Report Number : ICRR0021863

1. Project Data

Country Georgia	**Practice Area(Lead)** Macroeconomics, Trade and Investment
Programmatic DPL **Planned Operations:** 2	**Approved Operations:** 2
Operation ID P149998	**Operation Name** Private Sector Competitiveness DPO1

L/C/TF Number(s)	**Closing Date (Original)**	**Total Financing (USD)**
IBRD-85040	31-Dec-2015	60,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
28-Apr-2015	31-Dec-2015	

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

Prepared by	**Reviewed by**	**ICR Review Coordinator**	**Group**
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Country Georgia	**Practice Area(Lead)** Finance, Competitiveness and Innovation
Operation ID P155553	**Operation Name** Private Sector Competitiveness DPO2 (P155553)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-85040,IBRD-87750	31-Jul-2018	52,685,455.96
Bank Approval Date	**Closing Date (Actual)**	
31-Jul-2017	31-Jul-2018	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	50,000,000.00	0.00
Revised Commitment	50,000,000.00	0.00
Actual	52,685,455.96	0.00

2. Program Objectives and Policy Areas

a. Objectives

The Private Sector Competitiveness Development Policy Operation (PSC) originally consisted of three DPOs, subsequently reduced to two. The program development objective (PDO) of the first PSC (PSC-1) was to increase private sector competitiveness through second generation business environment reforms, financial sector deepening and diversification, and increasing firms' capacity to innovate and to export (Program Document, PD, page 19).

The PDO was revised in PSC-2. The phrase "establishing conditions for" was added to the objective "financial sector deepening and diversification" to be more in line with the original policy action set out in the PD for PSC-1, and a better representation of what could be achieved on the ground within the time frame of the series once it had become a two-operation series.

b. Pillars/Policy Areas

There were three pillars:

Pillar 1: supporting business environment reforms to stimulate private sector-led growth. This pillar was to support measures in key areas: enhancing the public-private dialogue to generate consensus for reforms; eliminating market barriers for entrepreneurship and small and medium enterprise (SME) growth; and strengthening the public procurement system.

Pillar 2: supporting financial sector development. This pillar was to strengthen financial safety nets by introducing a deposit insurance system; implementing a comprehensive pension reform; and developing more effective capital and insurance markets.

Pillar 3: supporting measures to increase firms' capacity to innovate and export. This pillar was to increase the competitiveness of domestic companies by strengthening their managerial capabilities, upgrading the quality of their products, investing in new technologies, and expanding their market knowledge.

Significant changes

Pillars 1 and 2 were not revised during implementation. Pillar 3 was expanded to introduce an environmental measure, i.e. favorable tax treatment of hybrid and electric cars.

PSC-2 was delayed for a year, due to a temporary weakening of the macroeconomic framework (see Section 3b). When activities resumed, PSC-3 was dropped, with key activities being incorporated into PSC-2, maintaining the original design and objectives, and updating indicator targets.

c. Comments on Program Cost, Financing, and Dates

Program cost and financing. The commitment under PSC-1 was US$60 million, and US$50 million under PSC-2. Both DPOs were fully disbursed: US$60 million for PSC-1 and US$52.7 million for PSC-2, the value of the latter reflecting SDR/US$ exchange rate fluctuations.

Dates. PSC-1 was approved on April 28, 2015, became effective on June 12, 2015, and closed on December 31, 2015. PSC-2 was approved on July 31, 2017, became effective on September 22, 2017, and closed on July 31, 2018.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The series' objectives were relevant to the country situation, government policy, and the current Bank Country Partnership Framework (CPF, FY2019-2022). The focus on "second generation" reforms, referred to in the PDO, emphasized the need to further pursue changes to the business environment that had begun during the previous decade. A "first generation" of reforms had been put into place over the previous decade, addressing business deregulation, corruption, legal, tax, and trade reforms. While these first-generation reforms had a significant favorable effect on Georgia's economic growth and its ranking in global competitiveness tables, they had proven insufficient to adequately close the country's productivity gap, improve wages, or eliminate structural unemployment. The PCS series was to continue that effort: it was aligned with Georgia's 2020 development strategy to strengthen the private sector and reduce reliance on the public economy as a source of economic growth; and the space it created for private sector development facilitated the thrust towards diversity and innovation that was highlighted in the CPF.

Rating
High

b. Relevance of Design

Program design was relevant to achieving the PDO. The results chain was clear, and prior actions and triggers could reasonably be expected to deliver intended outcomes as measured by the results indicators, which were monitorable and relevant for measuring progress towards objectives.

The macroeconomic framework during the preparation of PCS-1 was deemed adequate for the operation, albeit with downside risks related to potential external disturbances. The government was following a policy of fiscal prudence, low inflation, and limited interventions in the foreign exchange market. A three-year IMF Stand-By Arrangement had been approved in 2014.

