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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF EUR 45 MILLION (EQUIVALENT TO US$49.6 MILLION) TO

GEORGIA

FOR THE

ECONOMIC MANAGEMENT AND COMPETITIVENESS
DEVELOPMENT POLICY OPERATION

FEBRUARY 28, 2020

Macroeconomics, Trade And Investment Global Practice
Europe And Central Asia Region

Georgia
GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of January 31, 2020)
Currency Unit: Georgian lari (GEL)
US$1.00 = GEL2.89
EUR1.00 = GEL3.19

ABBREVIATIONS AND ACRONYMS

AA	Association Agreement
AIFMD	Alternative Investment Fund Managers Directive
CAD	Current Account Deficit
CPF	Country Partnership Framework
DCFTA	Deep and Comprehensive Free Trade Area
DIA	Deposit Insurance Agency
DPO	Development Policy Operation
DRC	Dispute Resolution Council
DSA	Debt Sustainability Analysis
ECA	Europe and Central Asia
EFF	Extended Fund Facility
EG	Enterprise Georgia
EMC	Economic Management and Competitiveness
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit
GNCC	Georgia National Communications Commission
GNP	Gross National Product
GOG	Government of Georgia
GRS	Grievance Redress Service
GVC	Global Value Chains
EG	Enterprise Georgia
EU	European Union
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
LDP	Letter of Development Policy
IOSCO	International Organization of Securities Commissions
MOESD	Ministry of Economy and Sustainable Development
MOF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
MTPL	Mandatory Third-Party Liability
NBG	National Bank of Georgia
NBDS	National Broadband Development Strategy
NDC	Nationally Determined Contribution
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PIM	Public Investment Management
PISA	Programme for International Student Assessment
PPA	Power Purchase Agreement
PPP	Public Private Partnership
RIA	Regulatory Impact Assessment
SAO	State Audit Office
SCD	Systematic Country Diagnostic
SDS	Socio-economic Development Strategy
SME	Small and Medium Enterprises
SMP	Significant Market Power
SPA	State Procurement Agency
TA	Technical Assistance
TF	Trust Fund
UCITS	Undertakings for Collective Investment in Transferable Securities
VAT	Value-added Tax
WB	World Bank
WBG	World Bank Group

Regional Vice President:	Cyril E Muller
Country Director:	Sebastian Molineus
Regional Director:	Lalita M. Moorty
Practice Manager:	Sandeep Mahajan
Task Team Leader (s):	Evgenij Najdov, Mariam Dolidze

GEORGIA ECONOMIC MANAGEMENT AND COMPETITIVENESS DEVELOPMENT POLICY OPERATION

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The Georgia Economic Management and Competitiveness Development Policy Operation Loan Credit was prepared by an IBRD team consisting of Evgenij Najdov (Sr. Economist), Mariam Dolidze (Sr. Economist), Patrick Piker Umah Tete (Sr. Financial Management Specialist), Djamshid Iriskulov (Financial Management Specialist), Natalia Tsivadze (Financial Sector Specialist), Siddhartha Raja (Sr. Digital Development Specialist), Himmat Singh Sandhu (Consultant), Rafal Szporko (Consultant), Nino Kutateladze (Sr. Education Specialist), Sonia Iacovella (Sr. Financial Sector Specialist), Angela Prigozhina (Sr. Financial Sector Specialist), Wim Douw (Sr. Private Sector Specialist), Ekaterine Avaliani (Sr. Private Sector Specialist), Irine Kokaia (Sr. Private Sector Specialist), Darejan Kapanadze (Sr. Environmental Specialist), Peter Farup Ladegaard (Lead Private Sector Development Specialist), Tanvir Hossain (Sr. Procurement Specialist), Nino Ramishvili (Procurement Specialist), Cigdem Aslan (Lead Financial Officer), Pierre Prosper Messali (Sr. Public Sector Specialist), Tuukka Castren (Sr. Forestry Specialist), Gennady Pilch (Lead Counsel), Prachi Shrikant Tadsare (ET Consultant), Damir Leljak (Finance Analyst), Graciela Miralles Murciego (Sr. Economist), Alan Fuchs (Sr. Economist) and Dhiraj Sharma (Economist).

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P169913	No

Proposed Development Objective(s)

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

Organizations

Borrower: GEORGIA

Implementing Agency: MINISTRY OF FINANCE, MINISTRY OF ECONOMY AND SUSTAINABLE DEVELOPMENT

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**49.60**

DETAILS

International Bank for Reconstruction and Development (IBRD)	49.60

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate

Results

Indicator Name	Baseline	Target
Municipalities submitting financial statements to SAO for audit within 3 months after end of the financial year.	3 (2018)	>14 (2021)
Public investment projects are screened, appraised and selected in compliance with the PIM Guideline requirements.	0 (2019)	40% of new projects above GEL5m (2021 Budget)
Single source procurement, as % of total procurement value.	19% (2018)	16% (Q1.2021)
Number of RIAs completed on laws and regulations.	Not required (2019)	10 (2021)
Number of examined cases (2-year average)	6 (2017-2018)	8 (2020-2021)
Number of telecommunication service providers using data transmission services through electricity network	0 (2019)	2 (2021)
Teachers with full work load, as % of all teachers:	44.9% (2018)	55% (2021)
Female teachers with full work load, as % of all teachers:	38.6% (2018)	49% (2021)
Number of investment funds established:	0 (2019)	2 (Q3.2021)
Number of targeted companies responding:	na (2019)	200 (2021; cumulative)

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO GEORGIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document describes a proposed loan to Georgia to support the Economic Management and Competitiveness Development Policy Operation (DPO)**. The DPO would support a core set of reforms of the Government of Georgia (GOG) to sustain rapid growth, and ensure greater inclusion, job creation, and resilience by: i) strengthening economic management through improving the efficiency of public resource use; and ii) enhancing competitiveness through introducing evidence-based policy making; promoting more competitive markets; diversifying the financial sector; improving teacher deployment and remuneration with a view toward ensuring a more qualified workforce over the long term; and strengthening investment promotion. The proposed loan, in the amount of euro 45 million, is a single-tranche standalone DPO.

2. **Georgia has established a strong record of reforming its economy and raising the living standards of its citizens**. The country has a sound macroeconomic framework, an attractive business environment, and robust public financial management arrangements at the central level. The economy has responded positively; growth has been robust and resilient, entrepreneurship is vibrant, and living conditions are steadily improving. Between 2007 and 2018, Georgia's GDP per capita grew at an average annual rate of 5.4 percent, surpassing most peer countries. Coupled with a system of targeted social transfers, this helped to nearly halve the poverty rate[1] from 37.4 percent in 2007 to 20.1 percent in 2018, and to improve the living conditions of citizens, including those in the bottom 40 percent of the population.

3. **Still, poverty remains high, reflecting limited creation of jobs, especially quality jobs.** Roughly one in every five Georgians remains poor and almost half the population is vulnerable to falling back into poverty. In addition, although declining since 2010, Georgia's income inequality is relatively high by the Europe and Central Asia (ECA) region's standards, with a consumption Gini coefficient of 37.2 percent in 2018.[2] With labor income being the main conduit out of poverty, sustainable gains in poverty reduction require the creation of more and better jobs. However, at only 5 percent, compared to 16 percent in the Western Balkans, the elasticity of jobs to growth in Georgia has been weak[3] and unemployment remains high (10.9 percent in the last quarter of 2019). In addition, the quality of jobs is low; underemployment is prevalent (around 40 percent of workers worked more than 20 hours a week compared to 60 percent in ECA[4]) and 40 percent of jobs are in the agriculture sector, mostly in subsistence farming, which created only 8 percent of GDP in 2018. Income-earning opportunities are also constrained by disparities between a few vibrant urban areas and the rest of the country that is developing at a more gradual pace. For example, 23.1 percent of the rural population lives in poverty compared to only around 15 percent of residents in Tbilisi.

4. **To achieve Georgia's ambitions of sustaining rapid economic growth and ensuring its greater inclusion and resilience, the Government seeks to refine the country's growth model.[5]** Job creation, perhaps the country's most pressing developmental challenge, is hampered by an environment in which small firms fail to grow (over half do not survive four years), high-productivity sectors remain small, and older firms, where

[1] Absolute poverty rate measured at the national poverty line.
[2] While being lower than that of Turkey and Russia, it remains higher than that of Poland, Armenia, and Kyrgyz Republic.
[3] "Georgia at Work: Assessing the Jobs Landscape", World Bank, Washington DC, 2018.
[4] "South Caucasus in Motion", World Bank, Washington, DC, 2019.
[5] Government of Georgia, Socio-economic Development Strategy of Georgia, http://www.mrdi.gov.ge/sites/default/files/social-economic_development_strategy_of_georgia_georgia_2020.pdf, accessed January 9, 2020.

employment is concentrated, suffer from weak productivity, suggesting misallocation of resources.[6] While Georgia's business environment is characterized by a low administrative burden, firm growth and job creation are held back by shallow financial and capital markets, and businesses consider market concentration and favoritism in the judicial process to be major challenges. Modest export orientation also does not help the job creation objective. At 50 percent of GDP, exports of goods and services in Georgia lags behind the average of above 70 percent of GDP for the EU-11 countries. Gaps in hard infrastructure and the regulatory reforms necessary for the creation of more competitive and open network industries undermine efforts to better integrate Georgian firms and develop Georgia's transit potential.[7] And when jobs are created, firms find the lack of adequate skills to be a binding constraint, reflecting the limitations of the education system. In addition, a shrinking and aging population makes increased labor participation a priority. Finally, while Georgia has established governance excellence in some areas, capacity to deliver public services is uneven, especially at the local level, resulting in unequal opportunities. The situation calls for refining the growth model to enhance labor intensity and productivity by deepening global integration, lowering constraints to firm growth, building a stronger human capital base, and ensuring more effective delivery of public service.[8]

5. The economy also needs to be more resilient, which in turn requires steps to address remaining economic vulnerabilities and mitigate the threats of climate change to livelihoods and key economic sectors. A tense geopolitical environment further underscores the need to build resilience. Prudent economic policies (monetary and fiscal, pension reform, macroprudential regulations) have supported higher savings resulting in a lower current account deficit. Investments have been strong; however, with limited job creation and integration of Georgian businesses in global value chains. Moreover, the stock of external debt remains sizeable. Fiscal management has been prudent, carefully balancing the commitment to moderate taxation levels and higher spending on key priorities. But, vulnerabilities stem from growing contingent liabilities through expanded use of off-budget investments that utilize complex governance and risk structures; the government's capacity to monitor fiscal risks is developing rapidly however. While the regulatory framework in the financial sector is increasingly being aligned with good practice, risks from a nascent financial safety net system and widespread dollarization remain. Georgia is highly vulnerable to the anticipated impacts of climate change, with extreme wet and dry episodes having already increased in frequency and amplitude, which could result in more frequent occurrence of floods and landslides with risks to growth and livelihoods.

6. The proposed DPO thus aims to support the Government's efforts to strengthen economic management and enhance competitiveness to address some of the identified challenges. The reform program supported by the proposed DPO aims to sustain growth, while increasing inclusion, job creation and resilience and rests on two pillars. The first pillar, with a focus on economic management, would support government efforts to improve efficiency of public resource use through strengthened public financial management (PFM) arrangements at the local level, stronger public investment management, and more effective public procurement. These measures are expected to strengthen resilience, improve public services and generate savings that can be allocated to emerging priorities, including human capital. The second pillar, with its emphasis on competitiveness, would support reforms to introduce evidence-based policy-making through the introduction of the regulatory impact

[6] The contribution of total factor productivity to growth declined from 5 percentage points (ppt) during 2000-09 to a still respectable above 2 ppt in recent years; however, this was driven by factor re-allocation across sectors as economic activity gradually moved away from agriculture while within sector productivity in all broad sectors stagnated during this period.
[7] Results of a demand analysis indicate that freight movements from China to Europe through the Caucasus Transit Corridor take more time (+2 days) and are more expensive per shipment (+$600 or +10%) than the competing Northern route (through Russia). Operational and infrastructure improvements would bring these two estimates closer to the levels seen in the Northern route.
[8] Georgia Country Partnership Framework 2019-2022, the World Bank Group.

assessment function; promote more competitive markets, overall and in telecoms; develop a more diverse financial sector; improve teacher deployment and remuneration with a view toward creating a more qualified workforce over the long term; and strengthen investment promotion. The expected productivity gains from these measures would help unlock Georgia's investment and job-creation opportunities. Furthermore, some of the prior actions also have the potential to address climate-related vulnerabilities and strengthen resilience. Given Georgia's vulnerability to climate change, embedding vulnerability and environment considerations in government decision-making and public investment management, lowering the toll on natural resources from deploying communications infrastructure and promoting environmentally friendly sectors with limited impact on the climate, will strengthen the basis for sustainable economic growth and build climate resilience.

7. The proposed operation has provided a useful platform that allowed the World Bank to engage on and influence the design and implementation of a core set of structural and economic management reforms. It has also paved the way for future engagement in important "second-generation reform" areas such as education, competition and digitalization. The deep cross-sectoral support provided by the DPO has emboldened the reform proponents within the GOG and helped catalyze stronger coordination of the reform efforts across a diverse set of institutional actors. Furthermore, the DPO financing will help strengthen Georgia's external buffers and signal confidence in the credibility of the macroeconomic framework and the reform program in an environment of heightened external uncertainty.

8. The overall risk for the operation is moderate. Macroeconomic risks are moderate, with pressures coming mostly from an uncertain external environment, including regional geopolitical tensions and health pandemics, which could spill-over into lower growth and fiscal revenues, and weaker external inflows and trade, in a context of elevated external debt. Still, macroeconomic sustainability is likely to be maintained, benefiting from a sound macroeconomic framework. The additional fiscal and external buffers provided by the DPO and its positive signaling effect would further reinforce confidence in the framework. While the GOG's capacity is uneven, creating some design and implementation risks, its track record on following through with institutional and structural reform is strong. Finally, the parliamentary elections, planned for Autumn 2020, create some political risks that the proposed laws may not be adopted (or be adopted in a modified form). This risk is significantly mitigated by Georgia's strong track record in implementing reforms, an effective ongoing policy dialogue between the World Bank Group (WBG) and the GOG, and a broad political consensus on national priorities.[9] Risks from regional geopolitical tensions and potential health pandemic is reflected in a substantial risk rating for the "other" risk category.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. The Georgian economy has performed well in recent years. Gross domestic product (GDP) expanded by 4.8 percent in 2017 and 2018, as the economy recovered from the effects of a slowdown of the main trading partners. On the supply side, services were the main driver of growth, reflecting strong contributions from trade,

[9] Despite the sometimes heated political rhetoric, there is shared consensus on national priorities, including participation in Euro-Atlantic integration, more efficient government, stronger growth, and a better functioning welfare state. This has paved the way for the signing of an Association Agreement (AA) with the EU which addresses issues such as strengthening democratic institutions, the rule of law, the independence of the judiciary, human rights, foreign and security policy, and peace and conflict resolution. The AA has economic and trade elements, including a Deep and Comprehensive Free Trade Area (DCFTA) preferential trade regime.

tourism, business services, and transport and communications. Industry grew modestly, largely due to a more vibrant manufacturing, while agriculture was stagnant. On the expenditure side, consumption was supported by modest wage growth, strong credit expansion, and recovery in remittances. The contribution of investment stagnated towards the end of 2018 as one larger infrastructure project (a natural gas pipeline) was completed while public investments were under-executed. In addition, the economy responded to stronger demand from Georgia's main trading partners, including Russia, Armenia, and Azerbaijan, translating into higher exports of goods and tourism services, though this was partly offset by slower demand from Turkey.

10. Growth accelerated in 2019, despite a more challenging environment. GDP expanded by 5.2 percent year-on-year (yoy) in the first three quarters of 2019, and flash estimates indicate a continuation of the momentum and a growth rate of 5.2 percent for the year also. This growth was achieved despite deteriorating sentiments during the second half of 2019 in response to a tenser political environment and the suspension of flights from Russia[10]. Telecommunication and IT, scientific research and technical activities, administrative services and entertainment grew strongly, compensating for the more moderate performance in agriculture (reflecting also structural challenges that constrain the development of the sector, such as prevalence of subsistence farming, limited extension services and so on) and contraction in manufacturing (mostly iron and steel industry). Construction, contracting at the start of the year, recovered more recently. On the demand side, declining unemployment and growing wages, robust external transfers and higher public spending supported consumption. Investment, on a downward trend in early 2019, recovered in the second half of the year; public investment execution improved, and private investment benefited from robust credit growth and stronger reinvested earnings by foreign investors. Exports growth was robust, reflecting growing demand in key trading partners.

11. Exchange rate depreciation in the second half of 2019 put pressure on inflation, triggering a robust response from the central bank. Inflationary pressures were low at the start of 2019 with annual inflation slightly above 2 percent yoy and close to the National Bank of Georgia (NBG) target of 3 percent. The inflation rate exceeded NBG's target starting from March 2019, with pressures building up initially due to higher tobacco excises introduced in January 2019 and then more rapidly in the second half of the year as the ban on flights from Russia and the subsequent political developments undermined confidence in the Georgian lari. NBG implements a floating exchange rate regime that limits interventions to smoothing out large fluctuations and reserves accumulation. As a result, the pass-through of a weaker lari to the prices of imported goods, especially food products, was significant, causing the inflation rate to surge to 7 percent yoy in November 2019. A robust response by NBG, including a cumulative 250 basis points increase in the policy rate from 6.5 percent to 9 percent between September and December 2019, as well as continued improvement in the external accounts helped the lari reverse some of its earlier losses. As a result, annual inflation was stable in December 2019 and declined in January 2020.

Table 1: Macroeconomic trends and projections

	2017a	2018a	2019e	2020p	2021p	2022p	2023p
Percent change, unless indicated otherwise							
GDP, nominal, GEL	13.7	9.4	10.5	9.4	8.5	8.2	8.2
GDP, real	4.8	4.8	5.2	4.3	4.8	5.0	5.0
GDP per capita, real	4.9	4.6	5.3	4.3	4.9	5.1	5.1

[10] The impact of the ban on flights to Georgia introduced in July 2019 is estimated to cost the economy around 0.6 percent of GDP in 2019.

