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PROJECT PERFORMANCE ASSESSMENT REPORT

WHAT WORKS

GEORGIA

First, Second and Third Development Policy Operations

Report No. 125186

JUNE 14, 2018

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PROJECT PERFORMANCE ASSESSMENT REPORT

GEORGIA

FIRST DEVELOPMENT POLICY OPERATION
(IDA-4623, TF95827)

SECOND DEVELOPMENT OPERATION
(IDA4763, IBRD-79260, TF98478)

THIRD DEVELOPMENT OPERATION
(IDA 50080)

June 14, 2018

Human Development and Economic Management
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Georgian Lari (GEL)

2009	$1.00	GEL 1.68
2010	$1.00	GEL 1.77
2011	$1.00	GEL 1.66
2012	$1.00	GEL 1.66
2013	$1.00	GEL 1.68
2014	$1.00	GEL 1.79
2015	$1.00	GEL 2.41

All dollar amounts are U.S. dollars unless otherwise indicated.

Abbreviations

ADB	Asian Development Bank
BDD	Basic Data and Directions
CPS	country partnership strategy
DCFTA	Deep and Comprehensive Free Trade Agreement
DPO	development policy operation
FDI	foreign direct investment
GDP	gross domestic product
GRS	Georgian Revenue Service
IEG	Independent Evaluation Group
IMF	International Monetary Fund
LEPL	Legal Entity of Public Law
LPI	Logistic Performance Index
MIP	Medical Insurance Plan
MTEF	medium-term expenditure framework
NBG	National Bank of Georgia
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
PIP	Public Investment Program
PPAR	Project Performance Assessment Report
PRSO	Poverty Reduction Support Operation
SBA	stand-by arrangement
TBT	technical barriers to trade
TSA	Targeted Social Assistance
UHC	Universal Health Coverage

Fiscal Year

Government: January 1–December 31

Director-General, Independent Evaluation	Ms. Caroline Heider
Director, Human Development and Economic Management	Mr. Auguste Tano Kouame
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Contents

This report was prepared by Florence Charlier and Aristomene Varoudakis, who assessed the program in November 2017. The report was panel reviewed by Robert Mark Lacey and peer reviewed by Zeljko Bogetic. Carla F. Coles provided administrative support.

Box

Tables

Appendixes

Principal Ratings

Development Policy Operations I, II, III (P112700, P117698, and P122202)

Indicator	ICR*	ICR Review*	PPAR
Outcome	Satisfactory	Satisfactory	Satisfactory
Risk to development outcome	Moderate	Moderate	Moderate
Bank performance	Satisfactory	Satisfactory	Satisfactory
Borrower performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion and Results Report (ICR) is a self-evaluation by the responsible Global Practice. The ICR Review is an intermediate Independent Evaluation Group (IEG) product that seeks to independently validate the findings of the ICR.

Key Staff Responsible

First Development Policy Operation (DPO-I) (P112700)

Project Stage	Task Team Leader	Sector Manager	Country Director
Appraisal	Faruk Khan	Kazi Mahbub-Al Matin	Asad Alam
Completion	Faruk Khan	Ivailo Izvorski	Henry G. Kerali

Second Development Policy Operation (DPO-II) (P117698)

Project Stage	Task Team Leader	Sector Manager	Country Director
Appraisal	Faruk Khan	Kazi Mahbub-Al Matin	Asad Alam
Completion	Faruk Khan	Ivailo Izvorski	Henry G. Kerali

Third Development Policy Operation (DPO-III) (P122202)

Project Stage	Task Team Leader	Sector Manager	Country Director
Appraisal	Faruk Khan	Kazi Mahbub-Al Matin	Asad Alam
Completion	Faruk Khan	Ivailo Izvorski	Henry G. Kerali

IEG Mission: Improving World Bank Group development results through excellence in independent evaluation.

About this Report

The Independent Evaluation Group (IEG) assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the World Bank's self-evaluation process and to verify that the World Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20–25 percent of the World Bank's lending operations through fieldwork. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which executive directors or World Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government and other in-country stakeholders, interview World Bank staff and other donor agency staff both at headquarters and in local offices as appropriate, and apply other evaluative methods as needed.

Each PPAR is subject to technical peer review, internal IEG panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible World Bank country management unit. The PPAR is also sent to the borrower for review. IEG incorporates both World Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the World Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://ieg.worldbankgroup.org).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current World Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, country assistance strategies, sector strategy papers, and operational policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared with alternatives. The efficiency dimension is not applied to development policy operations, which provide general budget support. *Possible ratings for outcome:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, and highly unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for risk to development outcome:* high, significant, moderate, negligible to low, and not evaluable.

Bank performance: The extent to which services provided by the World Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan or credit closing, toward the achievement of development outcomes). The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank performance:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, and highly unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for borrower performance:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, and highly unsatisfactory.

Preface

This Project Performance Assessment Review (PPAR) evaluates a programmatic series of three development policy operations (DPOs) for Georgia, including three credits and one loan, in the amount of $85 million for DPO-I, $50 million for DPO-II, and $40 million for DPO-III, implemented between July 2009 (World Bank Board of Executive Directors approval of DPO-I) and March 2012 (closing of DPO-III). All operations were fully disbursed.

This report presents findings from an in-depth review of the program documents, discussions with World Bank staff, and interviews with government officials and other stakeholders during an evaluation mission to Georgia in November 2017. The cooperation and assistance of all parties consulted are gratefully acknowledged, as is support of the World Bank country office in Tbilisi.

Following standard Independent Evaluation Group procedures, the report is sent to the government officials and agencies in Georgia for review and feedback. No comments were received from the borrower.

Summary

This Project Performance Assessment Review (PPAR) evaluates a programmatic series of three development policy operations (DPOs) for Georgia, including three credits and one loan, in the amount of $85 million for DPO-I, $50 million for DPO-II, and $40 million for DPO-III, implemented between July 2009 (World Bank Board of Executive Directors approval of DPO-I) and March 2012 (closing of DPO-III). All operations were fully disbursed. The Government of Georgia requested these operations in a context of economic downturn resulting from the August 2008 conflict with the Russian Federation and the global financial crisis.

The program development objectives of the DPO series were to support the government's policy reform agenda to (i) mitigate the impact of the economic downturn in the short term; and, (ii) facilitate recovery and prepare Georgia for postcrisis growth in the medium term. To meet these objectives, the DPO series supported a reform agenda aiming to (i) improve the efficiency and effectiveness of public finances; (ii) improve the effectiveness of the social safety net; and, (iii) improve external competitiveness

Both these program development objectives were highly relevant because the DPO series was initiated at the outset of the dual crises of 2008–09 (the August 2008 conflict with the Russian Federation over Ossetia and the global financial crisis). They aligned fully with the World Bank's fiscal year (FY)10–13 country partnership strategy for Georgia, which focused on (i) postconflict and vulnerability issues in the near term and (ii) strengthening the foundations for medium-term competitiveness and growth. The policy content of the DPO series formed the centerpiece of the reform agenda supported by the country partnership strategy. The program development objectives and policy content were also aligned with the government's medium-term reform program articulated in the poverty reduction strategy.

The relevance of design of the program was substantial. Coverage expansion of Georgia's two flagship social safety net programs for protecting the vulnerable, the Targeted Social Assistance (TSA) program and the Medical Insurance Plan (MIP), was meant to ameliorate the short-term impact of the crisis. To help recovery and postcrisis medium-term growth, the DPO series supported relevant reforms to reverse the adverse effect of the crisis on investor confidence and export market access. It also supported public financial management reforms for improving the efficiency of public expenditure, which, though they were not new, were relevant in view of the need for postcrisis fiscal adjustment. The operation's design complemented the stimulus program implemented by the government in response to the crisis. In parallel, the continuation of the World Bank's annual budget support through the DPO series contributed to bolstering market confidence by helping to smoothly cover Georgia's financing needs at a time of crisis.

The overall outcome of the DPO series is rated satisfactory. It reflects high relevance of objectives, substantial relevance of program design, and substantial efficacy in outcome achievement under the first and second objectives. Achievement of the objective of mitigating the impact of the economic downturn in the short term was substantial. Despite its relatively low coverage, the TSA program helped protect the most vulnerable during the crisis and its adequate targeting provided assurance that budgetary resources

were well used. In the years following the closure of this DPO series, the program continued to be reformed to improve its coverage and targeting. The DPO series supported this by enabling an increase in the amount of the TSA benefit and securing adequate budgetary funding, adjusting the proxy means testing formula, and improving the program administration and data for reviewing the eligibility of beneficiaries. By reaching out to more vulnerable people, the expanded coverage of the MIP tempered the impact of the crisis on the poor. However, the more recent universal health coverage, which replaced the MIP supported by the operation, achieved only marginal progress in further strengthening health care access for the poor and alleviating the impoverishing effects of Georgia's very large out-of-pocket health expenditures.

The public financial management reforms included the enactment of a budget code to unify the legal framework for budgeting at all levels, the introduction of program budgeting, and the development of a multiyear public investment program. Because the gestation period of these reforms is long and the processes are ongoing, they modestly supported the objective of facilitating recovery and preparing Georgia for postcrisis growth in the medium term. They are expected to help, however, improve the transparency of the fiscal framework and the quality of public expenditures in the future. The external competitiveness reforms included reforms in tax administration, customs, trade-related barriers, food safety, and competition policy. They helped prepare Georgia for the Deep and Comprehensive Free Trade Agreement with the European Union and its deeper integration into world trade.

Overall, the risk to development outcomes is rated **moderate.** There is strong risk related to Georgia's exposure to external shocks, high risk of fiscal sustainability, and low risk of internal reversals of the reform process. Although the external environment may continue to pose risks to economic performance in Georgia, the strong government commitment to continued reform, low political volatility, and institutional rules for fiscal discipline should help sustain the development outcomes achieved with support from the DPO series.

Lessons

Among the key lessons are the following:

- DPO programs during times of crisis may involve a trade-off between providing predictable budget support and the quality of the reform agenda. The World Bank made the choice of providing predictable budget support to Georgia, mostly by extending and deepening the reforms supported by the precrisis operations, thereby limiting the inclusion of new reform areas to the program. With a few exceptions, the content of the DPO series was nonetheless broadly adequate to achieve the program objectives. The comprehensiveness of the World Bank's previous engagement on the reform agenda, its extensive analytical work, the government's commitment and anticrisis program, and technical assistance by the World Bank and other donors contributed to the positive outcome.
- Although scaling up Georgia's TSA program was fully justified, cash transfer programs are mainly geared toward the chronically poor, whereas many persons affected by crises fall into temporary poverty. Cash transfer programs thus often lack the targeting and management information systems to quickly absorb those who may

have poverty characteristics different from those of the chronically poor. Complementary social protection schemes might better mitigate the impact of crises. The introduction of unemployment insurance would have merited support from the DPO program.

- In a fiscally constrained environment, a move to universal health coverage may not necessarily bring an improvement in the financial protection of the poor. Such transitions need to be well prepared, with good checks and balances and quality assurance mechanisms in place that help contain the potentially high cost of universal health coverage systems. The World Bank is in a position to play a more proactive role in advising governments on the best way to prepare such transitions.
- The World Bank can play a significant role in helping focus government's efforts in policy areas where other development partners mainly support reforms, such as in the trade-related reforms required to negotiate Georgia's Deep and Comprehensive Free Trade Agreement with the EU. Including this agenda in the DPO series helped focus efforts on reforms important for strengthening export potential and avoided spreading resources too thinly.

Auguste Tano Kouame
Director
Human Development and Economic Management
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1. Background and Context

1.1 Because of its ambitious economic reforms and a favorable global environment, Georgia grew fast, with macroeconomic stability, before the 2008–09 global financial crisis. Economic growth averaged more than 9 percent per year from 2004 to mid-2008. In 2008–09, Georgia was hit by the double shock of the August 2008 conflict with the Russian Federation about Ossetia and the global financial crisis. This led to a sharp drop in investor and consumer confidence; contraction in foreign direct investment (FDI), exports, and remittances; and a cutback in bank lending. The economy contracted by 6.5 percent during the second half of 2008 and by 3.8 percent in 2009. This was less, however, than other countries in the Europe and Central Asia Region. FDI inflows fell from 16.4 percent of gross domestic product (GDP) in 2007 to 6.1 percent in 2009. Georgia found itself with thousands of new internally displaced persons as unemployment spiked from 13.3 percent in 2007 to 16.9 percent in 2009. The incidence of poverty rose from 34.7 percent in 2006 to 36.1 percent in 2010 according to the national poverty line, and from 13.9 to 19.6 percent over the same period according to the international poverty line of $1.90 per day in 2011 purchasing power parity.

1.2 The government's response aimed at mitigating the effect of the economic downturn, restoring investor confidence, boosting growth, and maintaining macroeconomic stability. First, as a countercyclical response to the shocks, the fiscal stance was eased, taking advantage of Georgia's low debt level. In parallel, immediate liquidity injections were provided to the banking system and support was sought from the international community. Public expenditures were scaled up and reallocated toward social needs—including those of internally displaced persons—and infrastructure investments. At the same time, a medium-term fiscal consolidation program was adopted while the government initiated public financial management (PFM) reforms to strengthen fiscal performance over time. The level of spending rose from 32.7 percent of GDP in 2008 to 36.9 percent in 2009, before receding to 29 percent in 2011. Second, the government decided to launch a comprehensive reform agenda, extending the unfinished policy reforms from the precrisis period, to restore and sustain growth.

1.3 At the onset of the double shock that hit Georgia, the World Bank led the international development community's efforts to mobilize support while stepping up its own effort. In October 2008, following a joint needs assessment led by the World Bank and the United Nations (with the collaboration of the Asian Development Bank [ADB]; the European Commission; the European Bank for Reconstruction and Development; the European Investment Bank; and the International Finance Corporation) and an International Donor Conference in Brussels, Georgia received financial pledges from the international community of $4.5 billion over three years. A stand-by arrangement (SBA) with the International Monetary Fund (IMF) for $750 million was approved in September 2008 and subsequently supplemented with $400 million and extended through June 2011.

1.4 The World Bank had supported the government's reform agenda prior to the 2008 crisis through the Poverty Reduction Support Operation (PRSO) series. These four operations were a cornerstone of the World Bank Group's 2006–09 country partnership strategy (CPS), and focused on strengthening public sector accountability, efficiency, and transparency; improving electricity and gas sector services; improving the environment for private sector development; and enhancing social protection, education, and health care services. In September 2008, the World Bank approved an exceptional $40 million International Development Association credit for budget support as a supplement to the fourth PRSO. This supplemental financing was coordinated with the ADB, which also prepared an urgent quick disbursing credit of $70 million. In parallel, the World Bank accelerated processing of a $40 million credit for the Municipal Development Fund, which financed the construction and rehabilitation of municipal infrastructure, including emergency rehabilitation works in conflict-affected areas. It also accelerated the preparation of additional financing for the Second East-West Highway Project.

1.5 In January 2009, in response to a request from the authorities, the World Bank began preparation of a new development policy operation (DPO) series to support the government's reform agenda. This followed the completion, in 2008, of the PRSO series. The new DPO series, composed of the three operations evaluated by this Project Performance Assessment Report, was the centerpiece of the support for structural reforms in the World Bank's CPS for 2010–13, which was prepared in parallel with the new DPO operations and approved in August 2009.

2. Objectives, Design, and Relevance

Objectives

2.1 The program development objectives of the 2009–11 DPO series (according to the project documents) were to support the government's policy reform agenda to

(i) Mitigate the impact of the economic downturn in the short term; and
(ii) Facilitate recovery and prepare Georgia for postcrisis growth in the medium term.

2.2 The DPO program was designed around three main pillars:

(i) Improving the efficiency and effectiveness of public finances
(ii) Improving the effectiveness of the social safety net
(iii) Improving external competitiveness

2.3 The program included the following measures under each pillar:

Improving the Efficiency and Effectiveness of Public Finances

(i) Improving the strategic, regulatory, and methodological framework to coordinate progress in the different areas of PFM by (i) developing a strategy on public finances to provide a framework for the coordination of reforms and (ii) enacting a new budget code to unify the legal framework for budgeting at all levels.

(ii) Development of results-oriented budgeting through a multiyear process to connect resources to measurable development results. By the end of the DPO series, results-oriented budgets were to cover five ministries for the 2011 budget with reporting on actual performance.

