	..	..	0.49	0.24	0.78	0.43	1.28	5.59	3.68	3.71	2.38	3.75	4.49	4.48	2.89	3.58
External debt (% of GNI)	..	..	2.16	21.05	58.72	48.18	45.02	40.29	43.31	56.14	51.59	53.25	53.54	48.06	39.55	29.46	26.23
Total reserves in months of imports	..	..	..	..	..	..	..	1.64	1.15	1.50	1.12	1.44	1.53	1.17	1.75	1.65	2.44
Fiscal accounts																	
Total revenue excluding grants (% of GDP)[a]			15.00	2.30	4.20	5.10	8.10	10.00	14.70	14.60	14.90	15.60	15.50	15.90	20.50	22.50	24.80
Total expenditure and net lending (% of GDP)[1]			52.30	35.90	24.20	12.30	13.90	14.50	21.80	22.10	19.20	18.30	17.80	17.50	18.60	24.90	29.20
Fiscal balance excluding grants (% of GDP)[a]			−37.30	−33.60	−20.00	−7.20	−5.80	−4.50	−7.10	−7.50	−4.30	−2.70	−2.30	−1.60	1.90	−2.40	−4.40
Fiscal balance (cash basis, % of GDP)[a]						−4.5	−4.4	−3.8	−4.9	−5	−2.6	−1.6	−1.9	−1.60	−0.20	−2.40	−2.80
Fiscal balance (commitments, % of GDP)[a]						−5.3	−4.5	−4.1	−6.1	−6.7	−4	−2	−2	−1.30	3.10	−1.50	−3.00

Appendix Table A.2: Georgia—Key Economic and Social Indicators, 1990–2005 *(continued)*

Series Name	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Social Indicators																	
Health																	
Immunization, DPT (% of children ages 12–23 months)	..	..	58.00	54.00	58.00	79.00	80.00	80.00	80.00	80.00	80.00	87.00	84.00	76.00	78.00	84.00	87
Improved water source (% of population with access)	80.00	..	..	..	..	..	..	..	..	..	..	..	..	..	82.00	..	..
Improved sanitation facilities (% of population with access)	97.00	..	..	..	..	..	..	..	..	..	..	..	..	..	94.00	..	..
Life expectancy at birth, total (years)	70.25	..	70.30	..	..	70.30	..	70.30	..	..	70.31	..	70.32	..	..	71.31	70.72
Mortality rate, infant (per 1,000 live births)	43.00	..	..	..	..	41.00	..	..	..	..	41.00	..	..	..	..	41.00	28.00
Education																	
School enrollment, preprimary (% gross)	..	58.41	..	..	..	..	..	..	..	37.50	39.68	41.35	43.91	46.09	48.67	50.87	55.06
School enrollment, primary (% gross)	..	97.28	..	..	..	..	..	..	..	97.62	100.05	96.93	93.87	93.49	95.12	93.62	95.67
School enrollment, secondary (% gross)	..	94.85	..	..	..	..	..	..	..	78.70	78.94	80.09	81.39	83.19	82.33	82.78	84.89
Population																	
Population growth (annual %)	−0.17	−0.87	−1.50	−1.92	−2.01	−1.84	−1.58	−1.37	−1.19	−1.13	−1.14	−1.15	−1.12	−1.08	−1.03	−0.97	−0.91
Population, total (in millions)	5.46	5.41	5.33	5.23	5.13	5.03	4.95	4.89	4.83	4.77	4.72	4.67	4.61	4.56	4.52	4.47	4.43
Urban population (% of total)	55.20	54.96	54.72	54.48	54.24	54.00	53.74	53.48	53.22	52.96	52.70	52.60	52.50	52.40	52.30	52.20	52.30

Source: World Development Indicators (World Bank 2007)

Note: DPT=diphtheria, pertussis, tetanus; GDP=gross domestic product; GNI=gross national income; PPP=purchasing power parity.

a. IMF Reports, various issues.

Appendix Table A.2b: Georgia—Key Economic and Social Indicators, Average 1997–2005

Series name	Georgia	Albania	Armenia	Azerbaijan	Kazakhstan	Kyrgyz Republic	Moldova	Turkmenistan	Ukraine	Uzbekistan	Europe and Central Asia	Low income
Growth and inflation												
GDP growth (annual %)	6.09	5.21	9.01	11.38	7.13	4.43	3.20	7.70	4.37	4.97	4.27	5.46
GDP per capita growth (annual %)	7.30	5.11	9.64	10.42	7.44	3.28	3.53	6.30	5.31	3.59	4.29	3.47
GNI per capita, PPP (current international $)	2382.22	4086.67	3122.22	2790.00	4977.78	1527.78	1656.67	2725.00	4728.89	1596.67	6801.98	1914.97
GNI per capita, Atlas method (current US$)	840.00	1435.56	832.22	725.56	1694.44	342.22	534.44	582.50	943.33	546.67	2539.16	424.28
Inflation, consumer prices (annual %)	6.98	7.81	4.34	2.10	9.01	12.24	15.83		13.10			
Composition of GDP (%)												
Agriculture, value added (% of GDP)	22.57	27.60	27.13	15.98	9.01	37.56	25.42	23.31	14.01	32.40	9.31	25.73
Industry, value added (% of GDP)	24.14	19.18	35.62	47.67	36.23	24.57	23.83	44.06	35.58	24.73	31.97	26.55
Services, etc., value added (% of GDP)	53.29	53.22	37.28	36.35	54.77	37.86	50.75	32.63	50.40	42.87	58.72	47.71
Exports of goods and services (% of GDP)	27.09	17.38	24.97	38.97	45.71	39.49	51.68	63.60	53.52	29.81	38.08	19.72
Imports of goods and services (% of GDP)	43.68	40.11	48.48	51.92	42.96	49.31	78.26	67.10	51.12	27.01	38.31	22.55
Gross domestic savings (% of GDP)	6.25	1.61	−1.74	22.00	25.03	7.00	−2.42	28.93	22.65	23.17	22.14	21.14
Gross fixed capital formation (% of GDP)	22.11	24.35	20.25	35.91	20.64	15.18	19.01	32.44	19.66	25.82	20.76	22.33
External accounts												
Current account balance (% of GDP)[a]	−5.23	−8.01	−13.56	−12.11	−4.57	−7.49	−6.32	−0.52	3.86	3.27		
Total debt service (% of GNI)	3.58	0.93	3.09	2.24	14.85	8.55	10.87	11.26	7.32	5.82	7.92	3.14
External debt (% of GNI)	46.13	23.51	47.44	21.89	60.81	110.68	83.94	61.12	42.56	35.53	49.04	40.51
Total reserves in months of imports	1.44	5.05	3.70	2.60	3.18	4.27	2.31	8.60	2.08		4.99	6.49
Social indicators												
Health												
Life expectancy at birth, total (years)	70.56	74.51	72.20	71.82	65.55	67.90	67.57	62.68	68.03	67.84	68.80	58.28
Immunization, DPT (% of children ages 12−23 months)	81.00	97.33	90.78	96.89	95.67	98.11	95.89	96.00	98.33	97.89	92.48	60.15
Improved water source (% of population with access)	82.00	96.00	92.00	77.00	86.00	77.00	92.00	72.00	96.00	82.00	91.91	75.09
Improved sanitation facilities (% of population with	94.00	91.00	83.00	54.00	72.00	59.00	68.00	62.00	96.00	67.00	85.37	38.33
Mortality rate, infant (per 1,000 live births)	41.00	19.00	28.80	75.50	63.00	59.00	18.10	79.00	15.45	58.00	29.48	78.81
Education												
School enrollment, preprimary (% gross)	44.01	46.69	28.10	24.33	26.06	10.90	48.53		64.48	27.57	46.53	23.20
School enrollment, primary (% gross)	95.82	107.22	91.93	95.37	103.24	97.01	95.02		101.65	99.63	100.77	93.23
School enrollment, secondary (% gross)	81.06	75.44	86.32	79.52	93.31	86.01	82.48		95.25	94.93	89.72	41.68
Population												
Population growth (annual %)	−1.13	0.09	−0.58	0.86	−0.31	1.10	−0.32	1.38	-0.90	1.33	−0.01	1.93
Population, total (in million)	4.67	3.08	3.07	8.11	15.00	4.95	4.26	4.57	48.76	24.96	472.22	2,186.85
Urban population (% of total)	52.71	42.64	64.93	51.27	56.58	35.65	46.33	45.41	67.32	37.25	63.47	28.70

Source: World Development Indicators (World Bank 2007).

Note: DPT=diphtheria, pertussis, tetanus; GDP=gross domestic product; GNI=gross national income; PPP=purchasing power parity.

a. IMF Reports, various issues

Appendix Table A.3a: Georgia—Development Assistance and World Bank Lending, 1994–2006

Development partner	Net ODA disbursement; US$ million													Cumulative 1994–2006	% of Total
	1994	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*		
All donors, Total	177.0	209.1	309.4	241.9	208.7	244.8	169.4	300.0	312.5	225.6	314.5	309.1	360.6	3382.4	100.0
DAC countries, Total	67.3	81.6	112.9	70.3	78.5	77.7	120.3	151.6	209.6	163.9	209.1	197.2	210.4	1750.4	51.8
United States	53.0	52.0	55.0	32.0	22.0	30.2	74.6	94.3	133.3	75.0	92.3	72.1	103.2	889.0	26.3
Germany	2.1	10.2	33.6	15.4	23.2	17.0	19.1	20.1	21.0	31.7	58.4	51.1	46.4	349.5	10.3
Japan	0.0	0.1	0.2	4.4	4.6	10.2	11.4	15.5	18.6	16.4	10.6	7.3	11.6	110.9	3.3
Netherlands	1.8	9.4	9.0	5.3	11.0	5.2	2.2	3.3	8.9	5.0	7.5	12.0	11.1	91.7	2.7
Switzerland	0.8	1.6	1.5	3.5	4.9	3.7	2.3	2.3	4.5	6.9	8.0	5.9	4.8	50.8	1.5
Norway	0.5	2.5	1.1	1.6	2.3	2.3	2.1	3.1	4.4	5.0	4.8	8.4	7.4	45.5	1.3
United Kingdom	4.0	2.6	2.8	2.9	1.8	1.5	1.7	5.7	3.9	3.4	3.1	3.3	4.9	41.6	1.2
France	0.3	0.2	2.6	2.0	0.9	1.2	0.8	1.9	1.9	2.6	3.9	17.5	4.4	40.2	1.2
Multilateral, total	109.0	127.0	196.4	167.4	125.3	161.4	43.1	142.0	92.3	53.0	95.4	102.8	137.0	1552.0	45.9
IDA	1.0	85.1	76.3	64.3	52.9	78.8	18.1	63.1	58.9	43.5	64.4	59.2	75.8	741.3	21.9
EC	91.9	24.8	35.5	21.5	24.2	27.7	13.8	23.5	10.9	28.3	36.2	35.9	55.1	429.1	12.7
SAF+ESAF+PRGF(IMF)			80.6	76.4	37.6	45.7	39.3	11.2	–31.1	–20.4	–9.5	–8.0		221.8	6.6
UNHCR	6.7	4.8					4.2	4.9	4.3	3.8	3.4	2.6	2.5	37.3	1.1
WFP	7.6	6.4				1.7	2.0	5.4	0.9	0.5	0.0	0.8	1.2	26.6	0.8
UNDP	0.2	0.5	1.0	2.0	5.8	3.5	1.8	1.2	1.4	1.5	1.8	1.9	1.5	23.9	0.7
UNICEF	1.6	4.4	2.1	0.9	1.5	0.9	0.9	0.6	0.7	0.8	0.7	0.9	1.0	16.8	0.5

Source: OECD Development assistance Committee website, table 2a-Destination of Official Development Assistance and Official Aid-Disbursements.

*ODA: Official Development Assistance-Grants or loans to countries and territories on Part 1 of the DAC List of Aid Recipients (developing countries that are:

1-Undertaken by the Official Sector;2-Have promotion of economic development and welfare as their main objective, 3-Are granted at concessional financial terms (the loan has a grant element of at least 25%).

Note: DAC= Development Assistance Committee of the Organisation of Economic Co-operation and Development; EC=European Commission; ESAF=Enhanced Structural Adjustment Facility; IDA=International Development Association; IMF=International Monetary Fund; ODA=Official development assistance; PRGF=Poverty Reduction and Growth Facility; SAF=Structural Adjustment Facility; UNDP=United Nations Development Programme; UNHCR=United Nations High Commissioner for Refugees; UNICEF=United Nations Children's Fund.

Appendix Table A.3b: World Bank Lending by Sector Board (US $ million), 1995–2008

Sector Board	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Economic Policy	75	60		65	60					24		20	40		344
Education							26						15		41
Energy and Mining			54		25		37			4					120
Environment					4										4
Health, Nutrition, and Population		14			17			3	20						54
Private Sector Development					15										15
Public Sector Governance	10	5			13							3			31
Rural Sector			15			8	27		16		23	7			96
Social Development				4											4
Social Protection				20					20						40
Transport		12			2	40				20		5	19	35	133
Urban Development	18			21					19						58
Total	103	91	69	110	136	48	90	3	75	48	23	35	74	1	940

Source: World Bank internal database as of March 2008.

Appendix Table A.3c: World Bank Lending by Sector Board (Number of Projects), 1995–2008

Sector Board	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Economic Policy	1	1		2	1					1		1	2		9
Education							1						1		2
Energy and Mining			2		1		2			1					6
Environment					1										1
Health, Nutrition, and Population		1			1			1	1						4
Private Sector Development					1										1
Public Sector Governance	1	1			1							1			4
Rural Sector			1			1	1		1		3	1			8
Social Development				1											1
Social Protection				1					2						3
Transport		1			1	1				1		1	1	1	7
Urban Development	1			1					1						3
Total	3	4	3	5	7	2	4	1	5	3	3	4	4	1	49

Source: World Bank internal database as of March 2008.