Private Consumption	7.4	5.8	4.7	3.5	4.3	4.8	5.0
Gross Fixed Investment	-2.3	6.5	0.1	4.5	3.4	3.0	2.8
Exports	11.7	10.1	10.7	7.0	7.0	8.5	9.0
Imports	8.1	10.3	6.8	5.4	5.7	6.0	6.5
Unemployment Rate, in percent	13.9	12.7	11.6				
GDP Deflator	8.5	4.4	5.1	4.7	3.5	3.0	3.0
CPI (year-average)	6.0	2.6	4.9	4.0	3.2	3.0	3.0
Fiscal Account, percent of GDP unless indicated otherwise							
Expenditures	30.3	29.1	29.2	28.1	28.1	28.0	27.8
Revenues	26.8	26.5	25.8*	25.3	25.2	25.0	24.9
General Government Balance	-3.5	-2.6	-3.4	-2.9	-2.9	-3.0	-2.9
General Government Debt	41.0	40.4	41.9	42.2	42.0	41.6	41.5
Monetary accounts							
Base Money, percent change	17.2	14.8	13.4	12.3	12.0	13.5	15.0
Policy Interest Rate, in percent	7.0	7.0	6.5	9.0			
Balance of Payments, percent of GDP unless indicated otherwise							
Current Account Balance	-8.1	-6.8	-4.0	-4.8	-4.7	-4.6	-4.5
Imports, Goods and Services	57.8	61.4	61.8	62.0	61.5	60.8	60.5
Exports, Goods and Services	46.8	50.8	53.8	54.5	54.8	55.0	55.2
FDI, net	10.4	5.3	5.2	4.6	5.3	5.8	6.3
Gross Reserves	18.5	18.8	20.2	19.5	19.4	20.1	20.3
In months of GNFS imports	3.8	3.7	3.9	3.8	3.8	4.0	4.1
Exchange Rate (per USD, average)	2.51	2.53	2.82				
Other memo items							
GDP nominal in US$ (millions)	16,249	17,597	17,470	18,459	19,232	19,883	21,105

Source: Bank staff calculations (MFMod); a: actual; e: estimate; p: projection.
Note: The fiscal accounts treat privatization proceeds ("decrease of non-financial assets") as financing (below-the-line) and net lending as expenditure (above-the-line). This explains the difference with the 2020 Budget and the IMF Reports. 2019 revenues exclude 0.9 percent of GDP collected but deposited in the tax refund sub-account. Including these, the deficit in 2019 was 2.5 percent of GDP.

12. The GOG maintained a disciplined fiscal policy even as it provided a modest stimulus in 2019. The general government budget registered a 2.6 percent of GDP deficit in 2018, out of which a significant amount were outlays in December 2018 for goods and services provided in 2019. This, together with an estimated deficit of around 3.4 percent of GDP (excludes taxes in the amount of 0.9 percent of GDP deposited in the tax refund sub-account) in 2019 helped support domestic demand. Revenues performed strongly in 2019, growing by around 10 percent in 2019. Increased proceeds from the profit and value added taxes (each up by 18 percent) contributed the most. Stronger value-added tax (VAT) collection was partly due to the removal of the option for deferred tax payment for entities on the so-called "golden list". Excise tax experienced a drop earlier in 2019 due to a hike in the rates of excise tax for tobacco which reduced consumption; however, recovered toward the end of the year as the hike in the rate was extended to rolling tobacco. Government spending increased by around 20 percent yoy, mostly driven by social spending and the more orderly execution of capital projects. Higher social spending (up 13 percent yoy) in 2019 reflected the full-year impact of pension increases in late 2018 as well as expansion of the Universal Health Coverage program. Capital spending accelerated by 17 percent yoy reflecting higher spending by municipalities. Public debt is estimated to have increased to 41.9 percent of GDP, mostly reflecting the weaker exchange rate.

13. Credit growth, though more moderate compared to earlier years, remains robust. Domestic credit to the private sector grew by 19.2 percent (17 percent excluding the exchange rate effect) in 2018. With this, the credit stock doubled over a period of only four years, resulting in relatively sharp increase in indebtedness and prompting the NBG to introduce responsible lending regulations, including capping of banks' exposure to clients with unverifiable income and setting maximum payment-to-income and loan-to-value ratios. As a result, credit growth moderated to 13.1 percent yoy by April 2019 (excluding exchange rate impact) and recovered slightly to around 16.1 percent by end-2019. At the same time, the loan portfolio shifted from retail consumer loans (which grew by 2 percent yoy in December 2019) to mortgage (growing by 13.7 percent yoy) and business loans (up 23.9 percent yoy in December 2019).

14. The banking system is healthy and profitable. The return on assets was 2.5 percent at the end of 2019, down from levels of around 3 percent registered during 2018, but still relatively high. Similarly, the return on equity declined by 3.1 percentage points between the end of 2018 and 2019, but at 20.3 percent also remains strong. Non-performing loans were 1.9 percent of gross loans in December 2019. The economy is highly dollarized (55 percent and 62 percent of all loans and liabilities, respectively, were denominated in foreign currency at the end of 2019), which presents some risks, especially given the heightened uncertainty and the resulting volatility of the exchange rate. That said, NBG's larization measures appear to be showing some early results. With NBG requiring all loans below GEL200,000 (around US$70,000) to be denominated in lari, lari loans increased by above 20 percent yoy as of November 2019, while foreign currency loans grew by 7 percent yoy. Excluding the exchange rate impact, the share of foreign denominated loans in total loans declined by 3.6 ppt over the last year.

15. The current account deficit (CAD) narrowed in response to robust growth in exports of goods and tourism services, and in remittances. The recovery of growth in Russia, Armenia, Azerbaijan and the EU since 2017 has boosted the demand for Georgian merchandise exports, with goods exports reaching 21.5 percent of GDP in 2019, compared to only 14 percent of GDP in 2016.[11] Import growth was contained in 2019 compared to previous years, also due to lower tobacco imports in response to higher excises, lower oil prices as well as the moderation in investment. As a result, the goods trade deficit narrowed to 30 percent of GDP, from 33 percent of GDP in 2018. Robust growth in the export of services, mainly due to tourism, recovery of remittances, mostly from EU countries and Israel, and lower investment income outflows helped further narrow the external imbalance. The CAD is estimated at around 4 percent of GDP in 2019, an improvement from 6.8 percent of GDP in 2018, and from 12.4 percent of GDP in 2016. On the financing side, net foreign direct investment (FDI) declined in 2018 and early 2019 as a major infrastructure project was completed; and then recovered modestly in the third quarter of 2019. FDI inflows amounted to five-six percent of GDP in 2018 and the first three quarters of 2019, covering almost 80 percent of the CAD in 2018 and fully financing the deficit in 2019. Portfolio inflows were also strong, bringing more than US$700 million to the country, as Georgian banks and corporates issued Eurobonds in the first half of 2019.

16. The declining deficit also helped reverse the trend in increasing external debt, though at just above 100 percent of GDP at the end of the third quarter of 2019 it remains high. Public external debt was around one third of GDP, largely in the form of concessional borrowing from international financial institutions, with the exception of the US$500 million Eurobond maturing in 2021. Public enterprises also borrowed around 10 percent of GDP from external creditors, roughly equally split between bonds and loans. Private external debt stabilized

[11] Despite strong export growth, the structure of exports did not change much: copper and iron and steel, beverages, used cars, edible fruits and nuts, pharmaceutical products and garments remain the most exported items. Concentration further increased in the 11 months of 2019. While the EU, as a group, remains the largest export destination; countries in the region (Russia, Armenia and Azerbaijan) are the biggest individual markets with exports to China also picking up in recent years.

at around 60 percent of GDP in recent years, out of which FDI-related intercompany transactions were slightly below 20 percent of GDP. Of the remaining private external debt, banks owed around 24 percent of GDP while the external liabilities of the non-financial sector were around 16 percent of GDP. By maturity, short-term private debt was around 14 percent of GDP, mostly in deposits (6 percent of GDP), which appear to be relatively stable, and trade credits (4 percent of GDP). Long-term private external debt accounted for 26 percent of GDP, mostly in the form of loans (17 percent of GDP) and bonds (8 percent of GDP). A considerable part of loans, especially to banks, are from bilateral and international financial institutions, such as IFC and EBRD.

17. With more favorable balance of payments dynamics, NBG was able to accumulate reserves in the first half of the year; however, the situation changed in the second half of the year. FDI and portfolio inflows in the first half of 2019 fully met the external financing needs, allowing NBG to make a net purchase of US$216 million. In addition, NBG added over US$400 million to its reserves during the first half of 2019 through increased reserve requirements on foreign currency liabilities introduced as part of its larization program. As a result, official reserves reached US$3.7 billion by June 2019. The improved CAD kept the pressures over the lari limited during 2018 and in early 2019 with the nominal and real exchange rates experiencing minor (around 1 percent) depreciation between end-2018 and mid-2019. However, despite the improvement in the external accounts, the increased uncertainty following the ban on flights from Russia and the political developments that followed undermined confidence in the lari, and put pressure on the exchange rate. The lari hit its lowest level, 2.9781 per US dollar, on November 22, 2019, almost 4 percent weaker compared to end-June 2019. NBG sold US$93 million in three interventions during this period and reversed the increase in the reserve requirements, helping the lari recover some of its losses during December. As a result, reserves were down to US$3.5 billion by end-2019, still providing a relatively comfortable cover of 3.9 months of goods and services imports. As of end-2018, the exchange rate was assessed to be broadly in line with fundamentals[12] and real effective exchange rate and balance of payment dynamics in 2019 do not suggest a deterioration.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. The baseline macroeconomic scenario envisages a moderation of growth in 2020. The projected slowdown in 2020 reflects a more subdued external environment, including slower growth in key trading partners such as Armenia, Azerbaijan, Bulgaria and Romania. The full year effect of the ban on flights from Russia, the delay in some larger planned infrastructure projects, as well as more moderate credit growth (as higher interest rates lower demand for credit) will also weigh on growth. This will be partially compensated by an expected recovery in Turkey, improved connectivity (as new airlines enter the market), growth in the global wine market[13] as well as relatively strong copper prices (World Bank, 2019). Free trade agreements with the EU and China, together with more effective investment promotion supported by the DPO, position Georgia well to attract FDI,[14] which, over time, is expected to increase exports. With a fiscal deficit of around 2.9 percent of GDP, the fiscal position is expected to be neutral.

19. Growth is expected to recover to 5 percent over the medium-term as some of the key constraints dissipate and implementation of the planned structural reforms improves competitiveness. Economic growth is expected to come from continued strength in net exports, as prospects for Georgia's main trading partners

[12] IMF, Fourth Review of the EFF, June 2019.
[13] According to Mordor Intelligence, the global wine market is projected to grow with a CAGR of 5.8%, during the 2019 – 2024 with most of the growth coming from Asia Pacific. https://www.mordorintelligence.com/industry-reports/wine-market
[14] Recently, new Chinese and Swedish FDI in the automotive and automotive equipment manufacturers was announced.

strengthen[15] and its own competitiveness improves, partly on the basis of being able to better leverage the country's transit potential. Financial sector deepening (including through the establishment of investment funds supported by the DPO, but also pension reforms and FinTech innovations), and increased opportunities provided by free-trade agreements (FTAs) being negotiated with the USA and India are expected to support private investment. Georgia's hydropower potential and strategic geographic location will continue to attract interest of investors. Public investment is projected to gradually moderate, but at above 6 percent of GDP in 2023 it will remain strong. Further reductions in the unemployment rate and real wage gains will support private consumption.

20. As the impact of monetary policy tightening takes effect, inflationary pressures are likely to subside. According to the NBG, inflation is expected to start declining in the first quarter of 2020 in response to the recent monetary tightening and the low external price pressures and should remain close to the 3 percent target thereafter.

21. Fiscal policy is expected to remain prudent, gradually reallocating spending toward social sectors, especially education. The fiscal deficit[16] is projected to remain below 3 percent of GDP over the medium term, in line with the fiscal rule, a key aspect of the country's fiscal framework (see Box 1). Revenues are expected to stabilize at a lower, but still robust, level of around 25 percent of GDP.[17] Given that the introduction of new taxes and increases of tax rates require a nationwide referendum, meeting the fiscal deficit targets would require gradually consolidating expenditures to below 28 percent of GDP by 2023. Moderating capital expenditures as big infrastructure projects (east-west highway and north-south corridor) are completed will free up some fiscal space and thereby allow current spending to remain stable. Additional savings will come from tighter management of the wage-bill, as well as control over spending on goods and services. Reforms in public procurement supported by the DPO that will increase competition should help in this regard. In addition, further improvement in efficiency of GOG spending could be achieved through better public investment management and greater accountability at the local level (both measures supported by the proposed DPO), digitalization of public services, reforms in the internal control systems and State-owned Enterprise (SOE) reforms. While ambitious, the government's robust PFM arrangements as well as the extension of the IMF Extended Fund Facility (EFF) provide assurances about the ability to control spending. A robust fiscal rule and increasingly more capable Parliamentary Budget Office and State Audit Office provide additional credibility.

[15] The January 2020 GEP projects slight recovery in Russia's GDP growth in 2020 and 2021, a stronger rebound in Turkey as the economy recovers from the turmoil, while Armenia and Azerbaijan are also expected to continue to grow.
[16] The fiscal deficit definition in this PD treats privatization proceeds ("decrease of non-financial assets") as financing (below-the-line) item and net lending as expenditure (above-the-line).
[17] Some gains are expected from a higher excise tax rate on rolling tobacco introduced in November 2019 and planned improvements in tax administration (risk-based audits, voluntary compliance); however, revenues are expected to still decline as a share of GDP reflecting one-off VAT gains in 2019 from the removal of the option for deferred VAT and excise payment by entities on the so-called "golden list" (estimated at around 0.4 percent of GDP) as well as stepped-up VAT refunds.

Box 1: Georgia's fiscal framework

Georgia's fiscal framework, the set of institutions that design and conduct fiscal policy, is able to meet, and often even exceeds, good practice in terms of its ability to define adequate medium-term fiscal objectives, ensure their effective implementation and provide adequate levels of transparency. The basic principles of fiscal governance and fiscal rules are set by the Law on Economic Freedom, which caps the level of fiscal deficit to 3 percent of GDP and of public debt (including liabilities from PPPs) to 60 percent of GDP. The fiscal rule has most desired characteristics (avoiding procyclicality, simple, clear escape clauses and so on) while the Parliamentary Budget Office serves the role of an independent fiscal council. The Basic Data and Direction (BDD) document, produced by the MOF, provides a multi-year perspective for fiscal planning and budgeting, underpinned by a macro-fiscal framework informed by regular debt sustainability analysis. The Budget is an annual document based on program budgeting approach with a medium-term result framework which is monitored annually. The track-record on reliable revenue forecasts (PEFA Score B+) and low variance in expenditure out-turns (PEFA Score A) is being established, supported by improving revenue administration and a robust Single Treasury Account. The Budget documents include most of the basic, and much of the supplementary information, required to support a transparent budget process, while reporting on budget execution is detailed and timely (Georgia ranks 5th globally on the Open Budget Index). The Law on Public Debt Management and the continuously improving Fiscal Risk Statement attached to the Budget provide a framework for managing liabilities and identifying and mitigating risks. Coordination with monetary policy is effective, with NBG housing the Single Treasury Account and acting as the agent for the Government's domestic securities. Areas for improvement include better linking the medium-term aspects of the BDD with the actual Budget, improving the costing of new policies, as well as analysis of the effectiveness of government policies and the capacity of the fiscal council.

Table 2: Key fiscal indicators

	2017a	2018a	2019e	2020p	2021p	2022p	2023p
	in percent of GDP						
Overall Balance	-3.5	-2.6	-3.4	-2.9	-2.9	-3.0	-2.9
Primary Balance	-2.3	-1.4	-2.1	-1.5	-1.5	-1.7	-1.5
Total Revenues and Grants	26.8	26.5	25.8*	25.3	25.2	25.0	24.9
Tax Revenues	24.0	23.6	23.0	22.8	22.7	22.7	22.8
Taxes on Goods and Services	13.9	13.4	13.2	12.8	12.7	12.6	12.7
Direct Taxes	10.1	10.2	9.8	10.0	10.0	10.1	10.1
Non-Tax Revenues	2.1	2.0	1.9	1.8	1.9	1.7	1.6
Grants	0.7	0.9	0.9	0.6	0.6	0.6	0.5
Expenses	23.7	21.3	21.3	21.2	21.2	21.2	21.4
Wages and Compensation	4.0	3.8	3.6	3.5	3.5	3.4	3.4
Goods and Services	3.8	3.6	3.4	3.3	3.2	3.1	3.0
Interest Payments	1.2	1.2	1.2	1.4	1.4	1.3	1.4
Subsidies	2.3	1.9	2.2	1.9	1.9	1.8	1.8
Grants	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Social provision	8.7	8.4	8.5	8.5	8.7	8.7	8.7
Other expenses	3.7	2.4	2.3	2.4	2.4	2.7	2.9
Capital expenses	6.6	7.8	8.0	7.0	6.9	6.7	6.4
Government Financing	3.5	2.6	3.4	2.9	2.9	3.0	2.9
External (Net)	2.6	1.7	0.8	1.6	1.4	1.7	1.8
Domestic (Net)	0.9	0.9	1.9	1.2	1.5	1.3	1.1

Source: Bank staff calculations; a: actual; e: estimate; p: projection.

Note: The fiscal accounts treat privatization proceeds ("decrease of non-financial assets") as financing (below-the-line) item and net lending as expenditure (above-the-line). This explains the difference with the numbers in the 2020 Budget and the IMF Reports. 2019 revenues exclude 0.9 percent of GDP collected but deposited in a tax refund sub-account. Including these, the deficit in 2019 was 2.5 percent of GDP.

22. Fiscal policy will, however, be tested by the GOG's plans to increase spending on education gradually over the medium term and to continue to support the newly introduced contributory old-age pension scheme. Higher spending on education is welcome given low Programme for International Student Assessment (PISA) scores and skill shortages.[18] However, any additional financing has to be in the context of a well-designed education reform strategy. Several elements of such a strategy have been prepared (for example, changes to the teacher's qualifications and remuneration supported by this DPO with expected cost around 0.4 percent of GDP); however, some important decisions are yet to be made, also with support from the recently approved World Bank education reform project. The GOG's contributions to the fully funded pension pillar will costs around 0.5 percent of GDP over the medium-term as the system grows. Adoption of a rules-based indexation formula for basic pensions will, however, ensure sustainability of the system (keeping the costs of the system at around 4.5 percent of GDP) while protecting the purchasing power of pensioners.

23. Prudent fiscal policies will keep public sector debt at moderate levels while the capacity to monitor fiscal risks improves. Public debt is expected to stabilize at around 42 percent of GDP by 2023, considerably below the 60 percent of GDP ceiling prescribed by the fiscal rule**.** External public debt accounted for 32 percent of GDP in 2018 (up from 24.9 percent in 2014) but is projected to decline to 30 percent of GDP by 2023, following the repayment of the Eurobond in 2021.[19] While the first official Medium-Term Debt Management Strategy was approved only in early 2019, debt management has been improving. In addition, the authorities analyze the sustainably of public debt on regular basis. Fiscal risks exist, for example from SOEs as well as from public private partnership (PPP) arrangements[20], and are increasingly better captured in the Budget's Fiscal Risk Statement with policies being put in place to gradually limit the risks.[21] Both, Fitch and S&P, upgraded Georgia's sovereign rating during 2019 (from "BB- / positive outlook" to "BB / stable outlook") suggesting increased confidence of international investors in the country's macroeconomic framework. In addition, the share of non-residents in domestic government securities has recovered to around 10 percent in December 2019, up from 1.3 percent a year earlier.