(iii) Improved efficiency and effectiveness of public investment through the gradual development of a multiyear public investment program in which project priorities and multiyear funding requirements are elaborated in a single document. The DPO series expected, by the end of the program, increased accountability and transparency in the public investment program foreseen through a full-time profile of costs.

IMPROVING THE EFFECTIVENESS OF THE SOCIAL SAFETY NET

2.4 Improvement in effectiveness of social transfers, including the Targeted Social Assistance (TSA) program. The amount of the TSA benefit and overall coverage were increased, to mitigate the impact of the economic downturn, although measures were implemented to improve targeting effectiveness of TSA to increase coverage of the poor for given levels of overall coverage. By the end of the DPO series, 45 percent of the bottom decile was expected to receive TSA benefits, and at least 60 percent of TSA recipients were expected to be in the bottom quintile of the population.

2.5 Improved access to health care through fiscally sustainable strengthening of the health care financing system. Main reforms pursued in this area included (i) expanded coverage and benefits of the Medical Insurance Plan (MIP) while improving targeting of the poor, and (ii) strengthening public stewardship of the health sector. It was expected that by the end of the DPO series at least 35 percent of the bottom two quintiles of the population would have access to MIP.

IMPROVING EXTERNAL COMPETITIVENESS

2.6 Reducing tax compliance costs. This is done by (i) introducing electronic tax filing to streamline the tax payment system; (ii) issuing comprehensive standard procedural guidelines for providing the entire menu of taxpayer services, to replace discretionary procedures; and (iii) introducing and enhancing a risk-based tax audit system to replace ad hoc tax audits and control checks. By the end of the DPO series, it was expected that the time required for tax compliance would be reduced significantly, the share of electronic filing considerably increased to 92 percent, and the share of tax collections increased to 25.5 percent of GDP.

2.7 Streamlining customs procedures by introducing and subsequently improving the risk management system at customs. The objective of the reform was to provide different degrees of customs inspections for those with different records of compliance, thereby progressively reducing the shares of declarations subject to more onerous documentation and physical inspection requirements. It was expected that, by the end of the DPO series, the time required to trade across borders would be reduced by 20 percent, while the share of declarations requiring physical inspections would be reduced to 5 percent.

(i) Improving access to European and international markets by implementing reforms in food safety, technical barriers to trade, and competition policy. These reforms were intended to improve Georgia’s preparedness for negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union.

(ii) Reform of the statistics system by establishing the independence of the statistics agency as well as a supervisory board and fostering adoption of internationally recognized statistical methods. The objective of the reform was to provide reliable and timely information to investors and policy makers.

Relevance of Objectives

2.8 Relevance of objectives is rated **high.**

2.9 Both program development objectives were highly relevant because the DPO series was initiated at the outset of the double 2008–09 crises. The DPO series was prepared in parallel with the CPS for Georgia for FY10–13, which was designed against the backdrop of the twin crises. The FY10–13 CPS focused on (i) postconflict and vulnerability issues in the near term, and (ii) strengthening the foundations for medium-term competitiveness and growth. The objectives of the 2009–11 DPO series were thus fully aligned with the two pillars of the FY10–13 CPS, and the policy content of the DPO program formed the centerpiece of the policy reform agenda supported by the World Bank under the two CPS pillars. The objectives of the 2009–11 DPO series are still relevant in view of the goals of the FY14–17 CPS, which focuses on (i) strengthening public service delivery to promote inclusive growth by helping the government to increase budgetary resources for social sector programs in a fiscally sustainable way; and (ii) enabling private sector–led job creation through improved competitiveness.

2.10 The program development objectives were also aligned with the government's medium-term reform program articulated in the Poverty Reduction Strategy Paper, "United Georgia without Poverty," which was approved in January 2008, prior to the twin crises. The government adjusted its macroeconomic policies and reform priorities in response to the crises. Strategic directions in the medium-term program particularly relevant to the DPO series included (i) returning to a trajectory of sustained economic growth; (ii) maintaining macroeconomic stability and safeguarding the financial sector; (iii) continuing to reduce the burden of the state on the economy and improve public service delivery by improving the efficiency of public finances; (iv) strengthening the social safety net, particularly expanding coverage of the extreme poor through the TSA program and expanding access of the poor to health care.

Relevance of Design

2.11 Relevance of design is rated **substantial.**

2.12 The design of the program was relevant for achieving the two program development objectives. The 2009–11 DPO series was not designed as an emergency response operation to the 2008 twin crises. As noted, the World Bank had already approved supplemental financing for PRSO-4 on an emergency basis in October 2008 and had led external partner coordination as part of the World Bank–United Nations joint needs assessment following the war with the Russian Federation. The DPO series was designed to provide support to a policy reform program that included both short-term measures to temper the impact of the crisis and structural reforms with a longer-term impact on PFM and competitiveness. In parallel, the continuation of annual budget support from the World Bank through the 2009–11 DPO series ensured the smooth coverage of Georgia's financing needs, which contributed to bolstering market confidence at a time of crisis.

2.13 There was substantial complementarity and continuity in the reform agenda supported by the 2009–11 DPO series and the previous PRSO series and subsequent DPOs prepared by the World Bank (table 2.1). The previous PRSO series supported reforms in budget transparency, program budgeting and the medium-term expenditure framework (MTEF), design of the TSA program, the basic health benefits package and supplemental benefits package for the poor, tax and customs administration, and trade reforms related to metrology and standardization. These reforms continued in the 2009–11 DPO series, with adaptations to address the consequences of the 2008–09 crises and to promote the goals of medium-term recovery and the DCFTA with the European Union. In parallel with the 2009–11 DPOs, the World Bank also provided technical assistance for program budgeting through the Public Sector Financial Management Reform Support Project, which was active from 2006 to 2012. Assistance in the health sector was also provided through the long-standing, restructured Health Sector Development Project, implemented from 2002 to 2010.

2.14 Designing the DPO series during a time of crisis involved a trade-off between providing predictable budget support and deepening or expanding the reform agenda. Arguably, meeting the need of budget support may risk undermining the quality of the reform program supported by the World Bank or the ability of the program to go beyond reforms that would in any case have been implemented by the authorities or supported by other development partners. Similarly, there is a risk that the need for speed in helping close the financing gap could lead to reforms with low impact potential. The World Bank made the choice of providing predictable budget support to Georgia, mostly by extending and deepening the reforms supported by the PRSOs, limiting the new reform areas to the reform of the Public Investment Program and the statistical system (see table 2.1). The content of the DPO series was broadly adequate to achieve the program objectives, with perhaps the exception of measures related to the Public Investment Program (PIP), which could have been more ambitious. The PIP was not included in the previous PRSO series. This illustrates a risk associated with including new, untested policy areas in a DPO series, as the policy content might lack ambition or, to the contrary, be excessively demanding and unrealistic, thus posing implementation risks, especially at a time of crisis.

2.15 Reforms in the financial sector, which were important for preserving financial stability during the crisis, were supported by the 2008 IMF SBA (see box 2.1), making it unnecessary for the World Bank to duplicate policy support in this area. Trade-related reforms for the DCFTA with the European Union would have been implemented even without World Bank support. The World Bank arguably duplicated the European Union in this area, which reduced the relevance of design of the DPO series, although World Bank support probably helped better focus the authorities' efforts (see section 4). In several areas, other development partners also supported the reforms included in the DPO series (see section 4). However, except for the DCFTA-related reforms, these partners and the authorities have recognized the World Bank as the institution that took the lead in the reform support effort in Georgia.

Table 2.1. Relation of Policy Content in the 2009–11 DPO Series with Other Programmatic DPOs and Investment Operations

2009–11 DPO Policy Areas	Other DPO Programmatic Series	Investment Operations
Improving the efficiency and effectiveness of public finances		
Budget Code and budget comprehensiveness and transparency	PRSO 1-2-3-4 Competitiveness and Growth 1-2-3 Inclusive Growth 1-2	
Program budgeting	PRSO 1-2-3-4	Public Sector Financial Management Reform Support Project (2006–12)
Multiyear public investment program	Inclusive Growth 2	
Improving the effectiveness of the social safety net		
Improving effectiveness and coverage of the TSA program	PRSO 1-2-3-4 Inclusive Growth 1	
Expanding coverage of the Medical Insurance Plan	PRSO 1-2 Competitiveness and Growth 1 Competitiveness and Growth 2-3 (UHC) Inclusive Growth 1-2 (UHC)	Health Sector Development Project (restructured; 2002–10)
Improving external competitiveness		
Reducing tax compliance costs	PRSO 1-4	
Streamlining customs procedures	PRSO 2-3-4 Competitiveness and Growth 1-2-3	
Trade facilitations reforms for DCFTA with the European Union	PRSO 2-4 Competitiveness and Growth 1-2-3 Private Sector Competitiveness 1-2	
Reform of the statistics system	Inclusive Growth 1-2	

Note: DCFTA = deep and comprehensive free trade agreement; DPO = development policy operation; PRSO = poverty reduction support operation; TSA = Targeted Social Assistance; UHC = universal health coverage.

Box 2.1. The International Monetary Fund 2008 Stand-By Arrangement for Georgia

The stand-by arrangement of $750 million was approved in September 2008, with the objective to finance the external gap emerging from pressures to Georgia's balance of payments and provide the needed financial assurances to help restore investor confidence.

The conditionality of the program focused on the financial sector, macroeconomic stability, and fiscal policy. Structural performance criteria included (i) the introduction by the National Bank of Georgia (NBG) of a lender-of-last-resort facility and (ii) submission to the parliament of a new organic budget system law—a condition similar to one of the DPO series' prior actions. Structural benchmarks included a memorandum of understanding between the and the NBG to strengthen cooperation, development of a liquidity management framework by NBG, appointment of Financial Supervision Agency board members, and a 2009 budget deficit not exceeding 3.75 percent of gross domestic product.

2.16 Coverage expansion of Georgia's two flagship social safety net programs for protecting the vulnerable, the TSA program and the MIP, was meant to ameliorate the short-term impact of the crisis. Because the designs of these programs were based on a relatively efficient means test mechanism that minimized resource leakages to noneligible population groups, it was thought they could safely benefit from an increase in budgetary allocations to expand coverage of the poor during the crisis. This was the only option available in Georgia at the time, although cash transfer programs such as the TSA are mainly geared toward the chronically poor and many of those affected are households falling into temporary poverty. Cash transfer programs often lack the institutional flexibility to quickly absorb households that may have poverty characteristics different from those of the chronically poor, and they do not include help for workers to return to productive employment. Evaluation findings from the World Bank's support to client countries during the global financial crisis suggest that to improve country preparedness to mitigate the social impact of crises, complementary social protection schemes, such as unemployment insurance, play a key role (IEG 2012). The feasibility of introducing unemployment insurance would have merited to be considered by the DPO series as a new reform area over the medium term to better prepare Georgia to protect those hit by similar crises, in addition to the chronically poor. According to Bank staff consulted, there was limited ownership at the time of the preparation of the DPO series for this reform. Unemployment insurance would also have helped to address the possible employment impact of deeper trade integration entailed by the DCFTA with the European Union. International evidence has established that there is a positive correlation between a country's exposure to international trade and the size of government spending, especially for safety nets that protect the vulnerable from the redistribution impact of trade (Rodrik 1998).

2.17 To achieve the objective of recovery and postcrisis medium-term growth, the DPO series was designed with the aim of reversing some of the key adverse effects of the crisis. The economic crisis hit Georgia through four main transmission channels:

reduction of FDI, shrinkage of remittances, collapse in export demand, and a sharp contraction in bank lending owing to heightened uncertainty. Prior actions under the external competitiveness pillar (reducing tax compliance costs, streamlining customs procedures, trade-related reforms to improve access to European Union and international markets) aimed to bolster the investment climate, attract FDI, and strengthen Georgia's export potential over the medium term. The DPO series' focus on reducing the costs of tax compliance was justified because, according to the World Bank's 2008 Doing Business report, Georgia was ranked 102 out of 178 countries on the ease of paying taxes—significantly higher than in other areas of the business environment (such as starting a business, dealing with licenses, or registering property) where Georgia was among the top performers. The focus on streamlining customs procedures was also justified because Georgia ranked 64th in the ease of trading across borders, pointing to the need for further improvement in view of the government's goal to implement the DCFTA with the European Union and maximize the benefits from free trade. At the same time, as noted, the government's response to the crisis drove the fiscal deficit to 9 percent of GDP in 2009, calling for a subsequent fiscal consolidation effort to preserve a sound macroeconomic framework. The PFM reforms supported by the DPO series (budget comprehensiveness and transparency, program budgeting, and a multiyear PIP) were relevant for improving the efficiency of public expenditure and contributing to growth, in view of the need for fiscal adjustment, despite the long period required for these reforms to deliver full-fledged results.

2.18 The program included no actions on fiscal stimulus, public investments, or public works. This was because the government had already adopted countercyclical fiscal stimulus measures through supplementary public investments, support to internally displaced persons, and the implementation of crisis mitigation measures by the National Bank of Georgia, which provided liquidity and credit support to the banking system. In parallel, measures to maintain social safety nets were adopted by increasing budgetary expenditures for social protection under the 2009 budget compared with the 2008 budget and keeping budgetary expenditures for pensions in the 2009 budget at least on par with those in the 2008 budget (see section 4 on the macroeconomic framework). Financing was sought through suspending low-priority budgetary expenditures and leveraging external financial support provided by the World Bank–United Nations joint needs assessment.

2.19 The prior actions of the DPO series were relevant, although a stronger reform effort could have been supported in some areas. To ensure the most efficient use of limited resources for the protection of the vulnerable, the DPO series supported adjustments in the proxy means testing formula for the TSA, which also serves as the basis for MIP eligibility. Increasing the amount of the TSA benefit and increasing the number of MIP beneficiaries from 750,000 to 900,000 also strengthened the relevance of the prior actions in this area. In PFM reforms, the enactment of a budget code to unify the legal framework for budgeting at all levels was relevant. However, the reform neglected the revenues of Legal Entities of Public Law (LEPLs), which remained underreported (see section 4). In program budgeting, the prior actions were well sequenced and realistic, aiming at formulating results-based budgets with measurable indicators for five ministries, recognizing that these reforms require a long gestation period. The preparation of a multiyear PIP was a relevant prior action but not sufficient to achieve the intended outcome of enhancing the efficiency of public investment. Measures to improve the selection criteria for public investments and to coordinate the project preparation and appraisal process may have contributed more to improving the efficiency of public investment (see section 4). In tax administration and customs reforms, prior actions were well sequenced, with the gradual introduction of risk-based tax audit systems and risk-based corridors for customs declarations. Prior actions to develop strategies for addressing food safety, barriers to trade, and competition policy were relevant for the DCFTA with the European Union and helped focus government efforts on these important areas for international trade, although the agenda was driven, as noted earlier, by the European Union rather than by the World Bank. The prior actions establishing the independence of the statistics agency were highly relevant; however, the results framework lacked measurable indicators for assessing the reliability of statistics and the capacities of staff.

2.20 In most policy areas the results chain of the DPO series was clear and convincing. Prior actions were specific and well sequenced. They were aligned with the expected outcomes. Outcomes in the PIP were, however, reported generically, without specific measures of transparency and accountability. Similarly, the results framework for trade-related reforms included mostly generic, output-oriented indicators without clear linkages to the measures supported by the program. Policy measures on tax compliance could have been classified under the PFM pillar, as these reforms also strengthen tax collection and support overall fiscal management. However, although the business environment had improved impressively before the crisis, the cost of tax compliance and of transactions across borders remained two key impediments to business activity in Georgia when the DPO series was designed. Hence, this also justifies their inclusion under the competitiveness pillar.