Appendix Table A.3d: Georgia—List of IDA-Approved Projects, 1995–2008

Project ID	Project name	Fiscal year of approval	Sector Board	IBRD/IDA Amount	Latest DO	Latest IP	Latest risk rating	Project status	Date, Rev closing	IEG outcome	IEG sustainability	IEG ID impact
Active projects												
P055173	Education I (APL #1)	2001	Education	26	S	S		Active	06/30/2008			
P098217	Education II (APL #2)	2007	Education	15	S	MS		Active	12/31/2009			
P054886	Electricity Market Support	2001	Energy and Mining	27	S	S		Active	12/31/2008			
P072394	Energy Transit Institution Building	2001	Energy and Mining	10	S	S		Active	08/31/2008			
P088911	Energy Supplement	2004	Energy and Mining	4				Active				
P040555	Primary Health care Development	2003	Health, Nutrition, and Population	20	S	S		Active	12/31/2009			
P063081	Public Sector Financial Management Reform	2006	Public Sector Governance	3	S	MS		Active	03/01/2010			
P065715	Agricultural Research Extension and Training	2000	Rural Sector	8	S	S		Active	06/30/2008			
P055068	Irrigation/Drainage Rehabilitation (APL #1)	2001	Rural Sector	27	MS	MS		Active	04/30/2009			
P044800	Forestry	2003	Rural Sector	16	U	U		Active	06/30/2009			
P078544	Rural Development	2005	Rural Sector	10	MS	MS		Active	06/30/2010			
P095551	Irrigation/Drainage Rehabilitation Supplement (APL #1)	2005	Rural Sector	13				Active				
P099808	Avian Flu	2006	Rural Sector	7	MS	MS		Active	08/31/2009			
P094044	Highway Improvement 2	2008	Transport	35	S	S		Active	02/29/2012			
P083110	Highway Improvement 1	2007	Transport	19	S	S		Active	02/28/2011			
P086277	Secondary and Local Roads	2004	Transport	20	S	S		Active	10/31/2009			
P098850	Infrastructure Pre-Investment Facility	2006	Transport	5	S	MS		Active	09/30/2009			
Closed projects												
P035784	Power Rehabilitation	1997	Energy and Mining	52	S	S	M	Closed	11/30/2000	Moderately Satisfactory	Non-Evaluable	Substantial
044830	Oil Institution Building	1997	Energy and Mining	1	HS	HS	M	Closed	12/31/2000	Satisfactory	Likely	Substantial
P064094	Energy SECAC	1999	Energy and Mining	25	U	S	H	Closed	03/01/2002	Satisfactory	Likely	Substantial
P050911	Integrated Coastal Management	1999	Environment	4	MS	S		Closed	02/28/2007	Moderately Unsatisfactory		
P008410	Rehabilitation	1995	Economic Policy	75	HS	HS	M	Closed	06/30/1996	Satisfactory	Highly Likely	Substantial
P034583	SAC	1996	Economic Policy	60	HS	S	N	Closed	12/31/1997	Moderately Unsatisfactory	Likely	Modest
P044797	SAC 2	1998	Economic Policy	60	S	S	M	Closed	12/31/1998	Unsatisfactory	Likely	Modest

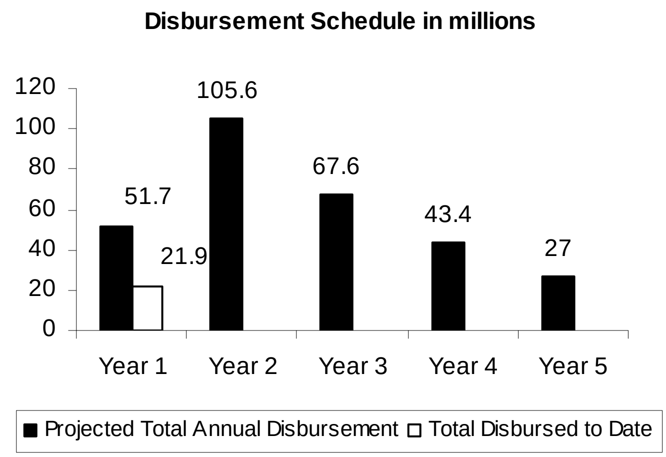
Appendix Table A.3d: Georgia—List of IBRD/IDA-Approved Projects, 1995–2008 (*continued)*

Project ID	Project name	Fiscal year of approval	Sector Board	IBRD/IDA Amount	Latest DO	Latest IP	Latest risk rating	Project status	Date, Rev closing	IEG outcome	IEG sustainability	IEG ID impact
P051034	SATAC II	1998	Economic Policy	5	S	S	N	Closed	12/31/1999	Moderately Satisfactory	Likely	Modest
P052153	SAC 3	1999	Economic Policy	60	S	S	S	Closed	10/30/2002	Moderately Unsatisfactory	Unlikely	Modest
P057814	Reform Support	2004	Economic Policy	24	S	S	M	Closed	12/31/2004	Moderately Satisfactory	Likely	Substantial
P088820	PRSO	2006	Economic Policy	20	S	S		Closed	07/31/2006			
P093245	PRSO 2	2007	Economic Policy	20	S	S		Closed	07/31/2007			
P099882	PRSO 3	2007	Economic Policy	20				Closed	01/31/2008			
P008414	Heath	1996	Health, Nutrition, and Population	14	S	S	S	Closed	12/31/2002	Moderately Satisfactory	Likely	Substantial
P052154	Structural Reform Support	1999	Health, Nutrition, and Population	17	MS	MS		Closed	06/30/2007			
P075549	Health Supplement	2002	Health, Nutrition, and Population	3				Closed				
P008413	Institution Building	1995	Public Sector Governance	10	S	S	N	Closed	06/30/1998	Satisfactory	Likely	Substantial
P044388	SATAC	1996	Public Sector Governance	5	S	S	N	Closed	12/31/1998	Satisfactory	Likely	Substantial
P057813	Judicial Reform	1999	Public Sector Governance	13	MS	MS		Closed	06/30/2006	Moderately Unsatisfactory		
P008416	Enterprise Rehabilitation	1999	Private Sector Development	15	S	S		Closed	12/30/2006	Moderately Satisfactory		
P008415	Agricultural Development	1997	Rural Sector	15	S	S		Closed	06/30/2005	Satisfactory	Likely	Substantial
P055573	Cultural Heritage	1998	Social Development	4	S	S	M	Closed	12/31/2003	Satisfactory	Likely	Modest
P039929	SIF	1998	Social Protection	20	S	S		Closed	09/30/2007			
P074361	SIF 2	2003	Social Protection	15	S	S		Closed	12/31/2007			
P080376	Emergency Earthquake Rehab/SIF Supplement	2003	Social Protection	5				Closed				
P039892	Transport	1996	Transport	12	HS	S	N	Closed	06/30/1999	Highly Satisfactory	Likely	Substantial
P056514	Transportation Ministry Restructuring	1999	Transport	2	S	S	M	Closed	06/30/2003	Satisfactory	Likely	Substantial
P040556	Roads	2000	Transport	40	S	S		Closed	12/31/2005	Moderately Satisfactory	Likely	Modest
P008417	Municipal Infrastructure Rehabilitation	1995	Urban Development	18	S	S	N	Closed	06/30/2000	Satisfactory	Likely	Modest
P050910	Municipal Development	1998	Urban Development	21	S	S	M	Closed	12/31/2002	Satisfactory		
P077368	Municipal Development and Decentralization 2	2003	Urban Development	19	S	S		Closed	12/30/2007			

Source: World Bank internal database as of March 2008.
Note: APL=Adaptable Program Lending; DO=Development objective; IBRD=International Bank for Reconstruction and Development; ID=identification; IDA=International Development Association; IEG=Independent Evaluation Group; IP=Implementation progress; PRSO=Poverty Reduction Support Operation; SAC=Structural Adjustment Credit; SATAC=Second Structural Adjustment Technical Assistance Credit; SECAC=Sector Adjustment Credit; SIF=Social Investment Fund.*Note*: The World Bank Group has six ratings for IP and DO: Highly Satisfactory (HS), Satisfactory (S), Moderately Satisfactory (MS), Moderately Unsatisfactory (MU), Unsatisfactory (U), Highly Unsatisfactory (HU)

Appendix Table A.3e: Georgia—Millennium Challenge Corporation

Project name	Project funds (in USD million)
Component I: Regional Infrastructure Rehabilitation Project	
Samtskhe-Javakheti (S-J) Road Project	$102.20
Energy Rehabilitation Project	$49.50
Regional Infrastructure Development Project	$60
Component II: Enterprise Development Project	
Investment Fund Activity	$32.50
Agribusiness Development Activity	$15
Others	
Program Administration and Control	$27.60
Monitoring and Evaluation	$8.40
Total	$295.20
Compact Signed: September 9, 2005	
Entry into Force: April 7, 2006	
Compact Duration: 5 Years	



Source: Compact Eligible Country Report—Georgia, Millennium Challenge Corporation, May 2007.

Appendix Table A.3f: Total European Union Grants to Georgia, 1992–2006 (in EURO millions)

	1992–93	1994–95	1996–97	1998–99	2000–01	2002–03	2004	2005	2006	Cumulative 1992–2006
TACIS[a]	13	10	16	16	15	14	25	0	20	129
European Commission Humanitarian Office	12	45	16	13	4	4.2	4	2	2	102.2
Food aid (from DG AGRI funds)		41	22							63
Exceptional Humanitarian Assistance	6								0	6
Food Security Programme			34	12	13		12	10	10	91
Rehabilitation in Conflict Zones			8	4	5		2	2	2	23
Macro-Financial Assistance				19	6		7		33	65
Aid to Mitigate the Effects of the Russian Financial Crisis				4						4
Common Foreign and Security Policy and Rapid Reaction Mechanism					2	2	5			9
European Initiative for Democracy and Human Rights						2	2	2	2	8
Other instruments							2	1	2	5
Total	31	96	96	68	45	22.2	59	17	71	505.2

Source: Georgia Country Strategy Paper 2007-2013, European Commission.

a. 2-year allocations.

Note: DG AGRI= Directorate General for Agriculture and Rural Development, European Commission;; TACIS=Technical Assistance to the Commonwealth of Independent States.

Appendix Table A.3g: Georgia—German Financial Cooperation (in EURO million)

Sector program/project	Year of commitment	ODA loans and grants	Status
Energy		128.2	
Power Distribution I	2002/2004	25.0	In implementation
Regional Power Network I	1998/2003	10.0	In implementation
Promotion of Renewable Energies I	2000	5.1	In implementation
Power and Transmission I + II	1995/1997/2000	20.2	In implementation
Sector Programme Electricity Supply	1993/1997/1998	8.3	In implementation
Debt restructuring in the Electricity Sector	1998	3.3	In implementation
General Supply	1998	12.0	Completed
Emergency Aid Programme Energy I-III	1993/1995/1996	44.3	Completed
Sustainable Economic Development		48.2	
ProCredit Bank II	2003	2.5	In implementation
Credit Guarantee Fund I + II	2001/2006	13.1	In implementation
Cadastre and Land Register I + II	1998/2002	24.7	In implementation
ProCredit Bank I	1997	4.3	Completed
Sector Programme Agriculture	1993	3.6	Completed
Communal Infrastructure		49.8	
Communal Infrastructure in Batumi I	1993/2000/2004/2006	32.2	In planning
Georgian Social Investment Fund I-II	1999/2002	10.7	In implementation
Emergency Assistance-Earthquake	2002	2.5	Completed
Communal Infrastructure	1998	4.4	Completed
Health		3.6	
Prevention of Tuberculosis	2002	1.0	In implementation
Prevention of Tuberculosis	2000	2.6	In implementation
Environment		5.7	
Ecoregional Nature Conservation Program	2003	2.3	In implementation
Borjomi-Kharagauli National Park	1998	3.4	In implementation
Other		9.9	
Studies and Experts Fund I-IV	1993–2006	9.9	In implementation
Total ODA funds		242.9	
Total FC promotional loans		2.5	
Grand total		245.4	

Source: Georgia-Summary of activities and project overview, KfW Entwicklungsbank, October 2006.

FC=financial cooperation; KfW Entwicklungsbank= German Credit Facility for Reconstruction Development Bank; ODA=Official development assistance.

Appendix Table A.4: Georgia — Selected Analytical and Advisory Work, 1993–2008

I—Programmed and Delivered	*Proposed fiscal year*	*Delivered to client FY*	*Output type*	*Report No./ PO*
CAS				
Georgia - Country Assistance Strategy		1998	CAS	17000
Georgia - Country Assistance Strategy		2004	CAS	26931
Reports				
Georgia - Poverty and income distribution *(Poverty Assessment)*	1998	1999	Economic Report	19348
Education Sector Study	1998	1998	Report	P055174
Georgia - Judicial assessment	1998	1998	Sector Report	17356
PSD Constraints *(Private Sector Assessment)*	1999	1999	Report	
Georgia - An Integrated Trade Development Strategy *(Trade Expansion Study)*	1999	2003	Sector Report	27264
Georgia - Public expenditure review	2000	2002	Economic Report	22913
CFAA/CPAR				
Georgia - Country Procurement Assessment Report		2001	CPAR	P073711
Georgia - Country Procurement Assessment Report *(CPAR Follow-up)*		2002	CPAR	26660
Georgia - Country Financial Accountability Assessment *(CFAA Follow-up)*		2003	CFAA	28941
Poverty Reduction Strategy Paper (PRSP)				
Georgia - Interim Poverty Reduction Strategy Paper and Joint Assessment		2001	PRSP	21448
Georgia - Econ. Develop. and Poverty Reduction Program and Joint Assessment *(PRSP*		2004	PRSP	26964
II—Programmed and not delivered				
Private Participation in Infrastructure	1998	Dropped		
Country Economic Memorandum	1999	Dropped		
Energy Update	1999	Dropped		
Economic Policy Note: formerly tax admin. Institutions	2000	Dropped		
Labor Market Study	2000	Dropped		
III—Non-programmed and delivered				
Report				
Country Economic Memorandum		1993	Report	P019482
Macroeconomic Development		1994	Report	P019483
Macroeconomic Update		1995	Report	P019484
Macroeconomic Framework Study		1995	Report	P037112
Transport Sector Review		1995	Report	P019552
Energy		1995	Report	P037121
Agriculture and Food Sector Review		1996	Report	P019508
Public Expenditure Review		1996	Report	P036496
Debt Management		1997	Report	P041245
Power Privatization		1998	Report	P056653
Constraints to Growth		1998	Report	P057812
Foreign Investment Constraint		1998	Report	P057839
Country Portfolio and Strategy Review		1998	Report	P058045
Civil Service Assessment		1999	Report	P057227
Financial Sector Survey		1999	Report	
Pension Note		2000	Report	
Agriculture Sector Update		2000	Report	P063576
Health Finance		2001	Report	P063225
Poverty Profile Update		2001	Report	P071546
FSAP		2002	Report	
Georgia - Poverty update (English)		2002	Report	22350
PSACG - Georgia -CG Assessment		2003	Report	
Revisiting Reform: Lessons from Georgia		2003	Report	
Program Poverty Assessment		2005	Report	P092089
FSAP Georgia Update		2006	Report	
Rural Infrastructure Study		2007	Report	
Program Poverty Assessment		2007	Report	P101612
Policy note				
Policy Notes		1996	Policy note	P041246
Banking Sector Policy Note		1997	Policy note	P019531
Municipal Sector Note		1997	Policy note	P036516
Pension Note		2000	Policy note	P059179
High Education Note		2003	Policy note	
Health Note		2004	Policy note	
Policy recommendation Note *(Policy Options for incoming Growth)*		2004	Policy note	
	Proposed	*Delivered to*	*Output type*	*Report No./*

Social Capital & Rural Development *(Rural Growth)*	2005	Policy note	
Child Welfare Note	2005	Policy note	
Pension and Social Assistance Note	2005	Policy note	P090785
Working Paper/Publication			
Qualitative study on informal payments for health services in Georgia	2003	Departmental WP	
Corruption in Georgia : survey evidence	2000	Working Paper	
Evaluating the impact of infrastructure rehabilitation projects on household welfare in rural areas	2004	Policy Research Working Paper	
Revisiting reform in the energy sector : lessons from Georgia	2004	Publication	
HIV/AIDS in Georgia : addressing the crisis	2004	Publication	
Consultations			
Caspian Oil & Gas	2000	Consultations	P067132
Caspian Oil & Gas Follow up	2001	Consultations	P071466
Social Protection Dialogue	2002	Consultations	
Caspian Oil & Gas Follow up 2	2002	Consultations	P075307
Trade Facil. Dialogue	2003	Consultations	
Caspian Oil & Gas Follow up 3	2003	Consultations	P080285
How-to guidance			
Bank Sector Advisory (TA)	2003	HTG	
Private Sector TA	2003	HTG	
FSAP FLWP TA *(FSAP Follow-up advisory)*	2003	HTG	
Post-FSAP TA (FSE)	2004	HTG	
Financial Sector TA *(Financial Sector Advisory)*	2004	HTG	
Institutional Development Fund			
IDF Support to the Georgia Investment Center	1999	IDF	
IDF Institutional Strengthening of the State Chancellery & Civil Service Bureau	1999	IDF	
IDF Development of Public Procurement Procedures *(Procurement Strategy Note)*	2001	IDF	
IDF for Restructuring/Privatization of R&D Organizations	1998	IDF	
IDF for Decentralization & Municipal Management	2000	IDF	
IDF for Cultural Heritage	1999	IDF	
IDF for Child Welfare	2004	IDF	
Institutional Development			
Post Conflict Grant Prep TA	2004	IDP	
Knowledge Sharing Forum			
GEF Nat. Operational Focal Point Grant *(Tech. Assist. for prep. of Biodiversity Strategy)*	2003	KSF	
Donor and Aid Coordination			
CG Meetings/Donor Coordination	1998	DA	
CG Meetings/Donor Coordination	2004	DA	
TA/Output type not assigned			
Anticorruption TA	1999	TA/NA	
Protected Areas Prep TA (GEF)	2001	TA/NA	
Other Bank/IFC Analytical Work			
Cost of Doing Business	2002, 03	IFC	
FIAS Admin. Barriers	2002, 04	IFC	
A Study in Strategy, Regulations, and PSP in the Water Sector in Georgia	2004	PPIAF	
IV—Ongoing and forecast			
CFAA-CPAR Update	Active		
Program Poverty Assessment	Active		
Programmatic Public Finance Policy Review	Active		
CEM Policies for Growth	Active		