24. The recent improvement in the CAD is envisaged to be sustained, supported by enhanced export competitiveness and a commitment to maintaining a flexible exchange rate regime. With some of the one-off factors that drove exports in 2019 expected to dissipate, the CAD is expected to widen slightly in 2020 to around 4.8 percent of GDP. Beyond 2020, the gradually improving external environment and improving market access in the EU, China, and other markets will help the deficit narrow gradually to around 4.5 percent of GDP. Improved

[18] Despite some pick-up in public sector spending on education in recent years, the sector received on average only 3.1 percent of GDP between 2010-2018. While the increase in spending is welcomed, targeting spending of a specific amount on education will limit the flexibility of the budget and could increase spending inefficiency.
[19] Georgia has one outstanding Eurobond in the amount of US$500 million issued in 2011 with a 10-year maturity. The authorities initially considering retiring the Eurobond through domestic debt issuance and as a result stepped out debt issuance. However, given recent dynamics at the foreign exchange market, the authorities are reconsidering their options.
[20] The liabilities of 56 SOEs classified as high and medium-risk totaled 16.9 percent of GDP in 2018. Additional risk stems from the power purchasing agreements (PPAs) with an estimated present value of US$2.7 billion or 15 percent of GDP. The risk from PPAs is partially mitigated by expected growth in demand of electricity and the growing opportunities to trade power in the region.
[21] New PPP framework, inclusion of liabilities from PPPs into public debt, bringing on-budget of the SOEs that do not meet the criteria for public corporations while strengthening the reporting and oversight of the remaining SOEs and so on.

air connectivity is also expected to boost tourism exports while recent investments in network industries would increase transit proceeds. The external financing requirements would accordingly stabilize at more moderate levels. Moreover, the strengthened track record of macroeconomic stability would reassure foreign investors (especially for non-resident deposits or holdings of government securities). With a good business environment and improved investment promotion, Georgia will remain attractive for FDI. Together with faster implementation of foreign-financed public sector projects as well as benign conditions in international capital markets for Georgian banks and corporates, this should provide sufficient financing and allow further increases in the official reserves. Total external debt as a share of GDP is projected to decline but will remain elevated. The associated risks are partly mitigated by limited exposure to volatile portfolio flows[22] and the flexible exchange rate. Any sudden drop in external financing will, however, put pressure on the lari and could test financial stability.

Table 3: External financing requirements

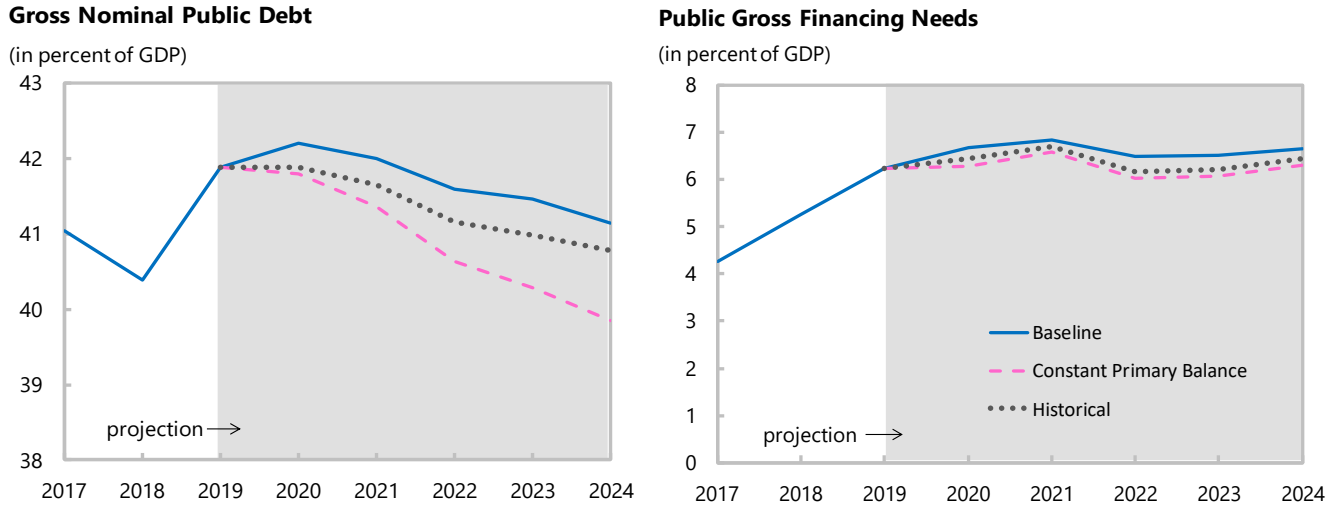
	2017a	2018a	2019e	2020p	2021p	2022p	2023p
				In percent of GDP			
Requirements	20.2	15.5	11.2	11.4	12.5	12.4	12.8
CAD	8.1	6.8	4.0	4.8	4.7	4.6	4.5
Banks	2.1	3.4	2.6	0.9	1.0	1.3	1.3
Corporate	3.4	2.3	2.3	2.3	2.3	2.3	2.2
Public sector	1.0	1.3	1.7	2.0	1.8	1.8	1.8
Others	4.1	0.1	0.4	1.2	1.4	1.3	2.1
Reserve increase	1.5	1.6	0.2	0.2	1.4	1.1	0.9
Sources	20.2	15.5	11.2	11.4	12.5	12.4	12.8
FDI, net	10.4	5.3	5.2	4.6	5.3	5.8	6.3
Capital transfers	0.5	0.4	0.3	0.3	0.3	0.3	0.2
Banks	3.3	5.3	2.6	2.6	2.4	2.6	2.6
Corporate	2.0	0.9	0.6	0.9	1.2	1.3	1.4
Public sector	2.4	2.1	1.9	2.2	3.1	3.0	3.1
Others	1.5	1.4	0.7	0.8	0.2	-0.6	-0.8

Source: Bank staff calculations, based on data from 5th Review of IMF EFF; a: actual; e: estimate; p: projection.

25. An increasingly better regulated and innovative financial sector will increase financial inclusion while keeping risks manageable. The healthy banking sector and policies to develop non-banking financial institutions, including investment funds supported by this DPO, should result in further improvement in access to finance for the private sector, while strengthening in the supervisory and regulatory framework ensure risks are manageable. The authorities, with IMF support, recently revamped the bank resolution framework (to be fully into effect from end-2020) and, with World Bank support, are working on strengthening the deposit insurance function. Policies to promote innovative FinTech platforms are being considered, also with technical assistance from the World Bank, which can help in increasing competition in payment and financial services.

[22] For example, FDI-related transactions account for around 20 percent of GDP. In addition, while non-resident deposits are a significant liability for commercial banks, these are likely to be foreigners residing in Georgia or Georgian emigrants providing relative stability of deposits.

Figure 1: Georgia public debt sustainability analysis



Source: World Bank Staff, based on IMF 5th Review of the Extended Fund Facility, December 2019, recalculated with revised GDP numbers.

26. The threats to Georgia's public debt sustainability are low. Georgia's public debt will remain well under the threshold of 60 percent of GDP defined under the country's fiscal rules; this despite the inclusion of liabilities from PPPs into the definition of public debt (adding 1.6 percent of GDP).[23] The results of stress test undertaken as part of the latest IMF Debt Sustainability Analysis (DSA) confirm the sustainability of debt even under a range of plausible shocks. According to the DSA, risks stem from foreign currency debt and external financing requirements. However, this is mitigated by relatively favorable terms of the external debt (mostly long-term concessional financing). In addition, implementation of the public debt management strategy will result in foreign currency debt being replaced with domestic debt, including potentially through the planned partial pre-payment of the US$500 million Eurobond maturing in 2021 in case foreign exchange market dynamics are favorable. While greater reliance on domestic debt will lower the foreign currency risk, it may also slightly increase the financing needs and the associated refinancing risk as domestic debt is likely to have shorter maturity.

27. Sustainability of external accounts depends on the ability to contain the external deficit. While external debt declines in the baseline scenario, the DSA shows that under the historical scenario (with a higher current account deficit), total external debt continues to increase. Also, a 30 percent exchange rate depreciation shock increases the external debt to GDP ratio to above 130 percent of GDP. These risks are mitigated by relatively strong fundamentals, including no misalignment in the exchange rate, as well as the availability of concessional funding from development partners, including a disbursing arrangement with the IMF.

28. There are risks to this overall positive outlook. The pace of economic recovery in the broader region remains uncertain.[24] With the medium-term growth outlook built upon improved exports, bank lending, and FDI,

[23] Include only liabilities defined under IPSAS32 on service concession arrangements. This definition excludes liabilities from arrangements in which transfer of ownership back to the government is not envisaged and as such exclude the power purchase agreements,

[24] The January 2020 GEP notes potential risks stemming from steep and widespread productivity slowdown across emerging markets and developing economies; steep and broad-based accumulation of debt; re-escalation of trade tensions as well as financial disruptions. More recently, the new Coronavirus has emerged as a possible risk. While the immediate impact is expected to be low due to still limited trade, financial and people-to-people links with China, in case of a prolonged and geographically extended outbreak, the medium-term impact could be more pronounced, including from delay in announced

any deterioration in the external environment or investor confidence, for example through sharp decline in commodity prices (oil, metals), turmoil and currency volatility in major trading partners (Russia and Turkey) or sudden stop in financial flows would result in lower exports, reduced arrival of tourist, and a drop in remittances and put pressure on the external account. The high dollarization and pass-through of exchange rate dynamics on inflation underscores the vulnerability. The repayment of the Eurobond in 2021 creates some refinancing risk in case market access deteriorates, partially mitigated by the planned liability management operations. In addition, geopolitical tensions could undermine prospects for key sectors, such as tourism and transport and communications. Materialization of contingent liabilities and fiscal risks could hurt public debt dynamics and growth, but this is mitigated by the evolving framework for disclosure and management of such risks. Increased political uncertainty, as the parliamentary elections approach, may weaken investors sentiments[25] and lower appetite for reform.

29. Georgia's overall macroeconomic policy framework is adequate for this operation. The main elements of the policy framework are consistent, credible, and have delivered sustainable outcomes. The framework includes: a robust fiscal rule and commitment to fiscally responsible policies to safeguard debt sustainability; an inflation targeting monetary policy framework, supported by a flexible exchange rate regime, a broad larization program to lower risks from dollarization as well as strengthened financial sector supervision to address vulnerabilities and support sustainable credit growth. As a result, public debt levels are moderate, the current account deficit has narrowed, inflation is on a downward path, and the financial sector is stable. Still, realization of the risks noted above may require some re-alignment of policies with a greater focus on stability. The track record of the authorities in pursuing macroeconomic stability, including in responding to the challenges in 2019, adds to the credibility of the framework.

2.3. IMF RELATIONS

30. Georgia's reform program is supported by an EFF arrangement with the IMF. The EFF, in the amount of US$283 million was approved in April 2017 and aims to help Georgia reduce economic vulnerabilities, pursue well-coordinated policies, and promote economic growth. Program implementation is broadly satisfactory with the fifth review completed in December 2019. At the same time, the EFF was extended by one year, providing credibility to the GOG policies through the election cycle. The preparation of the DPO has been coordinated with the IMF, particularly on the macroeconomic framework and public investment management.

3. GOVERNMENT PROGRAM

31. The "Georgia 2020" Socio-Economic Development Strategy provides the framework for strategic planning in Georgia. Its objectives are to achieve faster and more inclusive and sustainable growth supported by structural reforms that will support rapid growth in investment, employment, and firm productivity. It will also ensure the realization of potential benefits associated with the Deep and Comprehensive Free Trade Area (DCFTA) in terms of higher exports and FDI. The Socio-economic Development Strategy (SDS) supports the development of the private sector as the engine of growth and emphasizes the role of the state in facilitating inclusion through better delivery of public services and addressing market failures. The SDS identifies two

Chinese investments and weaker demand from Georgia's trading partners.

[25] The 2019 Enterprise Survey, undertaken during the time of more tense political environment in the second half of 2019, identified political instability as a key constraint to doing business. Investors sentiments appear to have recovered more recently; however, larger disturbances could test the interest of investors.

necessary pre-conditions for the successful achievements of its objectives, namely: macroeconomic stability and effective public administration, and focuses on three pillars.

a. ***Pillar 1:*** Improving private sector competitiveness by enhancing the investment climate, facilitating innovation, promoting exports, and developing infrastructure to make the most of the country's transit potential;

b. ***Pillar 2:*** Strengthening human capital by establishing a system that better matches labor supply and demand, and improving access and quality of health services and the social safety net; and

c. ***Pillar 3:*** Improving access to finance by deepening financial intermediation and boosting domestic resource mobilization.

32. These objectives are further translated into the GOG's program and sector-specific strategies. The GOG's priorities are articulated in the Freedom, Rapid Development and Welfare 2018-2020 Program, which contains specific actions to achieve the strategic priorities, focusing on Euro-Atlantic integration, strengthening democratic institutions, maintaining growth, education reform, small and medium-size enterprises (SME) and entrepreneurial support and integration in global economic flows. Importantly, the GOG program also has an extensive section on environmental protection and climate action which is further elaborated in Georgia's Nationally Determined Contributions (NDC) to the Paris Agreement. Georgia's NDCs highlight the need to address both climate change adaptation and mitigation, stressing preparedness, adaptive capacity, and reducing greenhouse gas emissions, and the need for international financial support for their implementation. Furthermore, a range of sector strategies provide guidance on program and priorities in specific areas. The National Broadband Strategy, the education sector Vision, the PFM Strategy, and Enterprise Georgia Strategy and Action Plan define reform priorities, all consistent and supported by this DPO.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

33. The Program Development Objective of the Economic Management and Competitiveness (EMC) DPO is to support the GOG in strengthening economic management and enhancing competitiveness and is closely linked to the Government's reform program. Pillar 1 on economic management supports reform efforts to improve efficiency of public resource use through strengthened PFM arrangements at the local level; stronger public investment management; and more effective public procurement. Pillar 2 on competitiveness supports reforms to introduce evidence-based policy making; promote more competitive markets, overall and in telecoms specifically; diversify the financial sector; improve teacher deployment and remuneration with a view towards creating a more qualified workforce over the long-term; and strengthen investment promotion. The measures supported under these two pillars are closely linked to the pillars of the SDS and are parts of the Government's sector strategies.

34. Lessons from earlier policy operations in Georgia reflected in the design of the DPO include:

a. Targeted technical assistance (TA) can be a valuable contribution from the Bank. Reforms supported were supplemented with TA, either from ongoing TA projects or newly mobilized assistance.

b. Partnering with other institutions to overcome resource constraints and lack of in-country presence. For example, the Bank provided the convening framework for the RIA reform, but relies on the EU, USAID, GIZ for the actual delivery on the ground.

35. The actions supported by the operation and the expected results reflect the design of the program and Georgia's track record of implementing reforms. More specifically, the program supports approval by Government and submission to Parliament of four laws. This reflects the stand-alone design of the operation, as well as the Parliament approval procedures (which in most cases require three readings prior to presenting the proposed act to the plenary session). While there is a risk that the proposed laws may not be adopted (or be adopted in a modified form), this is to a large extent mitigated by Georgia's track record in pushing through reforms as well as the strong policy-level partnership between the World Bank Group (WBG) and the GOG, as evidenced by regular DPO engagement. In addition, given that some of the reforms may take a longer period of time to produce the expected development outcomes (for example, stronger accountability of local governments, improved efficiency of public investment and so on), the expected results for this DPO are actions that can be achieved in the timeframe of the DPO and demonstrate progress in the expected direction. The standalone structure allows the Bank to support the GOG's efforts, including in building on the agenda initiated in earlier DPO engagements, while also providing the flexibility to better tailor future budget support operations to emerging priorities of the government, such as for example human capital, and synchronizing the support cycle with the upcoming elections later in 2020.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Strengthening economic management

36. Pillar 1 supports actions expected to strengthen economic management through improving the efficiency of public resource use. This includes government efforts to improve PFM arrangements at the local level, strengthen public investment management and increase the effectiveness of public procurement. Gains in these areas are expected to result in better services to citizens and support inclusion, while generating savings. Beyond the EMC DPO program, the WBG has an active policy dialogue with the authorities on other, complementary areas (deposit insurance, fiscal risks, basic pension indexation, financial reporting) to improve economic management.

37. While Georgia's PFM framework is sound in many areas, improvements are needed in a few critical areas. The 2018 national-level Public Expenditure and Financial Accountability (PEFA) highlights opportunities for improvement in financial reporting, public investment management, as well as the efficiency of public procurement (Table 4). Furthermore, the 2018 PEFA Municipality Synthesis Report suggested that financial reporting as well as limited scrutiny of financial accounts negatively affects accountability at the local level.

38. To strengthen accountability at the local level, the proposed DPO supports the GOG efforts to improve PFM in municipalities. While Georgia's PFM arrangements at the central level are commendable, they are weaker at the subnational level, also reflected in lower scores on local-level PEFA assessments. As a result, audit reports of municipalities have identified significant material issues, and systemic and control risks. This is of concern, especially given the planned decentralization agenda[26] as well as the unequal opportunities stemming from uneven access to public services across the country.[27] In response, the GOG, supported by the DPO, has

[26] The 2019-2025 Decentralization Strategy aims to: i) increase the powers of local self-government; ii) materially and financially strengthen local self-governments; and iii) introduce reliable, accountable, transparent and result-oriented local self-governments. In 2018, local government spending accounted for 4.6 percent of GDP, out of which 1.6 percent of GDP was for accumulation of non-financial assets. Revenues totaled 5.6 percent of GDP, equally split between own revenues and central government transfers. By 2025, municipalities revenues should account for at least 7 percent of GDP.
[27] World Bank, South Caucasus in Motion, January 2019.

introduced a mechanism to incentivize PFM improvements in selected municipalities[28] in the form of a top-up to the capital grants for public investments. The transfer is conditional on the municipalities making improvements over the medium-term (2020-2022) in critical PFM areas identified in PEFA assessments.[29] Common areas of weakness, as identified in the 2018 PEFA Municipality Synthesis Report, are: i) failure to timely submit annual financial statements for audit by the State Audit Office[30]; and ii) limited scrutiny of Sakrebulos (local councils) over both internal audit and external audit reports. Beyond these, additional PEFA-related actions have also been included, covering areas such as budget planning and preparation (through stronger compliance with program budgeting methodology), reporting, controls and transparency. The objective of the reform is to ensure that municipalities: i) can plan and prepare more realistic budgets in accordance with the program budget methodology; ii) are subjected to stronger internal and external scrutiny and iii) are more transparent and engaging with their citizens.

Table 4: PEFA national-level results

Heat map – green refers to score A, red to score D

Aggregate expenditure out-turn	Public access to fiscal information	Budget preparation process	Internal controls on non-salary expend.
Expenditure composition out-turn	Fiscal risk reporting	Legislative scrutiny of budgets	Internal audit
Revenue out-turn	Public investment management	Revenue administration	Financial data integrity
Budget classification	Public asset management	Accounting for revenue	In-year budget reports
Budget documentation	Debt management	Predictability of in-year resource all.	Annual financial reports
Central gov't op. outside fin. Reports	Macroeconomic and fiscal forecasting	Expenditure arrears	External audit
Transfers to sub-national gov'ts	Fiscal strategy	Payroll controls	Legislative scrutiny of audit reports
Performance info. for service delivery	MT perspective in expend. budgeting	Procurement management	

Source: 2018 PEFA.

39. This prior action is expected to increase transparency and citizen engagement and promote accountability of local governments, leading eventually to more inclusive governance and better service delivery. Currently, scrutiny over the operations of municipalities is very low, undermining their accountability. For example, only three out of 64 municipalities have submitted their financial statements for an external audit within three months of the fiscal year while none of the audit reports were scrutinized by local legislators. This is expected to change by the end of the program in 2022; within the DPO evaluation timeframe (by end-2021), it is expected that more than 50 percent of participating municipalities will have their financial statements submitted

[28] Participation in the first stage is limited to the 27 municipalities (out of a total of 67 municipalities) for which PEFA assessment were recently concluded. The MOF plans to complete PEFA-type assessment in all municipalities by 2021. Tbilisi and Batumi are not included as the additional financing is unlikely to provide sufficient incentives for improvement.