2.21 Georgia's macroeconomic framework remained adequate during the double crises of 2008–09 and the period immediately following, during the implementation of the 2009–11 DPO series (see appendix D for details). The government implemented a two-pronged program in response to the crises. First, a countercyclical fiscal program was deployed by leveraging financial pledges from development partners to support job-creating investment projects and expansion of the social safety net. Second, the authorities took measures to safeguard external sustainability, most notably by devaluing the currency in November 2008. With some exceptions, the macroeconomic framework remained generally adequate for most of the period since the completion of the 2009–11 DPO series. In 2015–16 concerns emerged regarding the consistency of the macroeconomic framework owing to the increase in the fiscal deficit and pressures exerted by the government on the central bank to resist the depreciation of the exchange rate. As a result, the IMF SBA was derailed and the World Bank's two ongoing DPO series (Inclusive Growth DPOs and Private Sector Competitiveness DPOs) were delayed by 12 months in 2016; the series was truncated, with the cancellation of one of the three programmatic operations in each series. Although the 2009–11 DPO series did not include prior actions on macroeconomic policy, it contributed to maintaining a sound macroeconomic framework during the crises and the years immediately following. The 2009–11 DPO series was initiated only after the authorities took measures to safeguard external sustainability by devaluing the exchange rate and implementing a countercyclical fiscal response after securing sufficient external financing. The authorities also committed, in the Letter of Development Policy for the first operation in the DPO series, to take measures to optimize the budget and prioritize spending, to maximize the impact of the stimulus package while maintaining fiscal sustainability. The reduction of the fiscal deficit in the following years confirms the effectiveness of this commitment.

3. Implementation

3.1 The DPO series was implemented according to the initially expected timeline, over the three-year period 2009–12. The first DPO was approved by the World Bank's Board of Executive Directors in July 2009 and closed in March 2010, the second in July 2010 and closed in March 2011, and the third in July 2011 and closed in March 2012. The original policy areas were not revised, but some prior actions were adjusted or dropped. The formulation of a number of prior actions for DPO-II and DPO-III was refined to provide greater specificity to the program. Details on these changes were provided in the project documents for DPO-II and DPO-III. Moreover, two prior actions were dropped and one prior action was modified to emphasize the measures most important to the success of the program.[1]

3.2 The DPO was backed by coordinated technical assistance and analytical work supported by the World Bank and other development partners. The World Bank's programmatic public expenditure review and poverty assessment supported reforms in public finance and the social safety net. The Public Sector Financial Management Reform Support Project and the Health Sector Development Project supported implementation of DPO reforms. The annual Joint Management Action Plan facilitated coordination with the IMF program. The reforms of the statistics system were supported by the IMF and by a trust fund on statistical capacity building. The United Nations Children's Fund provided technical assistance on the reform of the proxy means test formula for the TSA program, together with the World Bank. The European Union Commission also provided technical assistance on results-based budgeting and trade-related reforms, and the International Finance Corporation on reforms to streamline tax compliance.

3.3 The PFM system in Georgia was deemed adequate for the DPO operations. At the closure of the DPO series, the 2012 Public Expenditure and Financial Accountability (PEFA) showed significant improvements in Georgia's budgetary and financial management systems compared with the 2008 PEFA. Since then, the basic set of systems for strategic budget planning, formulation, and execution has been further enhanced. Regarding social impacts, the DPO series was designed with the aim of mitigating the impact of the crises on the poor and improving living standards.

4. Achievement of the Objectives

4.1 This section reviews outcomes of the 2009–11 DPO series and their sustainability over time. As further detailed below, after the closing of the program, outcomes in several policy areas were influenced by subsequent DPO series (see table 2.1) and government initiatives, especially in health care and trade reforms related to the DCFTA with the European Union. After the completion of the 2009–11 DPO series, reforms in PFM were supported by the Competitiveness and Growth and the Inclusive Growth

DPOs. The Inclusive Growth DPOs supported the reform of the TSA program, whereas the Competitiveness and Growth and the Inclusive Growth DPOs supported the universal health coverage (UHC) system established after the completion of the 2009–11 DPOs. The Competitiveness and Growth DPOs also supported customs administration in subsequent years, while the World Bank remained engaged in the DCFTA agenda through the Competitiveness and Growth and the Private Sector Competitiveness DPOs. The Inclusive Growth DPOs extended support to subsequent reforms of the statistical system.

4.2 Moreover, other development partners, including the IMF, the European Union Commission, and the ADB, supported Georgia's reforms in the same policy areas during the crisis and in the postcrisis period. The Project Performance Assessment Report thus seeks to assess the likely contribution of the DPO series to the achievement of the Program Development Objectives over time. The results indicators of the 2009–11 series—including the baseline at the inception of the program, the end-program targets and values, and the most recent available information for the indicators—are presented in appendix C and referred to throughout this section.

Objective 1: Mitigate the Impact of the Economic Downturn in the Short Term

4.3 To achieve this objective, the DPO series supported strengthening of the social safety net through actions in two policy areas under pillar II of the operations: (i) the improvement in the effectiveness of the TSA program, which is Georgia's main targeted program for assistance to the poor; and (ii) fiscally sustainable improved access to health care through the MIP covering the poor.

Improving the Effectiveness of the TSA Program

4.4 Introduced in 2006, the TSA program targets the poor using a proxy means test formula. The proxy means test mechanism was chosen as suitable for Georgia because income from formal sources is a less accurate indicator of household welfare given the high levels of informality in the country.[2] Since 2006, many categorical benefits have been phased out and gradually replaced by the TSA. The TSA was the main tool to protect the poor and the vulnerable in response to the 2008–09 crisis in the absence of unemployment insurance and public works programs that would expand automatically during hard times.

4.5 The TSA has been constantly revised since 2006 and its benefit amounts updated. Until January 2009, the first family member in qualifying households received GEL 30 and each subsequent member received GEL 12. In 2009, as part of the DPO series prior actions, the first family member benefit remained unchanged but the benefit for each subsequent family member was doubled to GEL 24. In July 2013, after the completion of the DPO series, the cash benefit amount was raised again, with the first family member receiving GEL 60 and each subsequent member GEL 48. To improve the coverage of the poor and the generosity of the program, and in accordance with the DPO series prior actions, the budget of the TSA increased from GEL 91 million in 2008 (0.48 percent of GDP) to GEL 147 million in 2009 (0.81 percent of GDP) and was kept stable in nominal terms at GEL 140 million (0.58 percent of GDP) until the end of the DPO series in 2011.

4.6 The DPO series also supported measures to improve the coverage and targeting of the TSA to the poor by adjusting the proxy means testing formula (see also prior actions of DPO-I in appendix B). As a result of these measures, the coverage and targeting of the TSA were significantly improved (table 4.1). The program's end-target of 45 percent for the bottom decile was already surpassed by the program's end in 2011, with a coverage of 58.4 percent. The coverage of the bottom quintile at the end of the program in 2011 was 40.1 percent. Most recent estimates, based on household data for 2015, indicate significant increments in the coverage of the bottom quintile of the income distribution to 53 percent, and of the bottom decile to 73 percent (World Bank 2016). Targeting of the TSA also improved because of the DPO-II and -III prior actions to adjust the proxy means testing formula, improve business processes related to TSA administration, recertification of TSA beneficiaries, and linking the various government databases (see appendix B). Thus, the proportion of TSA recipients in the bottom quintile increased to 72 percent in 2015, from 65 percent in 2008 and by program end in 2011. This improvement was possible because of better administration of the program assisted by the prior actions of the DPO series consisting in (i) preparing a monitoring report on the performance of the TSA program, (ii) improving business processes related to TSA administration, (iii) implementing a public information campaign, (iv) restarting recertification of TSA beneficiaries, (v) linking the Social Services Agency database with government databases for income tax and property to review the eligibility status of all beneficiaries, and (vi) reinforcing the newly linked database through recertification of TSA beneficiaries. These prior actions contributed to the periodic reassessment of eligible families by the Social Services Agency to minimize inclusion errors.

Table 4.1. Coverage and Targeting of Georgia's Targeted Social Assistance Program, 2007/08–15 (percent)

Percentile	2007/08	2011	Most Recent (2015)
Coverage			
Percent of bottom quintile receiving TSA	21.7	40.1	53
Percent of bottom decile receiving TSA	31.6	58.4	73
Targeting			
TSA recipients in the bottom quintile	65	64.9	72

Source: Independent Evaluation Group and World Bank 2012a.
Note: TSA = Targeted Social Assistance.

4.7 Compared with other social assistance programs in the region, Georgia's TSA is a reasonable performer in terms of targeting and a solid performer in terms of coverage of the bottom quintile of the population. With 72 percent of TSA recipients in the bottom quintile, the program is in the upper medium range of targeting of the poor compared with other programs in the region. For comparison, more than 80 percent of the benefits paid by Romania's Guaranteed Minimum Income program go to the bottom quintile.

With 48 percent of those in the bottom quintile covered by the TSA in 2013, the program is one with the most extensive coverage in the region. If targeting and coverage are assessed jointly, Georgia's TSA is one of the strongest programs in the region, along with those in Armenia and Kosovo that manage to achieve a good combination with regard to both performance indicators (World Bank 2012a, 2016).

4.8 The TSA program continued to be assessed and reformed after the completion of the DPO series. Concerns included the low coverage of single-member households, especially poor pensioners; the low coverage of households with children; the transparency of the subjective needs component of the proxy means testing formula; and households concealing goods to reduce their consumption index score. In 2012 the needs index was revised on an ad hoc basis, with the aim of including more pensioners in the program. In 2013 the government initiated a broader reform of the methodology defining eligibility for the TSA, which was finalized in January 2015. The revised methodology is still operational. This reform comprised five elements: (i) update of the proxy means test formula defining the consumption index, (ii) update and simplification of the needs index, (iii) establishment of a new benefit structure that varies with the vulnerability score of eligible households, (iv) revision of the size of the household transfer depending on household composition, and (v) introduction of the Child Benefit Program as an associated program to the TSA to provide additional support to families with children.

4.9 The World Bank and United Nations Children's Fund provided assistance to the government in the design of the 2015 reform. The World Bank continued to support this reform agenda through the first Inclusive Growth DPO, approved in 2015, which included as a prior action the revision of the proxy means testing methodology. Under the new formula, the distribution of benefits was estimated to be equally pro-poor for almost all population groups, and even more pro-poor for seriously ill persons or single elderly persons.

4.10 Overall, Georgia's social assistance programs helped mitigate the impact of the 2008–09 crises on household income. It is estimated that during 2006–10, social assistance (including noncontributory pensions) and interhousehold transfers accounted for close to 80 percent of the growth in household incomes, mitigating the impact of adverse shocks (World Bank 2018). Between 2006 and 2010, income from transfers was the most significant driver of income growth for those in the bottom 40 percent of the income distribution. The impact of the crisis on poverty would have been much stronger during this period in the absence of the TSA program, assisted and made more effective by measures taken with the support of the 2009–11 DPO series. It can be argued, however, that an even more ambitious scaling up of the TSA budget might have been justified given that the program was, and continues to be, well targeted.

4.11 Despite progress in reducing poverty, close to half of the population remains vulnerable to falling into poverty. The rate of poverty remains higher than in neighboring Armenia, a country with a similar GDP per capita, and compared with other lower-middle-income countries. Although Georgia's reformed TSA is well targeted, in the sense that there is little leakage of resources to the nonpoor, coverage of the poor has remained relatively low. Currently the poverty rate, according to the national poverty line, nearly matches the bottom quintile of the income distribution (21.3 percent in 2016).

With coverage of 53 percent of the bottom quintile, the reformed TSA covers only slightly more than half of the poor. Main reasons for the TSA's low coverage include the strict eligibility criteria and insufficient budgetary resources allocated to the program. Currently the TSA is estimated to be covering 45 percent of the consumption expenses of those in the bottom quintile, which is relatively generous compared with other programs in the region (World Bank 2012a).[3] For a given budgetary envelope allocated to the program, a reduction in its generosity could allow increasing the coverage of the poor.

Overall Assessment of World Bank Support

4.12 Overall, the improvements in coverage of the poor by the TSA program, supported by the 2009–11 DPO series, helped mitigate the impact of the crisis on the poor, and were sustained in subsequent years. Georgia's TSA program remains an important lifeline for the poor. Despite its relatively low coverage, the TSA has been tested successfully at times of crisis. Georgia's experience in designing the TSA program and continuously reforming it to improve its targeting and affordability holds useful lessons for other lower-middle-income and countries in the International Development Association facing the challenge of protecting the poor. However, cash transfer programs, such as the TSA, are mainly geared toward the chronically poor, whereas many of those affected by crises are households falling into temporary poverty. These cash transfer programs often lack the institutional flexibility in targeting and management information systems to quickly absorb households that may have poverty characteristics different from the chronically poor, which the programs conventionally target. Moreover, they do not include help for workers to return to productive employment. To improve country preparedness to mitigate the social impact of crises, complementary social protection schemes are necessary—including formal sector contributory schemes for pensions and unemployment insurance, targeted safety nets for the poor, and complementary categorical benefits. Moreover, developing relevant knowledge and data on groups that are most affected by crises is of key importance (see also IEG 2012).

IMPROVING ACCESS TO HEALTH CARE

4.13 To mitigate the impact of the crisis on the poor, the DPO series aimed to expand the coverage and the benefits of Georgia's MIP, a health package designed for the poor established in 2006. It also supported measures to strengthen the management of the health care sector, by improving the oversight of insurance companies associated with the MIP, improving the electronic identification of MIP beneficiaries, and implementing a modern platform for processing medical claims. However, after the completion of the DPO series, in February 2013, the government that was elected in 2012 replaced the MIP with a UHC program to provide state-funded medical care to the entire population of the country. This section assesses the achievement of the DPO series outcomes in this area during the implementation of the operations and their sustainability under the new UHC system in place since 2013.

MIP 2006–13

4.14 The MIP was a program funded through general taxation that provided a benefits package of health services that were fairly comprehensive and free of copayments to the poorest 20 percent of the population. Beneficiaries were identified via a proxy means test similar to that used for the TSA program (see previous section) but with a higher eligibility threshold. The MIP package included (i) urgent outpatient and inpatient treatment, (ii) planned inpatient services, (iii) oncology therapy, (iv) outpatient care and limited diagnostic and lab tests prescribed by the family physician or general practitioner, (v) child delivery costs (up to 400 GEL, about $240 equivalent), and (vi) a small benefit for outpatient pharmaceuticals (up to $30 equivalent annually with a 50 percent copayment). The drug benefit was kept small mostly as a cost-containment measure, as pharmaceutical spending is very high in Georgia.[4]

4.15 The MIP program, initiated in 2006, was contracted out to private insurance companies as of 2008. During 2006–08, a state purchaser (the Health and Social Purchasing Agency) ran the program during its first two years of implementation. Then, in 2008 the program was reformed, with insurance companies contracted by the Ministry of Health to bear the financial risk and to purchase services from health care providers on behalf of poor beneficiaries. MIP beneficiaries were assigned to insurance companies with the use of vouchers. Households that gained eligibility to MIP received the voucher from a primary care doctor, and they could then choose an insurer who would claim from the government the voucher's per capita premium. Concerning the delivery of health care, most providers in Georgia—primary care, outpatient specialists, and about 80 percent of all hospital beds—are private. Insurance companies own many hospitals. A small number of specialized public hospitals remain.

4.16 The MIP implementation model was, however, impaired by several problems and underwent some revisions in 2010. Many eligible households did not receive a voucher or experienced delay in receiving a voucher. Survey evidence suggested that many households did not perceive that they had a choice of insurers. The model also led to outright fraud; some primary care doctors acted as marketing agents of insurers and, in some cases, gave the vouchers to insurers without informing the household (World Bank 2013b). The administration of the MIP was thus revised in 2010, during the implementation of the DPO series. The DPO series' prior actions aimed to strengthen public stewardship of the health sector by establishing a stakeholder forum to oversee implementation of state-funded programs by health insurance companies and developing a draft standardized classification system for reporting. Other prior actions introduced an electronic system for beneficiary identification and completed the data architecture required for harmonized medical claims processing (see appendix B). Insurance companies were instead contracted for three years on the basis of competitive tenders for regional medical packages. They received a per capita premium determined by the government, based on actuarial analysis for each beneficiary. They were responsible for purchasing health care services, as defined in the MIP benefits package, based on medical claims submitted by contracted providers, for all eligible beneficiaries within their geographic area. They were free to negotiate contracts with providers on condition they provide a certain level of geographic coverage. Gradually the insurers moved into ownership of their own provider networks. Patients had a modest degree of provider choice within these networks.