Source: World Bank (external publications) 2008.
Note: CAS=Country Assistance Strategy; CEM= Country Economic Memorandum; CFAA=Country Financial Accountability Assessment; CPAR= Country Procurement Assessment Report; CG= Consultative Group; FIAS= Foreign Investment Advisory Service; FSAP=Financial Sector Assessment Program; FY= fiscal year; GEF= Global Environment Facility; HIV/AIDS= Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome; IDF=Institutional Development Fund; IDP=Institutional Development Program; IFC=International Finance Corporation; PPIAF=Public-Private Infrastructure Advisory Facility; PRSP=Poverty Reduction Strategy Paper; PSACG=Private Sector Advisory Group; PSD=private sector development; PSP= private sector participation; R&D= research and development; TA= technical assistance; WP= Working Paper

Appendix Table A.5: Ratings for Georgia and Comparator Countries

Appendix Table A.5a: IEG Aggregate Ratings (by project exit year), Fiscal 1990–2007

Country/Region	Total evaluated		Outcome % satisfactory		Institutional development impact % substantial		Sustainability % likely	
	$M	No.	$	No	$	No	$	No
Georgia	534.0	22	63.1	77.3	47	57.9	87.1	94.4
Albania	649.9	46	89.5	84.8	60	55.0	83.0	82.1
Armenia	654.4	25	88.7	92.0	74	72.7	97.5	95.2
Azerbaijan	484.7	16	73.8	68.8	36	36.4	72.8	87.5
Kyrgyz Republic	480.6	19	91.4	78.9	43	47.1	52.1	64.7
Kazakhstan	1,344.9	19	97.9	84.2	96	72.2	94.8	73.3
Moldova	403.1	19	80.0	77.8	25	35.7	47.0	54.5
Turkmenistan	37.9	3	0.0	0.0	0	0.0	0.0	0.0
Ukraine	2,944.8	26	91.5	78.3	53	50.0	67.2	61.9
Uzbekistan	332.2	9	44.6	62.5	4	14.3	11.0	33.3
Europe and Central Asia	39,961.2	631	78.1	81.7	55	55.1	83.4	81.4
World Bank	250,277.4	3,443	78.7	74.1	48	44.8	72.6	64.9

Source: World Bank internal database as of June, 2007.

Note: IEG= Independent Evaluation Group;.

Appendix Table A.5b: Ratings for Active Projects (June 2007)

Country/Region	Number of projects	Net commitment amount ($M)	Number of projects at risk	% at risk	Commitment at risk ($M)	% Commitment at risk
Georgia	15	264.1	1	6.7	15.7	5.9
Albania	14	236.2	3	21.4	39.9	16.9
Armenia	17	283.6	1	5.9	10.2	3.6
Azerbaijan	16	798.0	4	25	89.9	11.3
Kyrgyz Republic	19	230.1	1	5.3	5.0	2.2
Kazakhstan	11	607.8	2	18.2	59.0	9.7
Moldova	11	156.8	0	0.0	0.0	0.0
Ukraine	13	1289.8	4	30.8	471.1	36.5
Uzbekistan	6	252.3	1	16.7	15.0	5.9
Europe and Central Asia	278	15646.9	34	12.2	2332.0	14.9
World Bank	1313	95702.6	251	19.1	17250.3	18.0

Source: World Bank internal database as of March 2008.

Appendix Table A.6: Comparative Bank Budget (direct costs by service), 1992–2007(in USD thousands)

Country/ Region	Cost category	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY92-–FY08 (cumulative)	FY92–FY08 (percent)
Georgia	Project Supervision				379	325	518	939	900	1,563	1,390	1,753	1,844	1,666	1,849	1,664	1,809	1073	16,597	38
	Lending		311	190	1,261	1,136	1,021	1,603	1,841	1,345	1,058	860	578	1,046	898	1,340	1,198	677	15,688	36
	ESW	30	274	155	566	455	153	774	465	401	399	924	959	858	786	910	786	704	8,895	20
	Other	0	0	0	5	46	121	65	10	236	291	221	165	223	344	377	140	154	2,243	5
	Country Services	30	585	345	2,211	1,962	1,812	3,381	3,216	3,546	3,137	3,757	3,547	3,793	3,876	4,291	3,936	2,608	43,425	100
Europe and Central Asia	Project Supervision	6,159	7,400	11,500	14,952	16,443	22,060	23,064	25,272	33,728	29,627	32,982	34,542	33,896	34,747	34,387	35,702	25,937	396,460	31
	Lending	11,299	26,352	37,687	36,715	35,571	27,939	28,784	29,061	29,414	22,490	26,912	26,830	30,379	30,474	29,584	26,862	15,626	456,352	35
	ESW	8,411	19,334	13,943	11,506	8,464	7,757	15,332	16,509	22,620	19,781	28,888	30,715	29,883	31,583	34,157	35,047	25,229	333,931	26
	Other	279	2,214	3,374	3,907	3,334	5,072	4,096	2,802	8,396	11,218	12,417	13,766	14,761	12,412	11,336	10,382	6,428	119,766	9
	Country Services	26,148	55,298	66,504	67,079	63,812	62,828	71,275	73,645	94,158	83,117	101,198	105,853	108,919	109,216	109,464	98,752	73,219	1,297,268	100
Bank wide	Project Supervision	90,063	102,129	110,582	106,128	109,173	118,668	124,246	127,561	158,524	136,253	152,617	160,815	167,788	178,836	189,202	198,999	145,877	2,231,586	32
	Lending	113,585	132,332	146,143	146,965	134,192	113,513	118,978	110,413	124,165	101,484	122,567	119,517	155,284	149,860	153,516	148,766	100,485	2,091,281	30
	ESW	73,067	86,434	86,464	70,891	60,723	53,368	70,754	83,136	107,678	88,274	130,177	151,352	155,613	159,572	171,095	162,793	113,065	1,711,391	25
	Other	10,773	12,353	13,616	17,108	16,784	28,062	31,071	42,003	65,859	76,344	86,747	92,378	108,538	104,345	109,015	107,255	66,758	922,250	13
	Country Services	287,488	333,249	356,805	341,091	320,872	313,611	345,049	363,112	456,227	402,354	492,108	524,062	587,224	592,613	622,828	618,535	426,624	6,957,229	100

Source: World Bank internal database as of March 2008

*Note:*ESW=economic and sector work; FY=fiscal year.

Appendix Table A.7: Georgia—World Bank's Senior Management

Year	Vice President	Country Director	Resident Representative
1993	Wilfried Thalwitz	Basil G. Kavalsky	
1994	Wilfried Thalwitz	Basil G. Kavalsky	
1995	Wilfried Thalwitz	Basil G. Kavalsky	
1996	Johannes F. Linn	Basil G. Kavalsky	Joseph M. Owen
1997	Johannes F. Linn	Basil G. Kavalsky	Joseph M. Owen
1998	Johannes F. Linn	Judy O'Connor	Joseph M. Owen
1999	Johannes F. Linn	Judy O'Connor	Joseph M. Owen
2000	Johannes F. Linn	Judy O'Connor	Tevfik M. Yaprak
2001	Johannes F. Linn	Judy O'Connor	Tevfik M. Yaprak
2002	Johannes F. Linn	D.M. Dowsett-Coirolo	Tevfik M. Yaprak
2003	Johannes F. Linn	D.M. Dowsett-Coirolo	Van Roy Southworth
2004	Shigeo Katsu	D.M. Dowsett-Coirolo	Van Roy Southworth
2005	Shigeo Katsu	D.M. Dowsett-Coirolo	Van Roy Southworth
2006	Shigeo Katsu	D.M. Dowsett-Coirolo	Van Roy Southworth
2007	Shigeo Katsu	D.M. Dowsett-Coirolo	Van Roy Southworth
2008	Shigeo Katsu	D.M. Dowsett-Coirolo	Van Roy Southworth

Source: World Bank database.

Appendix Table A.8: Georgia—Millennium Development Goals

	1990	1994	1997	2000	2003	2005
Goal 1: Eradicate extreme poverty and hunger						
Income share held by lowest 20%	..	..	*6*	*6*	6	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	..	*3*	..	..
Poverty gap at $1 a day (PPP) (%)	..	..	*1*	*1*	2	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	..	*2*	*3*	7	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..	55	..
Prevalence of undernourishment (% of population)	..	..	..	..	13	*9*
Goal 2: Achieve universal primary education						
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	..	..
Persistence to grade 5, total (% of cohort)	..	..	..	..	..	*79*
Primary completion rate, total (% of relevant age group)	..	..	..	101.3	91.5	86.7
School enrollment, primary (% net)	..	..	..	93	92	87
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliament (%)	..	..	7.0	7.0	7.0	9.4
Ratio of girls to boys in primary and secondary education (%)	..	..	..	99.5	99.8	103.1
Ratio of young literate females to males (% ages 15–24)	..	..	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	48	49	49	49	49	*50*
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12–23 months)	..	63.0	69.0	73.0	80.0	92.0
Mortality rate, infant (per 1,000 live births)	43	..	..	41	..	41
Mortality rate, under-5 (per 1,000)	47	..	..	45	..	45
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	..	..	*96.4*	..	92.4
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	32.0	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Contraceptive prevalence (% of women ages 15–49)	..	..	..	*41*	..	47
Incidence of tuberculosis (per 100,000 people)	38.1	47.1	67.3	82.3	82.8	82.6
Prevalence of HIV, female (% ages 15–24)	..	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15–49)	..	..	..	..	0	0
Tuberculosis cases detected under DOTS (%)	..	..	*35.1*	34.4	58.2	90.9
Goal 7: Ensure environmental sustainability						
CO2 emissions (metric tons per capita)	3.2	1.2	0.9	1.0	0.8	..
Forest area (% of land area)	40	..	..	40	..	40
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	1	3	3	4	*4*
Improved sanitation facilities (% of population with access)	97	..	..	..	..	*94*
Improved water source (% of population with access)	80	..	..	..	..	*82*
Nationally protected areas (% of total land area)	..	..	..	..	..	*4.3*
Goal 8: Develop a global partnership for development						
Aid per capita (current US$)	..	34.5	49.5	35.9	49.4	69.2
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	..	..	6	13	10	7
Fixed line and mobile phone subscribers (per 1,000 people)	98.9	102.5	132.3	149.0	302.0	*337.3*
Internet users (per 1,000 people)	0.0	..	0.6	4.9	25.6	*38.9*
Personal computers (per 1,000 people)	..	..	..	23.7	37.7	*42.5*
Total debt service (% of exports of goods, services and income)	..	..	5	13	12	7
Unemployment, youth female (% of female labor force ages 15–24)	..	..	..	20.5	31.7	30.6
Unemployment, youth male (% of male labor force ages 15–24)	..	..	..	21.6	20.0	26.8
Unemployment, youth total (% of total labor force ages 15–24)	..	..	..	21.1	24.9	28.3
Other						
Fertility rate, total (births per woman)	2.1	..	1.6	1.5	*1.5*	1.4
GNI per capita, Atlas method (current US$)	..	480.0	730.0	700.0	860.0	1,320.0
GNI, Atlas method (current US$) (billions)	..	2.5	3.6	3.3	3.9	5.9
Gross capital formation (% of GDP)	30.7	2.6	18.0	21.6	24.4	26.3
Life expectancy at birth, total (years)	70.2	..	70.3	70.3	*70.3*	71.3
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..
Population, total (millions)	5.5	5.1	4.9	4.7	4.6	4.5
Trade (% of GDP)	85.6	166.9	57.8	62.7	78.3	96.6

Source: World Development Indicators database, April 2006

Note: Figures in italics refer to periods other than those specified.

Note: CO2=carbon dioxide; DOTS=directly observed treatment, short-course; G&S=goods and services; GDP=gross domestic product; GNI=gross national income; HIV/AIDS= Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome; IMF=International Monetary Fund; PPG=public and policy guaranteed debt;; PPP=purchasing power parity.

Appendix Table A.9: Georgia—Chronology of Main Events 1990–2008

Apr–May 1991	Georgia declares independence from the Soviet Union and elects former dissident Zviad Gamsakhurdia President with more than 85 percent of the vote.
Jan1991–June 1992	Hostilities in South Ossetia (an autonomous region in the north of Georgia) claim approximately 1,000 lives. Up to 60,000 Ossetians flee to Russia and 10,000 Georgians leave South Ossetia.
Jan 1992	Mr. Gamsakhurdia is ousted in an armed conflict with the opposition. Eduard Shevardnadze, the former Soviet foreign minister, is invited to run the country. Clashes with Gamsakhurdia supporters in Tbilisi and western Georgia continue through October 1993.
Jan 1992	In a referendum, South Ossetians vote for independence from Georgia and unification with the Russian Federation.
Aug 1992–Sept 1993	Abkhazia (an autonomous republic in the northwest of the country) achieves *de facto* independence following an armed conflict with Georgia. The war results in up to 10,000 dead and some 240,000 IDPs, mostly Georgians.
Oct 1992	Mr. Shevardnadze is elected parliamentary speaker and appointed by parliament as head of state.
May 1993	The Georgian coupon is introduced to replace the Russian ruble. Limited economic reforms take place.
Dec 1993	Mr. Gamsakhurdia reportedly commits suicide, which effectively ends the rebellion in western Georgia.
Sep 1995	A new currency, Lari, replaces the coupon. Substantial economic and structural reforms are attempted.
Nov 1995	Mr. Shevardnadze is elected president with over 70 percent of the vote.
May 1998	Fighting breaks out between Abkhazian forces and Georgian guerillas. Tens of thousands of IDPs who had returned to Abkhazia again flee.
1998	The Russian financial crisis hits the Georgian economy hard. The Lari is allowed to float.
Apr 2000	Mr. Shevardnadze is re-elected president with 80 percent of the vote.
2001	The IMF and World Bank stop their programs because of low budget performance indicators, corruption, and failure to implement structural reforms.
Nov 2001	Mr. Shevardnadze fires his cabinet amid large demonstrations and street protests.
Aug 2003	The World Bank and IMF once again stop their lending programs amid massive corruption and tax avoidance.
Nov 2003	A peaceful "Rose Revolution" forces the resignation of Mr. Shevardnadze in the wake of mass protests against electoral fraud. Ms. Nino Burjanadze, the parliamentary speaker, acts as the Interim President.
Jan 2004	Mikheil Saakashvili, the leader of the revolution, wins the presidential election with 96 percent of the vote.
Mar 2004	The constitution is amended to create the position of prime minister. Mr. Zurab Zhvania, a former parliamentary speaker, becomes the first Prime Minister (until his accidental death in February 2005).
2004	Major economic reforms are undertaken by the new government. As a result, the World Bank and IMF resume their lending.
2006	Russia imposes restrictions on the export of Georgian goods.
Nov 2007	Nationwide state of emergency is imposed following the suppression of mass anti-government rallies.
Jan 2008	Mr. Saakashvili is reelected President with 53 percent of the vote.

Sources: Economist Intelligence Unit, World Bank and IMF reports.

Note: IDPs=internally-displaced persons; IMF=International Monetary Fund.

Appendix B

Ratings Summary

Overall rating (1993–2007): Moderately Satisfactory

A. Pillar ratings

Pillar I (Macroeconomic Stabilization and Public Sector Reform): The overall outcome of the Bank's program for Pillar I is rated *moderately satisfactory*, an aggregate of the following ratings:

(a) 1994–97.Satisfactory: All macroeconomic indicators (except external debt to GDP ratio) improved. Hyperinflation was controlled, economic growth accelerated.