[29] Over 2020-22, participating municipalities could receive on average 34 percent of the capital grant transfer they received in 2019, which should be sufficient to incentivize improvements. Transfers are pro-rated to the progress of the municipality on the indicators. If fully implemented, the fiscal cost of the program for the 27 municipalities for the three-year period would total GEL58.5 million, or around 0.1 percent of 2019 GDP.

[30] Based on the 2018 PEFA Municipality Synthesis Report, three municipalities submitted their financial statements to the SAO (Lanckhuti, Kutaisi and Lagodekhi).

for audit. Once audited, the reports will also be scrutinized by local councils (Sakrebulos) who are expected to use the findings to ensure more efficient and transparent operations of local governments. Furthermore, improved citizen engagement in PFM processes should support delivery of better-quality services. A growing number of municipalities implementing the program budgeting methodology should also result in more gender-sensitive budgeting at the local level. According to the program budgeting guidelines, gender sensitive programs should include at least one indicator (at both program and activity level) to assess the gender performance of programs. The weak capacity at the local level is a risk for the achievement of the objectives of the reform, but one that would be gradually dissipate reflecting continued support from development partners. The World Bank, under its regional development projects as well as through the Georgia Economic Governance and Financial Accountability EU-funded project will continue to engage with municipalities to build capacity in various parts of PFM, including on training of internal auditors in municipalities, developing guidelines for strengthened scrutiny of audit reports, knowledge exchange workshops on issues identified in municipal audit reports and so on. Other development partners are also engaged.

Prior action #1: The Government, through Decree No. 2735, dated December 30, 2019, has introduced a mechanism to support public financial management improvements by municipalities, by providing additional financing for capital investments for 27 municipalities, conditional upon the municipalities improving identified areas of weakness as per public expenditure and financial accountability assessment reports.

40. Financial reporting needs to improve. The Central Government's consolidated annual financial statements were submitted for audit to the SAO for the first time in 2019; however, these were not in compliance with the International Public Sector Accounting Standards (IPSAS), including due to issues related to the consolidation of financial statements as well as the adoption and effective implementation of specific ISPAS standards. While Georgia has targeted full compliance with IPSAS by 2020, there are a few challenges that need to be addressed first. The recent amendments to the Chart of Accounts and Ministerial Decree, as well as planned improvements in the E-Treasury Information System, are important steps forward. The World Bank team has an evolving dialogue with the authorities on these issues, which will be continued under the upcoming EU-funded project.

41. Similarly, the PIM framework in Georgia remains an area of weakness in the country's PFM framework reflected in "C" scores on the recent PEFA on most PIM related questions (economic analysis, project selection, costing and monitoring). According to the IMF 2018 Public Investment Management Assessment (PIMA), these weaknesses resulted in an estimated efficiency gap between Georgia and the most efficient countries with comparable levels of public capital stock per capita of 21 percent. Recent reforms, part of the new PFM Strategy, should improve Georgia's performance in this area. The authorities, with support from the World Bank, have revised the PIM Guideline, including to: i) harmonize it with the new PPP framework[31]; ii) expand the coverage to also include state-owned enterprises; iii) require more elaborate pre-selection and appraisal, and iv) to update the responsibilities in the project cycle (for example, introducing an inter-governmental commission and clarifying the role of the Ministry of Finance [MOF] Working Group). This is expected to result in better prepared projects with higher returns that will be implemented more smoothly. Furthermore, improved PIM, and its requirement for projects to be informed by environmental assessment, would result in more climate change resilient infrastructure, given that the Georgian legislation on environmental impact[32] requires that climate and vulnerability to climate change are addressed as well. Similarly, the requirement for social impact assessment

[31] At the same time, the authorities are developing, with ADB support, guidelines for the implementation of the new PPP law.
[32] Law of Georgia on Environmental Assessment Code.

will ensure that gender impacts are also reflected in project design and appraisal.[33] The PIM Guideline also notes that the Project Concept Note should be based on a consensus involving consultation with external stakeholders as well as those within government.

42. Until recently, the quality of project preparation suffered from the lack of a support function at the MOF to guide sector agencies in project preparation and policy development, a key weakness of the system. In response, MOF established a strengthened PIM Working Group at the MOF, consisting of representatives from relevant MOF departments with the Budget department of the MOF in charge of providing the secretariat support function. The Working Group will centralize information on public investment projects, as well as evaluate and prioritize projects and ensure integration with the budget process. A further improvement in the PIM framework is expected to come from the creation of an electronic public investment module (part of the e-budgeting platform) which will allow for electronic submission of project proposals, serve as a public investment project database for all projects that have been received and evaluated and facilitate integration with the budget process.[34] The PIM Working Group recently endorsed the design concept of the e-PIM module which is expected to be completed in 2021.

43. The prior action is expected to improve the quality and efficiency of public investment spending by ensuring that at least 40 percent of new larger investment projects go through improved pre-selection and appraisal processes, and through better monitoring, by 2021. With public investment, as a share of GDP, expected to decline over the medium-term and increased share of domestic-funded projects in the portfolio, a stronger PIM framework will be key to achieving Georgia's development goals in a fiscally sustainable manner. Beyond the current DPO, the World Bank, under the Economic Governance and Financial Accountability EU-funded project, will continue to provide technical assistance to build capacity at the central and local levels to effectively prepare and appraise projects. Moreover, the IMF continues to provide advice complementary to this effort, as is USAID.

Prior action #2: In order to improve public investment management, the Borrower has adopted: (a) Government Decree No. 679, dated December 31, 2019, amending the PIM Guideline; and (b) Ministry of Finance Order No. 411, dated December 26, 2019, establishing the Charter of the PIM Working Group.

44. Efforts to make Georgia's public procurement more effective are supported by the DPO. A more efficient public procurement will be key to help contain spending and increase the value for money. A recent study[35] of the Georgian public procurement system, undertaken jointly by the GOG and the World Bank based on data from Georgia's e-procurement system, found that the system, overall functions relatively effectively, but competition and effectiveness remain major concerns. In particular, the share of single source procurements remains high at around 19 percent of total procurement value, undermining competition. The same study provides evidence that use of competitive procurement methods results in lower costs and less failed tenders. To contain the use of single source procurement, the State Procurement Agency (SPA) has been systematically strengthening the

[33] The PIM Guideline also notes that the Project Concept Note should be based on a consensus involving consultation with external stakeholders as well as those within government and asks for an assessment of differentiated impacts in case some groups are disproportionately affected. The Guideline does not prescribe guidance on conducting environmental and social impact assessment.

[34] Key environmental impact functions (e.g. permitting and enforcement) and not being affected by this reform and remain independently undertaken by statutory authorities.

[35] "Improving Efficiency of Public Procurement in Georgia: Findings from Data Analysis of Public Procurement Transactions in Georgia, 2013-2016". The system could be improved to: i) reduce the number of small contracts; ii) improve competition in large works contracts; iii) improve procurement in poorly-performing municipalities; and iv) support SME development.

criteria and rules for simplified procurement.[36] Most recently, and supported by the DPO, the GOG adopted a Decree that restricts the use of simplified procurement in favor of competitive procedures for a range of families of activities (Common Procurement Vocabulary [CPV] codes) when organizing events of state and public importance.[37] This is expected to reduce not only the share of procurement that is single-sourced but also the scope of its use. In addition, strengthening the independence of the complaints mechanism (i.e. the Dispute Resolution Council [DRC]) could enhance the credibility of the process.[38] The DRC will comprise five professionally engaged and remunerated members, who will be appointed by the Prime Minister and report for their activities to the Parliament and the Prime Minister, but will also have extensive reporting to the public. To further delineate the DRC from the Procurement Agency, the secretariat function for the DRC will be performed by a newly-established department under the Competition Agency. In addition, to enhance transparency and efficiency, the operations of the DRC will be supported by an electronic system.

45. The authorities are in the process of drafting a new Law on Public Procurement that will align the framework with the EU *acquis* (including by broadening the coverage of public procurement to concessions, PPPs, defense and security sphere and so on) and address the identified weaknesses. This is an important reform, which while well advanced, will require time to ensure effective consultation with all stakeholders. In the interim, the proposed DPO supports amendments to the existing Law on State Procurement to strengthen the independence and impartiality of the DRC, by instituting an independent 5-member Board with administrative support from the Competition Agency.

46. The reform should result in greater reliance on competitive procurement processes and increase the credibility of public procurement. More specifically, the share of single source procurement is expected to decrease from 19 percent in 2018 to 16 percent by 2021. The DPO expected outcome of increased credibility is better measured through surveys of perceptions of businesses, which are currently not available for Georgia. Beyond the current DPO and the expected new EU-compliant Law on Public Procurement, the authorities have also expressed interest in partnering with the World Bank to undertake a strategic procurement assessment to develop their future steps to strengthen the effectiveness of procurement.

Prior action #3: The Government, on February 21, 2020, has submitted to Parliament a draft amendment to the Law on State Procurement to strengthen the independence and impartiality of the Dispute Resolution Council, and, through Decree No. 23, dated January 14, 2020, has further restricted the use of single source procurement.

Pillar 2: Enhancing competitiveness

47. Pillar 2 of the operation supports reforms to enhance the competitiveness of the private sector. It includes reforms to introduce evidence-based policy making through introduction of regulatory impact assessments, develop the framework for more competitive markets, overall and in telecoms specifically, diversify the financial sector, improve teacher deployment and remuneration with a view toward creating a more qualified workforce for the long term and strengthen investment promotion.

[36] SPA Decrees from 2011, 2015 and 2018 have been introducing progressively more stringent conditions.
[37] With this, when organizing events of public and state importance, public entities will not be able to use SSP for purchases of printer materials and services, vehicles and spare parts, agriculture machinery, appliances, construction materials, repair and maintenance of building installations, accounting and audit services as well as office support.
[38] Currently, the DRC is chaired by the SPA and is comprised of six persons, out of which three are SPA representative. In case of a split vote, the Chair decides.

48. More evidence-based policy making, supported by the proposed DPO, should help improve Georgia's business environment. The decade following the 2003 Rose Revolution was marked with significant deregulation. Numerous regulations were abolished (for example, 84 percent of business licenses were removed in 2005), while others were simplified (for example, through one-stop shops, e-government solutions and so on). However, as the economy grows and becomes more complex and the country increasingly integrates into the European Union (EU) and world economy, it will have to strengthen its systems for regulatory management in-line with the EU Association Agreement (AA) and other regulatory regimes. A well-functioning Regulatory Impact Assessment (RIA) framework will ensure that proposed laws and regulations are assessed for their impact on specific areas (e.g. social, economic, competition, health, environment, including climate, and fiscal impact) before a policy decision is made, thus ensuring that citizens and businesses are protected from, inter alia, safety and environmental, including climate, risks.[39] The evidence-based and consultative approach embedded in RIAs is expected to make regulations more clear, predictable[40], and consistent, which would enhance competitiveness through lower risk-premiums on investment decisions, and support more inclusive governance through a consistent, public and transparent consultation process. The GOG has taken important steps in this area; more than 25 pilot RIAs were prepared in partnership with development partners (e.g. GIZ, USAID), which had the additional benefit of helping build local capacity, including a Community of RIA Professionals. Importantly, the Law on Normative Acts was amended in June 2019 to require the conduct of RIAs of new legislation proposed by the GOG starting from January 2020.[41] To effectively implement RIA, key policy and institutional steps are outlined in the Government Decree, which defines the RIA methodology as well as institutional arrangements, which is supported by the DPO. Importantly, the RIA Decree clearly assigns RIA-related obligations and establishes an RIA oversight function at the center of Government, charged with coordinating and supporting the RIA reform. Given the limited capacity, RIA will initially be mandatory for around 20 laws which cover the most important aspects of product and factors markets (for example, company law, labor law, competition law), but also environment, food and product safety; though the government could request an RIA to be undertaken for other legislation as well. As capacity is built and experience gained, the RIA requirement is expected to be rolled-out to all significant policy proposals. One option to determine the significance of policy proposals is to adopt a checklist with potential impacts (e.g. financial, number or individuals or business affected, environmental impacts and so on).

49. This action is expected to improve the quality of regulations by ensuring that significant regulatory proposals are subject to impact assessment and informed by public consultations. It will progressively increase the number of RIAs undertaken, which will help improve policy predictability, a key demand of the Georgian business community. It will also support more inclusive, and gender-sensitive, governance and climate resilient development by requiring that major policy proposals are accompanied by an assessment of the environmental impact (for example, on air, water, soil, biodiversity, climate, noise) as well as the social impact, including gender equality. The DPO provided the convening framework to advance this reform, but the efforts will need to continue over the medium term to expand the coverage of RIA and improve the quality. EU-funded technical assistance support will continue the efforts to build the capacity and implement the RIA reform over the medium

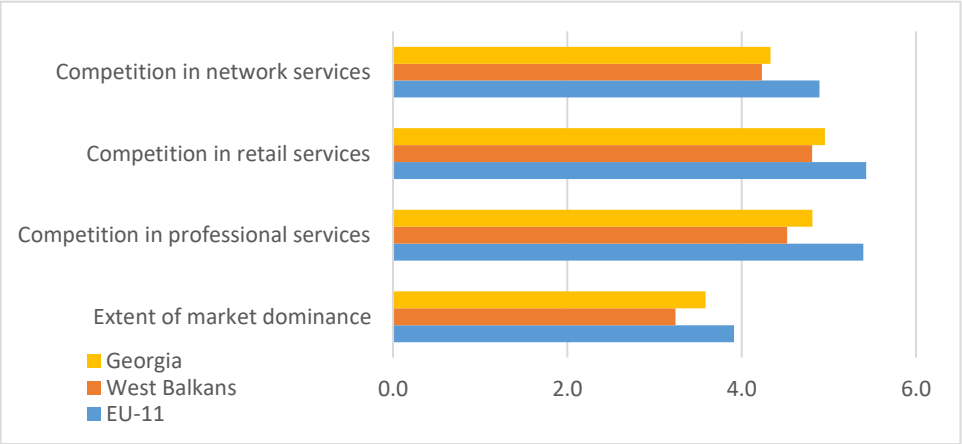
[39] "Recommendations on RIA National Framework of Georgia", USAID Governing for Growth in Georgia.
[40] For example, between 1996 and 2015, the Law on Entrepreneurship was amended 49 times, or roughly every 5 months. Similar frequencies of amendments were reported for other important laws, such as Law on Securities Markets, Law on Investment Funds and so on. "Diagnostic Study of the Georgian Capital Market" – The Capital Markets Working Group, established by Government Order #1-1/264. Discussion Draft, May 12, 2015.
[41] RIA will not be required for legislation dealing with state security and defense issues, legislation amending terminology, dates or other technical issues and legislation in compliance with legislative acts that have supremacy (Constitution, International Treaties etc.).

term.

Prior action #4: The Government, through Decree No. 35, dated January 17, 2020, has begun to facilitate evidence-based policy-making by adopting a methodology for regulatory impact assessments and assigning adequate responsibilities related to regulatory impact assessments, including coordinating and supporting reforms relating to regulatory impact assessments.

50. Despite a number of pro-competition reforms in recent years and the existence of key elements of a regulatory and institutional framework to promote competition and punish anti-competitive behavior, market dynamics may have not benefited sufficiently. Businesses consider markets to be dominated by a few entities, concentration in services, especially network services, to be high (Figure 2) and the effectiveness of the competition policy to be weak.[42] Weak competition prevents efficient allocation of resources, and also hurts consumers and businesses by limiting innovation, productivity and growth. This is especially relevant in a small economy like Georgia where market dominance can be more easily established. There is already some evidence that Georgian businesses and consumers are paying high prices for the services they receive. For example, the relatively high concentration in network services compared to the EU-11 countries may help explain higher port handling fees at Georgian ports compared to countries in the region (Doing Business, Logistics Performance Index), uncompetitive rail freight tariffs[43] and higher international internet traffic prices (Figure 3). In response, the authorities are strengthening the legal framework for competition (covering also regulated sectors) and introducing market friendly regulations in the communications sectors. In addition, the December 2019 Law on Energy introduces a modern market regulation framework for the energy sector while going forward, approximation with the EU will establish an adequate regulatory framework for the railway sector also. More competitive markets will also help job creation and lower prices and improve services for citizens helping inclusion.

Figure 2: Perceptions of market competition



Source: World Economic Forum, Global Competitiveness Report 2019.
Note: On a scale of 1-7 with 7 being best performance.

51. The proposed DPO supports amendments to the Law on Competition to enhance the effectiveness of

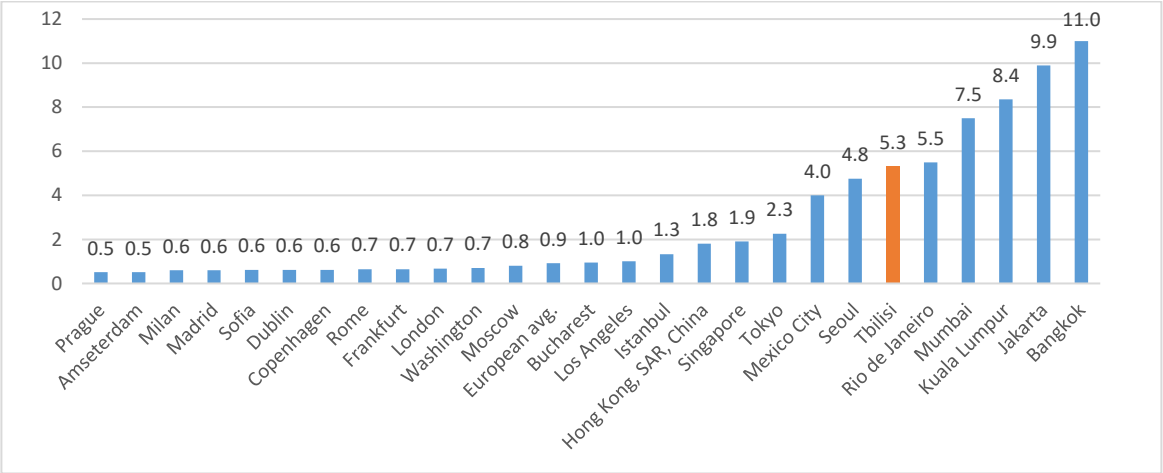
[42] Georgia was ranked 112th (out of 137 countries) in the question on the effectiveness of anti-monopoly policy at the 2017-2018 World Economic Forum Global Competitiveness Report.
[43] https://tbilinomics.com/index.php/en/eu-integration-trade-and-industrial-policy-en/417-georgian-railways-reach-a-critical-crossroads

the Georgian competition policy framework. The amendments, reflecting inputs from the WBG, strengthen the independence of the Competition Agency, clarify its relations with other regulators (including in cases when one party is operating in a regulated sector) and enhance its ability to tackle anti-competitive behavior, which is supported by this DPO. Importantly, the law will prescribe unified rules that would need to be followed by the Competition Agency and the agencies in charge of the regulated sectors (NBG for the financial sector, the Georgia National Communication Commission for the telecommunications sector and Georgia National Energy and Water Supply Regulatory Commission for the energy and water sectors). In addition, the extension of the mandate of the Competition Agency to provide the administrative function for the DRC for public procurement as well as the introduction of the RIA provide a sound platform for embedding competition issues in key sectors of the economy.