4.17 As part of the DPO series' prior actions, the government committed to expanding health coverage of the vulnerable population through the MIP from 750,000 to 900,000 beneficiaries and adopting a publicly cofinanced health insurance for populations not covered by the MIP. The MIP coverage thus increased from 706,000 beneficiaries in 2008 to 973,000 in 2011, exceeding the DPO series target of 900,000 beneficiaries. Because of these actions (see also prior actions in appendix B), the share of the bottom two quintiles (vulnerable population) with access to publicly subsidized health insurance increased from 20.7 percent in 2007 to 38.2 percent in 2011, exceeding the DPO series target of 35 percent. Access to health insurance for the overall population also increased from 12.3 percent in 2007 to 30.8 percent by 2011, but underperformed the DPO target of 35 percent. As a result of larger coverage, the budget of the MIP increased from GEL 80 million (0.4 percent of GDP) in 2008 to GEL 136 million (0.6 percent of GDP) in 2011. The World Bank remained engaged in this policy area after the completion of the 2009–11 DPO series through the 2012–14 Competitiveness and Growth DPOs, which supported the expansion of the MIP to include children below the age of six and pensioners, prior to the implementation of UHC in 2013 (see the discussion of UHC that follows).

4.18 Although the proxy means test used by the MIP was generally well targeted, in the sense that the program's resources were not directed to the nonpoor, more than half of the poorest quintile was still not covered in 2011 (World Bank 2012a). There was a gradual improvement of this indicator between 2009 and 2011, from 20.7 percent in 2008 to 38.2 percent in 2011 (see appendix C), but many poor remained outside the health safety net.[5] This was in part because the proxy means test used to determine MIP eligibility was originally developed for the TSA program, which was intended to identify a narrower group of extreme poor, rather than a (twice) larger group of poor beneficiaries as in the case of the MIP. Another factor was that only 40 percent of the population applied for inclusion in the database of socially vulnerable families.

4.19 As part of the DPO series' prior actions, the government also adopted a publicly cofinanced health insurance program for the population not covered by the MIP. This program covered about 125,000 additional beneficiaries. However, the benefits package was not clearly defined nor well understood by the population. Under-the-table payments were reportedly common at the hospital level, because of underfunding. For those not covered by the MIP, the main alternative continued to be private insurance or high out-of-pocket spending for most services. Civil servants benefited from a program similar to the MIP, and some formal sector employees also had employment-based health insurance.

4.20 Out-of-pocket spending was reduced for MIP beneficiaries. A 2009 impact evaluation found that the MIP reduced out-of-pocket expenditures for health care (Bauhoff, Hotchkiss, and Smith 2011). For outpatient care in the Adjara region and Tbilisi, and inpatient care in all regions, MIP beneficiaries were paying approximately 40–60 percent less out-of-pocket than nonbeneficiaries (people above the MIP eligibility threshold). According to another impact evaluation, the MIP was not found to have significantly improved nationwide service use by beneficiaries compared with nonbeneficiaries (although this was not an outcome indicator of the DPO series). In the capital city, the MIP insured were 12 percent more likely to use formal health services and 7.6 percent more likely to use hospitals as compared with other areas of the country (Gotsadze et al. 2015). The MIP impact on out-of-pocket expenditures was significant in reducing costs, especially for inpatient services. The cost reductions were sizable and more pronounced among the poorest. However, out-of-pocket spending remained significant for MIP beneficiaries because of low outpatient drug coverage in the package.

UHC, 2013–Present

4.21 In February 2013, the government overhauled the health insurance system by introducing UHC funded by the state and administered by the Social Services Agency, which quickly led to overruns in health spending. Although this reform was unrelated to the program supported by the 2009–11 DPO series, this evaluation reviews developments in subsequent years to assess the sustainability of outcomes concerning the financial access to health care by the poor. More than 90 percent of the population takes part in the program; the remaining 10 percent of the population has private medical insurance. The program covers planned outpatient, emergency in- and outpatient services, elective surgeries, oncology treatments, obstetrical care, and funding for a narrow list of essential drugs.[6] However, budget overruns in health spending have highlighted risks in the financial sustainability of UHC. Since the implementation of UHC, health spending has risen sharply, from 4 percent of total government spending in 2012 to 8.4 percent in 2015 (World Bank 2017). Budget overruns for UHC caused an unexpected widening in the fiscal deficit. Analysis of demand indicates that much of the increase in costs was owing to previously unmet health care demand among those who were previously uninsured or lacked coverage for specific interventions (World Bank 2017).

4.22 Overall, the UHC program has improved access to health services and reduced financial barriers for the population. Outpatient visits and hospitalization rates have increased since the introduction of UHC. In 2014, 79 percent of those who were ill in the previous six months consulted a health care provider, a slight increase from 75 percent in 2010. On average, there were 4.0 outpatient visits per capita for the year in 2015 compared with just 2.3 in 2012, and hospitalization rates have seen a steady increase since 2012. The decline in financial barriers to accessing inpatient care was steep among the poorest and the third and fourth income quintiles. As a result, the level of unmet need for inpatient care among the bottom 20 percent of the income distribution is now closer to the level of unmet need of richer people. Moreover, benefit incidence analysis indicates that the distribution of public spending on outpatient care was considerably more pro-poor in 2014 than in 2010. The distribution of public spending on inpatient care remained unchanged (World Bank 2017).

4.23 The proportion of household out-of-pocket expenditure has decreased somewhat, from 73 percent in 2010 to 66 percent in 2015 but remains high (nearly twice the average for the Region) and is a major cause of impoverishment (World Bank 2017). Households spend nearly two-thirds of their out-of-pocket health care expenses on drugs. Although medicines are provided free of charge for inpatient use, the UHC program has a very limited outpatient drug benefit. Public expenditures on outpatient medicines has amounted to less than 0.5 percent of UHC program spending since 2013. Selected groups (the poor, veterans, and pensioners) are eligible for 50 percent reimbursement, while other population groups are not eligible for drug reimbursement. Out-of-pocket spending on medicines, especially by people with chronic conditions requiring regular medication, is a major cause of catastrophic and impoverishing health spending. Analysis using 2015 household survey data and an international poverty line of $2.50 a day suggests that an additional 6.6 percent of households were poor because of out-of-pocket health spending. In 2010, an additional 6 percent of households had become poor for the same reason. Thus, the risk of impoverishment because of out-of-pocket payments remains high following the introduction of the UHC program (World Bank 2017).

4.24 To alleviate the problem of high out-of-pocket expenses, the government has sought to increase the number of outpatient drugs covered under the UHC package. An amendment of UHC in 2016 introduced outpatient drug coverage for the poor. The World Bank supported this reform through the Inclusive Growth DPO series initiated in 2015, which included triggers on the expansion of the list of outpatient medicines for TSA beneficiaries under the UHC program. However, households appear not to be taking advantage of the outpatient drug benefit, either because the benefits are not large enough or because households are not aware of their entitlements.

Overall Assessment of World Bank Support

4.25 Overall, improvements in health coverage of the poor achieved under the MIP reforms supported by the 2009–11 DPO series were sustained under the UHC program, and access to impatient services has been further enhanced. However, despite a slight decline in out-of-pocket expenditures, the UHC program has not succeeded so far in easing this burden for households, as there was no decline in the share of households that experienced the impoverishing effects of out-of-pocket expenditures. Moreover, the structure of the current system and incentives embedded in it are a major driver of costs. This includes lack of access to good quality primary care services, provider payment mechanisms that encourage overuse of costly emergency hospital care services, and lack of strategic purchasing capacity to control costs effectively. The government has started introducing key performance indicators for health service providers. Savings could help finance better coverage of the poor through the UHC program.

4.26 Financial access of the poor under the UHC system has not deteriorated but, despite follow-up World Bank engagement, progress has been marginal. The World Bank has remained engaged in various areas of policy reform in health care through the 2012–14 Competitiveness and Growth DPOs and the 2015–17 Inclusive Growth DPOs, as well as in policy analysis through Public Expenditure Reviews (in 2012 and 2017) with special focus on the health sector. Engagement has, however, been based on a piecemeal approach to reform, without a broader vision on the key challenges of the sector and a coherent drive to address them. Thus, although the 2009–11 DPO series achieved the objective of mitigating the impact of the crisis on the poor in health care, the progress achieved since then in further strengthening the financial access of the poor to good quality health care has been marginal.

Objective 2: Facilitate Recovery and Prepare Georgia for Postcrisis Growth in the Medium Term

4.27 To achieve this objective, the DPO series supported a considerable array of reforms, spanning from PFM, under pillar I, to tax and customs administration, trade facilitation, and reform of the statistics system under pillar III of the operations.

Outcomes achieved in these areas, their sustainability in subsequent years, and the contribution of the DPO series to these outcomes are reviewed below.

IMPROVING THE PFM FRAMEWORK

4.28 Fiscal transparency has improved following the implementation of related measures supported by the DPO and the IMF. The 2009–11 DPO series supported, through a prior action, the enactment of a new budget code to unify the legal framework for budgeting at all levels of government, as well as the development of a strategy for PFM reform during 2009–13. In parallel, the IMF also supported the same action, with a structural benchmark included in the September 2008 IMF SBA of $744 million. The latter supported the submission by July 2009 of a new budget code to the cabinet to make the budget preparation process more inclusive, enhance the budget execution monitoring process, and move to performance-driven policy by improving strategic planning. Because of the improvements in fiscal transparency practices, Georgia's Open Budget Index score has improved substantially, from 34/100 in 2006 to 66/100 in 2015, with significant progress achieved since the completion of the DPO series in 2012 (IBP 2015). Progress has also been validated by a recent evaluation of fiscal transparency by the IMF (IMF 2017).

4.29 The budget code provides a comprehensive and well-defined framework for budget preparation. It defines the timetable for budget preparation and approval, the content requirements for the main budget documentation, and the procedures for their discussion and approval by parliament. It also sets out the framework for preparation of budgets by local governments. The budget code defines requirements for reporting on budget execution and audit. It requires parliamentary approval for changes to total budget expenditure, but allows for moderate changes to its composition. Supplementary budgets were substantial in the period prior to 2008, but have played a much smaller role in recent years. There was only one supplementary budget in 2015, totaling around 0.5 percent of the approved budget.

4.30 At the completion of the 2009–11 DPO series, gaps remained in the comprehensiveness of fiscal accounts: Only the central government finances were managed centrally through the Ministry of Finance's PFM system and the treasury single account, with local governments and LEPLs managing their own accounts. As a result, local government accounts, which represent about 10 percent of the central government budget, were not recorded.

4.31 Follow-up reforms supported by the World Bank contributed to further strengthen the comprehensiveness of the budget. Remaining gaps in the reform agenda supported by the 2009–11 DPOs were identified in the World Bank's analytical work (PEFA, Public Expenditure Review) and policy dialogue. In subsequent years, the budget code was amended to centrally manage local government and LEPL accounts. All cash operations of local governments and LEPLs were channeled through the Ministry of Finance's financial management information system and the treasury single account. By 2018, all schools are set to be included in the centralized treasury system. The World Bank's 2012–14 Competitiveness and Growth DPOs, and ADB's 2014–16 "Improving Domestic Resource Mobilization for Inclusive Growth" programmatic operations (World Bank

2012b, 2013a, 2014a; ADB 2017), supported these more recent reforms to enhance the comprehensiveness of the budget, complementing the reforms initiated under the 2009–11 DPO series.

4.32 Nevertheless, revenues of LEPLs and subsidies to state-owned enterprises are still underreported in the budget. Currently, the presentation of the main budget aggregates includes transfers from the central government to LEPLs (schools, universities, and other entities not controlled by the state) but not the own-source revenues of LEPLs and related expenditures (estimated at about 4.4 percent of GDP in 2015 or 15 percent of central government expenditure). However, beginning in January 2015, all LEPLs were integrated into the electronic budget system and all transactions were going through the treasury's e-budget so that there is full tracking of their spending regardless of the sources of financing. Another area of substandard fiscal reporting is the classification and reporting of budget lending, equity injections, and subsidies to state-owned enterprises. In some cases, state-owned enterprises receive subsidies to perform public service to overcome the spending limitations imposed by Georgia's fiscal rule (part of the Economic Liberty Act) that caps public spending at 30 percent of GDP. Such subsidies are often misclassified as net lending. The 2009–11 DPO series contributed to the improved comprehensiveness and transparency of the budget although more remains to be done. The enactment of a new budget code played a key role in this direction. The World Bank remained engaged in the reform process in subsequent years and despite the few remaining challenges, Georgia's progress in budget reporting has been notable.

Strengthening Results-Oriented Budgeting

4.33 Georgia introduced an MTEF in 2004 and program budgeting in 2009, which was supported by the prior actions of the 2009–11 DPO series. The prior actions of the DPO series supported, as a first step, the piloting of results-oriented budgets, for at least one program, in three ministries, and eventually the submission to parliament of results-oriented budgets with a new program/subprogram structure and measurable performance indicators for five ministries, with reporting on actual performance against the indicators of the prior year. Program budgeting was initiated in three pilot ministries, the Ministry of Education and Science, Ministry of Labor, Health and Social Affairs, and Ministry of Justice. The number of pilot ministries was gradually increased. In 2011, at the completion of the DPO series, five ministries were formulating program budgets. The MTEF is based on four-year fiscal projections and expenditure plans and is subject to renewal every year. It includes medium-term expenditure plans for central government entities by administrative unit as well as by program. It also presents four-year plans for expenditure by economic classification at the aggregate level. The Basic Data and Directions is a Ministry of Finance document, prepared at the beginning of the MTEF process, which gives directions to line ministries to prepare their medium-term budget programs. The Basic Data and Directions contains budget ceilings by spending units; priorities and programs of spending units, including financing means; as well as the funding by development partners and other revenues allowed by legislation.[7]

4.34 The program budget and MTEF reforms supported by the 2009–11 DPO series have been sustained and deepened in subsequent years. The program budget structure has been applied in all central government spending units since 2012.[8] The preparation of local budgets along the program budget structure began in 2013. The share of public expenditures covered by program budgets increased over time, with improved performance indicators and reporting on actual performance. A reform of internal management and control in line ministries and spending units has followed the introduction of program budgeting.

4.35 In keeping with the DPO series' prior actions, there has been progress in setting measurable performance indicators for several programs, but there is room for much improvement. According to the State Audit Office, baselines for the performance indicators are often missing, while 59 percent of the programs and subprograms need additional indicators for a complete assessment of the outputs and outcomes attained (Georgia 2016). Moreover, the State Audit Office found that about 11 percent of indicators are irrelevant or do not measure performance, and 41 percent of the programs and subprograms do not have an aim specified. According to the Open Budget Survey 2015, there is room for improvement in presenting verifiable (quantitative) output and outcome indicators in the program budget appendix that can help measure deliverables in the subprograms and their impact over the MTEF period. Improving the definition and setting the value of performance indicators has been a work in progress as in many other countries that have implemented results-based budgeting. There has been, however, clear government ownership of the reforms since their introduction in 2005, as evidenced by the progress achieved so far and confirmed through discussion with key stakeholders (State Audit Office, parliament, and selected ministries), with a strategic vision on the way forward.

4.36 Overall, although the budget documentation includes information about the main programs and subprograms as well as output-based indicators, findings of this evaluation and of the IMF's fiscal transparency evaluation (IMF 2017), suggest that its influence on decision making has so far been limited as the full implementation of these reforms takes time. Budget allocations by program are approved by parliament for the current fiscal year, in conformity with the prior actions of the DPO series. There is a detailed parliamentary discussion for each program and subprogram of the spending units, which have the responsibility of presenting them to the parliament. The program allocations in the MTEF for the outer years, and the performance indicators associated to the programs, are presented for information only in the budget annex.[9] They are not approved by the parliament. The State Audit Office has been advocating the inclusion of performance indicators in the annual budget law approved by the parliament. According to Ministry of Finance officials, although full performance accountability is desirable, at the current stage of the reform process there is a risk that approval of performance indicators in the annual budget law could create adverse incentives in line ministries to reduce the ambition of performance indicators.

4.37 Other development partners also provided support to enhance the budgeting process. In parallel with the 2009–11 DPO series, the IMF supported program budgeting reforms. A structural benchmark of the September 2008 IMF SBA of $744 million was the approval by the cabinet of guidelines for pilot ministries to introduce a programmatic approach to budgeting, in line with the recommendations of IMF technical assistance on program budgeting. The European Commission has been providing support for program budgeting, especially in more recent years when the World Bank's focus of attention in the PFM reform agenda shifted more to public investment management and risks related to state-owned enterprises. It is, however, recognized, both by government officials and other development partners consulted for this evaluation, such as the IMF, the European Union Commission, and the ADB, that the World Bank took the lead in supporting Georgia in the implementation of program budgeting while other partners, including the IMF, were users of the World Bank's findings and recommendations in this area. The World Bank's public support financial management project supported the development of program budget guidelines with unified terminology in consultation with line ministries.