(b) 1998–2003.Moderately unsatisfactory. The situation was generally stable. Inflation was low, and other macroeconomic indicators off-target, but manageable.

(c) 2004–07.Moderately satisfactory: Growth, international reserves, and public debt indicators improved, but inflation and the current account deficit increased. Tax revenues increased sharply. Large scale privatization proceeded rapidly.

Pillar II (Governance): The overall outcome of the Bank's program for Pillar II is rated *moderately unsatisfactory*, an aggregate of the following ratings:

(a) 1994–97.*Not rated*.

(b) 1998–2003.Unsatisfactory. Tax collection was low. Structural and legal reforms in public financial management did not result in improvements due to poor governance and weak enforcement. Corruption was rampant, and corruption perception indices show deterioration. Rehabilitation of court infrastructure and judicial training did not translate into improved public trust and judicial independence.

(c) 2004–07.Moderately satisfactory. Revenue collection increased, and arrears in pensions and salaries were cleared. Some processes improved in public finance: the Medium-Term Expenditure Framework was integrated in the budget process, and the budget was prepared according to Government Finance Statistics-2001. A Treasury Single Account (TSA) was established; but financial accountability still lagged behind. A series of successful anti-corruption measures were implemented (Bank's role limited). All corruption perception indexes improved. Firms believed that courts were more effective and decisions better enforced. The public perception of judicial independence and trust in courts was low.

Pillar III (Private Sector Development and growth): The overall outcome of the Bank's program for Pillar III is rated *moderately satisfactory,* an aggregate of the following ratings:

(a) 1994–97.Moderately satisfactory. Almost all (around 10,000) small and medium enterprises were privatized. Liberal trade and price policies were put into place by 1995. The business climate was poor, and business-friendly laws and regulations remained largely on paper. Banking sector assets grew, and credit to the private sector increased. Some consolidation of the banking sector was achieved (the number of banks was reduced). The Central Bank Law was adopted. Access to financing for the private sector was still limited. Regulatory and fiduciary frameworks were weak. With respect to electricity, the reliability of the electricity supply and collection rate improved, and end-user tariffs increased to recovery levels. A regulatory body was established (Georgia National Energy Regulatory Commission), although sector losses (technical and commercial) were still high. Regarding agriculture, land privatization and registration advanced. However, sector growth, exports and productivity remained low, and access to credit poor.

(b) 1998–2003.Unsatisfactory. Privatization of large enterprises stopped (with one exception, that is, the electricity distribution network in Tbilisi). The business environment was poor, and new laws and regulations made little difference on the ground due to weak implementation. Institutional achievements included the establishment of a Securities Commission and Stock Exchange. Access to finance was poor. Banks attracted few deposits and interest rates remained high. Road rehabilitation continued, but gains for the private sector were limited due to poor governance and a deficient business environment. Regarding electricity, the supply was increasingly unreliable. Losses were high, and corruption and political interference were widespread. The collection rate dropped, and quasi-fiscal losses attributable to electricity reached 5percent of GDP. With respect to agriculture, growth, productivity and exports were stagnant, and access to credit, research and extension services low.

(c) 2004–07.Satisfactory. The privatization of large state-owned enterprises proceeded rapidly. The business climate improved, and the regulatory framework was simplified. The protection of private property rights remains a concern. Road rehabilitation proceeded successfully, and transport costs decreased. Road conditions improved. With regard to electricity, supply and collection rates improved, and commercial losses were close to zero. The sector was fully privatized. The country enjoys better and more diverse access to energy sources (including oil and gas). Regarding agriculture, sector growth and exports have improved, and rehabilitation of irrigation and drainage networks has progressed. However, financial sustainability of the system is at risk, and small farmers' access to credit is limited.

Pillar IV (Human, social and sustainable development): The outcome f the Bank's program for Pillar IV is rated *moderately satisfactory*, an aggregate of the following ratings:

(a) 1994–97.Moderately satisfactory. The fall in living standards and rise in poverty levels slowed, but did not reverse. The government failed to meet social transfer obligations. Regarding the health sector, the number of hospitals and staff were reduced. Health expenditures did not increase, and there were no improvements in health indicators and the quality of health services.

(b) 1998–2003.Moderately unsatisfactory. Poverty levels increased. Poverty diagnosis and monitoring did not lead to a better targeting mechanism. Regarding health, implementation of the sector strategy was incomplete, and the productivity and quality of services low. The Basic Benefits Package was poorly targeted and under-funded. The health status of the population did not improve, and the budget allocation to health remained low. Regarding education, school enrollment and progression rates declined. However, corruption was widespread, especially in higher education. Public spending on education was low. The Municipal Development Fund and Georgia Social Investment Fund supported urgent small-scale investments on the local level. Some improvements in effectiveness and financial discipline occurred within most participating municipalities, although selectivity, targeting and longer-term sustainability of some investments were at risk.

(c) 2004–07.Moderately satisfactory. Poverty decreased slightly. Pension arrears were cleared, and pension levels increased. A well-designed, targeted social assistance system was introduced. Regarding health, efficiency improvements (for example, the number of hospitals and personnel) was below target. Informal payments declined, and targeting was improved. The Basic Benefits Package was revised, and the share of budget spending on health did not increase. Health status indicators were mixed, although generally stagnant. Regarding education, a new transparent system of university entrance exams was implemented. A more efficient school financing mechanism introduced. There was progress in reading and comprehension skills, although primary school enrollment and progression rates did not improve. Access to services (water, sewerage) and financial discipline improved in a number of municipalities. Micro-projects through the Georgia Social Investment Fund brought considerable short-term welfare gains to communities. Sustainable maintenance and community involvement remained at risk.

B. Sub-period ratings:

(i) 1994–97: Moderately satisfactory.
(ii) 1998–2003: Moderately unsatisfactory.
(iii) 2004–07: Moderately satisfactory.

Appendix C

The International Finance Corporation's Experience in Georgia, 1995–2007[49]

Summary

Since the separation of Georgia from the former Soviet Union in 1991, the country has faced severe political, economic and social challenges with growth fluctuations. Following the Rose Revolution in November 2003, Georgia entered an ongoing period of strong economic growth and political stability. This report covers the IFC's activities in Georgia between 1995 and 2007, during which the IFC aims were to support broad-based private sector growth by removing barriers to private sector development, improving financial institutions, and supporting other sectors.

Georgia joined the IFC in 1995. Between FY1995 and FY2007, the IFC invested nearly $171 million in 25[50] projects in Georgia's financial, oil and gas, utilities and manufacturing sectors. The IFC's main focus has been in the banking sector through repeat investments, complemented by advisory services, in three banks. In addition, the IFC provided advisory services aimed at facilitating investment, improving the business climate, developing small and medium enterprises (SMEs), and the leasing sector, and improving corporate governance. However, the IFC was not able to fully achieve its objective of investing in diverse sectors during the period.

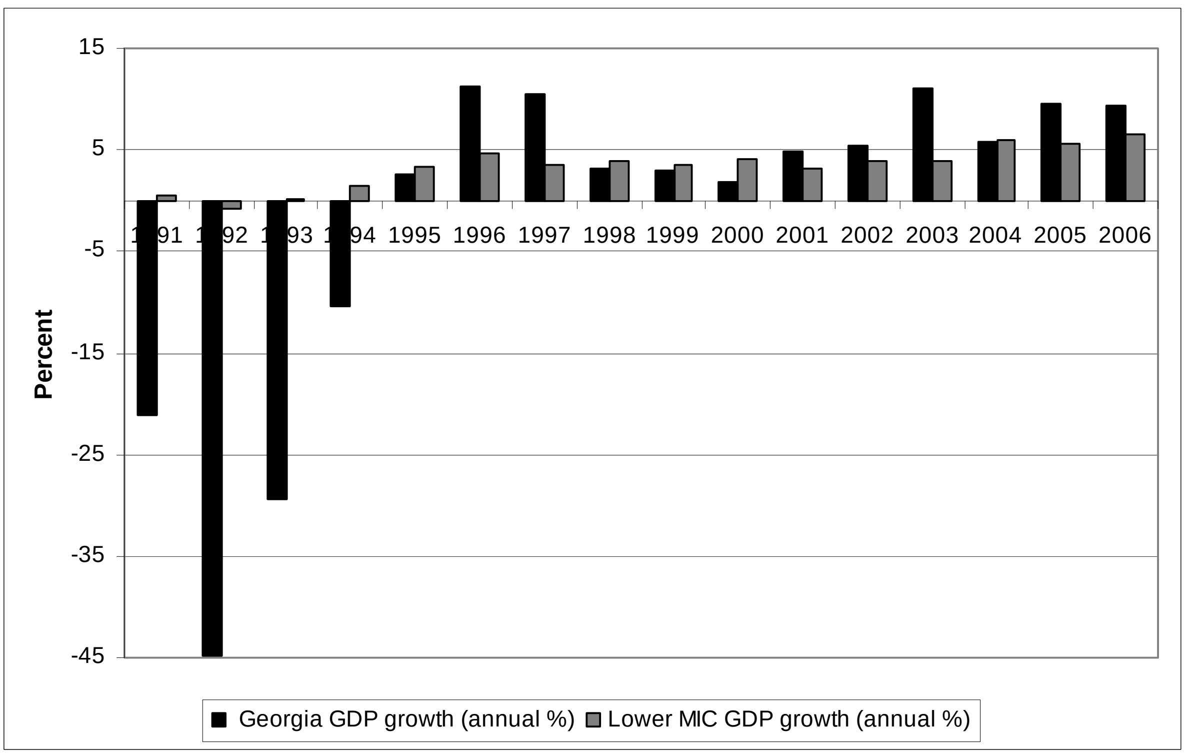
The main challenges for the IFC going forward are: to (i) increase its support to non-financial sectors to promote more broad-based growth; (ii) maintain support of the financial sector so that banks develop capacities to lend to SMEs and other underserved segments of the economy, and;(iii) adapt its business model to reflect the improving business climate.

1. The Private Sector and Business Climate[51]

Despite significant political, social and economic challenges, the Georgian economy has been progressing. The Georgian economy contracted sharply after Georgia separated from the former Soviet Union in 1991 (see figure C.1). After 4 years of negative growth between 1991 and 1994, the Georgian economy has steadily recovered. During 1994–97, the economy recovered with the adoption of a wide range of fundamental reforms, drastic fiscal adjustments, and a tight monetary policy. A wide range of structural measures helped support private sector development, including the elimination of subsidies, liberalization of prices and trade, privatization, the establishment of a basic legal framework, land reform, and banking and energy sector reforms. However, between 1998 and 2003, weakening tax collection, the Russian and the Turkish financial crises, increases in the price of the imported energy, and severe droughts combined to slow the economy.

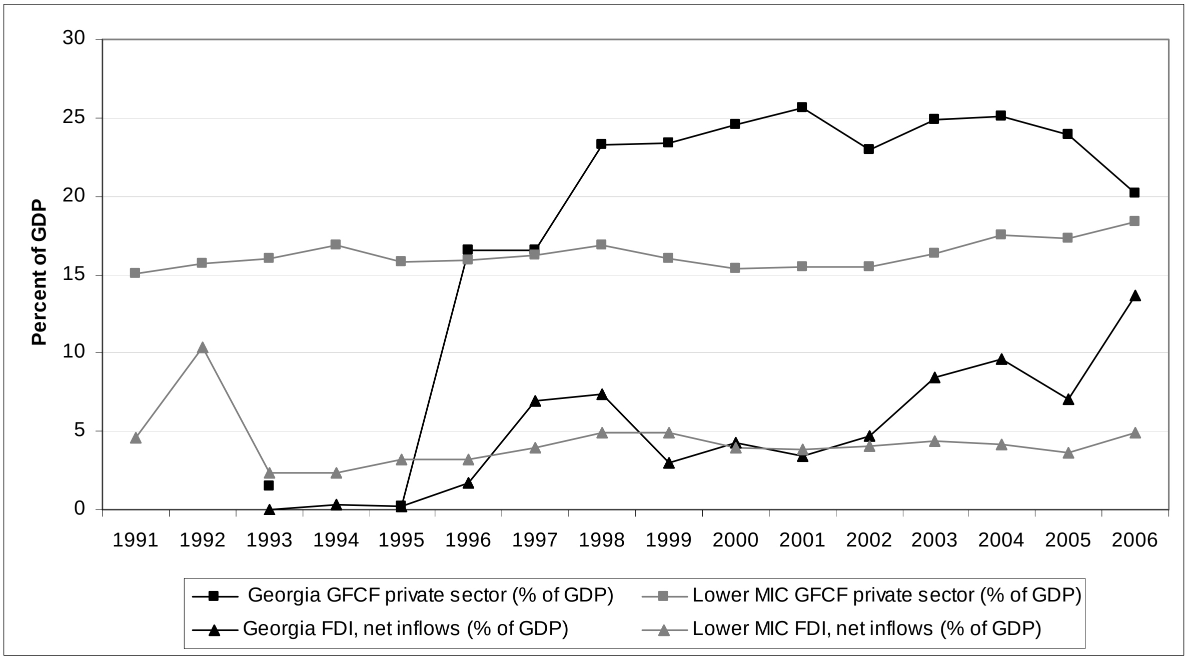
Following the Rose Revolution of November 2003, Georgia entered a period of strong, continuous economic performance. The government is tackling corruption, stabilizing the economy, and practicing sound fiscal management. Despite the trade and transit barriers imposed by Russia, economic performance has been strong in recent years. Annual GDP growth has been higher than average of low middle-income countries (MICs) in the last few years.[52] In addition, foreign direct investment (FDI) and the private sector share of GDP has increased over the years (see figure C.2). For example, private capital investment was roughly 20 percent of GDP in 2006, [53] and included a large element of foreign direct investment.

Figure C.1: GDP Growth 1991–2006



Source: World Development Indicators (World Bank 2008).
Note: GDP=gross domestic product.

Figure C.2: Gross Fixed Capital Formation and Foreign Direct Investment: 1991–2006



Source: World Development Indicators (World Bank 2008).

Note: FDI=-foreign direct investment; GFCF= gross fixed capital formation; GDP=gross domestic product; MIC=middle-income country.

However, poor infrastructure, inconsistent implementation of the legal and regulatory framework, and policy instability remain obstacles to further private sector development and need to be addressed. In addition, despite overall economic progress, the poverty rate has improved little. [54]

Georgia now is a lower middle-income country. Agriculture and the services sector dominate. However, over the last 10 years, the share of the agriculture sector of GDP has diminished while that of service- related sectors has increased.(World Bank, 2007f).

Georgia's business climate was weak through much of the review period, but since 2004 it has improved considerably. Georgia remained a high risk country, but it moved to the cusp between high risk and non-high risk according to the Institutional Investor Country Credit Risk Rating (IICCR). It was ranked medium risk according to the Heritage index, with overall improved ratings during the review period. Specifically, the IICCR rating improved from 10 in 1997 to 29 in 2007, and Heritage country scores increased from 43 in 1997 to 69 in 2007.

The country's ranking in terms of its business environment varied depending on the index applied. For example, between 2005 and 2007, Georgia's Doing Business ranking improved from 112th to 18th. However, the World Economic Forum Global Competitiveness index (GCI) placed Georgia 90th out of 131 countries in 2007.[55]

Major obstacles to competitiveness remain. The 2005 investment climate assessment (ICA) for the country indicates that the top three constraints for entrepreneurs were: (i) economic and regulatory policy uncertainty; (ii) anti-competitive or informal practices; and (iii) high tax rates.[56] According to the GCI for 2007-08, the three most problematic factors for doing business in Georgia were access to finance, inefficient government bureaucracy, and policy instability.