52. A strengthened regulatory and institutional framework for competition is expected to result in a more active Competition Agency; however, further reforms will be needed beyond the DPO horizon. Within the timeframe of the DPO, the number of examined cases by the Competition Agency is expected to increase from an average of six between 2017-2018 to eight during 2020-2021.[44] As the independence and the mandate of the Agency is further established, it will be able to better detect and sanction anti-competitive behavior and curb potential anti-competition effects of economic concentrations to foster better functioning of markets. Still, implementing this framework will require stronger secondary legislation, as well as better analytics underpinning competition decisions. These efforts will extend beyond the timeframe of the proposed DPO. With the competition agenda featuring strongly in Georgia's approximation agenda with the EU, the EU will continue with its effort to further develop the capacity of the Competition Agency. In addition, the World Bank has proposed to the authorities to support them in development of Product Market Regulation indicators that can help focus the future efforts of the authorities. Through the World Bank's sectoral dialogue in telecommunications, energy, financial sector, the Bank will also continue to be engaged on competition issues in regulated sectors.

Figure 3: Median monthly international IP transit price for 10 Gigabit ethernet

In US$ per Mbps



Source: Login Georgia: Recommendations to the MOESD on a National Broadband Strategy and Implementation Plan; World Bank, 2019.

53. In telecommunications, the authorities have a robust agenda in promoting a competitive internet market, a sector that has strong potential to support growth and overcome economic dualism. The agenda is

[44] Including investigations, concentration notification examination procedures and market monitoring.

outlined in the upcoming National Broadband Development Strategy (NBDS), drafted in cooperation with the WBG and adopted by the Government in January 2020, and the proposed DPO supports the implementation of key reforms in the NBDS. Going forward, the proposed Log-in Georgia project will build on the policy-level improvements supported by the DPO and will support the efforts to expand access to affordable broadband, and to promote its use by households and businesses, with a focus on rural areas.

54. The adoption of the Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunication Purposes, supported by the proposed DPO, is an important part of this agenda. Deploying high-speed internet infrastructure across the entire country would require investments of around US$600 million, a sizeable amount in a US$17 billion economy. However, the investment needed could be reduced by making existing telecom-ready infrastructure available to all market participants on a non-discriminatory basis and at reasonable prices, which is the objective of the Law on Infrastructure Sharing. This law transposes main features of the EU Directive 2014/61 on measures to reduce the cost of deploying high-speed electronic communications networks. Its Implementation will help reduce the cost of civil works, which accounts for 60-70 percent of the costs of deploying broadband networks. Hence, this action will support the opening of new markets, will reduce the costs of service provision, improve network redundancy, and lower entry barriers for competitive service providers (via measures to facilitate infrastructure sharing, coordination of utility-telecoms network roll-out, and streamlining of permitting processes). This will support the government's efforts to make internet accessible and affordable across the entire country, also supported by the World Bank's ongoing GENIE project and the upcoming Log-in Georgia project, by allowing telecommunications companies to use existing linear infrastructure to expand and improve network access. The additional effect will be the strengthening of resilience of digital infrastructure to climate related risks (floods, landslides) and natural disasters. Beyond this, it will also support the digital transformation agenda; for example, to deal with the shortage of teachers in mountainous and rural areas, the authorities have launched a "distance learning program" connecting rural schools by internet to teachers. Other use cases are being considered, such as e-health and e-commerce platforms, with the aim of improving access to services and economic opportunity. Using existing infrastructure will reduce the need for additional construction works (which may include deforestation) to deploy networks thus lowering the environmental and climate impact.

55. These measures will complement efforts by the national regulatory agency for electronic communications, the Georgian National Communications Commission (GNCC), to ensure a more competitive broadband market. This includes GNCC efforts to: i) identify significant market power (SMP); ii) provide appropriate remedial actions to increase competitive pressure; while iii) providing a predictable regulatory environment to attract investments. Through these actions, the GNCC's aims to mitigate the effects of market dominance, and to protect competition even as the market has consolidated in recent years. GNCC has already issued Decisions on the regulation of both the domestic and international wholesale markets, identifying SMP by economic entities and prescribing remedial actions. The implementation of the reform is expected to result in lower prices for internet in Georgia. The policy dialogue between the World Bank and the authorities in this area is well advanced and benefited from the DPO engagement.

Prior action #5: In order to enhance the level of competition, the Competition Agency of Georgia, on June 28, 2019, has submitted to Parliament a draft amendment to the Law on Competition to strengthen the governance of the Competition Agency of Georgia, raise its enforcement capacity and enhance its relations with other regulators; and the Government, on February 28, 2020, has submitted to Parliament a draft Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunication Purposes to support measures to reduce the cost of deploying high-speed electronic communications networks.

56. While job creation has been limited, when jobs are created, businesses complain that undeveloped human capital is among the biggest constraint to doing business.[45] This is confirmed by Georgia's score of 0.61 on the World Bank Human Capital Index, meaning that Georgian children born in 2018 can expect to grow to be about 61 percent as productive as the would be if they had access to full education and health care. On PISA scores, Georgian students perform below countries with similar income level and substantially lag their peers from countries in the Organization for Economic Cooperation and Development (OECD) and the European Union (EU).[46] Key challenges of the sector include: i) expanding early childhood education for all; ii) improving the quality of general education and iii) the skills to effectively transition to the labor market. To address these, the authorities are developing a medium-term program aiming to: i) improve the infrastructure in the sector; ii) introduce greater reliance on ICT in the teaching process; iii) ensure education services are available where needed; and iv) introduce innovative and interactive teaching and learning practices. The implementation of the program is expected to see public education spending increase considerably from 3.4 percent of GDP in 2018 over the medium term.

57. Teachers are the key to improving general education quality. A substantial body of research indicates the importance of teachers for student learning outcomes.[47,48]. International evidence-based research suggests the quality of teaching and learning provision are by far the most salient influencers on students' cognitive, socio-emotional, and behavioral outcomes of schooling – regardless of gender or background.[49] In Georgia's context, this will require policies which: i) attract the best and the brightest to the teacher profession, including better salary structures,; ii) improve working conditions; iii) increase standards for entry to the profession as well as performance; and iv) tackle oversupply of teachers.[50]

58. Georgia doesn't need more teachers, but better qualified teachers who spend more time teaching. Nationwide, the student/teacher ratio is 8.7, below the OECD average of 13.6 and the EU average of 12.[51] However, only about 45 percent of Georgian teachers are employed full-time (compared to 77 percent in the OECD Teacher and Learning International Survey [TALIS]). Research shows positive correlation between student learning outcomes and the time teachers spend in schools. More hours spent by teachers in school results in better collaboration, individualized teaching, extracurricular/remedial services and so on. Moreover, the teachers who are not able to work full time, seek other opportunities, such as private tutoring, to supplement their income. As a result, they devote less time to lessons planning, evaluation, reflection, and professional development. At the same time, 60 percent of teachers were not certified, with around 20 thousand not having passed either of the two exams required for certification.

59. Improving education outcomes will also require a shift in school instruction towards a more student-centered approach that is focused on the development of complex competencies. However, the current system has had little impact in terms of professionalizing teaching or encouraging teachers to adopt newer, more effective teaching techniques. This reflects gaps in the system's design, wherein moving up the teacher career

[45] World Economic Forum, Global Competitiveness Report, 2017-18, World Bank Georgia Enterprise Survey 2019.
[46] At the 2018 PISA, Georgian students had an average score of 380 on reading, compared to an average of 487 for students from OECD countries and 463 for students from ECA. Similar underperformance is registered on math and science scores.
[47] Hanushek, Eric A. and Rivkin, Steven G. (2006). "Teachers Quality." *Handbook of the Economics of Education* 2.
[48] Rowe, Ken. "The Importance of Teacher Quality as a Key Determinant of Students' Experiences and Outcomes of Schooling." Australian Council for Educational Research. (2003). DOI: http://dx.doi.org/10.14507/epaa.v8n1.2000
[49] Ibid. "What matters most" is quality teachers and teaching, supported by strategic teacher professional development.
[50] Georgia: Investing in and Accelerating Human Capital Development; Building Blocks, Challenges and Directions.
[51] However, this masks significant variations, with a shortage of teachers reported in certain subjects in rural and mountain areas pointing to challenges related to teacher management and deployment policies.

path is contingent on form-filling and acquiring credits (OECD, 2019). Finally, low salaries have likely contributed to the low appeal of the profession.

60. The GOG is strengthening the incentives to improve the qualifications of teachers and introduce a more effective evaluation and career management process. As a start, additional certification trainings and examinations were organized in 2019 and are planned for 2020 for "practitioner" (uncertified) teachers to demonstrate competence to obtain the status of a "senior" (certified) teacher. Practitioner teachers above 60/65 (female/male) were offered severance packages; around 8,400 teachers, or nearly 15 percent of the teacher cadre, took the package at a one-off fiscal cost of around 0.2 percent of GDP. As a result, the overall number of teachers decreased while the number of certified teachers increased significantly. The intent is to gradually eliminate the position of practitioner (uncertified) teacher while at the same time strengthening the requirements for new entrants into the profession.[52] Starting from the next academic year (September 2020), a new teacher appraisal system will be introduced for career advancement[53] into lead and mentor teachers together with an evaluation framework that puts a stronger focus on external evaluations (exam, classroom observation[54], school community surveys[55]).[56]

61. The DPO supports efforts to improve the workload of teachers and increase more transparency in teacher hiring, complemented by gradual increases in salaries to improve the attractiveness of the profession. The authorities also amended the National Curriculum in August 2019 to instruct schools to prioritize allocation of teaching hours to certified teachers thus providing incentives for certification and optimization of the workload. In addition, the recently adopted regulation on initiating and terminating teaching employment introduces greater transparency in teacher recruitment, including through mandatory use of a web portal to process hiring of teachers and criteria and rules for the process which should open room for attracting more qualified candidates. These reforms are being complemented by gradual increases in salaries. Again, to incentivize the upgrade of qualifications and more hours worked, salary increases will be tied to the status criteria and pro-rated by the hours worked while the base salary (offered to uncertified teachers) will remain unchanged. The fiscal cost is estimated at around 0.3 percent of GDP annually.

62. Within the DPO timeframe, the reform is expected to result in more efficient teacher deployment with the percentage of teachers with a full-time work load increasing from 44.9 percent in 2018 to 55 percent in 2021. Beyond this, the quality of teachers is expected to gradually improve as higher requirements are imposed on new entrants and for career progression. Better teachers will result in better learning outcomes and increase the employability of future graduates. With women accounting for majority of employment in the sector (87 percent of teachers in the current academic year), the reform will also have a positive gender impact as assets (financial and non-monetary) of teachers increase, also through more female teachers having full-time work load. The reform could also make a dent in the wage gap as it will increase wages for around 10 percent of female wage employment. However, this is only a first step in what is going to be a long road of reforming in the

[52] A 2-year Induction Program was introduced to new entrants (novice teachers) during which candidates are provided with training. At the end of the program, candidates are required to take certification exam. While current teachers could be certified by scoring 30 percent or higher on certification exams, new entrants are required to score at least 60 percent.
[53] There are 4 levels of teachers: practitioner, senior, lead and mentor.
[54] This will require development of Internal Evaluation Systems in schools as well as establishment of Quality Development Groups at school level to monitor professional development of teachers.
[55] Credits, previously used in the teacher career management, are being abolished while teacher self-evaluation will only have a recommendation function.
[56] These reforms will require adoption of a new Regulation on Professional Development and Career Advancement (a draft is available) which will require the Law on General Education to be amended first. The Ministry of Education has notified to the Government the intent to amend the Law which is expected to be adopted by Parliament during its Spring session.

education sector, touching on the other areas identified above (improving infrastructure, expanding early childhood education and so on). Beyond the current DPO, the policy engagement in this area is expected to be intensified as part of the recently approved World Bank education reform project and building on the request from the authorities for a medium-term policy dialogue on the human capital project.

Prior action #6: In order to provide incentives to improve teacher qualifications and to more efficiently deploy teachers, the Ministry of Education, Science, Culture and Sports has adopted: (a) Decree No. 164/n, dated August 8, 2019, to amend Order No. 40/n, dated May 18, 2016, to prioritize allocation of teaching hours to certified teachers; (b) Decree No. 174/n, dated August 20, 2019, to introduce criteria and conditions for initiation and termination of teacher employment; and (c) Decree No. 187/n, dated September 6, 2019, to amend Decree No. 126/n, dated September 28, 2015, on Defining the Minimum Amount and Conditions for Work Remuneration of Public School Teachers to introduce higher salaries for certified teachers.

63. While credit to the Georgian economy has been expanding in recent years (reaching 63 percent of GDP in 2019), the financial system, beyond the banking sector, is underdeveloped[57] and financial inclusion is lagging. Financing at affordable terms is inaccessible for many businesses, especially SMEs. Unsurprisingly, access to finance tops the list of perceived constraints for doing business. Even though formal account ownership is rapidly increasing, the use of those accounts and associated instruments and services is low due to costs and weak financial literacy. A nascent insurance market limits the ability to mitigate risks while savings options are largely limited to bank deposits. The securities offering is growing, but remains limited, and there are few active securities firms. To advance financial deepening and inclusion, the government strategy includes efforts to develop the capital markets, enhance financial literacy, increase insurance products offering and gradually introduce FinTech innovations to improve quality and availability of financial services. This agenda is an important part of the World Bank engagement in Georgia (under the EU Trust Fund for Financial Inclusion and Accountability) that will continue over the medium term.

64. The proposed DPO supports the diversification of the financial sector, by supporting the adoption of the legal framework for operations of investment funds. Currently, no private equity, venture capital or collective investment funds have been registered in the country, also in part due to inadequacies of the investment funds legislation adopted in 2013.[58] The demand for investment funds' financing is there[59] but it requires an updated regulatory framework that is better aligned with good international practice. In response, the National Bank of Georgia (NBG), with support from the World Bank and other development partners, prepared a new Law on Investment Funds. This new Law, supported by the DPO, updates the collective investment funds framework through enhanced investor protection and managing requirements. In doing so, it strengthens Georgia's legal framework for investment funds closer to EU directives (such as Undertakings for Collective Investment in transferable Securities [UCITS] and Alternative Investment Fund Managers Directive [AIFMD])[60] and international best practices (International Organization of Securities Commissions (IOSCO)

[57] EIU Risk Tracker.

[58] There are five private investment funds, but these are not incorporated under the investment fund legislation.

[59] Co-Invest Fund, a private investment fund, reported declining 250 proposals since fund inception mainly because they were below the stated minimum. The US$2-5 million market segment seems underserved. "Diagnostic Study of the Capital Markets in Georgia" – The Capital Markets Working Group.
http://www.economy.ge/uploads/meniu_publikaciebi/ouer/CMWG_Diagnostic_Report_12_May_2015.pdf

[60]Under Association Agreement with EU, Georgia has an obligation to approximate its legislation with the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive 2009/65/EC by 2020. Although approximation with the Alternative Investment Fund Managers Directive (AIFMD) 2011/61/EU, which regulates non-UCITS funds is not part of the AA, the new Investment Funds law considers some key elements.

principles) as it introduces principles applicable to the funds, their asset management companies and depositaries. Some of these rules will be further defined through regulations, which NBG has committed to develop in alignment with EU rules, especially for funds distributed under the "UCITS" label. Increased compliance with EU rules and international standards may also require some additional changes in the regulation that will have to be introduced later as the market develops. This reform is expected to encourage the creation of investment funds in Georgia distributed to local retail and institutional investors, thus opening a new source of financing for the private sector and allowing investors to diversify their assets exposures which is currently largely limited to bank deposits.

65. Beyond the investment funds, further reforms in capital markets, including completion of the pension reform, growth of the insurance sector, and FinTech innovations are expected to help diversify market players and improve access to finance. Efforts to develop the capital markets include plans for a deeper and more liquid government debt market, and introduction of new instruments, such as covered bond, supported by the Bank's Georgia Financial Sector Deepening and Inclusion FIRST TF. Under the same activity, the Bank is supporting the fully-funded pension system reform. Launched in 2019, the reform has so far accumulated savings in excess of 1 percent of GDP. While the insurance sector is currently small (premiums totaling 1.3 percent of GDP in 2018), it is expected to grow significantly. Reforms undertaken in 2017-2018 strengthened insurance companies' capital and solvency positions, and encouraged them to diversify along new product lines, such as MTPL insurance for transit vehicles and liability insurance for selected sectors. The authorities plan to introduce MTPL insurance for domestic vehicles as well. The draft MTPL Law, developed with World Bank support, is currently in Parliament with its enactment expected later this year. Under the Georgia Financial Inclusion and Accountability EU TF and the Georgia Financial Advisory activity, the authorities are also partnering with the World Bank in the areas of FinTech innovations, such as open banking, digital banks, digital onboarding and regulatory sandboxes, which can have significant impact in terms of financial inclusion and the affordability of financial services.

Prior action #7: The Government, on February 24, 2020, has submitted to Parliament a draft Law on Investment Funds to strengthen the regulatory and supervisory framework applicable to investment fund operations and public issuers' financial information disclosure.

66. The proposed DPO aims to support Georgia's efforts to better integrate in global and regional value chains by attracting more efficiency-seeking FDI. Although the country attracts considerable FDI (as a percentage of GDP), over 75 percent is of a market- or resource-seeking nature. For FDI to fuel economic growth, job creation and export diversification, a strategic shift is needed towards attracting more export-oriented (efficiency-seeking) FDI. Global experience indicates that focusing investment promotion efforts and effectively engaging investors can help increase investment and contribute to development. For example, Freund and Moran (2017) shows that economic upgrading and transformation can results from a few key investors in a few strategic industries. At the same time, Harding and Javorcik (2012) find that countries with well-performing investment promotion agencies tend to attract greater volume of FDI. Georgia's performance on both metrics can improve. The quality of the investment promotion agency was rated as "average" in 2012 and is unlikely to have improved much since. The groundwork for change is beginning to be laid. A new Deputy Ministerial position was recently established within the Ministry of Economic and Sustainable Development (MOESD) tasked with better coordination of investment promotion efforts. In addition, and in line with recommendations of the 2018 Georgia Systematic Country Diagnostic, the MOESD endorsed the Investment Promotion Strategy and Action Plan of Enterprise Georgia (EG), the entity in charge of investment promotion. The implementation of the Action Plan

will result in staffing for investment promotion to be increased in the first stage from six to ten[61], a stronger mandate to deliver results (through regular reporting to the Prime Minister and improved monitoring and evaluation) and adoption of a more proactive and targeted approach to investment promotion[62] based on the "desirability" and "feasibility" of investment.[63] Drawing on the SDS, the strategy aims to attract FDI that will introduce new technologies – especially environmentally-friendly and resource-savings technologies – which will ensure environmental sustainability of new investments and their alignment with climate change priorities of Georgia.

67. The DPO supports the endorsement of the Strategy and implementation of key steps of the Action Plan. In addition, a parallel IFC Advisory Services program will provide the necessary hands-on training and technical assistance to EG around conducting targeted investment promotion and effective investor facilitation.[64] Within the timeframe of the DPO, more active engagement by EG with potential investors is expected to result in increased investor interest (measured by increase in the number of investment leads in targeted sectors), which in turn would result in more efficient use of the limited investment promotion resources and focusing of efforts towards those investors and projects that are more likely to succeed in creating sustainable new jobs and increase exports. As the capacity of EG grows, it will need to expand its services towards investment facilitation and aftercare given growing evidence that investor services should mirror the investor's project cycle with the WBG well placed to support this transition.