4.38 Program budgeting is a policy area where the World Bank led external support in Georgia from the early stages of the reform process, through an array of complementary interventions and by proactively interacting with the government. The 2009–11 DPO series has been instrumental in this process by helping focus the government's efforts on the important initial steps of the reform. Steps to further deepen the reform process are still needed to ensure performance-based budget management.

IMPROVING THE EFFICIENCY AND EFFECTIVENESS OF PUBLIC INVESTMENT

4.39 The DPO series' prior actions supported the development of a multiyear PIP with project priorities and multiyear funding priorities elaborated in a single document. The multiyear PIP has been fully rolled out for central government spending units after the completion of the DPO series; with total costs of multiannual investment projects reported in the annual budget documentation. The medium-term and total cost of investment projects over their construction period are reported in an appendix within the budget documentation, along with details of major projects and their objectives. However, although the preparation of a multiyear PIP was a relevant measure, it was not sufficient for enhancing the efficiency of public investment. Measures to improve the selection criteria for public investments and to coordinate the project preparation and appraisal process would have contributed more to improving the efficiency of public investment.

4.40 Despite the development of a multiyear plan, the management of the PIP still presents several weaknesses. The methodological guidelines for program budgeting that have been followed since 2012 include short instructions on preparing submissions for the capital budget annex, which give very general guidance on prioritizing and selecting capital investment projects for inclusion in the budget: projects should be related to priorities defined by the government and should either support economic development or social development priorities. Thus, criteria are not specific enough to determine project selection for budget funding. The project planning process is informal and the roles and responsibilities of the different participants not clearly established. Planning thus remains driven by the entities promoting the projects, where internal informal procedures apply. Neither the Ministry of Finance nor any other central agency assumes a higher-level guiding or coordinating role over the project preparation and appraisal process. There is no agency with a role to offer technical support to spending ministries in developing and analyzing project proposals to reach a conclusion on their feasibility. There are no regulated procedures governing project preparation and appraisal (World Bank 2014b). Cost-benefit analyses for major investment projects are not always performed prior to their approval and, when performed, are not always published. Externally financed investment projects are typically undertaken on the basis of a cost-benefit analysis, but up until recently there was no requirement for this to be applied to projects financed from the budget.

4.41 The World Bank remained engaged in the PIP management reform process, which was initiated under the 2009–11 DPO series. Support to PIP reform has become a focal point in the World Bank's strategy for PFM reform in Georgia. The 2015–17 Inclusive Growth DPOs supported the adoption and implementation of a framework for systematic capital investment identification, preparation, appraisal, and selection, for both the central and local governments. This framework, approved in April 2016, includes procedural guidelines as well as a methodological manual. As a first step, this framework will be initiated in one central government ministry with significant capital expenditures and thereafter it will apply to all ministries and local governments. The World Bank has provided technical assistance to the government in the preparation and piloting of this framework.

4.42 The 2009–11 DPO series contributed to initiating the reform of the public investment management system, despite the several weaknesses that remain. The reform process has, however, further advanced in more recent years, after the completion of the DPO series. This policy reform area is an example of successful engagement by the World Bank, where the multiyear PIP reform supported by the 2009–11 DPO series has been further deepened through more recent DPOs and technical assistance activities.

REDUCING TAX COMPLIANCE COSTS

4.43 With support from the prior actions of the 2009–11 DPO series, tax e-filing has been generalized (see appendix B for the prior actions taken as part of the DPO series)**.** As a result of the introduction of e-filing and improved information technology platforms in tax administration, the share of electronic tax filings increased from 4 percent in 2009 to 92 percent in 2011. These reforms have been sustained in subsequent years and the share of e-filing is currently more than 99 percent. Moreover, core taxes are paid to a large degree by electronic payment methods, including through electronic funds transfer (IMF 2016). The introduction of modern electronic and communication facilities, particularly the taxpayer portal, has contributed generally to lower taxpayer costs associated with filing and payment, and communicating with the Georgian Revenue Service (GRS).

4.44 Continuing the implementation of the risk-based tax audit system,[10] initiated under the DPO series, the GRS gradually replaced all ad hoc tax audits and control checks with risk-based, planned on-site audits as from the beginning of 2015**.** Ad hoc tax audits are a potential source of corruption and higher tax compliance costs. The number of tax audit staff was increased from 230 to 397 (including both desk and field staff). Tax audits cover all core taxes and use a range of audit types to audit centrally selected, risk-ranked cases. Audits include comprehensive, single, or multiple year, single-issue, thematic audits, and value-added tax audits. They are based on a quarterly scoring of all companies according to tax compliance risk, resulting in a short list of companies to be audited. The database used combines information from various sources, including customs, justice, and banks. Audits are initiated on the basis of the risk-ranked quarterly list, selected centrally by the Tax Risk Management Division. These are either comprehensive field audits (about 1,000 each year) or limited-scope desk audits (about 2,500 each year). Auditors use both direct and indirect audit methods. They can access bank account data only with the taxpayer's consent, or by applying for a court order on a case-by-case basis.

4.45 According, however, to a 2016 IMF evaluation (IMF 2016), audit activities are not well planned and no attempt is made to evaluate the impact of audit activities on taxpayer compliance. Auditors are grouped into teams, with some specialization by sector to build up experience. There is no annual audit plan, so it is difficult to identify how audit resources are targeted. There is still no evidence that the audit program covers key taxpayer segments or is weighted toward large taxpayers. There is a fair degree of large-scale automated crosschecking of data to verify tax declaration accuracy. Customs data, waybill information, and cash register data are captured and analyzed. However, the absence of banking and financial institution reporting significantly limits the process of verifying the accuracy of tax declarations.

4.46 According to a 2016 business perception survey, the risk-based tax audit is not seen as a major hindrance for most businesses (USAID 2016). Based on the World Bank's Doing Business indicators, the time required to pay taxes in Georgia was 270 hours a year in 2017, down from 387 hours a year in 2012 and 2008, but remains higher than the average in Europe and Central Asia. The IMF assessment of the tax administration system, (IMF 2016), acknowledged the innovative use of technology by the GRS. Based on the IMF findings, the GRS prepared its 2017–20 strategy with the aim of becoming a transparent and fair service provider for the taxpayers.

4.47 Despite, however, the reduction of tax compliance costs, voluntary tax compliance remains weak and the stock of tax arrears is high. On-time filing rates are low for all core taxes—70 percent for the corporate income tax, 54 percent for the personal income tax, 62 percent for the value-added tax, and 57 percent for withholding taxes (IMF 2016). According to the IMF evaluation, the low rates reflect the absence of filing performance monitoring and lack of a filing enforcement program, but also inactive cases in the taxpayer database. Moreover, the stock of tax arrears is very high, equivalent at end-2015 to over 70 percent of annual tax collections. About 90 percent of total arrears are more than 12 months old. As a result, accrued interest and penalties account for about two-thirds of total arrears (IMF 2016). The GRS has established a department to improve its analytical capacity for more effective recovery of tax arrears and revenue collection.

4.48 Partly reflecting weak tax compliance and partly sizable tax exemptions that have been estimated at 4 percent of GDP (IMF 2017), tax collections in percent of GDP have remained relatively weak since the completion of the DPO series. The DPO series end-program target of 25.5 percent of GDP was reached in 2012 but was not sustained in subsequent years (see table 4.1). Tax revenue in percent of GDP reached 26 percent of GDP more recently, in 2016.

4.49 Despite the remaining challenges, the 2009–11 DPO series made an important contribution to the reform process of tax administration, especially by supporting the introduction of risk-based tax audits. The culture and practices of tax administration have changed and the objective of reducing tax compliance costs has been gradually achieved especially after the completion of the DPO series. Additional support could have been provided in this area in subsequent years in view of the remaining weaknesses in risk-based tax audits.

STREAMLINING CUSTOMS PROCEDURES

4.50 The prior actions of the DPO series supported the introduction of a risk management system at customs to streamline customs procedures and reduce the arbitrariness of the blind control system that was in use before. The objective of the risk management system, which has been further enhanced since the completion of the DPO series, is to provide different degrees of customs inspections for importers with different records of compliance: A red corridor requires documentation and physical examination; a yellow corridor requires documentation only; a blue corridor provides streamlined clearance, subject to postclearance examination of documents; and a green corridor provides transit free of customs inspections. Initially, the green and blue corridors were open to firms on the so-called Golden List, comprising importers with a sound track record of customs compliance. Subsequently, access to all corridors was granted to all customs declarations, based on the risk management system, and the number of declarations passing through the red corridor was reduced. As a result, the share of total declarations assigned to the red corridor was reduced to 5 percent by the end of the DPO program, compared with 12–15 percent in 2009. The share through the yellow corridor was reduced from 60 percent to 20 percent. These improvements have been sustained in subsequent years. The red corridor currently covers about the same share of 6 percent of declarations, while declarations through the yellow corridor have been further reduced to 12 percent.

4.51 A recent survey of traders conducted by United States Agency for International Development confirmed the improvement in perceptions concerning the integrity of customs resulting from these reforms (USAID 2016). Customs procedures are evaluated by the vast majority of the survey participants as transparent (94 percent) and convenient for their company (92 percent). The majority of exporters and importers (74 percent) claim that currently customs fees are reasonable. Moreover, information available on customs regulations to ensure compliance during import or export is largely assessed as sufficient (90 percent), while most of companies find that they have sufficient information on changes to customs regulations (87 percent).

4.52 **Other surveys convey a more nuanced view of progress in customs efficiency in more recent years.** According to the World Bank’s Doing Business indicators, the time required to export from Georgia has been reduced to 2 days in 2017, from 10 days in 2012. However, the time required to import increased to 15 days in 2017 from 13 days in 2012. According to the GRS, this is because the Doing Business methodology does not allow the proper separation of the customs component from logistics in the importing process. The World Bank’s Logistic Performance Index (LPI) also provides a nuanced assessment of progress. Georgia’s LPI indicator on the efficiency of customs and border management clearance (that is, speed, simplicity, and predictability of formalities), scored an improvement from 2.37 in 2010 to 2.90 in 2012, during the implementation of the 2009–11 DPO series. However, the score fell back to 2.21 in 2014, with a marginal improvement to 2.26 in 2016.

4.53 The 2009–11 DPO series contributed to the simplification of customs procedures through the introduction of the risk-based management system. The reforms have been sustained but further progress is needed to consolidate the initial improvement in customs efficiency.[11]

ENHANCING THE EXPORT-ENABLING ENVIRONMENT

4.54 Georgia and the European Union signed the DCFTA on June 27, 2014. The agreement entered into force on July 1, 2016 and Georgia became the third country in the Region, together with Ukraine and Moldova, to have entered a DCFTA with the European Union. The DCFTA trade regime removed European Union customs duties on all Georgian-originated products other than agricultural products. The agreement requires the approximation of Georgian trade-related laws with the European Union legal framework. Since the ratification of DCFTA, Georgia has also signed free trade agreements with China, Hong Kong, and the European Free Trade Agreement countries, and a free trade agreement with India is under consideration.

4.55 The 2009–11 DPO series supported Georgia's initiation of the approximation process through prior actions, including the preparation of strategies on food safety, technical barriers to trade (TBT), and competition policy, as well as an amendment of the law on food safety. In subsequent years, Georgia accomplished a substantial part of the approximation of its legislation to the European Union directives on TBT and food safety. Given its developing country status, it has been granted extended periods to complete the process, up to 2022 for TBT and 2027 for food safety. Of the 21 European Union directives on TBT, six have been adopted so far and two are set to be adopted in 2018. Of the 272 European Union directives on food safety, 62 have been adopted so far. Reform of competition policy was initiated, as ensuring a level playing field for businesses, including for importers, is a key requirement for free trade. The competition policy law has been adopted, secondary legislation is being prepared, and an independent Competition Agency was established in April. With regard to TBT, there have been a number of actions aimed at improving the national quality infrastructure, in particular in the areas of (i) metrology, to ensure proper traceability; (ii) accreditation, where the Georgian Accreditation Centre became signatory to the European Accreditation Bilateral Agreement, allowing for its international recognition—an action supported by the World Bank's 2017 Private Sector Competitiveness DPOs; (iii) market surveillance, where the government committed to identify legislative and institutional changes necessary for achieving an effective market surveillance system. In sanitary and phytosanitary standards, the National Food Agency has been implementing an institutional development and reform plan, including extensive staff training (Council of the European Union 2017).

4.56 With the progressive approximation of technical regulations and standards with those of the European Union, Georgia has been increasingly able to strengthen its participation in international value chains as evidenced by the initiation of free trade agreements with China, Hong Kong, the European Free Trade Agreement countries, and possibly India. In 2016, the European Union was Georgia's largest trade partner, with 30 percent share in its overall trade. There has been an increase in Georgia's trade recently, from $150 million in 2015 and 2016 to $200 million in 2017, but this cannot be attributed to the implementation of the DCFTA. Interest from China and India in signing free trade agreements with Georgia could indicate that these countries may partly use Georgia in the future as a platform for exporting to the European Union.

4.57 The subsequent Competitiveness and Growth Development Policy Loan series also supported legislative and regulatory reforms to promote trade-related reforms, initiated under the 2009–11 DPO series, necessary to meet the requirements of the DCFTA. The more recent Private Sector Competitiveness DPOs supported actions to obtain international recognition of critical parts of Georgia's national quality infrastructure. The International Finance Corporation has been assisting local companies in applying food safety standards throughout the agribusiness value chain and has also provided advisory services on metrology. However, the World Bank's policy support in this area has been declining as the European Union drives the reform agenda, including through twinning arrangements for technical assistance with European Union member countries. World Bank and UNICEF 2016).

4.58 The trade-related reforms would most probably have taken place had the World Bank not included them as prior actions in the 2009–11 DPO series. After the 2008 crisis, Georgia was keen to fulfill the requirements for starting negotiations on the DCFTA with the European Union. The formal additionality of the DPO series on this reform agenda is, therefore, limited. Moreover, the World Bank had not engaged in a dialogue with the government on the regulatory convergence with the European Union directives based on prior experience with Eastern European countries during their accession negotiations with the European Union. The World Bank occasionally played an informal mediation role in raising DCFTA negotiation issues important to the government with the European Union. These trade-related prior actions of the DPO series were rather used as disbursement triggers, in an agenda otherwise overwhelmingly driven by the European Union. Including these measures in the DPO series brought, however, added value by helping focus the government's efforts on the areas of TBT, food safety, and competition policy, which were important for DCFTA negotiations and strengthening export capacity over the medium term. Given Georgia's resource and capacity limitations, this focused effort helped avoid spreading resources thin. Moreover, according to government officials consulted during this evaluation, the inclusion of these reforms in the DPO three-year cycle helped the timing and accelerated the pace of these reforms.

Reforming the Statistics System

4.59 The reform of the statistics system supported the objective of preparing Georgia for postcrisis growth by improving the reliability of information for economic management and the confidence of investors in the Georgian economy. The DPO series supported through a prior action the establishment of the statistics office, GeoStat, as an independent entity. Before 2010 the Department of Statistics was part of the Ministry of Economy and the government appointed the chairman of the department. Being a subordinate body, all staff, budgeting, and other important decisions of the Statistics Department were made through the Ministry of Economy. As a prior action of the DPO series, GeoStat was established as an LEPL, subordinate to the parliament and the prime minister. An eight-member management board was created, established with parliamentary approval, with election of the executive director from nonpublic board members, and with four-year nonrenewable terms for board members. GeoStat's priority was the implementation of international best-practice methods in collecting and compiling statistics.

4.60 Reform of GeoStat continued after the completion of the 2009–11 DPO series. After the 2010 reform, GeoStat remained a budgetary organization with a minor share of own revenues; three board members were government officials and government approved its annual statistical program. However, GeoStat was able to make important decisions independently, became more flexible in planning its activities, and it became easier to conclude service activities with donors and international organizations. In 2015, the law on official statistics was amended regarding the professional independence of the staff, mandates for data collection, and the periodicity of census, and an advisory board was created. In parallel, 15 UN fundamental principles and the European statistical code of practice were adopted. Consultations with the World Bank helped streamline the new law and align with good international practice, while the Inclusive Growth DPOs supported the reform.