2. The IFC's Objectives in Georgia

- **Country Strategies.** IFC's objectives were to focus on catalyzing private resources in an environment characterized by perceived high country risk. It sought to contribute to broad-based growth by removing barriers to private sector development, improving the financial sector, and supporting a range of non financial sectors.
- **Financial sector development.** The IFC planned to support the financial institutions and expand the range of and access to financial products. SME development was a particular focus of the 2003 Country Assistance Strategy (CAS). The IFC also planned to assist in capital market development by supporting leasing companies, microcredit (through joint work with the European Bank for Reconstruction and Development (EBRD)and other partners) companies, and by mobilizing investors for a regional venture capital fund.
- **Strengthen and diversify sources of growth, The** IFC planned to actively look for investment opportunities in infrastructure, manufacturing, services, tourism, transport sector, oil and gas sector and agribusiness.
- **Improve the business-enabling environment.** The IFC planned to achieve this objective through its Foreign Investment Advisory Service (FIAS) by undertaking work on the registration of businesses. The IFC's Private Enterprise Partnership (PEP) assisted in improvements in licensing, permits and inspection procedures to help reduce barriers to business, and to promote alternative dispute resolution. The IFC also planned to conduct SME surveys to provide feedback to the government on the evolving business environment.
- **Regional Strategies.**[57] **The** IFC's recent regional priorities were to: (i) support local companies; (ii) improve transparency and corporate governance; (iii) catalyze foreign investment; (iv) introduce and develop new financial products; (v) focus on frontier markets

with an emphasis on SMEs through both advisory work and the development of financial institutions; (vi) build long-term partnerships with strong regional players; and (vii) promote private sector investment in infrastructure. Because of the small size of Georgia's economy, it was difficult to find many viable investments and the IFC investments, if any, were projected to be limited to small projects.

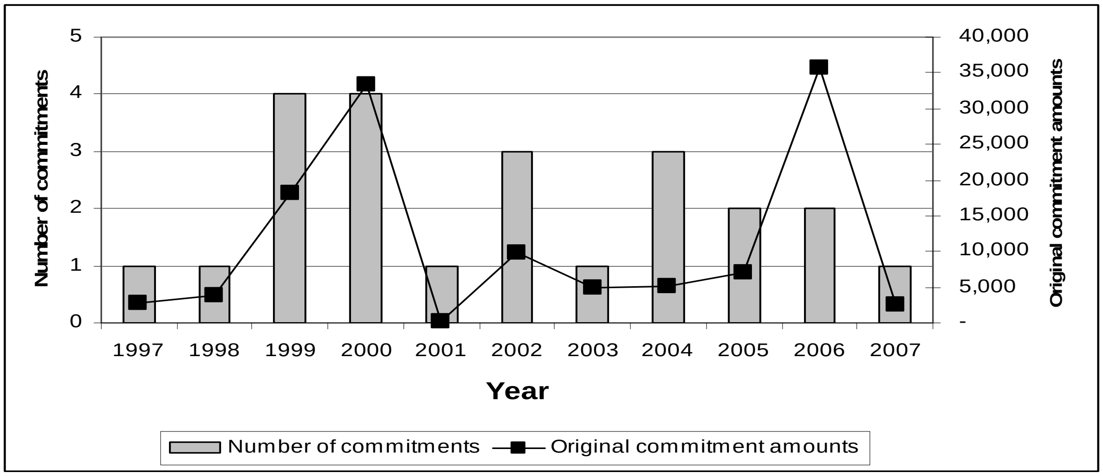
Relevant Corporate Strategies: [58]During the Country Evaluation Note (CEN) period, the IFC's relevant corporate strategic priorities included:

- Focusing on frontier markets
- Strengthening the investment climate
- Local financial market development through institution building and the use of innovative financial products
- Building long-term partnerships with emerging global players in developing countries (long-term relationships with repeat business, south-south investments)
- Addressing constraints to private sector growth in infrastructure, health and education
- SME development and
- Sustainability.

3. IFC Operations in Georgia

The IFC approved its first project in Georgia in 1997. Between 1997 and June 2007, the IFC invested in 25 projects with 10 companies and committed $171 million (see figure C.3).[59] Two thirds of the investments were in the financial sector (see table C.2). The IEG independently evaluated a random sample of 7 investments out of 23 country operations that had reached early operating maturity. Of these, five investments (or 71 percent of the sample) achieved results that met or exceeded specified market, financial, economic, environmental and social performance benchmarks and standards. Six investment operations (or 86 percent) met or exceeded investment return benchmarks.[60] Although four of these projects (or 57 percent) exhibited high risk intensity[61], all the projects benefited from strong supervision and administration, which appears to have helped to mitigate these risks[62].

Figure C.3: IFC Investment Projects with Original Commitment Amounts, Fiscal 1997–2007



Source: IFC management information system

Note: IFC=International Finance Corporation.

INVESTMENT OPERATIONS

Financial sector development. The IFC's largest number of investments was in the financial sector with four banks that originally focused on micro and small and medium enterprise (MSME) financing, trade, and housing finance. The IFC invested in 16 projects for $46 million. These represented 64 percent of the number of investments and 27percent by commitment volume. The IFC's investments were accompanied by specialized advisory services to three of these banks to assist develop internal capacity.

Privatization: To support the government's privatization effort, the IFC invested $68.8 million in four entities with six investments including one privatized utility company, two manufacturing entities, and a transport project

Construction of pipelines. The IFC's regional facility participated in the construction of two energy pipelines. In addition, to extend the benefits of one of the projects to the local communities, the IFC developed a SME linkages program and hired a full time staff to work on the program.

TRENDS IN RESULT DRIVERS *IN IFC INVESTMENT OPERATIONS IN GEORGIA*[63]

Using econometric analysis comprising over a decade of results across the IFC, IEG identified five key drivers of project development results. Table C.1 indicates patterns in these drivers, which help provide insight about potential future results (post–2002 approvals).

Table C.1: Five Key Drivers of IFC Project Development Results

Result driver	Detail	Impact on development results
Change in country business climate risk	During the CEN period, Georgia moved to the cusp of non-high risk according to the IICCR. Specifically, the Georgia IICCR rating improved from 10 in 1997 to 29 in 2007.. The Russian financial crisis and poor economic management were some of the factors that increased country risk. Following the 2003 Rose revolution, Georgia entered a new period of robust growth that continues to date.	Mixed but recently positive
Sector choices	Most IFC investments in Georgia have been in higher performing sectors such as financial markets, infrastructure, and oil gas and mining. Since 2003, all the investments have been in higher performing sectors (financial markets and infrastructure).	Positive
Specific project characteristics	The IFC successfully introduced advisory services to improve the operation of its new investments. However, in existing entities, the IFC might not have taken into account their level of complexity. The facilities were from the Soviet era, had antiquated equipment, and required substantial investment and expertise from the sponsors. While post–2002 approvals are mostly with repeat clients, product market risk has continued to be high in some of these projects.[64]	Mixed
Sponsor quality	Based on the seven IFC projects' ex-post evaluation, five out of seven projects were with high risk sponsors. Most of the companies invested were either newly- established or newly-privatized, and in some cases the sponsors had inadequate financial and technical resources. The IFC helped mitigate these issues during the appraisal and supervision period through capacity building advisory services, detailed financial covenants, security arrangements, projects structures that incorporated sponsor risk, and through keeping close relationships with the sponsors. The IFC continued to work with existing partners in post–2002 approvals. Although the capacity of these sponsors improved over the years, some characteristics of these sponsors, such as level of experience and financial commitment to the project, implied risk that needed to be carefully managed.	Negative (mixed going forward)
IFC work quality	IFC work quality was rated successful in six of the seven projects evaluated. The IFC's role and contribution were rated satisfactory or better in 70 percent of the evaluations (five out seven).	Positive (too early to tell for recent investments)

Source: Expanded Project Supervision Reports, IEG-IFC.
Note: Projects that were approved 2003 and after have not been evaluated yet.

Note: CEN= ; IFC=International Finance Corporation; IICCR= Institutional Investor Country Credit Risk Rating.

ADVISORY SERVICES

During the review period, the IFC provided nineteen advisory services in Georgia for $7.5 million through the Foreign Investment Advisory Service, investment support, and PEP-ECA initiatives (see table C.3). The advisory services offered were related to the business enabling environment, value-added to firms, and access to business finance lines.[65]

FIAS. FIAS advised the government on improving the investment climate in 1996, reviewed the draft of a new foreign direct investment law. In this context, FIAS advised on the establishment of an investment promotion agency in 1997, and assisted the country's investment center in reviewing its work program and in developing capacity for investment promotion (1998). In addition, FIAS conducted a study on administrative barriers to investment (2002), and assisted in implementing its recommendations. FIAS also helped to build the capacity of counterparts and fostered private-public dialogue (2004). Finally, FIAS assisted the government in designing the scope of the country's investment climate program and setting up the institutional framework for further reforms (2004).

Investment support. The IFC carried out pre-investment advisory services to facilitate its investments in the financial sector, food and beverages sector, as well as for private sector participation in the energy sector.

PEP-ECA initiatives. PEP-ECA initiatives included advisory services for the: (i) Georgia Business Development Project (GBDP) during 2001-05; (ii) Georgia Corporate Governance Project (GCCP) which started in 2006 and is still on-going; and (iii) Georgia Business Enabling Environment Project (GBEE), also started in 2006. The multi-component GBDP covered leasing, corporate governance, and SME surveys and led to the development of another two projects. The ongoing GCCP helps companies and banks through seminars, workshops, and consultations on corporate governance best practices aimed at increasing public awareness of corporate governance issues in Georgia. The ongoing GBEE conducts regular surveys of SMEs in Georgia to assess the major issues facing businesses and the impact of government changes. GBEE works directly with regulatory agencies to improve practices related to business inspections and issuance of operating permits and licenses in line with international best practice.

4. IFC's contributions to Georgia's development

IFC support for the development of three banks resulted in a modest impact on the entire financial sector. The IFC's support for the financial sector, through the creation of long-term partnerships and small investments and advisory services was an appropriate strategy in Georgia. The IFC's operations had a positive impact on the institutional capacity of these banks,[66] and the IFC's engagement supported growth in SME lending. In addition, IFC support helped support the introduction of mortgage lending, the first currency and interest rate swaps, the development of the leasing sector, and the introduction of subordinated debt in the domestic market. IFC advisory services' operations helped train loan officers in developing the know-how with respect to underwriting, monitoring, workout, and the capacity to reduce non-performing loans in small and medium enterprise lending. The advisory were not restricted to IFC investments, but included also services that were particularly useful in addressing financial sector-wide issues.

However, the IFC program was weak in some areas. The banks that the IFC invested in continued to have a strong dependence on international financial institutions, though one IFC client bank was recently successful in raising capital from abroad. Some banks have found it difficult to attract foreign and local partners. The IFC failed to identify the weaknesses of a bank during the appraisal and structuring of its investment, and the bank collapsed two years after project approval.

IFC's additionality in the financial sector was mainly in providing scarce long-term financing, and in helping to improve institutional capacity and the regulatory environment. During the past few years, the banking sector has expanded,[67] and foreign investors have entered the market[68]. Going forward, the IFC will need to ensure that its role complements the activities of these new investors in the sector.

Investments in newly privatized entities. At the beginning of the CEN review period, the challenge was to privatize larger enterprises in a transparent manner. The IFC's investments for the newly privatized companies helped to increase their productivity and exports, create a transparent ownership structure, and establish a proper accounting system.

The IFC's support for the privatization of a utility company helped to demonstrate the viability of foreign participation in Georgia's privatization program. During project implementation, there were some improvements in the company's infrastructure and utility distribution. However, these improvements were ultimately not sustainable. In some other cases, the facilities were from the Soviet era and had antiquated capital equipment. The IFC did not take into account the level of complexity of these projects during the appraisal period, and underestimated the resources needed for establishing and maintaining viable operations. As a result, the projects required substantial additional investment and expertise from the sponsors.

The whole privatization process in Georgia stalled during the unsettled political environment between 1998 and 2003. The government retained control over a range of large commercial enterprises in chemicals, mining, water, power, telecom, ports, and railways.

Catalytic and risk mitigator role in pipeline projects. IFC participated together with the EBRD in two regional pipeline projects with loans and syndications. The IFC's contribution to these projects was to catalyze other private resources and mitigate the perceived political risk of international investors in the cross-border projects.

The first project helped demonstrate the competitiveness and reliability of a pipeline through Georgia, and provided the impetus for the decision to build another pipeline. The IFC was criticized by the development community because the environmental action plan of the project was not disclosed, and because the IFC lacked a policy at the time, that is, it did not require the project to have a social and community plan. The IFC addressed the issue by disclosing the environment and social impacts of the pipeline under its own disclosure policies in FY1999.[69]

Subsequently, next pipeline project included the disclosure of environmental and social action plans, and carried out social impact analyses and mitigation measures. The IFC successfully played an active role in the environmental and social area. In addition, the IFC was involved in SME and community development programs to deliver broader development impacts, and help improve the livelihoods of people affected by the pipeline construction.

However, taking a more proactive approach in the regional development initiative[70] (RDI) could have been an opportunity for the IFC. The IFC had the necessary resources and expertise in the field to help further the RDI implementation. Rather than trying to create from scratch what is in effect a donor-funded facility, the RDI could have used existing IFC facilities. This was a missed opportunity for the IFC to enhance its role and contribute to maximizing the potential linkage impacts of the project.

In Georgia, these pipeline projects represented very large foreign investments, creating direct employment in the region, and generating significant tariff revenues for the Georgian government.

Limited role in strengthening and diversifying growth sources. Although the 2003 and 2005 country strategies mentioned the IFC's intent to explore the possibility of other investments in various sectors, the IFC did not achieve this objective of diversification. Outside of the financial markets, the IFC invested in only one transportation and one regional pipeline project since FY2001[71] (see table C.2).

Working towards the improvement of the business enabling environment. The IFC did not have a specific advisory services' strategy for Georgia. At the beginning of the period, most of the advisory services' projects were small-scale, attached to investments, and aimed at increasing the capacity of the companies involved. FIAS provided services to improve the business enabling environment. For example, two FIAS projects helped modernize and simplify business registration, data filing, and tax refund systems. FIAS advised the government on the elimination of large number of business permits and licenses.

The IFC 's East Europe Credit Bureau program provided advisory services to the government and the National Bank on the draft Credit Bureau Law, and organized a roundtable to discuss the regulation of credit bureaus in Georgia.

With PEP-ECA's establishment in 2000, the IFC began providing large-scale and sector-wide advisory services to Georgia. Although, these services were driven primarily by donor preferences, they matched IFC country objectives. Under the Georgia Business Development Project, the IFC's PEP supported a survey of SMEs, helped improve the leasing sector (including the enactment of the leasing laws), and contributed to corporate governance-related legal and regulatory frameworks.

Although the volume of leasing in Georgia increased from $2–3 million in 2004 to $7 million in 2005, leasing is still a small part of financial sector. The corporate governance and SME policy programs are still in progress. It may be early to see many of the intended outcomes and impacts of these large advisory services initiatives. However, IEG-IFC's recent report on the PEP-ECA program found that these initiatives were largely successful in achieving their main objectives, including promoting private investment and improving the investment climate.

However, direct efforts to support SMEs did not show similarly positive results (IEG-IFC 2008a)

5. Challenges and Opportunities

The main challenges for the IFC now are to: (i) support sectors other than banking to promote more broad-based growth; (ii) continue to support the financial sector so that banks develop capacities to lend to SMEs and other underserved segments of the economy, and; (iii) adapt its business model to reflect the improving business climate.

The 2005 country partnership strategy indicated that the "*IFC will also consider direct investments in agribusiness; tourism and related sectors; transport; logistics; retail services; private companies engaged in infrastructure and the provision of social services; and companies engaged in manufacturing or developing natural resources for export markets. IFC TA will aim to help reduce barriers to business.*" In the last seven years, other than one transportation sector investment, the IFC has invested only in the financial sector. The challenge for the IFC, then, is to facilitate investments in some of the other sectors noted above. Working in tandem with the EBRD, which has a more balanced portfolio and a substantial presence in the country,[72] would be one option. Indeed, the IFC and the EBRD worked together on pipeline projects, banking investments, and a transport project.