Prior action #8: The Ministry of Economy and Sustainable Development has adopted Decree No. 1-1/40, dated January 27, 2020, endorsing the strategy for attracting foreign direct investment of the government agency in charge of investment promotion, and implemented key measures from this strategy, including increasing the staffing of agency.

Table 5: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Operation Pillar 1: Strengthening Economic Management	
Prior action #1: The Government, through Decree No. 2735, dated December 30, 2019, has introduced a mechanism to support public financial management improvements by municipalities, by providing additional financing for capital investments for 27 municipalities, conditional upon the municipalities improving identified areas of weakness as per public expenditure and financial accountability assessment reports.	2018 PEFA Municipality Synthesis Report finds that reporting by municipalities varies with scrutiny by Sakrebulos (local councils) not meeting PEFA standards.
Prior action #2: In order to improve public investment management, the Borrower has adopted: (a) Government Decree No. 679, dated December 31, 2019, amending the PIM Guideline; and (b) Ministry of Finance Order No. 411, dated December 26, 2019, establishing the Charter of the PIM Working Group.	The 2018 PEFA identifies weaknesses along the entire PIM spectrum. A comparison between design and effectiveness done as part of 2018 IMF PIMA reveals further gaps in planning and project appraisal.

[61] Beyond the cost for additional four staff, the implementation of the strategy is not expected to require additional resources. On the institutional assessment undertaken in January 2019, Enterprise Georgia scored maximum points for budgetary resources with an annual budget for investment promotion activities (excluding travel and salaries) of GEL1 million (US$350,000) which is reasonably well aligned with strategy implementation.
[62] Sector scans show opportunities within a broad range of sectors, including: i) aerospace components; ii) apparel and light manufacturing; iii) automotive components; iv) Business Process Outsourcing; v) electronic manufacturing services.
[63] Desirability relates to the potential value of FDI in a given sector in light of Georgia's development objectives, while feasibility is aligned with the attractiveness of Georgia's sector specific value proposition from a foreign investor's perspective.
[64] The IFC Advisory Services impact target is estimated at US$12.5 million in export-oriented investments generated or retained by end-2022.

Prior action #3: The Government, on February 21, 2020, has submitted to Parliament a draft amendment to the Law on State Procurement to strengthen the independence and impartiality of the Dispute Resolution Council, and, through Decree No. 23, dated January 14, 2020, has further restricted the use of single source procurement.	A 2018 WB report "Improving Efficiency of Public Procurement in Georgia" suggests improvements to the system, including on improving competition in contract award. PEFA identified the need for independent dispute resolution body.
Operation Pillar 2: Enhancing competitiveness	
Prior action #4: The Government, through Decree No. 35, dated January 17, 2020, has begun to facilitate evidence-based policy-making by adopting a methodology for regulatory impact assessments and assigning adequate responsibilities related to regulatory impact assessments, including coordinating and supporting reforms relating to regulatory impact assessments.	The SCD concludes that the quality of the regulatory and environment needs to be deepened to address variability across and within institutions.
Prior action #5: In order to enhance the level of competition, the Competition Agency of Georgia, on June 28, 2019, has submitted to Parliament a draft amendment to the Law on Competition to strengthen the governance of the Competition Agency of Georgia, raise its enforcement capacity and enhance its relations with other regulators; and the Government, on February 28, 2020, has submitted to Parliament a draft Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunication Purposes to support measures to reduce the cost of deploying high-speed electronic communications networks.	The SCD concludes that although Georgia has a competition framework in place since 2012, the degree of competition remains low. A 2019 WB report "Login Georgia: Recommendations to the MOESD on a National Broadband Strategy and Implementation Plan" provides recommendations to increase broadband availability and affordability, including through allowing access to existing infrastructure as well as better regulating the market.
Prior action #6: In order to provide incentives to improve teacher qualifications and to more efficiently deploy teachers, the Ministry of Education, Science, Culture and Sports has adopted: (a) Decree No. 164/n, dated August 8, 2019, to amend Order No. 40/n, dated May 18, 2016, to prioritize allocation of teaching hours to certified teachers; (b) Decree No. 174/n, dated August 20, 2019, to introduce criteria and conditions for initiation and termination of teacher employment; and (c) Decree No. 187/n, dated September 6, 2019, to amend Decree No. 126/n, dated September 28, 2015, on Defining the Minimum Amount and Conditions for Work Remuneration of Public School Teachers to introduce higher salaries for certified teachers.	The 2014 and 2017 PER notes that teacher quality is perceived to be one of the pressing issues in Georgia's education system, noting the need to increase teaching hours and class size. Given that women represent the majority in the teaching profession (87 percent teachers are women), the project will thus contribute to narrowing gender pay gaps.
Prior action #7: The Government, on February 24, 2020, has submitted to Parliament a draft Law on Investment Funds to strengthen the regulatory and supervisory framework applicable to investment fund operations and public issuers' financial information disclosure.	The SCD concludes that capital market growth is important to diversify sources of funding. A 2018 FIRST-funded report concludes that improving the business conduct rules and capital framework for investment funds should be a priority.
Prior action #8: The Ministry of Economy and Sustainable Development has adopted Decree No. 1-1/40, dated January 27, 2020, endorsing the strategy for attracting foreign direct investment of the government agency in charge of investment promotion, and implemented key measures from this strategy, including increasing the staffing of agency.	The SCD highlights the limited integration of Georgian companies in regional and global value chains and recommends a smart investment promotion strategy in high potential sectors.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

68. The DPO is an important part of the World Bank Group's engagement in Georgia. The proposed DPO is closely linked to the pathways towards reducing poverty and boosting shared prosperity identified in the Georgia Systematic Country Diagnostic (SCD)[65]. The competitiveness pillar contributes to the SCD top priority of unlocking productivity growth, among other things by improving internet connectivity, supporting development of globally-

[65] "Georgia: From Reformer to Performer – A Systematic Country Diagnostic", World Bank Group, April 2018.

integrated businesses and increasing the qualifications of teachers. At the same time, the economic management pillar will support the SCD high priority of ensuring sustainable growth by strengthening fiscal resilience. Actions under both pillars have the potential to also strengthen climate change resilience. Drawing on the SCD, the Bank's FY19-FY22 Country Partnership Framework (CPF)[66] focuses on: i) enhancing inclusive growth and competitiveness; ii) investing in human capital and iii) building resilience, with the proposed DPO directly supporting the achievement of objectives along all three focus areas, including improving connectivity and integration, diversifying sources of finance, improving quality in the education system, improving macro-fiscal management and so on.

69. The proposed DPO builds on previous Bank operations and complements existing activities by supporting improvements in key sectors. The policy dialogue underlying the proposed operation was greatly facilitated by the previous DPO series on competitiveness (related to financial sector prior action), but also ongoing technical assistance (TA) and advisory activities. For example, the Bank's support in the completion of a PEFA and TA to the preparation of the PFM strategy and PIM framework supported the economic management pillar, as did the substantial analytical services and advisory portfolio of the Bank in the financial sector. Similarly, technical assistance in the development of the National Broadband Strategy and the International Finance Corporation (IFC) advisory services on investment promotion informed the DPO pillar on competitiveness.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

70. The arrangements for consultations are evolving in Georgia, including through measures supported by the proposed DPO. The authorities are committed to involve stakeholders in the legislative process, however, a unified regulatory framework for consultations is still not in place. Instead, consultation takes place through various inter-agency councils and commissions and by sharing drafts of legal texts[67]. A requirement for compulsory consultation exists for a list of laws dealing with entrepreneurial activities and all draft legislation submitted to the Parliament is posted on the web-site of the Parliament where interested stakeholders can comment on drafts**.** The introduction of RIA, supported by the proposed DPO, will considerably strengthen the mandate for consultations, while more transparent and accountable local government strengthen civil engagement. Specific to the program supported by this DPO, broad-based consultations with relevant stakeholders took place for several prior actions. The economic management pillar draws on the PFM Strategy that benefited from wide consultations within the Government, think tanks and civil society organizations which helped build consensus on the areas that are being targeted. Similarly, the broadband dialogue is part of the Broadband Strategy that went through consultations within the government and the private sector, helping to raise the awareness of the infrastructure sharing concept in the Georgian context. Consultations involving the private sector, the government as well as the regulators were also organized for the amendments to the Law on Competition. Consultations on the draft Law on Investment Fund helped bring understanding of this relatively novel area to more market participants and adjust the good international practice to the local environment.

71. A number of development partners are engaged in the reform areas covered by the proposed DPO, with generally adequate coordination arrangements. The IMF has strong engagement in the areas related to economic management and the EU is providing both financing and technical assistance on PFM reforms in the context of the AA. The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the EU and the United States Agency for International Development are supporting the roll-out of RIA, with the DPO providing the convening framework and the World Bank setting up the coordination platform. On competition, the World Bank

[66] Georgia Country Partnership Framework, Report No. 121853-GE, Washington, D.C., April 2018.
[67] OSCE-ODIHR, "Assessment of the Legislative Process in Georgia", Warsaw, January 2015.

actively coordinated with the EU-financed consultants supporting the Competition Agency. UNICEF has been actively involved in the education reform. While there is no official platform for donor coordination, government agencies are, in general, able to coordinate the activities of various development partners and there are frequent exchanges of information between the development community.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

72. The actions included in this DPO are expected to yield neutral to small positive poverty and social impacts in the medium to long term. Gains from improved economic management are expected to safeguard fiscal stability, improve access to public services and generate savings that could be allocated to emerging priorities. The actions included under the competitiveness pillar are expected to have a positive effect on poverty by reducing the costs of ICT services for households and firms; by improving the quality of education and the matching of skills to the requirements of the labor market (with a positive medium to long-term effect on individuals' earnings potential and participation in the labor force); and by boosting job creation through more diverse financial markets, and more efficient investment promotion.

73. The actions supported under the economic management pillar will likely result in more transparent public procurement and more efficient public investment systems, and increased collaboration between local and national governments in budget and financial issues. Strengthening public finance management and accountability in municipal governments, and the increased resources provided to municipalities, could help to tackle regional disparities in access to basic services that contribute to poverty gaps and improve citizen engagement, while proper implementation of the PIM framework will also require attention to social impact assessment. Lastly, improving the performance of the public procurement system may create additional fiscal space which could be used to expand well-functioning social programs.

74. The measures oriented to improve competition are expected to result in more predictable policy-making, more efficient markets and lower prices for consumers, generating positive effects on household income. A well-functioning RIA will ensure adequate consultation with relevant stakeholders in the process of policy-making on key legislation and can help better balance competing social and economic interests and have poverty reducing effects. The sharing of telecommunication infrastructure could also tackle connectivity and logistics constraints to provision of public services across regions (for example, through "distance learning" programs in education) and to the development and integration to global value-chains (GVCs) of key sectors, including tourism (SCD 2018). Boosting investment, both through a more diverse financial sector and more effective investment promotion in key sectors, could lead to the expansion of labor markets and income generating opportunities for poor and vulnerable households, especially given the "desirability" aspect (jobs created, and exports generated) considered in the sector scans. The action oriented to improve teacher deployment and remuneration is expected to result in higher incomes in the medium to long-term, provided that the measures translate into better educational attainment outcomes. Positive impact is also expected from the increased attractiveness of the teacher position. Equity concerns stemming from inability to deal with potential regional and urban-rural disparities in the provision of high-quality education exist but are being partially mitigated by increasing use of technology ("distance learning" programs) as well as gradual process of dealing with uncertified teachers in less developed areas and in schools with ethnic minorities.

75. Economic opportunities for women in Georgia are more limited compared to men. Only 56 percent of females were economically active in 2018, and only 49 percent of them were employed, compared to 74 and 63

percent, respectively, for men. Women have a lower unemployment rate (9.6 percent vs 12 percent for males in the last quarter of 2019); however, the quality of jobs for women is lower. Women and rural residents are the least likely to hold formal employment and the wage gap is significant. Women, on average, earned around 60 percent compared to the average salary of men in 2018, though this is an improvement from around 50 percent in 2006. Entrepreneurship among women is lower compared to men and below the average levels in the ECA region,[68] though a larger percentage of women have transactions accounts (64 percent vs 58 percent). Recently, Georgia improved the conditions for women entrepreneurship by prohibiting gender-based discrimination in access to financial services and strengthened protection by providing civil remedies in the case of the unfair dismissal of a victim of sexual harassment.[69] Out of 127 Members of Parliament, only 22 are female; though important Ministerial position are held by women and in 2019 Georgia elected its first female President.

76. Implementation of the program supported by the DPO is expected to contribute to gender equality in Georgia in the medium and longer terms. Prior actions across both pillars aim at better integrating gender impacts in key government processes. For example, improving PFM arrangements at the local level will result with greater compliance with the requirements of the program budgeting methodology, including gender-sensitive budgeting. It will also allow (through the RIA reforms) policy makers to better anticipate and consider any positive or negative gender equality impact of new regulations and policies. The PIM guidelines would serve a similar function for new larger public investments. Also, a financially more secure and competent teaching cadre will help build assets and opportunities for teachers, who are mostly females and help narrow the wage gap.

5.2. ENVIRONMENTAL ASPECTS

77. The proposed prior actions for the operation do not carry environmental risks with some of the actions expected to have positive impact on the environment. The prior action on the PIM framework is expected to result with more effective implementation of the PIM Guideline, which would also include its requirement for environmental assessments to be undertaken for proposed public investment projects. The prior action on introduction of RIA will have a positive impact on the environment, given that in line with the June 2019 amendments to the Law on Normative Acts, the RIA is required to also include an assessment of the impact of proposed policies over the environment. The assessment requirements are regulated by the 2017 Environmental Assessment Code, which overall, is aligned with EU policies. Environmental Impact Assessment (EIA) are required for infrastructure investments with the conclusions becoming part of the construction permit. This procedure includes disclosure and public consultation and is usually followed through. The Code also introduces Strategic Environmental Assessment (SEA) for strategic documents (e.g. sectoral or regional development programs); this is a major improvement, however, more clarity on the scope of using the SEA tool and stronger requirements for integrating its outcomes into the considered strategic documents would further enhance effectiveness of the SEA process. In addition, the prior action on investment promotion could indirectly have positive impact as one of the criteria for investment attraction in the overall government's SDS has been the environmental sustainability of the technology. Finally, the Law on Infrastructure Sharing, is expected to lower the environmental impact of deploying telecommunication infrastructure as providers will be able to use existing infrastructure rather than deploy their own.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

[68] World Bank Enterprise Surveys (2019).
[69] Women, Business and the Law, 2020 – World Bank, Washington D.C., 2019.

78. The PFM systems are adequate to support the operation. The public financial management risks in Georgia are low, confirmed by the country's strong performance at the central level on most indicators at the 2018 Public Expenditure and Financial Accountability (PEFA). The Basic Data and Directions (BDD) document translates the government's strategic priorities into a medium-term budget formulation, and afterwards into a single-year budget document prepared in program budget format. All state financial transactions are unified under a single treasury account with strong controls making budget execution reliable. The budget, as well as budget execution reports, are published on the MOF website, with significant progress in recent years in identifying and disclosing fiscal risks. Since 2012, the Treasury publishes consolidated financial statements; however, compliance with modified cash basis IPSAS is expected only after full IPSAS implementation, optimistically projected for 2020. The integration of the public financial management information system is advanced, and ongoing efforts, such as introduction of public investment module, and revenue module, will further support predictable and timely budget execution, monitoring and reporting. The State Audit Office (SAO) conducts financial and performance audits in line with internationally-accepted standards, though legislative scrutiny of audit reports could be improved. A new PFM Strategy, supported by the Bank and the EU, was recently finalized and its implementation will address the remaining weaknesses, including through measures supported by the current DPO, such as strengthening PFM arrangements at the local level, improving PIM and so on.

79. The State Procurement Agency continues to improve transparency in the public procurement processes. The current Law on State Procurement, enacted in 2009, provides a good legal framework for efficient and transparent procurement, including through introduction of e-procurement. The e-procurement system was launched in 2010 and all documents needed in the process of public procurement are uploaded into the system electronically and made accessible to all interested parties. The e-procurement system meets the procurement needs of multilateral development banks, and as a result, the system is used for Bank projects using the national and international competitive bidding process for certain contracts. Additional 12 development partners are using the system. A new law is being drafted and once enacted will align Georgia's procurement processes with those in the EU. In the interim, amendments to the current law supported by the proposed DPO strengthen the credibility of public procurement.

80. NBG's foreign exchange management systems and safeguards are adequate. A safeguards assessment by the IMF in 2014 showed that NBG's overall governance framework is broadly appropriate, with strong track record in implementing the recommendations. Regular audits of NBG financial statements by independent external audit firms in accordance with international standards have provided unqualified opinions. The de facto and de jure exchange rate arrangement in Georgia is floating. NBG does not make a commitment on the exchange rate target and limits interventions to smoothing large fluctuations and reserve accumulation. Foreign exchange transactions between the GOG and the NBG are priced at the market exchange rate of the day when the foreign exchange order is submitted to the NBG.

81. Borrower and loan amount. The Borrower will be the Government of Georgia. Upon effectiveness of the Loan Agreement, which is subject to ratification by Parliament, the proposed IBRD loan of EUR 45 million (USD 49.6 million equivalent) will be made to Georgia, represented by the Ministry of Finance. The IBRD loan will have a maturity of 25 years including a 14-year grace period.

82. Disbursement. The proposed DPO will be disbursed in euro into the Treasury department's foreign currency account maintained at the NBG. The disbursed proceeds of this DPO will form part of the country's official foreign reserves. The recipient, the GOG, shall ensure that upon deposit of the loan proceeds into the said account, an equivalent amount in Georgian lari (GEL) at the official exchange rate will be deposited within 30 days of disbursement in the Treasury Single Account (TSA) in the NBG and accounted for in the Recipient's budget

management system. The proceeds of the operation deposited at the TSA with NBG will be available to finance budget outlays. The MOF will be responsible for the operation's administration, for preparing the withdrawal application, and for maintaining the Treasury foreign currency account at the NBG. The MOF, with assistance of the NBG, will maintain records of all budget transactions under the DPO in accordance with sound accounting practices.

83. Confirmation and eligible expenditure. The MOF will provide to the Bank a confirmation that the amount of the operation has been credited to an account that is available to finance budget expenditures (the format of the confirmation letter should be acceptable to the Bank). This confirmation letter is required within 30 days of receipt of the amount. If, after the proceeds are deposited in the NBG account, the proceeds of the operation are used for ineligible purposes as defined in the Loan Agreement, the Bank will require the GOG to promptly, upon notice from the Bank, refund an amount equal to the amount of said payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

84. Reporting, auditing and closing date. Given the improvements in Georgia's PFM system, the IMF's positive assessment of the NBG, and continued unqualified audit opinions of NBG's financial statements, no additional fiduciary arrangements, including audit, will be required for this DPO, in line with the practice under previous DPOs. The closing date of the loan will be March 31, 2021. The Bank reserves the right to request an audit of the Treasury foreign currency account if necessary.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

85. The MOF coordinates the overall implementation of the DPO program. The Deputy Minister of Finance is the main counterpart for this operation and coordinates with the line ministries and institutions involved in the DPO. The line ministries and institutions report on the prior actions and result indicators to the MOF as and when requested. Given the long history of budget lending operations in Georgia, there is sufficient institutional capacity built up on monitoring requirements for DPOs. In general, government agencies have the capacity to provide good and timely data. Data for monitoring is increasingly available through more transparent government agencies, or through special requests made to implementing agencies. Available data is generally reliable, with Georgian institutions increasingly producing data in line with international standards. For example, Georgia subscribes to the IMF's Special Data Dissemination Standards and the World Bank Open Contracting Data Standard and is a compliant country.

86. Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

87. The overall risk to the operation is moderate.

(i) Broadly shared consensus on national priorities keep political and governance and stakeholders risks moderate, despite a more heated political rhetoric in preparation for the parliamentary elections planned for October 2020. Risks that the proposed laws may not be adopted (or be adopted in a modified form) due to the upcoming elections are mitigated by Georgia's strong track record in implementing reforms and the effective policy dialogue between the WBG and the GOG. Similarly, growing institutional capacity and significant assistance in capacity building from development partners results in moderate sector strategy and technical design risks. Admittedly, capacity is uneven. A robust PFM environment results in low fiduciary risks. Similarly, the PSIA and environmental impact review do not point to major risks.

(ii) **Macroeconomic risk is rated moderate**. Georgia's macroeconomic framework is generally adequate, though some risks remain. Fiscal and public debt management policies are anchored by a robust fiscal rule and adequate PFM arrangements and are consistent with fiscal sustainability and gradually lowering the exchange rate risk. Monetary and exchange rate policies are consistent with price stability and declining external deficits. Still, fiscal risks exist and if materialized could affect debt dynamics. A range of factors (commodity prices, currency turmoil in trading partners) could affect external demand and FDI with significant impact over the economy given the high external debt and high dollarization. A track record of generally adequate responses to shocks, including the challenges in 2019, improving policies and institutions to disclose and manage risks, and a close dialogue with international finance institutions (including the one-year extension of the EFF with the IMF) partly mitigates risks.

(iii) **Others:** Geopolitical tensions in the region add to risks and any further escalation in the broader region could lead to further tensions with a significant impact on the Georgian economy. Health pandemics could have similar risks.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Low
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	Substantial
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions	Results		
	Indicator Name	**Baseline**	**Target**
Pillar A – Strengthening Economic Management			
Prior action #1: The Government, through Decree No. 2735, dated December 30, 2019, has introduced a mechanism to support public financial management improvements by municipalities, by providing additional financing for capital investments for 27 municipalities, conditional upon the municipalities improving identified areas of weakness as per public expenditure and financial accountability assessment reports.	Municipalities submitting financial statements to SAO for audit within 3 months after end of the financial year.	3 (2018)	>14 (2021)
Prior action #2: In order to improve public investment management, the Borrower has adopted: (a) Government Decree No. 679, dated December 31, 2019, amending the PIM Guideline; and (b) Ministry of Finance Order No. 411, dated December 26, 2019, establishing the Charter of the PIM Working Group.	Public investment projects are screened, appraised and selected in compliance with the PIM Guideline requirements.	0 (2019)	40% of new projects above GEL5m (2021 Budget)
Prior action #3: The Government, on February 21, 2020, has submitted to Parliament a draft amendment to the Law on State Procurement to strengthen the independence and impartiality of the Dispute Resolution Council, and, through Decree No. 23, dated January 14, 2020, has further restricted the use of single source procurement.	Single source procurement, as % of total procurement value.	19% (2018)	16% (Q1.2021)
Pillar B – Enhancing Competitiveness			
Prior action #4: The Government, through Decree No. 35, dated January 17, 2020, has begun to facilitate evidence-based policy-making by adopting a methodology for regulatory impact assessments and assigning adequate responsibilities related to regulatory impact assessments, including coordinating and supporting reforms relating to regulatory impact assessments.	Number of RIAs completed on laws and regulations.	Not required (2019)	10 (2021)
Prior action #5: In order to enhance the level of competition, the Competition Agency of Georgia, on June 28, 2019, has submitted to Parliament a draft amendment to the Law on Competition to strengthen the governance of the Competition Agency of Georgia, raise its enforcement capacity and enhance its relations with other regulators; and the Government, on February 28, 2020, has submitted to Parliament a draft Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunication Purposes to support measures to reduce the cost of deploying high-speed electronic communications networks.	Number of examined cases (2-year average)	6 (2017-2018)	8 (2020-2021)
	Number of telecommunications service providers using data transmission services through electricity network	0 (2019)	2 (2021)
Prior action #6: In order to provide incentives to improve teacher qualifications and to more	Teachers with full work load, as	44.9%	55%

Prior Actions	Results		
efficiently deploy teachers, the Ministry of Education, Science, Culture and Sports has adopted: (a) Decree No. 164/n, dated August 8, 2019, to amend Order No. 40/n, dated May 18, 2016, to prioritize allocation of teaching hours to certified teachers; (b) Decree No. 174/n, dated August 20, 2019, to introduce criteria and conditions for initiation and termination of teacher employment; and (c) Decree No. 187/n, dated September 6, 2019, to amend Decree No. 126/n, dated September 28, 2015, on Defining the Minimum Amount and Conditions for Work Remuneration of Public School Teachers to introduce higher salaries for certified teachers.	% of all teachers: Out of which, female teachers with full work load, as % of all teachers	(2018) 38.6 (2018)	(2021) 49% (2021)
Prior action #7: The Government, on February 24, 2020, has submitted to Parliament a draft Law on Investment Funds to strengthen the regulatory and supervisory framework applicable to investment fund operations and public issuers' financial information disclosure.	Number of investment funds established:	0 (2019)	2 (Q3.2021)
Prior action #8: The Ministry of Economy and Sustainable Development has adopted Decree No. 1-1/40, dated January 27, 2020, endorsing the strategy for attracting foreign direct investment of the government agency in charge of investment promotion, and implemented key measures from this strategy, including increasing the staffing of agency.	Number of targeted companies responding:	na (2019)	200 (2021; cumulative)

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Completes the Fifth Review of the Extended Arrangement under the Extended Fund Facility for Georgia

December 17, 2019

- Georgia's economy has been resilient in the face of negative shocks, with solid growth and a lower current account deficit.
- Advancing financial sector and structural reforms would make the economy more resilient to shocks and sustain medium-term growth.
- The extension of the IMF program will help the authorities to maintain policy discipline and to advance structural reforms to promote higher and more inclusive growth.

On December 17, the Executive Board of the International Monetary Fund (IMF) completed the Fifth Review of Georgia's economic reform program supported by a three-year extended arrangement under the Extended Fund Facility (EFF). The completion of the review will release SDR 30 million (about $41.4 million), bringing total disbursements under the arrangement to SDR 180 million (about $248.7 million).

In completing the review, the Executive Board also approved the authorities' request for waivers of nonobservance for the performance criteria on the ceilings on the augmented general government deficit and ceiling on the cash deficit of the Partnership Fund.

The Executive Board has also approved the extension of the arrangement by one year until April 11, 2021 and rephase access accordingly. The extended arrangement for SDR 210.4 million (100 percent of quota) was approved by the Executive Board on April 12, 2017 (see *Press Release No. 17/130*).

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, said:

"Georgia's economy has been resilient in the face of negative shocks, with solid growth and a lower current account deficit. However, the balance of risks is on the downside as domestic and international uncertainties could weigh on investment, reducing medium-term prospects.

"The recent high headline inflation rate reflects both temporary factors and the impact of the lari's depreciation. The National Bank of Georgia (NBG) has appropriately tightened monetary policy to address inflationary pressures. Exchange rate flexibility remains vital as a shock absorber for the Georgian economy, and foreign exchange interventions should be limited to addressing excessive volatility or building reserves.

"The 2020 budget appropriately targets a neutral fiscal stance while increasing spending on education and social benefits. Continued vigilance against fiscal risks stemming from power purchasing agreements and state-owned enterprises is needed to safeguard investment in infrastructure and human capital while maintaining debt sustainability. A new indexation rule for basic pensions needs to protect pensioners' income against inflation while preserving budget flexibility to provide space for more targeted social spending in the future.

"Advancing financial and structural reforms would make the economy more resilient to shocks and sustain higher and more inclusive medium-term growth. Effective and timely implementation of the education reform would help create a more skilled labor force, enhancing medium-term growth and new frameworks for banking resolution and insolvency should help strengthen financial resilience and improve the business environment. Completing the establishment of the funded pension pillar, should help mobilize savings for investment to support medium-term growth and provide an additional safety net for the elderly.

"The extension of the IMF program should support the authorities' efforts in maintaining policy discipline and implementing these reforms."

Table 1. Georgia: Selected Economic and Financial Indicators, 2016–20 1/

	2016	2017	2018	2019	2019	2020
	Actual			**CR 19/171 2/**		
National accounts and prices	(annual percentage change; unless otherwise indicated)					
Real GDP	2.8	4.8	4.7	4.6	4.6	4.3
Nominal GDP (in billions of lari)	34.0	37.8	41.1	44.5	45.2	49.2
Nominal GDP (in billions of US$)	14.4	15.1	16.2	16.6	16.1	17.2
GDP per capita (in thousands of US$)	3.9	4.0	4.3	4.5	4.3	4.7
GDP deflator, period average	4.2	6.1	3.7	3.5	4.9	4.7
CPI, Period average	2.1	6.0	2.6	3.8	4.9	4.5
CPI, End-of-period	1.8	6.7	1.5	4.5	7.2	3.0
Investment and saving	(in percent of GDP)					
Gross national saving	19.6	23.7	26.6	25.6	28.4	28.4
Investment	32.7	32.4	34.0	33.1	33.8	33.7
Public	5.0	6.1	7.0	7.2	7.8	7.2
Private	27.7	26.3	27.0	25.9	26.0	26.5
Consolidated government operations	(in percent of GDP)					
Revenue and grants	28.3	29.2	28.6	28.4	28.6	27.6
o.w. Tax revenue	25.7	26.2	25.4	25.4	25.5	24.9

Expenditures	32.5	32.8	31.7	31.4	31.3	30.7
Current expenditures	26.0	24.3	23.1	23.4	23.1	23.2
Capital spending and budget lending	6.5	8.5	8.6	8.0	8.2	7.5
Net Lending/Borrowing (GFSM 2001)	-1.5	-0.5	-0.9	-1.9	-1.9	-2.4
Augmented Net lending / borrowing (Program definition) 3/	-2.9	-2.9	-2.5	-2.6	-2.3	-2.7
Public debt	44.4	45.1	44.9	46.7	47.9	48.3
o.w. NBG debt to the IMF	…	0.6	0.5	35.6	1.0	1.1
o.w. Foreign-currency denominated	35.1	35.7	35.3	43.1	37.2	36.6
Money and credit	(in percent; unless otherwise indicated)					
Credit to the private sector (annual percentage change)	19.6	17.6	19.3	12.3	17.3	8.5
In constant exchange rate	11.8	18.3	17.0	11.9	11.5	7.5
Broad money (annual percentage change)	20.4	14.8	14.0	12.8	14.7	9.2
Broad money (incl. fx deposits, annual percentage change)	19.1	13.7	13.3	11.8	14.9	8.1
In constant exchange rate	13.4	15.8	11.9	12.4	9.2	8.1
Deposit dollarization (in percent of total)	69.9	63.7	62.1	60.6	62.9	62.7
Credit dollarization (in percent of total)	64.6	56.1	55.8	53.7	53.7	51.3
Credit to GDP	54.9	58.1	63.8	66.2	68.1	67.8
External sector	(in percent of GDP; unless otherwise indicated)					
Current account balance	-13.1	-8.7	-7.3	-7.5	-5.4	-5.3
Trade balance	-26.9	-25.2	-25.4	-25.2	-22.7	-22.2
Terms of trade (percent change)	-1.4	-2.7	-5.0	1.2	0.2	-1.8
Gross international reserves (in billions of US$)	2.8	3.0	3.3	3.7	3.3	3.4

In percent of IMF Composite measure (floating)	94.7	93.7	94.6	100.1	96.4	95.9
Gross external debt	110.2	114.0	111.9	117.0	118.6	117.2
Gross external debt, excl. intercompany loans	88.2	91.3	89.8	97.8	95.2	94.0
Laris per U.S. dollar (period average)	2.37	2.51	2.53	…	…	…
Laris per euro (period average)	2.62	2.83	2.99	…	…	…
REER (period average; CPI based, 2010=100)	100.5	100.6	104.1	…	…	…

Sources: Georgian authorities; and Fund staff estimate

1/ These numbers do not reflect the impact of GDP rebasing announced by Geostat on November 15 th, 2019.

2/ Please refer to this link for details https://www.imf.org/en/Publications/CR/Issues/2019/06/19/Georgia-Fourth-Review-Under-the-Extended-Fund-Facility-Arrangement-and-Request-for-47008

3/ Augmented Net lending / borrowing (Program definition) = Net lending / borrowing - Budget lending.

IMF Communications Department
MEDIA RELATIONS
PRESS OFFICER: RANDA ELNAGAR
PHONE: +1 202 623-7100**EMAIL:** MEDIA@IMF.ORG

ANNEX 3: LETTER OF DEVELOPMENT POLICY

PRIME MINISTER
OF GEORGIA

Tbilisi, 27 February 2020

Dear President Malpass,

On behalf of Georgia, allow me to express the assurances of our highest considerations and the appreciation for the World Bank Group support to the development of Georgia.

I am writing, on behalf of the Government of Georgia, to request a Development Policy Operation in the amount of Euro 45 million to support our efforts to improve economic management and competitiveness. This Letter of Development Policy provides an overview of recent developments and our macroeconomic framework and sets out key actions that our Government is undertaking to support faster, as well as more inclusive and sustainable economic growth. The proposed actions are anchored in our medium-term Socio-Economic Development Strategy and further articulated in the Basic Data and Directions (BDD) annual strategic and budgetary planning document as well as numerous sector strategies.

Recent developments and macroeconomic framework

Georgia has established a strong track record of implementing broad economic and governance reforms to maintain macroeconomic stability, streamline its business environment, strengthen its public finances and upgrade its infrastructure. Broad institutional and governance reforms have strengthened accountability and transparency in the government through wider application of fiscal discipline across entire public sector including legal entities of public law (LEPLs), state owned enterprises (SOEs) and Public-private partnerships, gradual expansion of the coverage of disclosures under the fiscal risks statement to cover macroeconomic risks, quasi-fiscal operations and contingent liabilities of SOEs, PPPs and PPAs. Business community benefited from improved value added tax administration and reduced profit tax rates. These reforms are designed to transform Georgia into modern democracy with accountable and transparent institutions and various ranking (including Doling Business, Worldwide Governance Indicators) have acknowledge our strong performance.

Importantly, we are aware that our future growth will depend on our key asset, our people, and we make strong efforts to improve welfare of Georgian population. More specifically, the range of reforms include introduction of universal health care system, increased cash transfers to the families in need, increased basic pensions, introduction of contributory pension system. We committed to devote an increasing portion of our GDP to education sector. The higher spending will be allocated to a comprehensive reform program aimed to improve the infrastructure in the sector, modernize the curricula, upgrade qualifications of teachers and reform the way the system is managed.

Despite a series of economic shocks in recent years, our macroeconomic framework remained adequate and economic policies were prudent. Our fiscal position was strengthened through budget optimization and prioritization of spending. In particular, scaled up social and infrastructure spending in recent years was made possible by savings in less priority areas and efforts to improve spending efficiency. On the revenue side, we recorded significant over-performance, which was driven by higher than expected real economic growth as well as improved tax administration. This helped us to strengthen sustainability of Georgia's fiscal framework as we managed to maintain augmented fiscal deficit at 2.0 percent of GDP in 2019 and will keep it at reasonable levels in the medium-term. On the other hand, the central bank through its flexible exchange rate policy and inflation targeting regime responded swiftly to the negative shocks, including the recent ban on direct flights from Russia and subsequent weakening of Georgian lari. Monetary tightening, balanced interventions on foreign exchange market, adjustments to the reserve requirements and other monetary measures were adequately applied and are set to restore price stability and strengthen resilience from the economic shocks going forward. CPI inflation increased to 7 percent in 2019, but with the above-listed measures prices are expected to return to its target indicator of 3 percent by end-2020. In response of adequate government policies, the IMF approved the fifth review of our EFF program in December 2019 and has agreed to a one-year extension of the facility to 2021.

As a result of government's policies, our economy performed strongly in recent years. GDP growth was 4.8 percent in 2018 and accelerated further to an estimated 5.2 percent in 2019. Exports and private consumption have been major drivers of this expansion. Merchandise exports expanded by 22 percent in 2018 and by 10 percent in 2019, while private consumption grew by about 6 and 5 percent respectively in 2018 and 2019. Despite the Russia flight ban, tourism remained strong as did transfer from abroad which supported private consumption. Imports increased by 15 percent in 2018 but contracted by 2 percent in 2019, sharply reducing the external gap to an estimated 4 percent in 2019 as compared to 8 percent in 2017. Foreign investments in 2018 and 2019 were affected by regional slow down and completion of a large gas pipeline project, but inflows were still sufficient to fund the current account gap allowing us to stabilize the increase in external debt (as percent of GDP) as well as increase reserves.

Going forward, our macroeconomic policies remain guided by our commitment to fiscal and monetary and exchange rate policies supportive of macroeconomic stability, protecting our economy from shocks and facilitating the process of macroeconomic adjustment. The fiscal deficit will remain below 3 percent of GDP, in line with our fiscal rule, which will keep public debt at moderate levels of slight above 40 percent of GDP. Monetary policy will help contain inflationary pressures while financial sector policies help improve access to credit while keeping risks manageable. We are committed to flexible exchange rate to safeguard external sustainability, export competitiveness, and growth prospects. Flexile management of exchange rate contributed to the correction of the current account deficit (from 8 percent of GDP in 2017 to less than estimated 4 percent in 2019) and to a rebound in international reserves to $3.5 billion or 4 months of imports.

Our reform program

The government of Georgia is also committed to preserving its ambitious medium-term structural reform agenda. The strategic directions of the program are articulated in the annual Basic Data and Directions

strategic document. We are committed to outcome-oriented actions that are economically sound, technically feasible and are designed to trigger lasting positive impact. Budget support is very important to further reinforce our capacity to efficiently deliver on this commitment while at the same time sustaining the momentum of the institutional and structural reforms that are underway in Georgia as well as strengthening our external buffers.

Therefore, the World Bank support is critical to the success of our reform agenda. We believe that implementation of second-generation reforms requires consensus among different stakeholders and the World Bank is well placed to leverage such a consensus through its evidence-based knowledge and credibility. In addition to a satisfactory macroeconomic framework, the proposed economic management and competitiveness DPO is designed to back a number of important elements of our policy framework. On the economic management side, supported reforms aim to safeguard fiscal sustainability, improve accountability and efficiency of public resource use. The program also supports our competitiveness agenda targeting more competitive markets, financial markets deepening, labor force upgrades and high value added and well-targeted investments.

Improving Georgia's economic management. In this policy area, we are focusing on (i) improving efficiency and effectiveness of public finances at the municipal level; (ii) reinforcing implementation of public investment system; and (iii) strengthening legal environment for the competitive procurement practices. We recently adopted a new PFM Strategy, with support from the World Bank and the European Union and these are some of the key reform measures from the strategy.