4.61 GeoStat has been providing user-friendly and updated statistics to a wide range of users. Line ministries have been using data produced by GeoStat more extensively for monitoring and evaluation, sector strategies, and performance indicators for program budgets. GeoStat has deployed a website, which encompasses the detailed statistical data reflecting the specific regions of Georgia, and has seen a growing volume of visits over time. The Report on the Observance of Standards and Codes conducted in 2012 concluded that the basic principles governing the collection, processing, and dissemination of statistics in Georgia include professional independence, objectivity, reliability, confidentiality of statistical data, and efficiency. GeoStat staff is free from political or other influences in choosing the most appropriate sources and methods. However, staff resources of GeoStat are not adequate for performing current programs. Moreover, the remuneration of GeoStat staff is not competitive compared with similar job positions in agencies in Georgia. This creates difficulties in attracting and retaining experienced staff (IMF 2012). These observations still apply.

4.62 The 2009–11 DPO series contributed to establishing the independence and professionalism of GeoStat as well as the reliability of Georgian statistics. The reforms have been sustained and further deepened in the subsequent period and the World Bank has remained engaged in the reform process.

5. Ratings

Outcome

5.1 Overall outcome is rated **satisfactory.** The overall outcome rating reflects high relevance of the 2009–11 DPO series objectives, substantial relevance of program design, and substantial efficacy in outcome achievement under the first and second program objectives.

5.2 Achievement of the first objective of assisting the Government of Georgia in mitigating the impact of the economic downturn in the short term was substantial under the actions in the second pillar of improving the effectiveness of the social safety net. Despite its relatively low coverage, the TSA program helped protect the most vulnerable during the 2008–09 crises and its adequate targeting provides assurance that budgetary resources allocated to the program are well used. Georgia would, however, need to consider schemes such as unemployment insurance to effectively shield those exposed to crises, should similar crises occur in the future. The impact of the 2008–09 crises on the poor in health care was effectively mitigated by the expanded coverage of the MIP. However, with the more recent UHC program, the progress achieved since then in further strengthening the financial access of the poor to good quality health care has been marginal as there was no decline in the share of households that experience impoverishing effects of out-of-pocket health expenditures.

5.3 The reforms supported under the first and third pillars of the DPO series led to a substantial achievement of the second objective of facilitating recovery and preparing Georgia for postcrisis growth in the medium term. Despite remaining gaps, PFM reforms supported by the 2009–11 DPO series have considerably improved the comprehensiveness and transparency of Georgia's fiscal accounts. Reforms led to the inclusion in budget documentation of information about the main programs and subprograms as well as output-based indicators. However, the reforms have so far had a limited influence on decision making mainly because the gestation period for results is long as international experience shows. The multiyear PIP has been fully rolled out for central government spending units but it was not sufficient for enhancing the efficiency of public investment. To achieve that objective, the reforms would have had to encompass support for improving the selection criteria for public investments as well as the project preparation and appraisal process. Progress on the PFM reform agenda supported by the DPO series has improved the resilience of the fiscal framework to emerging expenditure pressures and is expected to improve the quality of public expenditures in the future. Tax audit reforms and risk-based management in customs have improved business perceptions of transparency and integrity of the GRS but voluntary tax compliance remains weak and the stock of tax arrears is high. Customs efficiency has improved over time and is not an issue in the business environment as suggested by business surveys. However, the pace of improvement seems to have reached a plateau, as shown by Georgia's Logistics Performance Indicator on the efficiency of customs and border management clearance. The reforms in food safety, TBT, and competition policy have improved Georgia's capacity to take advantage of the DCFTA signed with the European Union, potentially becoming a future hub for trade between East and West. In time these reforms could help Georgia reach the next stage of economic development, by making the most of its adequate business environment and connecting with the world economy to develop through exports. But this achievement cannot be entirely attributed to the series as European Union trade-related reforms would have likely happened without this DPO support. The reforms of the statistical system have improved the reliability of data produced by the statistics agency, with the potential of improving the quality of macroeconomic management, supporting program budgeting, and strengthening the confidence of investors in Georgia's economic data.

Risk to Development Outcome

5.4 There is high risk to the development outcomes due to Georgia's structural vulnerability to external economic shocks. The recession in Russia and slower growth in other key trading partners have influenced Georgia through lower exports and reduced remittances. This puts depreciation pressure on the exchange rate, raises inflation, and threatens the sustainability of external and public debt. Weakness in regional external markets is likely to persist. Georgia's DCFTA with the European Union could mitigate this risk by providing a boost to exports and FDI but the expected benefits will materialize only over a longer period.

5.5 There is a high risk to fiscal sustainability. Although Georgia had previously maintained a countercyclical fiscal policy stance, which allowed public debt to remain within sustainability margins, fiscal discipline was to some extent relaxed because of the change in government in 2012. Spending priorities were reoriented to address social needs, and this has resulted in an increase in social spending from 7 percent of GDP in 2012 to 10 percent in 2017. Pressures came primarily from the public sector wage bill, pensions, health (following the introduction of UHC), electricity subsidies, and incentives provided to mountainous regions. Planned increases in capital spending, changes in the corporate tax regime, and contingent liabilities have added to medium-term fiscal concerns. Risks are mitigated by Georgia's constitutionally enforced fiscal responsibility law and the fiscal consolidation program that the government developed at the end of 2016 aimed at returning to a more sustainable path. Nevertheless, the high external risk noted earlier also poses risks for fiscal sustainability owing to a possible depreciation of the exchange rate. Similarly, because Georgia's economy is highly dollarized, swings in the exchange rate can have a large impact on the banking sector and thus on the budget and public debt.

5.6 There is a low risk of not achieving the development outcomes owing to a lack of government commitment and political volatility. The political transition in 2012–13 did not affect the continuity of the reform program. The new government remained committed to the reform agenda. Both the ruling and opposition parties are equally committed to Georgia's European integration aspirations and business-friendly reforms.

5.7 Overall, the risk to development outcomes is rated **moderate.** Although there is high risk of exposure to external shocks and high risk of fiscal sustainability, the low risks of internal reversals of the reform process serves as an important mitigating factor. The external environment may continue to pose risks to economic performance in Georgia but the strong government commitment, low political volatility, and institutional rules for fiscal discipline are expected to help sustain the development outcomes achieved.

Bank Performance

5.8 Bank performance is rated **satisfactory.**

QUALITY AT ENTRY

5.9 Quality at entry is rated **satisfactory.** The World Bank responded swiftly to the authorities' request in January 2009 to support its postcrisis reform agenda and the operation was prepared in less than six months. The program was underpinned by extensive analytical work and various assessments of the Georgian PFM system designed to ensure a satisfactory macroeconomic and fiscal framework. The operation drew on lessons learned from the successful implementation of the PRSO series implemented during 2005–08. The DPO program was selective and focused on those reforms where the World Bank had a comparative advantage. The World Bank coordinated the design and implementation of the DPO program closely with other development partners, with a view to preventing duplication and enhancing synergies. The results framework was well developed and contributed to the successful implementation of the program.

5.10 The preparation of the DPO series took on board key lessons of the previous PRSO series. First, the government had strong ownership of the PRSO reform program and led the reforms, with World Bank financing playing a catalytic and supportive role. Second, the operations were well defined and focused on priority issues where the medium-term strategy was well understood and owned by the government. Third, the PRSO reform program was grounded in a realistic assessment of the government's implementation capacity.

QUALITY OF SUPERVISION

5.11 Quality of supervision is rated **satisfactory.** The World Bank maintained an active dialogue with the government on all areas of the DPO program. The dialogue was conducted with both the Ministry of Finance and the line ministries. In some areas, such as the public finance reforms, the World Bank followed a more proactive supervisory role in providing advice and feedback in coordination with the Public Sector Financial Management Reform Support Project. The World Bank also showed flexibility in refining the program as needed to reflect changing circumstances, such as in phasing out the publicly cofinanced health insurance program, which suffered from limited uptake. Supervision also benefited from coordination with other development partners, including the Government of Netherlands, which cofinanced the reform program and often participated in supervision meetings, as well as the European Union, IMF, ADB, and United States Agency for International Development, which provided budget support and technical assistance in different policy areas. However, while two Implementation Status and Results Reports were filed for the first DPO, no Implementation Status and Results Report are available for the following two operations of the series.

Borrower Performance

5.12 Borrower performance is rated **satisfactory.**

GOVERNMENT PERFORMANCE

5.13 Government performance is rated **satisfactory.** The government responded swiftly to the twin crisis and designed a policy reform program consisting of both immediate mitigating measures and structural reforms to promote recovery and postcrisis growth. The government demonstrated strong commitment to the reform program throughout the course of the DPO series. The government implemented the reform program fully and in a timely manner, seeking technical support where needed, and providing the World Bank with accurate and timely reports on progress. The government moved swiftly on an ambitious reform agenda for trade integration and Georgia became the third country in the Region to sign a DCFTA with the European Union. The new government that took office after the 2012 election remained committed to the reform agenda so that the outcomes of the DPO series were sustained in the subsequent period.

IMPLEMENTING AGENCY PERFORMANCE

5.14 Implementing agency performance is rated **satisfactory.** The Ministry of Finance, as coordinating agency, and the line ministries, performed their roles effectively and took ownership in implementing the reforms in their respective areas. The implementing agencies were responsive to the World Bank’s requests for information and coordinated well with the Ministry of Finance in jointly delivering the DPO program. The Ministry of Health, Labor, and Social Affairs successfully implemented the TSA and MIP programs, which were the cornerstones of the DPO series objective to mitigate the impact of the crisis on the poor. The Ministry of Finance took the lead in successfully rolling out program budgeting and the multiyear PIP. The Revenue Service successfully implemented tax audit reforms and risk-based management in customs. The Ministry of Economy proactively oversaw and coordinated the trade-related reforms to initiate the process of the DCFTA with the European Union.

Monitoring and Evaluation

5.15 The monitoring and evaluation of the DPO series is rated **substantial.**

MONITORING AND EVALUATION DESIGN

5.16 Program monitoring and evaluation were based on the results framework, which included end-of-program outcome indicators, as well as intermediate results indicators. Indicators for the results framework were chosen in consultation with government counterparts. Baseline data for the indicators were included in the program documents of all three operations. Overall, the outcome indicators were appropriate, with baselines and monitorable intermediate and end-of-program targets. Some of the outcome indicators were process oriented—those concerning the institutional framework for state-funded health programs and trade-related reforms. However, most indicators were quantitative in nature. There were no indicators to assess the reliability of statistics and technical staff capacity. With hindsight, in view of the continuing prevalence of out-of-pocket payments for health care, the results framework could usefully have included indicators to assess these expenditures.

MONITORING AND EVALUATION IMPLEMENTATION

5.17 Intermediate outcome indicators were used to identify implementation problems and ensure that program implementation remained on schedule. Government counterparts were responsible for data collection and reporting to the World Bank DPO team. The monitoring of the DPO series was carried out through periodic supervision reviews of the programmatic operations. Progress in the implementation of policy measures and achievement of outcomes was also supported by other World Bank projects, including the Public Sector Financial Management Reform Support and Health Sector Development projects. The macroeconomic and fiscal frameworks were closely monitored in coordination with the IMF.

MONITORING AND EVALUATION UTILIZATION

5.18 Monitoring and evaluation informed decision making and program management in several areas, including results-based budgeting in social protection and health coverage of the poor. It helped refine the program triggers and outcome targets at each stage of the programmatic operations. For instance, the publicly cofinanced voluntary health insurance program was phased out, because DPO monitoring indicated it suffered from limited uptake.

6. Lessons

6.1 The design of DPO programs during times of crisis usually involves a dilemma between providing predictable budget support to the client country, to help preserve stability, and deepening or expanding the reform agenda. Meeting the need of budget support entails a risk of undermining the quality of the reform program supported by the World Bank or the ability of the program to go beyond reforms that would in any case have been implemented by the authorities or supported by other development partners. In Georgia, the World Bank made the choice of providing predictable budget support mostly by extending and deepening the reforms supported by the precrisis operations (PRSOs), limiting the inclusion of new reform areas in the program. With a few exceptions, the content of the DPO series was broadly adequate to achieve the program objectives. The comprehensiveness of the World Bank's previous engagement on the reform agenda through the PRSO series, the World Bank's extensive analytical work, the government's commitment to the reform agenda and crisis mitigation program, and technical assistance (by the World Bank and other donors) to build capacity in key areas of the reform program were all factors that contributed to the positive outcome.

6.2 In the absence of unemployment insurance or other active labor market programs, scaling up Georgia's TSA program was the only option available to mitigate the short-term impact of the crisis. As the TSA program was well designed and targeted, the World Bank's support was fully justified and helped extend protection to the vulnerable during the crisis. However, cash transfer programs, such as the TSA, are mainly geared toward the chronically poor, whereas many of those affected by crises are households falling into temporary poverty. Also, these cash transfer programs often lack the institutional flexibility in targeting and management information systems to quickly absorb households that may have poverty characteristics different from the chronically poor, which the programs conventionally target. Moreover, they do not include help for workers to return to productive employment. To improve country preparedness to mitigate the social impact of crises, program complementarity, adaptability, and service-level efficiency play an important role. The World Bank could advocate complementary social protection schemes: formal sector contributory schemes; safety nets, including cash transfers relatively well targeted to the poor; and complementary categorical benefits. Developing relevant knowledge and data on groups that are most affected by crises is of key importance. The introduction of unemployment insurance would have merited support by the 2009–11 DPO program, especially to help address the possible employment impact of deeper trade integration entailed by the DCFTA with the European Union.

6.3 In a fiscally constrained environment, a move to UHC may not necessarily bring an improvement in the financial protection of the poor. In Georgia, some improvements in health coverage of the poor achieved under the MIP reforms supported by the DPO series were sustained under the UHC program, and access to inpatient services was further enhanced. However, despite a slight decline in out-of-pocket health spending, there was no decline in the share of households that experience impoverishing effects of out-of-pocket expenditures. Moreover, the structure of the current UHC system and incentives embedded in it are a major driver of costs and fiscal overruns that limit the authorities' fiscal space to improve the coverage of the most vulnerable. As shown by Georgia's move to UHC, it is strongly advisable that such transitions be well prepared, with good checks and balances and quality assurance mechanisms in place that help contain the potentially high cost of UHC systems. The World Bank could play a more proactive role in advising governments on the best way to prepare such transitions.

6.4 The World Bank can play a supportive role in helping to focus government's efforts even in policy areas where other development partners mainly drive country reforms. This was the case in Georgia with the trade-related reforms required for the DCFTA with the European Union. These would have been very likely implemented even in their absence as prior actions in the DPO series, as Georgia was keen to fulfill the requirements for starting the DCFTA negotiations with the European Union. However, including these reforms in the DPO series helped focus the government's efforts on reforms important for strengthening export potential over the medium term while, given capacity limitations, this focused effort helped avoid spreading resources thin. The World Bank could have added more value by advising the government on how to prioritize regulatory convergence with the European Union directives, based on the World Bank's prior experience with Eastern European countries during their accession negotiations with the European Union.