The IFC needs to further support the financial sector so that banks develop their capacities to lend to SMEs and other underserved segments of the economy. Currently, Georgian banks require, on average, collateral close to two hundred percent of the loan size. This may be one reason why access to credit has not improved in line with the expansion of the sector.[73] Although there have been some efforts to develop credit bureaus, coverage by the private credit bureau is still nearly non-existent. The IFC, because of its relationships with large Georgian financial institutions, may be in a position to explore how credit data can be better shared among institutions. In addition, because of their long experience with advisory services related to legal issues and building on the recent progress of Georgia pursuing "Doing Business" reforms, the IFC and the World Bank may be able to explore through advisory services how trial and judgment (ranked 100th), and enforcement of judgment (ranked 150th) could be facilitated.

Georgia is a lower middle income country with an improving business climate. The IFC should be able to adapt its business model to the changing business environment, including instances of slowdowns or recessions in the world or country economy, to respond with counter-cyclical investments (IEG-IFC 2008c).

This Country Evaluation Note was prepared by Izlem Yenice (Evaluation Analyst) and Jit Goswami(Consultant) under the direction of Stoyan Tenev (Head, Macro Evaluation), Dan Crabtree(Peer reviewer, IEG-IFC) and Amitava Banerjee (Manager, IEG-IFC).

Table C.2: IFC Investment Operations Volumes ($000) and Numbers in Georgia by Sector: Fiscal 1997–2007

	Commitments by fiscal year											
Sector	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Grand total
Finance and Insurance		3,862 (1)	3,418 (2)	3,000 (1)	291 (1)	9,739 (3)	5,000 (1)	5,168 (3)	7,000 (2)	8,750 (1)	2,477 (1)	48,705 (16)
Food and Beverages	2,800 (1)			363 (2)								3,163 (3)
Nonmetallic Mineral Product Manufacturing			8,820 (1)									8,820 (1)
Oil, Gas, and Mining			6,000 (1)									6,000 (1)
Transportation and Warehousing										27,000 (1)		27,000 (1)
Utilities				30,000 (1)								30,000 (1)
Grand total	2,800 (1)	3,862 (1)	18,238 (4)	33,363 (4)	291 (1)	9,739 (3)	5,000 (1)	5,168 (3)	7,000 (2)	35,750 (2)	2,477 (1)	123,688 (23)

Note 1: Number of operations is in parenthesis.

Note 2: Excluding two regional investments, worth a collective $47 million.

Table C.3: IFC Advisory Services Volumes ($000) and Numbers in Georgia by Business Lines: Fiscal 1997–2007

Advisory services business lines	Total funding and number of advisory services
Access to finance	390 (1)
Business enabling environment	1,628 (11)
Value addition to firms	4,309 (7)
Total	7,531 (19)

Note 1: Number of services is in parenthesis.

Note 2: Excluding regional advisory services.

Appendix D

People Interviewed

A. Government and Ex-Government Officials

Name	Title
Abdushelishvili, George	Deputy Minister of Energy
Alavidze, David	Deputy Mayor of Tbilisi
Aleksishvili, Aleksi	Member of the Council, National Bank of Georgia, former Minister of Finance and Economic Development
Amaglobeli, Davit	Vice President, National Bank of Georgia
Aslamazishvili, Nana	Head, Monetary Statistics Division, National Bank of Georgia
Basiashvili, Georgi	Head of Database Unit, Roads Department, Ministry of Economic Development
Bendukidze, Kakha	State Minister on Reforms Coordination
Bereziani, Migzar	Forestry Advisor, Forestry Department
Chanturidze, Tata	Deputy Minister, Ministry of Labor, Health and Social Affairs
Chkadua, Lasha	Head Forester, Forestry Department
Corbett, Joe	General Director/Rehabilitation Manager, Georgian State Electrosystem
Dalakishvili, Roman	Head of Roads Department, Ministry of Economic Development
Durmishidze, Lali	Manager, Agriculture Project Implementation Unit
Dzneladze, Levan	Former Minister of State Revenues; General Director, GMC Group
Fatladze, Zaur	Advisor to the Mayor of Batumi
Gabelia, David	Deputy Head of Poti Waterworks, Municipality of Poti
Gamkrelidze, Amiran	First Deputy Minister of Labor, Health and Social Affairs
Gasviani, Nugzar	Head of Administration Division, Roads Department, Ministry of Economic Development
Gegelia, Dimitri	Head, Common Courts Department, High Council of Justice
Gilauri, Nick	Minister of Finance
Goglidze, Guranda	First Deputy Chairman, National Agency of Public Registry, Ministry of Justice
Gorgodze, Sopo	Head of Teachers' Professional Development Center, Ministry of Education
Gotsiridze, Lasha	Executive Director, Municipal Development Fund
Gotsiridze, Roman	President, National Bank of Georgia
Gugava, Goga	Main Specialist, Budget Department, Ministry of Finance
Gvindadze, Dimitri	Deputy Minister of Finance
Jakeli, Beka	Head, Division of Planning and Development, Tourism Department, Ministry of Economic Development
Janashia, Simon	Head of Curriculum and Assessment Center, Ministry of Education
Jangidze, Genadi	Head of International Projects and External Relations Department, Ministry of Finance
Jaoshvili, George	First Deputy Head, The Center for Monitoring, Ministry of Environment
Japaridze, Mamuka	Georgia Health and Social Projects' Implementation Center (GHSPIC)
Javakhishvili, Nodar	Former President, National Bank of Georgia

Kajaia, Zurab	Deputy Head, Irrigation Policy Department, Ministry of Agriculture
Kakulia, Roman	Former Head of Foreign Affairs Department, Ministry of Agriculture
Kapanadze, Nodar	Former Head of Division of Social Statistics, Department of Statistics
Kavtaradze, Irma	Commissioner, Georgian National Energy Regulatory Commission (GNERC)
Khatashvili, Mevlud	Chairman, Khashuri District Court
Khonelidze, Irma	Georgia Health and Social Projects' Implementation Center (GHSPIC)
Kirvalidze, Davit	Former Minister of Agriculture
Kokochashvili, Shalva	Deputy Director, Georgia Social Investment Fund and Municipal Development Fund Project Implementation Unit
Kvashilava, Irakli	General Director, Sustainable Development Implementation Agency, Forest Department
Lezhava, Vakhtang	First Deputy State Minister for Reforms Coordination
Liluashvili, Tamuna	Director, Georgian National Investment Agency
Litanishvili, Irakli	Deputy Head of Roads Department, Ministry of Economic Development
Malashkhia, Sophie	Education Project Implementation Unit, Ministry of Education
Meskhidze, Ekaterine	Head, International Relations Dept, National Agency of Public Registry, Ministry of Justice
Meskhishvili, George	Head of Internal Audit Service, Municipal Development Fund
Mgeladze, Koka	Manager – Irrigation Department, Municipal Development Fund
Miminoshvili, Maya	Head, National Examination Center
Minashvili, Nika	Head of Unit, Center for Monitoring, Ministry of Environment
Moistsrapishvili, Lia	Deputy Head, Dept of Protected Areas, Ministry of Environment
Mosulishvili, Klara	Municipal Development Fund Project Implementation Unit staff
Mskhaladze, Vladimer	General Director, Water Authority of Poti, Municipality of Poti
Museliani, Nino	Manager, Mentally Handicapped Children's Rehabilitation (GSIF)
Murvanidze, Ioseb	Technical Manager, Agricultural Research Extension and Training Project
Murtazi, Kezdzoia	Head of Noziri Headwork, Municipality of Poti
Onoprishvili, Davit	Former Minister of Finance; President, DG Investments
Pantsulaia, Grigol	Director, State Department of Statistics
Papava, Vladimer	Member of the Parliament, former Minister of Economy
Paztsvaria, Merab	Construction Supervisor, Municipal Development Fund
Peradze, Levan	Director, Georgian Social Assistance and Employment Agency
Pkhakadze, Vakhtang	Head, Balance of Payments Division
Samadashvili, Temur	Deputy Minister of Education
Shakhnazarova, Marina	Director, Center for Disease Control
Shevardnadze, Eduard	Former President of Georgia
Shonvadze, Giorgi	Head of Unit, Ministry of Environment
Teodradze, Leri	Chairman, Tskhaltubo District Court
Tepnadze, Mzia	Head of Unit, Supervision Department, National Bank
Tsekvava, Tengiz	Head, Social and Demographic Division, State Department of Statistics
Tsereteli, Gogi	Deputy Head, Roads Department, Ministry of Economic Development
Tsagareli, George	Director, Transport Reform and Rehabilitation Center, Ministry of Economic Development

Turnava, Natia	Former Deputy Minister of Economy; Executive Director, Georgian Industrial Group
Vatsadze, Mamuka	Head of Transport Department, Ministry of Economy
Zoidze, Akaki	Former Deputy Minister of Health; Consultant, Curatio International Foundation

B. Civil Society, Academia, and Private Sector

Abashishvili, George	Director, Young Republican Institute
Abulashvili, George	Director, Energy Efficiency Centre Georgia
Bakuradze, Archil	Special Advisor to the Secretary General, International Association of Business and Parliament
Bazadze, Irakli	Corporate Loan Expert, Bazis Bank
Beradze, David	General Director, ITERA Energy Company-Georgia JSC
Chirakadze, Giorgi	President, UTG (Telecommunications Company)
Chkheidze, Alexander	President, Georgian International Road Carriers Association
Chkheidze, Giorgi	Chairman, Georgian Young Lawyers Association (GYLA)
Darchiashvili, Davit	Executive Director, Open Society Institute (OSI) Georgia
Didebulidze, Marika	Former Project Implementation Unit staff, Fund for Preservation of Cultural Heritage of Georgia
Dvali, Nana	Real Estate Agent
Giorgadze, David	Director, Association for Protection of Landowners' Rights
Guntsadze, Zura	Director, Association for Legal and Public Education (ALPE)
Halpin, Mark	Senior Consultant, Engineering and Facility Management Ltd. (ESBI)
Japharidze, Irina	Staff Attorney for Georgia, American Bar Association, Europe and Central Asia Program (CEELI)
Jervalidze, Liana	Caspian Region Energy Policy Specialist, Orbeliani Centre for Advanced Strategic and National Security Policy Studies
Jugeli, Teimuraz	Director, Electricity System Commercial Operator Ltd.
Karosanidze, Tamuna	Executive Director, Transparency International – Georgia
Khechinashvil, Devi	President, Georgian Insurance Association/Partnership for Social Initiatives
Khidasheli, Tinatin	Lawyer, Republican Party Member
Khutsishvili, Kety	Former Director, Eurasia Foundation
Kiknadze, Guram	Associate Professor, State Medical College
Kochladze, Manana	Regional Coordinator, Central and Eastern Europe Bankwatch Network
Lebanidze, Levan	General Manager, Constanta Foundation
Linhardt, Daniel	Legal Specialist for Georgia, American Bar Association, Europe and Central Asia Program (CEELI)
Mamatsashvili, Mamuka	Staff Attorney for Georgia, American Bar Association, Europe and Central Asia Program (CEELI)
Margvelashvili, Giorgi	Rector, Georgian Institute of Public Affairs
Melikadze, Archil	Chief Operating Officer, Populi Retail Chain
Milorava, Irina	Deputy General Director, Electricity System Commercial Operator Ltd. (ESCO)
Mumladze, Davit	Professor of Law, Tbilisi State University
Murgulia, Gia	Director, Tbilisi Public School #24
Oganesian, Edward	Director, Economic and Finance Dept, JSC "Telasi"

Orvelashvili, Nikoloz	President, Georgian Economic Development Institute
Pertatia, Giorgi	Customs Expert, American Chamber of Commerce in Georgia
Pimonov, Yuri	General Director, JSC "Telasi"
Rondeli, Alexander	President, Georgian Foundation for Strategic and International Studies
Shengelia, Zurab	Secretary General, Association of Freight Forwarders of Georgia
Shikhashvili, Marina	Director, Tbilisi Polyclinic #9
Slisbarashvili, Nino	President, Women's Association for Business
Sulaberidze, David	Project Officer, Curatio International Foundation
Tevzadze, Gigi	Rector, Ilia Chavchavadze University
Tsipuria, Gia	Secretary General, Georgian International Road Carriers Association
Usupashvili, David	Chairman, Republican Party of Georgia
Vardosanidze, Lado	Urban Planner
Vashakmadze, Vano	Vice President, GOPA Consulting
Williamson, Sarah	Vice President, UGT (Telecommunications Company)
White, Dean	General Director, JSC United Energy Distribution Co. (UDC) and Chief of Party for PA Consulting
Wright, Donna	Country Director for Georgia, American Bar Association, Europe and Central Asia Program (CEELI)
Yakobashvili, Temuri	Executive Vice President, Georgian Foundation for Strategic and International Studies

C. Donors and International Organizations

Alberda, Janet	Deputy Head of Mission, Embassy of the Kingdom of Netherlands
Bakradze, Keti	Project Management Specialist, United States Agency for International Development (USAID)
Barberis, Giovanna	Representative, United Nations Childrens' Fund (UNICEF)
Boehringer, Gabriele	Regional Director, South Office Caucasus, Gemeinschaft fuer Technische Zusammenarbeit (GTZ), German Technical Cooperation.
Calov, Christian	Director, South Caucasus Regional Office, Kreditanstalt für Wiederaufbau (KfW), German Reconstruction Credit Institute.
Chkhubianishvili, Rusiko	Development Officer, Department for International Development, UK.
Christiansen, Robert	Resident Representative, International Monetary Fund
Davey, Michael	Director for the Caucasus, Moldova and Belarus, European Bank of Reconstruction and Development (EBRD)
Denman, Amy	Executive Director, American Chamber of Commerce in Georgia
Eklund, Per	Ambassador, Head of Delegation of the European Commission to Georgia
Gogelia, Tengiz	Project Director, Millennium Challenge Georgia Fund
Gosney, David	Director, Office of Economic Growth, USAID
Hansen, Catarina	Project Preparation Committee Officer, European Bank of Reconstruction and Development (EBRD)
Hansen, John	Director, Office of Energy and Environment, USAID
Okreshidze, Nicholas	Senior Engineer, Office of Energy and Environment, USAID
Osepashvili, Ilia	Director, World Wildlife Fund, Georgia
Jambou, Michel	Project Manager, European Union
Japaridze, Goga	Principal Banker, EBRD

Kakachia, Media	Education Specialist, USAID
Katcharava, George	Head of DFID Georgia Program, DFID
Kenney, Dana	Senior Energy Advisor, USAID
Khechinashvili, Giorgi	Heath Specialist, USAID
Kimshiashvili, Kakha	National Program Officer for South Caucasus, Swedish International Development Cooperation Agency (SIDA)
Klaucke, Martin	Second Secretary, Delegation of the European Commission to Georgia
Klimiashvili, Rusiko	Head, World Health Organization (WHO) in Georgia
Kraus, Bill	Chief of Party, Urban Institute, USAID
Kutateladze, Marina	Coordinator, Millennium Challenge Corporation
Managadze, David	Associate Banker, EBRD
Mouravidze, Nataly	Principal Banker, EBRD
Natsvlishvili, Natia	Governance Team Leader, United Nations Development Programme, Georgia
Neidhardt, Rainer	Project Director, GTZ
Rijnders, Frank	Project Manager, European Commission (EC)
Schulzke, Rolf	Senior Forest Officer, WWF
Shanidze, Nino	Local Project Coordinator, Kreditanstalt für Wiederaufbau (KFW)
Tsiklauri, David	Project Manager, USAID
Tsitskishvili, Levan	Local Project Coordinator, Kreditanstalt für Wiederaufbau (KfW)
Tvalabeshvili, David	Energy Specialist, Millennium Challenge Fund Georgia
Ugulava, Tako	Health Specialist, UNICEF
Watkins, Robert	United Nations (UN) Resident Coordinator
Yates, Andrea	Acting Director, USAID Mission in Georgia