Specifically, in the area of public finance management, we have conducted thorough analysis of the PFM systems of 27 municipalities, relying on the public expenditure and accountability assessment (PEFA) tool for subnational governments, thanks to a generous support of development partners such as WB, EU and GIZ. In order to address identified weaknesses, we developed and endorsed a new incentive mechanism for municipalities to improve their (i) medium-term planning and budgeting processes, (ii) financial reporting and control systems, (iii) as well as accountability and transparency practices. We are committed to recognize the achievements of the municipalities through increased amount of intergovernmental capital grant depending on the size of municipality. For this purpose, based on the recently approved Government Decree, the Ministry of Finance signed non-binding memorandums of understanding (MOUs) with 27 municipalities, which are expected to result in improvements in at least half of them and encourage other local governments to participate in this project. We aim to gradually extend the program to all municipalities in the country as their PEFA assessments are prepared (currently this is planned for 2021). This will allow us to strengthen the PFM arrangements at the local level by improving budget preparation and financial reporting and increasing scrutiny both by the Local councils as well as citizens. Our decentralization strategy 2020-25 is ambitious in term of delegating more responsibilities to municipalities, and improved PFM arrangements at the will be critical to ensuring that this results in improved quality and access to services and efficient use of public resources.

Second, we are moving forward with the diligent stepwise process to enhance efficiency of the public investment management (PIM) system. This will be critical for our long-term development goals, especially as large infrastructure projects currently ongoing and supported by development partners (with their investment management arrangements) are gradually replaced by projects submitted, appraised,

implemented and monitored by budget users. Based on the Public Expenditure Review (PER) prepared by the World Bank and follow-up technical assistance, investment project management guidelines and methodology has been prepared in 2016, consistent with good international practices. However, its coverage was limited to the purely publicly financed projects while institutional changes were delayed hampering the effective implementation of the guideline. Meanwhile the new law on Public Private Partnership (PPP) established the framework for the private participation in the public projects, which created a gap in the PIM system. With the support from the WB, USAID Good Governance Initiative (GGI) project and other development partners we amended PIM guidelines to harmonize it with the PPP law and ensure that all PPP project are subject to the same diligence as any other publicly financed projects. Institutionally, we established effective PIM working group within the Ministry of Finance, which will ensure all eligible projects (above 5 million GEL) follow the common rules. Intergovernmental commission and its secretarial will provide support at the higher policy level to ensure coordination and compliance across public institutions. The smooth implementation of the PIM system was also supported through the capacity building activities including hands-on trainings supported by the World Bank. As part of the commitments, 14 investment projects were evaluated in 2019 in accordance with the PIM Methodology, part of which are in the 2020 State Budget and 2020-2023 medium-term framework. It is planned that by 2021, half of public capital projects will undergo full cycle of evaluation in accordance with the PIM methodology. In the medium term, the investment project management system will be fully implemented with respect to all capital projects above the established threshold. In order to facilitate reform implementation, we developed a concept of the Public Investment Management Electronic System (ePIMS), which will be integrated into the e-budget system and will allow spending entities to prepare and submit important investment project proposals electronically. We expect the implementation of this measure to ensure that the good practices currently being in place in other parts of the Georgian PFM system are also replicated in the management of our public investment.

Third, we continue to approximate our legislation with the EU Directives under the Georgia-EU Association Agreement in the field of Public Procurement. In this regard, we have conducted a thorough analysis of the information in our public procurement database and identified areas for improvements, including in lowering the relatively large volume of single source contracts allowed under the article 10 of public procurement law, which resulted in about 33 million GEL direct contracts value on goods and services in 2018. In order to limit the application for this provision of the law, we have developed a secondary legislation defining negative list of CPV codes, for which the simplified selection procedures are now restricted. This measure is expected to have a positive impact on the overall quality of the procurement system and more importantly, generate savings for budget. We also committed to improve our rating in the PEFA report, which assigned an "A" score for most of the dimensions, however the independence of the dispute resolution council (DRC) was identified as a backdrop of the system. We have swiftly prepared an amendment to the public procurement law which abolished earlier setup of the DRC and established new council with fully independent members accountable to the Prime Minister. We are confident that this amendment will considerably increase the trust of the board and the principles of transparency, competition and rationality will be ensured. In the meantime, we are also preparing a new Law on Public Procurement that will fully approximate our legislation with the EU Directives; this effort will require some time to be completed given the expected expansion of coverage of sectors and types of transactions.

Additional reforms that strengthen economic management include our efforts to improve financial reporting. Revisions to the chart of accounts as well as accounting instruction will help us to comply with the accrual based IPSAS standards. For these purposes main directions of the reform are:

- Application of accrual based International Public Sector Accounting Standards (IPSASs) and achievement of compliance with these standards;
- Development of accrual based Treasury General Ledger in the Public Financial Management Information System (PFMS).

IPSASs based accounting and reporting framework will enhance the quality of financial statements prepared by budgetary organizations as well as Consolidated Financial Statements of the Government, which will ensure efficiency and effectiveness of public spending and increase accountability and transparency of public finance.

Promoting Competitiveness: We believe that vibrant and productive private sector is essential for sustaining economic growth and driving the economy to a higher level of development. A key priority for us is to improve the competitiveness of our businesses as a mean to diversify the economy and integrate Georgia better into the global and regional value chains. In this direction, this DPO supports our reform in five critical areas: (i) introduction of the evidence-based tool (RIA) in the regulatory process; (ii) enhancing competition policies and supporting competition in the telecommunication sector by introducing infrastructure sharing law; (iii) tackling quality of the human capital through reforming secondary education system; (iv) deepening financial sector and promoting development of investment funds; and (v) attracting better quality foreign investments through stronger investment promotion mechanisms.

First of all, in May 2019 we prioritized the management of the regulatory environment across the government and for this we amended the Organic Law of Georgia on Normative Acts. A new provision mandates the executive branch of the government to prepare and enforce regulatory impact assessment (RIA) for certain legislative acts. The impact assessments will look at economic, environmental, social and fiscal impacts of proposed legislation. This requirement is also aligned with our commitments in the EU approximation process and the Open Budget Partnership. In order to implement this very important reform we committed to introduce RIA methodology and start application of it from the beginning of 2020. We expect that the RIA will ensure a more predictable, transparent, participatory, and accountable decision-making process. Institutionally, the centralized oversight role of the RIA compliance and implementation is assumed by the legal unit of the government administration (GA) and we are committed to enhance its capacity. Capacity enhancement of all other stakeholder in this process is also among our priorities. We also understand that this will be a learning process. As our capacities for undertaking RIAs improve, we are committed to expanding the scope of RIA to cover all significant policy proposals. To guide our decisions about the significance of policy proposals, we are considering adopting a Triage checklist depending on the expected impact of proposed policies. And as we learn from our experience, we will consider improvements to the process and methodology.

We also believe that effective competition enforcement is particularly crucial given the relatively small and open market and in the face of increasing cross border activity by Georgian firms in light of emerging technologies. Therefore, we undertook a number of pro-competition reforms in recent years and the basic

elements of a regulatory and institutional framework to promote competition. It is clear to us that effective competition policy does not only include the enforcement of a competition law, but also the entire suite of market rules that actively encourage competition and minimize the distortive effects of state policies. In this light, we proposed to amend the Competition Law which will (i) strengthen cooperation/clarifying of overlapping mandates between the Competition agency and sector specific regulators, especially in the context of investigations on anticompetitive conducts; (ii) incentivize compliance with the merger control process by establishing fines for lack of notification; (iii) enhancing independence for the Competition Agency. Beyond the law itself, a competition agency's independence will be signified by its improved position within the government system, its degree of influence on the wider competitive process. Going forward, the framework for the competition function will be completed by a stronger secondary legislation as well as better analytics underpinning competition decisions which are beyond the timeframe of the proposed DPO. Combining the consumer protection and anti-dumping functions in the Competition Agency demonstrates our commitment to establish robust and effective systems to ensure effective market functioning. We also understand that this will be a long-term agenda: further changes will be required in our regulatory framework, including key implementing regulations, and we would need to significantly strengthen the capacity of the Competition Agency as well as in regulators in regulated sectors. The Competition Agency is partnering with EU-member country agency to build capacity and we look to additional partnerships, also if possible, with the World Bank.

In order to contribute to a more competitive environment in digital telecommunication and reduce the cost of deploying high-speed electronic communications networks, we are committed to explore ownership and operating models for the relevant infrastructure, and potential commercialization of telecom ready infrastructure and available fiber optic capacity held by alternative owners of infrastructure. In this regard, we prepared and endorsed the draft infrastructure sharing law, which will transpose the EU Directive on cost reduction for deployment of broadband networks. In the months ahead, we will be working with the World Bank team on developing the key secondary legislation, including on Single Information Point, the terms and conditions to access physical infrastructure from other sectors (gas, electricity, etc.), the terms and conditions to access electronic communication infrastructure and so on. This transposition is also a proposed commitment as part of the DCFTA of Georgia with the European Union. In addition, to ensure a competitive telecommunication market, the electronic communications regulator (GNCC) imposed ex ante measures to mitigate the effects of significant market power, and to protect competition even as the market has consolidated in recent years.

There is no doubt that the human capital is one of the most important resources for Georgia's economic and social progress and education is a critical component of human capital to improve competitiveness and create better employment opportunities. While Georgia's education system has undergone numerous reforms over the past decade, challenges remain. Trends in learning outcomes show only modest improvements with education quality remaining a primary challenge. Georgia participated in several cycles of the PERLS, TIMSS and PISA. Performance of Georgian students in those assessments remains low, both by OECD and regional standards. In particular, teacher quality is a serious concern. The government of Georgia is committed to address these challenges and implement important measures. As part of our reform agenda, we have amended a range of regulations to ensure more efficient deployment and higher remuneration of teachers to target at increasing competitiveness of teaching profession and improving quality of teaching and learning in Georgia. Current progress includes increase of teacher

salaries vis-à-vis the categories defined by the scheme within the four different categories and introduction of more effective instruments to measure teacher effectiveness. We are currently preparing additional changes to be adopted throughout the current academic year, so that starting from the next academic year (September 2020), a modified teachers appraisal system will be introduced (complex evaluation over time) for career advancement into lead and mentor teachers in addition to an evaluation framework that will put a stronger focus on external evaluations (exam, classroom observation, school community surveys). As a result of these developments, the remuneration package for teachers will include specific obligations linked to the teacher statuses defined in the teacher contracts. Moreover, special certification policy will be introduced to the special teachers, to incentivize qualified candidates to work with the students with special needs. School teachers have been supported through professional development services, while increased wages will enhance the competitiveness of the profession. Efforts are underway to attract young, talented cohort of teachers. In last several months around 2,000 new teachers entered the profession replacing pension-age staff, who agreed to retire under the government one-off retirement severance package program (around 8,400). The latter program also opened the opportunity to increase efficiency of the system as the number of hours per teacher on average also increased. These are important, but still only first steps, in a long term reform of the education sector. We plan to invest more resource in the sector (we are targeting spending of around 6 percent of GDP over the medium-term) that will be allocated to improving the infrastructure in the sector, expanding early childhood education and care, improve service delivery and modernize the curricula.

Third, it is a common understanding that Georgia's financial and capital markets, beyond the banking sector, are relatively underdeveloped. There is scope for development of alternative sources of financing and savings, lowering intermediation cost, and thus supporting better financial inclusion. To this end, in recent years we made significant efforts to strengthen the framework for responsible financial inclusion and improve access to finance. We facilitated and observed some positive trends driven by good economic performance, corporate market activity, involvement of international financial institutions and government support. Adding to these positive trends, our economic team, in cooperation with the National Bank of Georgia, market participants and foreign experts, is actively working to promote capital markets and we expect to finalize our new strategy on capital market development later in 2020. The development of the investment fund industry is an important component of capital markets. We prepared a new Law on Investment Funds (LIF) to promote local and international investments, align our regulation with international best practice and ensure compliance with relevant EU directives, including with regards to the business conduct requirements applicable to management companies, for example on conflict of interest. Extending to the secondary legislation required for effective implementation of the new law, we are equally committed to ensuring that these will be fully aligned with prevailing EU rules, including on: i) the diversification rules applicable to the investments in the portfolio, in particular for Georgian UCITS funds; ii) the conditions upon which specialized depository may re-use of fund's assets, and iii) the sanctioning power of the authorities, setting the maximum level of the sanctions incurred in case of infringement and describing how a proportionality mechanism will be applied. Going forward, this reform will significantly increase interest of institutional investors in both, registration of funds in Georgia and investing in securities registered in Georgia. Beyond the DPO, we are also working with development partners, including the World Bank, to further diversify the financial and capital markets through our efforts to develop the local government debt market (though issuance of benchmark bonds and piloting a primary dealers market), the funded pension pillar, the insurance sector (for example through

introduction of mandatory third partly liability insurance and other insurance products) as well as fintech innovations (payment systems, open banking, digital onboarding and so on). Taken together, the implementation of these reforms should result in more accessible and better-quality financial services, more efficient capital markets and more financing sources thus helping us strengthen financial inclusion and improve access to finance.

We see a scope for improvement in various aspects of investment policy and promotion in Georgia. Although our country attracts considerable FDI inflows, over 75 percent of FDI is of a market or resource seeking nature. For FDI to fuel economic growth and export diversification, we developed a strategy, with support from the IFC, with the objective to promote a shift towards attracting more efficiency seeking FDI by better leveraging Georgia's comparative advantages and market access to EU, Turkey and China, take advantage of various FTAs signed in recent years. As part of the implementation of the strategy, we plan to strategically focus our efforts on a fewer number of sectors where Georgia is competitive, and which can support our development objectives of generating exports and jobs and adopting environmentally-friendly technologies. IFC has supported us in identifying those sectors and devising strategies to effectively engage with potential investors. Institutionally, we supported implementation of the strategy by implementing stronger governance arrangements for investment promotion agency "Enterprise Georgia". This includes: (i) increased capacity and resources of the investment promotion function (staff) at the agency, and (ii) development of a special reporting platform which will ensure monthly reporting to the minister and quarterly reporting to the prime minister. At the same time, we purchased and then implemented customer relation management (CRM) system by mapping relevant companies and projects, their action plans, KPIs and other important information. Importantly, the Strategy also has robust requirements for monitoring and evaluation which will help us learn from our activities and improve our approach to investors. We are also making efforts to streamline the implementation of our various business support programs and are establishing a common platform for almost 20 business support programs, to be delivered through the infrastructure of the Public Service Halls.

We are also putting increasing attention to environment protection and climate change. The ultimate objective of our policy is sustainable, balanced development where the quality of the environment is considered equally along with all the socio-economic challenges. The main targets of environmental protection are: to avoid pressures from socio-economic activities through the careful planning of new developments, reducing already existing pressures to acceptable levels and improving the overall state of the environment. In the long-term, this shall ensure a healthy environment for future generations. For this purpose, we are in the process of actively implementing our Third national Environment Action Plan covering the 2017-2021 period. Also, in 2015, prior to the adoption of the Paris Agreement, we submitted our Intended Nationally Determined Contribution (INDC) to the UNFCCC. According to the INDC, we plan to reduce our GHG emissions by 15 percent. Similarly, we are mainstreaming the climate change and environment agenda in various aspects of our economy, including through some of the measures supported by the DPO. For example, the introduction of RIA and improved public investment management are expected to result in improved implementation of the environmental regulations and strengthen our resilience to climate change. Finally, our investment promotion strategy also takes into consideration the environmental footprint of the investments and the law on Infrastructure Sharing is expected to lower the

impact of deployment of telecommunications infrastructure over our natural resources as service providers would be able to use the existing telecom ready infrastructure of other entities.

We deeply appreciate the support of the World Bank in the implementation of the strategic actions outlined above. We are looking forward to our continued successful partnership with the World Bank, including cooperation in the context of the proposed Development Policy Operation.

Allow me, Mr. President, to take this opportunity and extend my regards and esteem.

Sincerely,

Giorgi Gakharia

Mr. David Malpass
President of the World Bank
Washington, DC

N 7699

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Strengthening Economic Management		
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Prior action #1: The Government, through Decree No. 2735, dated December 30, 2019, has introduced a mechanism to support public financial management improvements by municipalities, by providing additional financing for capital investments for 27 municipalities, conditional upon the municipalities improving identified areas of weakness as per public expenditure and financial accountability assessment reports.	No	No / Neutral to positive as improved PFM helps improve service provision and tackle disparities.
Prior action #2: In order to improve public investment management, the Borrower has adopted: (a) Government Decree No. 679, dated December 31, 2019, amending the PIM Guideline; and (b) Ministry of Finance Order No. 411, dated December 26, 2019, establishing the Charter of the PIM Working Group.	Yes / Positive	No / Neutral to positive as effective PIM improves infrastructure and service delivery.
Prior action #3: The Government, on February 21, 2020, has submitted to Parliament a draft amendment to the Law on State Procurement to strengthen the independence and impartiality of the Dispute Resolution Council, and, through Decree No. 23, dated January 14, 2020, has further restricted the use of single source procurement.	No	Yes / Positive as cost savings improve service delivery.
Operation Pillar 2: Enhancing Competitiveness		
Prior action #4: The Government, through Decree No. 35, dated January 17, 2020, has begun to facilitate evidence-based policy-making by adopting a methodology for regulatory impact assessments and assigning adequate responsibilities related to regulatory impact assessments, including coordinating and supporting reforms relating to regulatory impact assessments.	Yes / Positive	No / Neutral to positive as better policy making improves program performance and prioritization.
Prior action #5: In order to enhance the level of competition, the Competition Agency of Georgia, on June 28, 2019, has submitted to Parliament a draft amendment to the Law on Competition to strengthen the governance of the Competition Agency of Georgia, raise its enforcement capacity and enhance its relations with other regulators; and the Government, on February 28, 2020, has submitted to Parliament a draft Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunication Purposes to support measures to reduce the cost of deploying high-speed electronic communications networks.	No	Yes / Positive in case competition lowers prices.
Prior action #6: In order to provide incentives to improve teacher qualifications and to more efficiently deploy teachers, the Ministry of Education, Science, Culture and Sports has adopted: (a) Decree No. 164/n, dated August 8, 2019, to amend Order No. 40/n, dated May 18, 2016, to prioritize allocation of teaching hours to certified teachers; (b) Decree No. 174/n, dated August 20, 2019, to introduce criteria and conditions for initiation and termination of teacher employment; and (c) Decree No. 187/n, dated September 6, 2019, to amend Decree No. 126/n, dated September 28, 2015, on Defining the Minimum Amount and Conditions for Work Remuneration of Public School Teachers to introduce higher salaries for certified teachers.	No	No / Neutral to positive
Prior action #7: The Government, on February 24, 2020, has submitted to Parliament a draft Law on Investment Funds to strengthen the regulatory and supervisory framework applicable to investment fund operations and public issuers' financial information disclosure.	No	No
Prior action #8: The Ministry of Economy and Sustainable Development has adopted Decree No. 1-1/40, dated January 27, 2020, endorsing the strategy for attracting foreign direct investment of the government agency in charge of investment promotion, and implemented key measures from this strategy, including increasing the staffing of agency.	Yes / Positive as country targets environmentally sustainable industries.	Yes / Positive as job creating investments are prioritized.