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Appendix A. Basic Data Sheet

First Development Policy Operation (DPO-I) (IDA 46230, TF 95827)

Key Project Data ($, millions)

Financing	Appraisal Estimate	Actual or Current Estimate	Actual as Percent of Appraisal Estimate
Total project costs	89.6	89.6	100
Loan amount	85.0	89.1	105
Cofinancing	3.6	3.6	100

Actual Disbursements

Disbursement	FY09
Appraisal estimate ($, millions)	89.14
Actual ($, millions)	85.00
Actual as percent of appraisal	95.4
Date of final disbursement: December 16, 2009	

Project Dates

Event	Original	Actual
Initiating memorandum	03/30/2009	03/30/2009
Negotiations	05/27/2009	05/27/2009
Board approval	07/02/2009	07/02/2009
Signing	07/03/2009	07/03/2009
Effectiveness	07/16/2009	07/16/2009
Closing date	03/31/2010	03/31/2010

Staff Time and Cost

	Staff Time and Cost (World Bank Budget Only)	
Stage of Project Cycle	**Staff weeks *(no.)***	**Costs (including travel and consultant costs) *($, thousands)***
	45.45	244.07

Task Team Members

Name	Title (at time of appraisal and closure, respectively)	Unit	Responsibility/ Specialty
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C. Bernard Myers	Senior Public Sector Management Specialist	ECSP4	
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Martin Darcy	Consultant	ECSP4	
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Ghada Youness	Senior Counsel	LEGLE	

SECOND DEVELOPMENT POLICY OPERATION (DPO-II) (IDA 47630, IBRD 79260, TF 98478)

Key Project Data ($, millions)

Financing	Appraisal Estimate	Actual or Current Estimate	Actual as Percent of Appraisal Estimate
Total project costs	50.0	53.6	107
Loan amount	50.0	51.0	102
Cofinancing	2.5	2.6	104

Actual Disbursements

Disbursement	FY10
Appraisal estimate ($, millions)	50.0
Actual ($, millions)	53.6
Actual as percent of appraisal	107
Date of final disbursement: September 23, 2010	

Project Dates

Event	Original	Actual
Initiating memorandum	03/25/2010	03/25/2010
Negotiations	05/21/2010	05/21/2010
Board approval	07/29/2010	07/29/2010
Signing	–	–
Effectiveness	08/12/2010	08/12/2010
Closing date	03/31/2011	03/31/2011

Staff Time and Cost

	Staff Time and Cost (World Bank Budget Only)	
Stage of Project Cycle	Staff weeks *(no.)*	Costs (including travel and consultant costs) *($, thousands)*
	49	266.73

Task Team Members

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C. Bernard Myers	Senior Public Sector Management Specialist	ECSP4	
Faruk Khan	Senior Economist	ECSP1	
Pedro Rodriguez	Lead Economist	ECSP1	
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Simon Groom	Consultant	ECSP4
Bogdan Constantin Constantinescu	Senior Financial ManagementSpecialist	ECSO3

THIRD DEVELOPMENT POLICY OPERATION (DPO-III) (IDA 50080)

Key Project Data ($, millions)

Financing Type	Appraisal Estimate	Actual or Current Estimate	Actual as Percent of Appraisal Estimate
Total project costs	40.0	40.0	100
Loan amount	40.0	40.0	100
Cofinancing	--	--	--

Actual Disbursements

Disbursement	FY11
Appraisal estimate ($, millions)	38.73
Actual ($, millions)	38.73
Actual as percent of appraisal	100
Date of final disbursement: December 7, 2011	

Project Dates

Event	Original	Actual
Initiating memorandum	02/10/2011	02/10/2011
Negotiations	06/07/2011	06/07/2011
Board approval	07/21/2011	07/21/2011
Signing	09/15/2011	09/15/2011
Effectiveness	11/25/2011	11/15/2011
Closing date	03/31/2012	03/31/2012

Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (World Bank Budget Only)	
	Staff weeks *(no.)*	Costs (including travel and consultant costs) *($, thousands)*
	47.40	248.83

Task Team Members

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Michael Zarnowiecki	Consultant		
Simon Groom	Consultant	ECSP4	
Lire Ersado	Senior Economist	MNSSP	
Gohar Gyulumyan	Senior Economist	ECSP1	

Appendix B. Prior Actions Taken

DPO 1 (Action Taken)	DPO 2 (Action Taken)	DPO 3 (Action Taken)
Improving the Efficiency and Effectiveness of Public Finance		
Developed a strategy on public finances, which provides a framework for the coordination of reforms and an integrated approach to improving the public finance system.	Enacted a budget code to unify the legal framework for budgeting at all levels, as part of implementation of the Public Finance Management Reform Strategy.	
Piloted results-oriented budgets, including strategic directions, costing, and performance indicators for at least one program, in three ministries.	Submitted to parliament an Information Annex to the Annual Budget Law of 2010 containing results-oriented budgets for three government first-level spending units and expanded their coverage across government programs.	Submitted to parliament results-oriented budgets with a new program/subprogram structure and corresponding hierarchy of specific and measurable performance indicators for five ministries and reported on actual performance against the indicators of the prior year.
Took preparatory steps to develop a multiyear public investment program by (i) revising the budget circular to include proposals on nonfinancial assets; (ii) introducing a training program in capital budgeting principles in budget departments to prepare, assess, and manage public investment projects; and (iii) piloting preparation of the public investment program summary for two first-level spending units based on the 2009 budget.	Developed a multiyear public investment program by (i) revising budget circular to include public investment proposals; (ii) developing guidelines for preparing, submitting, and selecting public investment proposals above defined thresholds; and (iii) preparing a public investment program information summary, as an Annex to Annual Budget Law for 2010.	Submitted to parliament a public investment program, including the complete time profile of project financial information, summary project justifications, and physical monitoring indicators covering a majority of public investment, and reported publicly on actual versus planned project implementation for 2010.
Improving the Effectiveness of the Social Safety Net		
Transferred administration of benefits to internally displaced persons and child welfare allowances to the Social Services Agency and integrated their budgets into the Ministry of Health, Labor, and Social Affairs.		

Improved the effectiveness of TSA by (i) increasing the amount of the TSA benefit and securing adequate budgetary funding; and (ii) preparing a monitoring report on the performance of the TSA program.	Improved the effectiveness of TSA by (i) adjusting the proxy means testing formula; (ii) improving business processes related to TSA administration; (iii) implementing a public information campaign; and (iv) restarting recertification of TSA beneficiaries.	Improved the effectiveness of TSA by (i) linking the Social Services Agency database with government databases for income tax and property so as to review the eligibility status of all beneficiaries; and (ii) reinforcing the newly linked database through recertification of TSA beneficiaries.
Expanded coverage of the MIP targeted to the poor from 750,000 to 900,000 beneficiaries and adopted publicly cofinanced health insurance for the population not covered by the MIP.	Expanded coverage of publicly cofinanced health insurance to approximately 125,000 beneficiaries through an open enrollment period for the population not covered by the MIP and maintained coverage of MIP targeted to the poor at about 900,000 beneficiaries, while including an outpatient drug benefit in the MIP package.	Protected overall coverage of the MIP targeted to the poor at about 900,000 beneficiaries, while improving targeting of the poor.
Strengthened public stewardship of the health sector by establishing a stakeholder forum to oversee implementation of state-funded programs by health insurance companies and developing a draft standardized classification system for reporting.	Strengthened public stewardship of the health sector by initiating public support for the health insurance mediation service to enhance patient rights and introducing an electronic system for beneficiary identification.	Strengthened public stewardship of the health sector by enforcing an internationally recognized coding system and completing data architecture required for harmonized medical claims processing.
Improving External Competitiveness		
Introduced an e-filing system covering all taxes and available to all taxpayers as part of a program to streamline the tax payment system.	Improved the information technology platform and conducted a public information campaign to induce wider adoption of the e-filing system, as part of a program to streamline the tax payment system.	Issued comprehensive procedural guidelines for use by tax officers in providing the entire menu of necessary services to taxpayers, as part of a program to streamline the tax payment system.
Developed selection criteria and tested software for a risk-based tax audit system.	Introduced a risk-based tax audit system so that at least half of the planned number of on-site tax audits is selected by the system.	Enhanced the risk-based tax audit system so that all planned on-site tax audits are selected by the system; increased the number of planned on-site audits by at least 50 percent; and reduced the share of control checks to less than 40 percent of total (planned on-site audits plus control checks).

Introduced the risk management system at customs, including yellow and red corridors for all declarations and green and blue corridors for firms on the Gold List.	Improved the risk management system at customs by allowing access to all corridors for all customs declarations and reducing the number of declarations passing through the red corridor, which requires documentation and physical examination prior to the release of goods.	Further improved the risk management system at customs by increasing the share of declarations passing through the blue corridor above 15 percent and reducing the share passing through the yellow corridor below 30 percent.
	Identified and started to implement reforms in trade-related areas by submitting draft strategies to the European Commission on food safety, technical barriers to trade, and competition policy to facilitate access for Georgian products to European and international markets.	Amended Law on Food Safety and Quality to enable application of food safety official control on all food business operators as part of reforms in trade-related areas to facilitate access to European and international markets.
Adopted a concept of reform of the statistics system, including principles of independence, professionalism, technical capacity of staff, integrity and accuracy of statistics; and submitted to parliament the new draft law on state statistics, including provisions for an independent statistics office governed by a supervisory board, the adoption of internationally recognized statistical methods, and improved skills of staff.	Reformed the statistics system by (i) adopting the law on official statistics; (ii) establishing the supervisory board envisaged by the law; and (iii) establishing the statistics office as an independent entity.	Established monitoring department of GeoStat to ensure more effective implementation of internationally recognized statistical methods and trained all GeoStat staff in the use of statistical packages.

Note: DPO = development policy operation; MIP = Medical Insurance Plan; TSA = Targeted Social Assistance.

Appendix C. Results Indicators of the 2009–11 DPO Series: Baseline, Targets, End-of-Program Values, and Current Status

Indicators	Baseline Value 2007/2008	End-of-Program Target Value 2011	Most Recent Value
Objective 1: Mitigate the impact of the economic downturn in the short term			
Pillar 2: Improving the Effectiveness of the Social Safety Net			
Percent of bottom quintile and in particular, bottom decile receiving TSA.	31.6 percent of bottom decile, 21.7 percent of bottom quintile	Approaching 45 percent of the bottom decile. Actual: 58.4 percent of bottom decile, 40.1 percent of bottom quintile.	In 2015, 73 percent of bottom decile, 53 percent of bottom quintile.
Percent of TSA recipients who are in the bottom quintile and bottom decile.	47 percent goes to bottom decile, 65 percent goes to bottom quintile	At least 60 percent or more goes to bottom quintile. Actual: 47.2 percent to bottom decile, 64.9 percent to bottom quintile	In 2015, 72 percent goes to bottom quintile
Number of persons receiving TSA Amount of TSA benefit	370,000 GEL 30 base + GEL 12 per person	440,000 GEL 30 base + GEL 24 per person	GEL 60 base + GEL 48 per person
Share of bottom two quintiles with access to publicly subsidized health insurance.	20.7 percent	At least 35 percent at the end of the program. Actual: 38.2 percent in 2011	Under UHC all population has access to publicly provided health insurance.
Share of population with access to health insurance.	12.3 percent	At least 35 percent or better. Actual: 30.8 percent in 2011	Under UHC all population has access to publicly provided health insurance
Number of persons receiving benefits under the MIP Drug benefit in MIP	750,000	Approx. 900,000 Yes, outpatient	MIP abolished. Former MIP participants have access to UHC.

	No		
Increase in accountability and efficiency of the institutional framework for state-funded health programs.	Limited public stewardship measures for promoting accountability and efficiency of the MIP.	Information platform for efficiency improvements established.	Not applicable as MIP abolished.
Objective 2: Facilitate recovery and prepare Georgia for postcrisis growth in the medium term			
Pillar 1: Improving the Efficiency and Effectiveness of Public Finances			
Number of first-level spending units and programs covered by results-oriented budgets, with improved performance indicators and reporting on annual performance.	No first-level government spending units or programs with results-oriented budgets.	Five first-level government spending units, each including the full set of programs and specific and measurable performance indicators, covered by results-oriented budgets, with three reporting on actual performance.	All line ministries formulate a full set of programs, including performance indicators, and report on actual performance.
Programming of public investment over medium-term horizon: Procedures for preparing, prioritizing, selecting, and monitoring public investment projects.	No standard guidelines for programming public investment; public capital expenditures by first-level spending units reported at the aggregate in budget.	Increased accountability for implementation of public investment program through reporting and further increased transparency in public investment programming through full-time profile of costs.	The multiyear public investment program has been rolled out for all central government spending units, with total cost of multiannual investment projects reported in the annual budget.
Pillar 3: Improving External Competitiveness			
Time required for tax compliance (as reported in the World Bank's Doing Business Report)	387 hours per year	6.5 Reduction by about 15 percent relative to base year. Time remained at 387 hours	270 hours a year in 2017
Share of electronic tax filings	0.2 percent	92 percent	99 percent
Stable tax revenue performance: no significant decline in tax revenue-to-GDP ratio.	Tax revenues 24.9 percent of GDP	Tax revenues projected to remain stable at about 25.5 percent of GDP. Actual: 25.5	26 percent of GDP in 2016
Time required to import and	Time to export: 12 days. Time	Reduction by at least 20 percent	Time to export in 2017: 2 days;

export (as reported in the World Bank's Doing Business Report).	to import: 14 days.	relative to baseline. Time to export: 10 days, down 17 percent; time to import: 13 days, down 7 percent compared with baseline.	Time to import: 15 days.
Share of customs declarations subject to red corridor	Risk management system at customs not introduced	5 percent	5–6 percent
Lay basis to create improved conditions for access of Georgian products to European and international markets.	No framework for trade-related reforms to improve access.	Priority trade-related reforms implemented to lay basis for creating improved conditions for access.	Deep and Comprehensive Free Trade Agreement with the European Union in operation and free trade agreements with China, Hong Kong, and European Free Trade Agreement countries under negotiation.
Increased reliability and independence of statistics, streamlined institutional structures, and improved human capacity and public outreach.	Uneven reliability and independence of statistics, ineffective institutional structure, and uneven human capacity.	Reliability of statistics and human capacity of staff enhanced.	Independence of GeoStat further enhanced in 2015; 15 United Nations fundamental principles and the European Union statistical code of practice were adopted.

Note: MIP = Medical Insurance Plan; TSA = Targeted Social Assistance; UHC = universal health coverage.

Appendix D. Georgia's Macroeconomic Performance and the Policy Framework

1. Georgia's macroeconomic framework remained adequate during the double crises in 2008–09 and the period immediately following, during the implementation of the 2009–11 DPO series. The government implemented a two-pronged program in response to the crises:

2. First, a countercyclical fiscal program was deployed by leveraging financial pledges from development partners to support job-creating investment projects and expansion of the social safety net. Total public expenditure increased to 36.9 percent of GDP in 2009, from 32.7 percent of GDP in 2008. Public investment increased from 4.3 percent of GDP in 2008 to 5.8 percent in 2009 and 6.4 percent in 2010 (table D.1). Expenditure for social protection increased from 6.1 percent of GDP in 2008 to 7.3 percent in 2009, while spending on health care increased from 1.6 percent of GDP in 2008 to 2 percent in 2009 and 2.2 percent in 2010 (table D.2). At the same time, nonessential spending was cut or deferred, including defense expenditures, which were reduced from 8.1 percent of GDP in 2008 to 5.8 percent in 2009 and to 3.3 percent in 2010, with continuing cuts in subsequent years (table D.2). Consequently, the fiscal deficit was reduced from 9.4 percent of GDP in 2009 to 6.5 percent of GDP in 2010 and 3.5 percent in 2011 (table D.1).

3. Second, the authorities took measures to safeguard external sustainability. The currency was devalued by 16 percent in November 2008, following temporary central bank intervention to defend the exchange rate right after the conflict with the Russian Federation in August 2008. Although the temporary intervention led to a loss of international reserves, by mid-2009 gross reserves had reached their preconflict level. In 2009, consistent with the flexible management of the exchange rate, the central bank adopted an inflation-targeting regime for monetary policy. The inflation target was progressively reduced, from 6 percent to 4 percent in 2016–17 and 3 percent for 2018.

4. The government's two-pronged strategy ensured an adequate macroeconomic framework—in terms of its consistency, credibility, and debt sustainability—during the implementation of the 2009–11 DPO series. *Consistency* was supported by fiscal consolidation, which helped reduce the fiscal deficit in the aftermath of the crisis, while exchange rate depreciation and the flexible exchange rate regime supported external sustainability. At the same time, inflation targeting contributed to macroeconomic stability. The *credibility* of the macroeconomic framework was strengthened by the adoption by the parliament, in July 2011, of the Economic Liberty Act, which capped public expenditure at 30 percent of GDP, the public debt at 60 percent of GDP, and the budget deficit at 3 percent of GDP. Moreover, in December 2010, the parliament passed a constitutional amendment requiring a referendum to increase taxes, with the exception of excise and local taxes. *Debt sustainability* during the implementation of the DPO series was secured by Georgia's low levels of external debt at the onset of the crisis, reflecting prudent debt management and high rates of precrisis growth. Total public debt stood at just 22 percent of GDP in 2007 and external public debt at 17.6 percent of GDP. Moreover, Georgia fully leveraged the $4.5 billion financial pledges of its development partners following the World Bank–United

Nations Joint Needs Assessment conducted after the 2008 conflict with the Russian Federation.