D. World Bank Resident Mission

Dolidze, Mariam	Economist, Europe and Central Asia Poverty Reduction and Economic Management (ECSPE)
Gigiberia, Thea	Program Coordinator, IFC (Tbilisi Office)
Gotsadze, Tamar	Health Specialist, Europe and Central Asia Human Development Sector (ECSHD)
Imnadze, Elene	Senior Public Sector Specialist, Europe and Central Asia Poverty Reduction and Economic Management (ECSPE)
Kandelaki, Tatyana	Financial Specialist, Europe and Central Asia Financial Sector (ECSPF)
Kapanadze, Darejan	Operations Officer, Europe and Central Asia Sustainable Development (ECSSD)
Kutateladze, Nino	Operations Analyst, ECSHD
Kvitaishvili, Ilia	Rural Development Specialist, ECSSD
Melitauri, Joseph	Operations Officer, ECSSD
Southworth, V. Roy	Country Manager, Georgia

E. World Bank and IMF (Washington, DC) – Current and Former Staff

Castro, Rocio	Lead Economist, Concessional Finance and Global Partnerships Vice Presidency (CFPVP)
Cholst, Anthony	Lead Country Officer, Europe and Central Asia Country Unit 3 (ECCU3)
Craig, David	Country Director, Middle East and North Africa Country Unit 4 (MNCO4)
Dowsett-Coirolo, Donna	Country Director, ECCU3
D'Hoore, Alain	IMF
Eiweida, Ahmed	Sr. Urban Management Specialist
Fadeyeva, Yelena	Operations Officer, Policy Support Group, Corporate Secretariat (SECPS)
Gray, Cheryl	Director, Independent Evaluation Group, World Bank (IEGWB)
Gvenetadze, Koba	IMF
Hamso, Bjorn	Sr. Energy Economist, Environmentally and Socially Sustainable Development (ECSSD)
Hegarty, John	Head, Europe and Central Asia, Vienna Office (ECCAT)
Kavalsky, Basil	Consultant, Independent Evaluation Group Country Evaluations and Regional Relations (IEGCR)
Konishi, Motoo	Sector Manager, ECCSD
Kreacic, Vladimir	Former World Bank Staff (Senior Private Sector Development Specialist, Europe and Central Asia Private and Financial Sector Development (ECSPF)
Kushlin, Andrei	Sr. Forestry Specialist, ECSSD
Kvintradze, Eteri	IMF
Monroe, Hunter	Senior Economist, IMF
Muller, Cyril	Special Representative, Europe, External Affairs Europe (EXTEU)
Mukherjee, Amitabha	Lead Public Sector Specialist, Europe and Central Asia Poverty Reduction and Economic Management (ECSPE)
Nicholas, Peter	Country Program Coordinator, Southern Africa AFCMZ
O'Connor, Judy	Former World Bank Staff (Country Director for South Caucasus)
Owen, David	Senior Advisor, IMF
Owen, Joseph	Country Manager, Latin America and Caribbean Mexico and Colombia Unit (LCCNI)
Petersen, Christian	Lead Economist, ECSSD
Posarac, Aleksandra	Lead Economist, ECSHD
Quintanilla, Rosalinda	Lead Economist, ECSPE
Ramachandran, S.	Senior Country Economist, Middle East and North Africa Social and Economic Development (MNSED)
Riboud, Michelle	Consultant, South Asia Human Development (SASHD)
Schiavo-Campo, Salvatore	Consultant, MNSED
Sedghi, Afsaneh	Economist, ECSPE
Shojai, Ramin	Former World Bank Staff (Senior Private Sector Development Specialist, ECSPF)
Shuker, Iain	Lead Agriculture Economist, East Asia Environment, Rural Development and Natural Resources (EASRE)
Stoutjesdijk, Joop	Lead Irrigation Engineer, South Asia Agriculture and Rural

	Development (SASDA)
Thomson, Peter D.	Director, ECSSD
Vashakmadze, Ekaterine	Senior Country Economist, ECSPE
Vucetic, Vladislav	Lead Energy Specialist, MNSSD
Walters, Jonathan	Sector Manager, MNSSD
Yaprak, Tevfik	Economic Adviser, Operations Policy Country Economics (OPCCE)

Appendix E

Guide to Independent Evaluation Group World Bank's (IEGWB's) Country Assistance Evaluation Methodology

This methodological note describes the key elements of IEGWB's country assistance evaluation (CAE) methodology.[81]

CAEs rate the outcomes of Bank assistance programs, not the clients' overall development progress.

A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a subset of the client's overall development objectives. If a Bank assistance program is large in relation to the client's total development effort, the program outcome will be similar to the client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a client's development by donors, stakeholders, and the government itself. In CAEs, IEGWB rates only the outcome of the Bank's program, not the client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the client's overall development progress. CAEs have identified Bank assistance programs which had:

- Satisfactory outcomes matched by good client development
- Unsatisfactory outcomes for clients that had achieved good overall development results, notwithstanding the weak Bank program; and
- Satisfactory outcomes for clients that did not achieve satisfactory overall results during the period of program implementation.

The assessments of assistance program outcomes and Bank performance are not the same.

By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and vice-versa. This becomes clearer when considering the Bank's contribution to the outcome of a country's assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (i) the client; (ii) the Bank; (iii) partners and other stakeholders; and (iv) exogenous forces (for example, events of nature, international economic shocks, and so on.). Under some circumstances, a negative input from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

IEGWB measures Bank performance primarily based on contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other analytic and advisory activities. In addition, the consistency of the Bank's lending with its non-lending work and with its safeguard policies, as well as the ~~the~~ Bank's partnership activities are also considered.

Rating Assistance Program Outcome

In rating the outcome (expected development impact) of an assistance program, IEGWB gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, the question to be answered is: Did the Bank do the right thing and did it do it right?

Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development. The CAS also specifies how such goals are expected to contribute toward achieving the higher-order objective. IEGWB's task, then, is to validate whether the intermediate objectives were the right ones, whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages are not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

For each of the main objectives, the CAE evaluates the relevance of the objective and the Bank's strategy toward meeting it (including the balance between lending and non-lending instruments), as well as the efficacy with which the strategy is implemented and results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome, and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the government, and exogenous factors.

Evaluators also assess the degree of client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences in dealing with these issues would be identified and resolved by the CAS, thereby enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

IEGWB utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

Highly Satisfactory:	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
Satisfactory:	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
Moderately Satisfactory:	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
Moderately Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (i) did not take into adequate account a key development constraint or (i) produced a major shortcoming, such as a safeguard violation.
Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (i) did not take into adequate account a key development constraint or (ii) produced a

major shortcoming, such as a safeguard violation.

Highly Unsatisfactory: The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

The **institutional development impact (IDI)** can be rated at the project level as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- The soundness of economic management
- The structure of the public sector, and, in particular, the civil service
- The institutional soundness of the financial sector
- The soundness of legal, regulatory, and judicial systems
- The extent of monitoring and evaluation systems
- The effectiveness of aid coordination
- The degree of financial accountability
- The extent of building non-governmental organization (NGO) capacity and
- The level of social and environmental capital.

IEG is, however, increasingly factoring IDI impact ratings into program outcome ratings, rather than rating them separately.

Sustainability can be rated at the project level as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- Technical resilience
- Financial resilience (including policies on cost recovery)
- Economic resilience
- Social support (including conditions subject to safeguard policies)
- Environmental resilience
- Ownership by governments and other key stakeholders
- Institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness) and, resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

At the program level, IEG is increasingly factoring sustainability into program outcome ratings, rather than rating them separately.

Risk to Development Outcome. **A**ccording to the 2006 harmonized guidelines, sustainability has been replaced with a "risk to development outcome," defined as the risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). The risk to development outcome can be rated at the project level as *high, significant, moderate, negligible to low, to not evaluable.*

Attachment 1: Comments from the Government of Georgia

საქართველოს
ფინანსთა სამინისტრო

MINISTRY OF FINANCE
OF GEORGIA

№ 07-01/5917 „24" 06 2008

ოქმის № ____________

Mr. Ali M. Khadr
Senior Manager
Country Evaluation and Regional Relations
Independent Evaluation Group
Fax: +1-202-522-3124

Dear Mr. Khadr,

<u>Subject</u>: draft Country Assistance Evaluation report, Georgia

We have considered with due attention draft of the Country Assistance Evaluation (CAE) report dated May 28, 2008, prepared by the Independent Evaluation Group (IEG). We acknowledge the importance of similar country reports which are conceived to provide balanced perspectives on countries evaluated, also on the value added by the World Bank through its leading role in the context of development.

We believe, however, that the mentioned draft CAE on Georgia has a number of conceptual and technical shortcomings and imbalances which (a) distort the image of successful reforms underway in Georgia, (b) severely distort the image of modern Georgia in general and (c) depict a wrong picture of the World Bank's current involvement with Georgia. These imbalances lead to questions on the extent of familiarity of the evaluators and peer reviewers with the successfully evolving political, social and economic dynamics in Georgia since the Rose Revolution of 2003.

Unless these shortcomings and imbalances are addressed in due manner and re-discussed with adequate people, both in Georgia and within the World Bank-Georgia team, with hands-on country-specific experience and knowledge, we are against making this document public or sharing it with wider audiences.

Let me draw your attention to only two issues as an example of where our views and perceptions seem to diverge significantly.

1. Matrix on pages ix-x of the draft CAE assesses the extent to which the Bank program achieved the results targeted in relevant strategic documents. The matrix provides an imbalanced view of recent reforms in Georgia and is also in stark contrast with all other independent assessments on Georgia's recent achievements since 2003. Let me mention only a few examples:

   - Simply mentioning inflation and current account deficit without more detailed explanation, all this at the very beginning of the document, creates a distorted impression of the economic developments in Georgia. Inflation, for instance, has been sustained mainly at the single digit level

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despite global inflationary pressures, substantial foreign capital inflows and rapid real growth of the Georgian economy, and there have been brave far-reaching reforms that have made inflation targeting and therefore price stability the key objective of the National Bank of Georgia. Current account deficit has been to a large extent driven by surplus on the capital account side which is itself to a large extent due to the exceptionally large inflows of the foreign direct and portfolio investments into the Georgian economy as a result of the radical privatization and liberalization efforts by the Government. The 'mechanical' treatment of terms like inflation and current account is, therefore, simplistic and leads to wrong perceptions.

- In the recent years, Georgia has improved its financial accountability significantly, and this has been facilitated by reforms in the budget process, in treasury operations, in human resource development strategy in line ministries and by many other factors which we will not list here for the sake of keeping this communication within readable limits. The word 'lagging' leads to question 'compared to which country in the broader region?'
- In stark contrast to what is suggested in the matrix, the anti-corruption policies in Georgia have virtually rooted out corruption at all levels, drastically reducing both petty and, very importantly, high-profile corruption. This is acknowledged by numerous independent reports and assessments. The same concerns judicial reforms where progress has been apparent.
- Section on economic policy and regulation is unbalanced. While going into detail about reforms before 2003, it is sketchy about reforms after the Rose Revolution – those very reforms that have put Georgia at the top of the league of best performers worldwide and have thus been winning us strong accolades.
- Rehabilitation of irrigation and drainage networks has progressed fast, albeit from a low base. We are investing heavily into this infrastructure, including with the World Bank's support. Strong implementation capacity in the given area allows to proceed fast and in efficient way.
- The sentence 'number of visitors and tourists increased, but most likely due to the overall improvement in business climate and economic growth', aside from being structurally disorientating, is not sustained by robust statistical evidence measuring recent trends in Georgia's tourism and hospitality industry in general.
- Conclusions similar to (a)-(f) above apply, mutatis mutandis, to 'human, social and sustainable development' section of the matrix and to other relevant sections in the draft CAE text that follows.

We, therefore, strongly believe that the overall outcome rating 'moderately satisfactory' must be re-considered, re-adjusted and brought into balance bearing in mind the comments above.

2. Recommendation on p.62 says the Bank's lending needs to stay focused and concentrate on selected areas. The current World Bank's Country Partnership Strategy for Georgia attests that we are indeed focused and concentrated on selected areas where the government exercises strong ownership. The process of formulating the priorities is participatory. The government is in the driver's seat in terms of setting lending priorities, which is as it should be. We thus already have a well focused World Bank Country Partnership Strategy (infrastructure, education, and the policy support PRSO credits) and our good experience of working with the World Bank Georgia team suggests that this will be the case in the future. We are thus not sure how much more focused or responsive to government's priorities this recent partnership could have been. We also note that the IEG's recommendation is not fully in line with the Government's thinking on where we want to borrow from the World Bank in the future on IDA/IBRD terms.

As much as we welcome the CAE-related effort by the IEG and express our general support to the given exercise, we reiterate that in its current reading the draft CAE runs the risk of communicating a wrong image of modern Georgia, especially given the clear progress this country has achieved since the Rose Revolution in 2003. In a nutshell, failure to capture all these exceptionally positive changes in Georgia in 2003-2008 tends to outstrip the analytical effort by the team of evaluators and to overshadow certain meaningful recommendations that are listed in the subsequent chapters of the draft CAE.

While we understand that in theory the IEG is not evaluating Georgia per se but rather the impact/success/shortcomings of World Bank's support to Georgia, we also believe that the draft CAE in its current form leads to a somewhat unbalanced picture of the World Bank's recent involvement with Georgia which has been appreciated in view of its flexibility, informed dialogue on both sides and dedication by the Bank's Georgia team members.

We remain at your entire disposal for further discussions. If need be, we are ready to proceed on a page-turn basis.

Sincerely yours,

Dimitri Gvindadze
Deputy Minister

Attachment 2: IEG's Response to Government Comments

IEG's Response to Government Comments

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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June 30, 2008

H.E. Dimitri Gvindadze
Deputy Minister of Finance
Ministry of Finance
Tbilisi, Georgia

Dear Mr. Gvindadze:

Subject: Georgia-Country Assistance Evaluation Report

Thank you for your comments on the Georgia Country Assistance Evaluation (CAE). We appreciate the attention that the Georgian authorities have paid to this evaluation.

The Government's comments will be included in the CAE document distributed for discussion at the Informal Subcommittee of the Executive Board's Committee on Development Effectiveness (CODE). In addition, we have revised parts of the report in light of your comments—insofar as this was feasible and appropriate.

Overall, we do not believe that we have justification to revise the overall rating of *moderately satisfactory*. It is important to recall that this rating reflects an aggregate assessment of the outcome of World Bank support to Georgia under all four "pillars" or policy areas for the entire 15-year review period 1993-2007.

Following are IEG's responses to specific points raised in the Government's comments:

1. *Purpose of the report.* As your comments acknowledge, the purpose of the CAE is to assess the outcome of World Bank support to Georgia over the period of 1993-2007. By its very nature the CAE did not—and cannot—systematically go beyond the scope of activities, policies and reform measures supported by the World Bank through the various instruments (project and development policy lending, and analytical and advisory support).

2. *Inflation and the current account.* The need for very concise language in a summary table notwithstanding, your observation that the government has made efforts to control inflation in the presence of large capital inflows is well-taken, and we will endeavor to clarify the context to the extent possible.

3. *Financial accountability.* Based on several recent assessments, the CAE acknowledges, both in the text and the summary matrix, that important reforms have been carried out, notably in the legal framework, in several areas pertaining to public financial management such as procurement and budget processes. The report also notes that in several cases, such changes

have not immediately translated into better outcomes. These clarifications notwithstanding, your concern that the reference to "lagging" results of reform can be misinterpreted (notably from a comparative perspective) is well-taken, and we have changed the language in the matrix to make the messages clearer.

4. *Anti-corruption and judicial reform.* The line of argument in the CAE is that the specific World Bank efforts to help reduce corruption in Georgia met with little success, and that the post-Rose Revolution Government deserves full credit for the reduction in corruption since 2004. On the associated rating, we believe that the moderately unsatisfactory rating is appropriate because most Bank support to Georgia on this score was delivered earlier, during the period prior to 2004. Regarding judicial reforms, the assessment in the CAE refers to what was achieved with World Bank assistance, and not to what was achieved more broadly under the Government's reform program.

5. *Economic policy and regulation (private sector development).* We recognize that the coverage of this topic in the CAE may appear unbalanced from the perspective of Georgia's complete program of reforms. Again, the coverage in the CAE reflects the mainly the Bank's program in this area. Similarly, the sentence on the number of tourists was meant to attribute the increase to the overall efforts of the Government in improving conditions in the country, rather than to a specific Bank project. We have revised the language to make the point clearer.

6. *Recommendations.* In relation to your comment pertaining to one of the CAE's recommendations ("stay focused"), we have redrafted the relevant section to avoid possible interpretations that are critical of the current program.

Once again, thank you for your responsiveness in providing us with feedback on the CAE, which we have found very helpful.

With best personal regards,

Yours sincerely,

Ali M. Khadr
Senior Manager
Country Evaluation and Regional Relations
IEG – World Bank

Attachment 3: Map of Georgia

ENDNOTES

Georgia: Summary Ratings of the Outcome of the World Bank Program, 1993–2007

[1] The ratings and sub-ratings in the table pertain to the entire 15-year period, with any one year in the period receiving equal weighting as any other. An explanation of how ratings and sub-ratings differ across three subperiods (1993–97, 1998–2003, and 2004–07) is provided in appendix B.

Executive Summary

[2] This evaluation was completed in June 2008, and does not reflect some important political developments, such as the war in South Ossetia in August 2008. This had important consequences for the country's economic development, as well as for the Bank's program in Georgia.

[3] Overall pillar ratings are aggregates of subperiod ratings for each pillar. For a more detailed breakdown, see appendix B, as well as chapters 3–6 of this evaluation.

Chapter 1

[4]. Georgian President (1995–2003) Eduard Shevardnadze was widely respected in the world as one of the architects of Gorbachev's *perestroika*, serving as Gorbachev's foreign minister at the time that Soviet troops withdrew from Afghanistan and the Berlin Wall fell.

[5] Abkhazia and S. Ossetia were "autonomous republics" within Georgia when it was part of the USSR. After the breakdown of the Soviet Union, the new leadership of Georgia adopted a new Constitution that did not anticipate the same level of autonomy. This became the root cause of these conflicts.

[6]. It is hard to ascertain the precise decline in poverty, as the Georgian State Department of Statistics stopped publishing the poverty rate based on the subsistence minimum and now calculates it based on consumption of households equal to 60 or 40 percent of median consumption.

[7]. IEG's 2006 *Annual Review of Development Effectiveness* (IEG 2006) noted that strategies designed solely to boost overall growth risk missing opportunities to reduce poverty more effectively. In many cases, Bank assistance often effectively contributed to bringing client countries back to a growth path through improved economic management, but it was less successful in bringing about job-creating growth. In Georgia, the Bank helped reestablish macroeconomic stability but was less successful in helping to remove obstacles to more inclusive growth. In addition, negative household consumption growth was accompanied by an increase in inequality.

Chapter 2

[8]. There was a significant gap in coverage (fiscal 2001–06) between the two strategies due to: (i) postponement of the Country Assistance Strategy (CAS) preparation in fiscal 2001 as the country started work on its Poverty Reduction Strategy Paper; (ii) suspension of CAS preparation in 2002 over concerns about political developments and the worsening governance environment; and; (iii) withdrawal of the CAS in November 2003 due to the change in government following the Rose Revolution.

[9]. Several high-ranking officials told the IEG mission that the PRSP document (World Bank 2003b) in its present form reminded them of an old Soviet-type planning exercise, with too many objectives and priorities. Another interviewee said the "PRSP has been long dead, just not officially declared so."

Chapter 3

[10]. The Bank supported actions in this area with the following credits: Institution Building Credit (IBC), Rehabilitation, Structural Adjustment Credits (SACs) (1-3), Second Structural Adjustment Technical

Assistance Credit (SATAC) (1 and 2), Reform Support, and Poverty Reduction Support Operations (PRSOs) (1–4).

[11]. The main products were a Country Economic Memorandum in 1993, Public Expenditure Reviews (PER, 1996 and 2002), a report on trade policy (UNDP/World Bank 1996) prepared jointly with UNDP, and an energy sector report (1996).

[12]. In several interviews conducted in Georgia, IEG mission members were told that prices have been growing faster than the official figures reveal. Another worrying sign is the growing size of the external debt, which reflects rapid growth in private non-guaranteed debt, since public debt has fallen.

[13]. Achievement of objectives pertaining to anticorruption, judiciary, and Public Expenditure Management (PEM) are addressed in more detail in the chapter on Pillar II.

Chapter 4

[14]. Institution Building Credit (fiscal 1995), SATAC2 (1998), Judicial Reform (1999), Public Sector Financial Management (2006), and PRSOs 1–4.

[15]. The Bank produced a Judicial Assessment report (1998), followed by two credits that supported the judiciary, SATAC2 and Judicial Reform.

16. See International Crisis Group (2007), p. 22. . The Country Assistance Evaluation (CAE) mission reached the same conclusion from the interviews carried out in Georgia.

[17]. Lending: Public Financial Management Reform Credit (FY06), PRSOs 1–4.

[18]. The IMF notes achievements in fiscal transparency (budget discussion, adoption, and reporting) and the independence of the Central Bank: Georgia Report on the Observance of Standards and Codes (ROSC) Fiscal Transparency Module (2003).

[19]. Global Integrity Scorecard: Georgia, 2006 and 2007.

[20]. The 1994–97 period is not rated for this pillar as the Bank's intervention in support of improved governance was minimal.

[21]. According to the IEG evaluation of Bank support for public sector reform (IEG 2008b), direct measures to reduce corruption—such as anticorruption laws and commissions—have rarely succeeded. The study also emphasized that the Bank needs to focus on improving guidelines for anticorruption reforms as well as on setting realistic objectives and sequencing of reforms.

Chapter 5

[22]. Some selected Economic and Sector Work (ESW) reports are as follows: Country Economic Memorandum (CEM) (1993); several Financial Sector Assessment Programs (FSAPs) (2001, 2006, 2007); Corruption in Georgia: Survey of Evidence, 2000; Business Environment and Enterprise Performance Survey (BEEPS) 1999, 2002, 2005; (IFC 2004a, 2004b); IFC 2004c; ROSC 2007; UNDP/World Bank 1996;); World Bank 2003d; World Bank 2003g.

[23]. Relevant conditions included in the Rehabilitation Credit and SAC1.

[24]. This section draws on the Project Performance Audit Report (PPAR) (World Bank 2003c). The main loans dealing with privatization were Rehabilitation, SAC1, SA2, SAC3, and Energy Sector Adjustment Credit (ESAC).

[25]. Loans dealing with regulation, licensing, and corruption issues were IBC (1995), Rehabilitation Credit (1995), SACs 1–3, SATAC 1 and 2, Judicial Reform (1999), Reform Support Credit (2004), Public Sector Financial Management (PSFM) (2006), PRSOs 1–4.

[26]. The Country Partnership Strategy (CPS) uses variables from three main surveys—Georgian Opinion Research Business International (GORBI), BEEPS, and Doing Business.

[27]. Bank credits: Transport (1996, $12 million); Transport Ministry Restructuring (1999, $2 million); Roads (2000, $40 million); Secondary/Local Roads (2004, $20 million); Infrastructure Pre-investment Facility (2006, $5 million); and Highway Improvement (2007, $19 million).

[28]. Fuel consumption of Russian-made trucks is about 55–60 liters/100 kilometers, compared with 38 liters for European vehicles. Fuel comprises about 40 percent of the vehicle operating cost in Georgia.

[29]. The highway design model is used for maintenance planning as well as vehicle operating cost calculations.

[30]. The most publicized casualty was the country's Prime Minister Zurab Zhvania, whose tragic death in February 2005 is attributed to carbon monoxide poisoning caused by a cheap domestic gas heater.

[31]. Sector-related credits: Municipal Infrastructure Rehabilitation Credit (1994, US$18 million); Rehabilitation Credit (1995); SACs 1–3; SATAC-II; Power Sector Rehabilitation Credit (1997); Oil Institution Building Credit (1997); Energy Sector Adjustment Credit (ESAC, 1999); Electricity Market Support Project (EMSP, 2001).

[32]. In 2004, AES Corporation sold the company to a subsidiary of the Russian energy giant RAO Unified Energy Systems (UES).

[33]. It has been difficult to acquire consistent time series data on average collections. Some sector participants interviewed for this review expressed the suspicion that some figures have been overstated and that, in fact, collections had worsened in recent years.

[34]. Access is another indicator, measured by the number of households with operable gas and electricity connections. However, this indicator is not very relevant in Georgia, which like most Former Soviet Union (FSU) countries, had a highly reticulated gas and electricity network.

[35]. Agricultural Development Project (ADP, FY97); Agricultural Research, Extension, and Training (ARET, FY00); Irrigation and Drainage Rehabilitation (FY01); Forestry (FY03); Rural Development (FY05); Irrigation Rehabilitation Supplement (FY05); and Avian Flu (FY06).

[36]. There was a positive side effect of diversification of export destinations: exports to the EU increased from $27.3 million in 2004 to $80.7 million in 2006.

[37]. Agricultural Development (ADP) and Rural Development projects. ADP was cofinanced by IFAD. IFAD's evaluation report (2007) reflected the shortfall in achieving the expected targets in creating a Credit Union network along the lines shown in table 22.

[38]. The IFAD evaluation reached a similar conclusion and was critical of the design of the credit union (small farmer) component, and particularly the inability to identify problems earlier.

Chapter 6

[39]. According to the United Nations Education, Scientific and Cultural Organization (UNESCO), Georgia was behind other transitional countries in terms of public expenditure on education.

[40]. Health (1996, 2002), Structural Reform Support (SRS) (1999), SACs (1–3), and PRSOs program.

[41]. Taken literally, these data suggest that the incidence of various diseases has increased between 1995 and 2005, but this is misleading because registrations of these diseases have increased at health clinics.

[42]. Education System Realignment and Strengthening Program, Phase I (2001) and Phase II (2006); PRSO Program.

[43]. Programs developed by the International Association for the Evaluation of Educational Achievement reading and mathematics and science that permit comparison across countries.

[44]. Municipal Infrastructure Rehabilitation (1995), Municipal Development I (1998) and II (2003), Social Investment Fund I (Georgia Social Investment Fund (GSIF), 1998) and II (2003).

[45]. Project funds were reallocated. The project internal assessment review concluded that reallocation was due to poor performance and the new government's distrust of the reform design.

[46]. A survey by Oxfam found 90 percent accuracy in identifying the extremely poor Information contained in World Bank (2008a).

[47]. Through the Municipal Development Fund (MDF), the Bank is supervising part of the U.S.-sponsored Millennium Challenge Corporation activities related to municipal infrastructure.

[48]. Latest supervision report indicates achievement of both targets.

Appendix C

[49]. Georgia became a member of the IFC in June 1995.

[50]. The IFC invested in 23 country and two regional projects between FY1995 and FY2007.

[51]. Please see Chapter 1- Country Background and Chapter 5- Private Sector Development and Growth for more detailed information of Georgia's private sector and business climate.

[52].The GDP growth rate was 12 percent in 2007 (Source: IMF).

[53].Twenty percent of GDP in 2007 (Source: IMF).

[54]. See page 4, Table 3, Poverty Indicators.

[55]. Please see page 33, Table 14, Indicators of Performance-Overall Business Environment for more detailed business environment indicators.

[56]. However this assessment has possibly not taken into account the new Tax Code that came into force on January 1, 2005. The new Tax Code lowers tax rates and simplifies the tax system across-the-board. It envisages seven taxes instead of 21, namely: social, profit, property, income, Value-Added Tax (VAT), excise, and gambling taxes. Also tax rates will be reduced, social tax 20 percent (from 33percent), VAT 18 percent (from 20 percent), and income tax 12 percent (establishes a proportional system with a single rate to replace the quasi-progressive system of four rates on cumulative incomes).

[57]. Regional and geographical strategies are based on the IFC strategic directions for FY06–FY08, and for FY07–FY09.

[58]. Corporate strategies are based on the IFC strategic directions 2000, 2001, 2002, 2003, 2004, FY06–FY08, and FY07–FY09. Since 2004, the IFC focused on five strategic pillars: strengthening the focus on frontier markets; building long-term partnerships with emerging players in developing countries; differentiating through sustainability; addressing constraints to private sector growth in infrastructure, health and education; and developing local financial institutions.

[59]. Two regional projects are included.

[60]. During the same period, for the Europe and Central Asia Region (excluding Georgia), 69 percent of the projects achieved results that met or exceeded specified market, financial, economic, environmental and social performance benchmarks and standards. Sixty-six percent of the operations met or exceeded IFC investment return benchmarks.

[61]. The eight risk factors considered are: business climate, sector, sponsor, product market, debt service burden, green field, review intensity, and non-repeat. Projects with four or more risks are considered high risk projects.

[62]. See (IEG-IFC 2008c) for details on the relationship between project risk and the quality of IFC supervision and administration. (IFC/R2008-0020)

[63]. Based on IEG-IFC's 10 years of evaluation findings, five key factors were identified to help explain development performance at the project level.

[64]. See IEG-IFC's annual report, Independent Evaluation of IFC's Development Results for 2007 and 2008, for further analysis of the performance of IFC-supported projects when facing such risks.

[65]. Regional advisory services projects are not included.

[66]. For example, within two years of the introduction of the IFC Technical Assistance in one of the invested banks, the ratio of non-performing loans (over 30 days in arrears) to gross loans was 1.4 percent for the IFC portion and 6 percent for the total portfolio. After two years, this ratio had fallen below one percent for both the IFC portion and for the total Bank portfolio. A second-tier bank became the leading bank, and had a substantial demonstration effect particularly when the number of banks was reduced by 50 percent in five years.

[67]. During this period, the formal banking sector lending and deposit volumes increased. According to IMF data, banks' lending volume increased 10 times between 2001 and November 2007, noting that most of the increase occurred in the past few years. Banking reforms were aimed at strengthening commercial banks through a gradual increase in the minimum capital requirements, consolidating the banking sector (from 229 banks in 1994 to 17 in 2007), and enhancing banking supervision. If the spread of bank branches is any indication, formal banking has started to reach some rural areas. Nonetheless, the overall financial sector is small, and certain weaknesses remain. For example, the system is highly dollarized and therefore vulnerable to external shocks. Further, the banking sector structure is highly concentrated, with the top three institutions controlling over 68percent of total assets.

[68]. Some foreign banks such as Vneshtorgbank (Russia), Turanalem Bank (Kazakhstan) and Société Générale (France) have recently invested in the banking sector.

[69]. In order to improve the transparency of its operations and projects, the IFC revised its disclosure policy, and released the Environmental and Social review procedure in September 1998.

[70]. The Regional Development Initiative (RDI) is designed to bring sustainable socio-economic benefits to people in Georgia, Azerbaijan and Turkey.

[71]. It could not find other opportunities in some sectors after early setbacks. For example, in the manufacturing sector, the IFC has not made any new investments since 2000.

[72]. As of December 31, 2006, the European Bank for Reconstruction and Development (EBRD) had committed to investments of US$525.14 million in Georgia. The EBRD had a financial sector bias, but it was not as pronounced as that of the IFC. In addition to the financial sector operations, the EBRD invested in water, railways, hydroelectric power, steel, agribusiness, and airport construction. It should be noted that some EBRD investments were in state-owned companies or included sovereign guarantees.

[73]. Although the financial sector has been improving in the past few years, Georgia is ranked 48th in the "getting credit" sub- category in Doing Business (see www.doingbusiness.org), and in terms of domestic credit provided to the private sector. For example, between 1997 and 2006, domestic credit to the private sector as a percentage of GDP was on average 10 percent, while for lower middle-income countries (MIC) countries, it was on average 32 percent of GDP (Source: DDP World Bank).

[81]. In this note, the *assistance program* refers to products and services generated in support of the economic development of a client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

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