Table D.1. Georgia Consolidated Government Operations, 2008–16 (in percent of GDP)

Consolidated Operations	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue	30.7	29.3	28.3	28.2	28.9	27.7	27.9	28.3	28.6
Tax revenue	24.9	24.4	23.5	25.2	25.5	24.8	24.8	25.3	26.0
Grants revenue	3.2	2.2	2.3	0.9	1.0	0.9	1.0	1.0	0.9
Other revenue	2.5	2.7	2.5	2.1	2.4	2.0	2.1	2.0	1.8
Expenditure	32.7	36.9	32.8	29.1	29.5	28.8	29.8	29.4	30.0
Compensation of employees	5.3	5.8	5.4	4.7	4.6	5.2	5.2	5.1	5.2
Use of goods and services	8.4	7.1	5.5	5.0	5.0	3.8	3.9	3.8	4.1
Interest expense	0.6	1.0	1.0	1.2	1.0	0.9	0.9	1.0	1.2
Subsidies	1.9	3.4	1.8	1.7	2.0	2.0	2.1	2.3	2.2
Grants expense	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Social benefits	7.1	8.4	7.8	6.8	7.1	8.5	9.6	9.6	10.0
Other expense	5.0	5.4	4.8	4.3	5.2	4.6	4.8	4.0	4.1
Net/gross investment in nonfinancial assets	4.3	5.8	6.4	5.3	4.7	3.8	3.32	3.5	3.0
Net lending (+) / Net borrowing (−)	−2.0	−7.6	−4.5	−0.9	−0.6	−1.1	−2.0	−1.1	−1.4
Primary net lending / borrowing	−1.4	−6.7	−3.5	0.3	0.4	−0.2	−1.1	0.0	−0.2

Source: International Monetary Fund, *Government Finance Statistics* as of 11/20/2017.

5. Georgia emerged from the 2008–09 crises relatively unscathed but more recently the growth momentum has faltered. Growth rebounded to 6.3 percent in 2010, 7.2 percent in 2011, and 6.4 percent in 2012 (table D.3). In subsequent years, growth remained steady until 2014, although at a slower pace than during the postcrisis recovery. Growth further moderated to 2.9 percent in 2015 and 2.7 percent in 2016 because of the weak external environment—reflecting depressed demand in the Commonwealth of Independent States, member countries of which are Georgia’s major trading partners; a loss of competitiveness brought about by a relatively larger depreciation in their currencies compared with the GEL; and a contraction in remittances from Russia and Greece. Growth is expected to recover to 3.5 percent in 2017, driven by strong exports and regional recovery. Weak activity and low global oil and food prices kept inflation subdued, below the target of the central bank. Inflation remained, however, volatile, also because of the pass-through from the exchange rate on prices.

6. The deterioration in the external sector has led to heightened macroeconomic vulnerabilities. Significant external adjustment took place in the immediate postcrisis period, with the current account deficit declining from 22.7 percent of GDP in 2008 to 10.3 percent in 2010. However, the current account deficit remained high in subsequent years, and has further widened to above 12 percent of GDP since 2015 (table D.2). Export performance was weak because the recession in Russia affected most of the Commonwealth of Independent States countries. Although foreign direct investment and official loans remain resilient sources of financing, the large external imbalance generated significant depreciation pressures on the GEL, which lost 30 percent of its value against the U.S. dollar during 2015–17. Because public and private debt is largely denominated in U.S. dollars, Georgia is vulnerable to exchange rate depreciation. Public external debt rose to 34 percent of GDP in 2016 and total gross external debt rose to 108 percent of GDP. The banking sector is also exposed to exchange rate risks, as over 60 percent of loans are denominated in U.S. dollars.

Table D.2. Georgia Expenditure by Function of Government, 2008–16 (in percent of GDP)

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016
Social protection	6.1	7.3	6.9	6.4	6.6	7.4	8.2	7.8	7.8
Economic affairs	4.0	5.6	5.1	4.4	5.7	4.6	4.5	4.1	4.3
Public order and safety	5.3	4.9	4.2	3.6	3.5	3.4	3.3	3.2	3.0
Defense	8.1	5.8	3.3	3.0	2.7	2.4	2.2	2.1	2.2
Education	2.9	3.2	2.9	2.7	2.9	3.1	3.2	3.4	3.8
General public services	0.2	4.1	3.5	2.4	2.7	3.1	3.1	2.5	2.7
Health	1.6	2.0	2.2	1.6	1.6	2.0	2.4	2.9	3.1
Housing & community amenities	2.8	1.9	2.6	2.9	1.9	1.2	1.1	1.3	1.4
Recreation. culture. & religion	1.1	1.3	1.5	1.7	1.5	1.2	1.3	1.8	1.4
Environment protection	0.5	0.6	0.6	0.5	0.3	0.5	0.6	0.4	0.4

Source: International Monetary Fund, *Government Finance Statistics*, Expenditure by Function of Government.

7. With some exceptions, the macroeconomic framework has remained generally adequate for most of the period since the completion of the 2009–11 DPO series.

8. The *credibility* of the macroeconomic framework was generally preserved, as the fiscal deficit was kept at below 3 percent of GDP from 2012 to 2014, in compliance with Georgia's Economic Liberty Act (table D.3). However, fiscal discipline was relaxed

following the change in government in 2012. Spending increased significantly as the new government prioritized social policies and universal health coverage (UHC). Larger than planned spending led to a widening of the deficit to 3.8 percent of GDP in 2015 and 4.1 percent of GDP in 2016.[1] The overrun reflected partly growing health expenditures for the UHC program and partly transfers and net lending to state-owned enterprises, which more than doubled in 2015. Moreover, early in 2017, the government introduced the Estonian tax model, replacing the corporate income tax with a dividend tax. To compensate for the revenue loss, excise taxes on fuel, tobacco, and cars were increased, but other taxes are difficult to adjust owing to the limitations on tax increases enforced by the Economic Liberty Act. Fiscal pressures prompted the government to take corrective steps in 2017 by matching higher expenditure outlays on social programs and investment with increased tax and nontax revenues and administrative caps on spending.

- The *consistency* of the macroeconomic framework was generally preserved, as the central bank maintained the flexibility of the GEL and the inflation-targeting regime, raising interest rates to curb inflationary pressures that emerged from the pass-through of the depreciation. In 2015–16 concerns emerged regarding the consistency of the macroeconomic framework owing to the increase in the fiscal deficit and pressures exerted by the government on the central bank to resist the depreciation of the exchange rate. As a result, the Stand-By-Arrangement with the International Monetary Fund (IMF) was derailed and the World Bank’s two ongoing DPO series (Inclusive Growth DPOs and Private Sector Competitiveness DPOs) were delayed by 12 months in 2016; the series was truncated, with the cancellation of one of the three programmatic operations in each series.

9. Total public debt increased from 34.7 percent of GDP in 2013 to an estimated 44.8 percent of GDP in 2017, to a large extent because of the depreciation of the exchange rate. It is projected by the IMF to stabilize at 45 percent of GDP, after peaking at about 47 percent of GDP in 2019, on the back of higher growth and fiscal consolidation. The *sustainability of public debt* does not pose notable risks, as debt is mostly concessional, with long maturities and low effective interest rates. Interest payments average approximately 1–1.5 percent of GDP a year, while 75 percent of external public debt is at fixed interest rates, thereby reducing interest rate risk. Less than 5 percent of public debt is short term, thereby, reducing refinancing risks. However, the debt level is vulnerable to large macroeconomic shocks. According to the IMF, a 2.1 percent permanent shock to GDP growth (calculated as one-half standard deviation of historical growth) or a 30 percent depreciation would increase the public debt-to-GDP ratio by between 5 and 10 percentage points, while a combined shock to GDP growth and 30 percent exchange rate depreciation would increase it by almost 25 percentage points. Contingent liabilities stemming from state-owned enterprises and public-private partnerships in the energy sector also entail fiscal risks that are currently at the center of the World Bank’s focus on the public financial management reform agenda.

Table D.3. Georgia: Key Macroeconomic Indicators (2007–17)

Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017[c]
Real GDP growth[a]	12.3	2.3	–3.8	6.3	7.2	6.4	3.4	4.6	2.9	2.7	3.5
CPI inflation[a]	9.2	10.0	1.7	7.1	8.5	–0.9	–0.5	3.1	4.0	2.1	5.7
Current account balance[b]	–19.7	–22.7	–16.1	–10.3	–12.7	–11.7	–5.8	–10.6	–12.0	–12.4	–12.9
Fiscal balance[b]	–4.7	–6.4	–9.4	–6.5	–3.5	–2.8	–2.6	–2.9	–3.8	–4.1	–4.1
Public debt[b]	21.5	27.6	41.6	42.5	38.6	34.8	34.7	35.6	41.4	44.9	44.8

Note: CPI = consumer price index, period average.
a. In percent per year.
b. In percent of gross domestic product.

10. In summary, the 2009–11 DPO series contributed to maintaining a sound macroeconomic framework during the crisis and the years immediately following. It was initiated after the authorities took measures to safeguard external sustainability by devaluing the exchange rate and initiating a countercyclical fiscal response after securing sufficient external financing. The authorities also committed, in the Letter of Development Policy for the first operation in the DPO series, to take measures to optimize the budget and prioritize spending, so as to maximize the impact of the stimulus package while maintaining fiscal sustainability. The reduction of the fiscal deficit in the following years confirms the effectiveness of this commitment.

Appendix E. List of Persons Met

Name	Title	Organization
Vakthang Lezhava Tamara Kovziridze	Former Adviser to the Prime Minister Former Deputy Minister of Economy	Reformatics
Michiel Van Der Auwera Giorgi Luarsabishvili	Project Administration Head Economist	Asian Development Bank
Giorgi Gotsadze	Health Expert	Curacio
Irakli Khmaladze	Program Lead/Public Sector	European Union
Ada Nardaia	Trade Officer	European Union
Tengiz Tsekvava	Deputy Executive Director	GeoStat
Devi Khechinashvili	Chairman	Health Insurance Association
Jan Van Bilssen	Senior Manager	International Finance Corporation
Nia Sharashidze	Economist	International Monetary Fund
Mariam Gabunia	Head of Department for Foreign Trade Policy	Ministry of Economy and Sustainable Development
Giorgi Kakauridze Eke Guntsadze Tsotne Kavlashvili	Deputy Minister Head of Budget Department Head of Treasury Services	Ministry of Finance
Niko Gagua Pridon Aslanikashvili	Deputy Minister Head of Macroeconomic Forecasting and Fiscal Risk Department	Ministry of Finance
Ekaterine Mikabadze	Deputy Head of Macroeconomic Forecasting and Fiscal Risk Department	
Giorgi Kurtanidze	Head of Financial Analytics Department	Ministry of Finance
Davit Gamkrelidze	Head of Department for Forecast and Management of Monetary Resources, Treasury Service	Ministry of Finance
Noe Kinkladze Maia Gotiashvili	Head of Economics Department Head of Budget Office	Ministry of Health, Labor, and Social Affairs of Georgia
Keti Goginashvili Nutsi Odisharia	Head of Health Department Head of Social Department	Ministry of Health, Labor, and Social Affairs of Georgia
Giorgi Barbakadze	Head of Macrofiscal Forecasting Department	National Bank of Georgia
H. E. Jos Douma	Ambassador	Netherlands Embassy

Tatia Khetaguri	Head of Parliament Budget Office	Parliament
Lekso Aleksivhvili	Director	PMCG
Nika Gamkrelidze	CEO, Georgia Healthcare Group	Provider of health package
Samson Uridia	Head of Foreign Relations Department	Revenue Service
Eka Ghazadze Marika Natsvlishvili	Deputy Auditor General Head of Foreign Relations Department	State Audit Office
Tina Baum	Social Policy Specialist	United Nations Children’s Fund
Robert Arellano	Local Controller	United State Agency for International Development
Mariam Dolidze	Senior Economist	World Bank
Lire Ersado	Program Leader	World Bank
Genevieve Boyreau	Lead Economist and Program Leader	World Bank
Mercy Tembon	Country Director	World Bank

Main Text

[1] The prior action on a new program and capital budgeting methodology was dropped from development policy operation (DPO)-III. The prior action on the social safety net strategy was dropped, with the authorities providing a summary of their strategy for social and health programs in the Letter of Development Policy. The prior action on health coverage in DPO-III was modified to focus on the targeted Medical Insurance Plan (MIP), which provides the bulk of health insurance for the poor, and a smaller voluntary health coverage program for non-MIP participants was phased out because of limited uptake.

[2] The proxy means test is based on a household welfare score calculated as the ratio of two sub-indexes: (i) the consumption index, using an estimation of household consumption and a variety of predictors, including sociodemographic and location variables, ownership of durable goods and productive assets, as well as self-reported income; and (ii) the needs index, which accounts for different needs of different persons. Households with welfare scores below 65,000 (on a scale from 0 to 100,000) are eligible for the Targeted Social Assistance (TSA) program. The eligibility threshold was set at 57,000 before the revision of the proxy means test formula in 2013.

[3] Because Georgia's TSA is relatively generous in terms of benefits, there is some concern that it might create disincentives for finding formal work or working longer hours. However, according to the program, such disincentives seem to exist only for young women recipients of TSA benefits whose labor market participation was estimated to be 7 percent lower compared with nonrecipients.

[4] At about 3–4 percent of gross domestic product, it is one of the highest in the world. Reasons for high drug spending include over prescription by doctors; a tendency to over consume among the population; high prices in the pharmaceutical market; and lack of competition in importing, wholesale, and retailing.

[5] The program aimed at coverage of 35 percent of the two poorest quintiles, which was achieved.

[6] In most cases beneficiaries have an annual limit of GEL 15,000 ($9,000 equivalent) for planned procedures. For emergency admissions, the limit is GEL 15,000 per incident for all individuals, except those from certain socially vulnerable groups (former MIP beneficiaries) and children under six. For planned procedures, patients are required to obtain approval from the Social Services Agency prior to treatment. These thresholds limit to the services which a patient can access result in the need for copayments by patients for elective services and certain emergency services. UHC beneficiaries are entitled to select any healthcare provider of their choice provided it is enrolled in the program as a provider of the requested service. Any provider, whether private or state, is eligible to participate in the program. The absence, until recently, of strict criteria for selecting providers has resulted in mushrooming growth of providers of questionable quality, especially for emergency services where the market has boomed.

[7] According to the Budget Code, the Basic Data Directions (BDD) has to be endorsed by the government before July 10 of every year. Following this endorsement, the spending units start preparation of their budget proposals within their respective provisional thresholds set forth in the BDD. The Ministry of Finance aggregates the programs prepared by the line ministries and spending units into the final BDD submitted to the Parliament three months before the end of the fiscal year.

[8] Budget assignments are allocated to ministries and other spending agencies according to their programs and subprograms, while descriptions of the programs and subprograms are defined under appropriate government priorities. There are about 100 budget programs, including subprograms.

[9] A program budget appendix is attached to the budget draft law, which includes expected results of the budget programs and subprograms, performance measurement indicators, and medium-term funding for the programs and subprograms. Performance indicators are defined for programs, subprograms, and activities of each spending unit. The budget appendix also includes the state budget execution results achievement report with outcomes for the main budget indicators for the two preceding years. The report includes a detailed discussion on performance against those targets.

[10] Under which cases are selected for audit using methods focused on high-risk taxpayers, where the main criteria would be underrecorded income and low compliance levels.

[11] The World Bank remained engaged in customs reform after the completion of the 2009–11 DPO series. The 2012–14 Competitiveness and Growth DPOs supported the goal to further improve customs efficiency by further streamlining customs procedures and strengthening a risk-based management system. The International Finance Corporation has also provided support to customs' risk management system as part of its Investment Climate Program, which aims to help Georgia increase the efficiency of regulations in tax, trade logistics, and investment policy.

Appendix D

[1] The fiscal deficit numbers in table D.3 treat privatization receipts as a source of financing, whereas the deficit numbers in table D.1 treat privatization receipts as a revenue source and are therefore lower than those in table D.3.