The preparation of PCS-2 was postponed by a year, as growth faltered and the macroeconomic situation deteriorated when the economies of Georgia's main trading partners went into recession, adversely affecting exports and remittances – the main catalysts of growth. The IMF program was suspended in 2016. By 2017, the macro-fiscal framework had improved, the government had reached agreement on an IMF-supported program, and the situation was deemed adequate to proceed with a follow-up PCS operation. Key elements of PCS-3 were incorporated into a revised PCS-2, maintaining the relevance of the original series design (see Significant Changes above)

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
To increase private sector competitiveness through business environment reforms

Rationale

The objective was to be achieved by strengthening public-private dialogue, supporting entrepreneurship and SMEs, and modernizing public procurement practices.

Strengthening public-private dialogue

In the period between PSC-1 and PSC-2, the government introduced the practice of making major draft laws available for public review and comment (a prior action for the original PSC-2).

An Investors Council was established as a prior action for PSC-2 to serve as a platform for regular dialogue with the business community on new policy initiatives. So far, six major reforms have been reviewed by the Investors Council, compared to a program target of four.

Supporting entrepreneurship and SMEs

An entrepreneurship and development agency (EDA) was established as a prior action for PSC-1 to promote the creation and growth of start-up companies and SMEs. An SME development strategy for the EDA was implemented under PSC-2, providing access to finance and micro and small business support programs. A target of 8000 SMEs and entrepreneurs (of which 37 percent women) using EDA services was set. According to EDA's 2016 annual report, the target was exceeded with a client base of 9,740 users (of which 40.5 percent were women).

Enhancing public procurement practices

To increase participation by private companies in the public procurement market, the state procurement agency established a training center to improve the knowledge of contracting authorities and suppliers about procurement procedures, as a prior action for PSC-1. Under PSC-2, the government amended the law on public procurement to bring about conformity with the basic standards regulating the award of contracts in its association agreement with the European Union.

These measures were accompanied by an increase in: (i) the number of users in the e-procurement system, from a baseline of 19,700 in 2013 to 42,700 in 2017, compared to a target of 36,400; and (ii) the number of state procurement agency tenders monitored for unlawful practices, which rose to 76,400 compared to a baseline of 13,000 and a target of 45,000.

Rating
Substantial

Objective 2
Objective

To increase private sector competitiveness by establishing enabling conditions for financial sector deepening and diversification

Rationale

The objective was to be achieved by: (i) establishing a deposit insurance system to increase public confidence in the banking system; (ii) comprehensive pension reform to strengthen social protection and accelerate financial sector development through longer term savings and financial inclusion; (iii) accounting and auditing reforms for more accurate understanding of the financial situation of large enterprises; and (iv) the development of insurance markets. The three latter measures were aimed at promoting capital markets development.

Deposit insurance

An inter-agency deposit insurance system (DIS) working group to design the DIS and coordinate its implementation was set up as a prior condition to PSC-1. The law on DIS was adopted by Parliament in 2017 and became effective in January 2018, achieving the results indicator. Since becoming effective, the DIS has attained a coverage ratio of 1.29 percent (DIS to total insured deposits in member banks), 96 percent of individual depositors are fully covered, and funds are enough to cover insured deposits in any of the eight smallest banks individually, or in the five smallest banks simultaneously.

Pensions

A proposed comprehensive pension plan, including individual savings accounts, was submitted to the Economic Council as a prior action for PSC-1. A new pension law was passed and became effective on January 1, 2019, meeting the indicator for this activity. By mid-2019, the system had registered 830,000 participants, and pension assets were at US$82 million equivalent. Measures under way to expand the capital market should over time provide investment opportunities for pension assets.

Accounting and auditing

A new law on accounting and auditing together with a service for accounting, reporting, and auditing supervision (SARAS) were introduced as prior actions for PSC-2. With the law in effect, 700 enterprises so far have submitted their financial statements to SARAS, including all publicly accountable entities. In addition, 23 quality reviews have been undertaken by SARAS, and 14 more are under way.

Insurance markets

Insurance reforms were to support a better capitalized insurance industry with a more diversified set of products and services. Amendments to the law on insurance introduced solvency requirements in compliance with European Union solvency margin and minimum capital requirements as a prior action for PSC-2. Mandatory motor vehicle third-party liability insurance (MTPLI), initially a PSC-3 prior action, was introduced under PSC-2. (MTPLI is important for the development and capitalization of the insurance industry.) As a result of these measures, minimum capital requirements have been gradually increasing from US$400,000 equivalent to a current US$1.6 million and are expected to rise to US$2.8 million by end-2020.

Rating
High

Objective 3

Objective
To increase private sector competitiveness by increasing firms' capacity to innovate and export

Rationale
The objective was to be achieved by: (i) licensing and regulatory actions to enable the upgrading of mobile and fixed broadband services; (ii) legal amendments to underpin the innovation support framework and align it with European Union practices; (iii) fiscal measures to stimulate the introduction of more fuel efficient cars in line with the country’s increasing emphasis on green technologies; and (iv) actions to ensure international recognition of state institutions responsible for metrology and accreditation to reduce hidden costs of trade linked to compliance testing and certification.

Information and communication technology reforms

Amendments to the country’s electronic communications law, including spectrum allocation and a revised methodology for spectrum pricing, were introduced as prior actions for PSC-1. To facilitate competition among service providers and innovation in technology while connecting more people, existing licenses were modified; and a public consultation was held on draft secondary legislation on electronic communications market analysis aligned with EU practices, as prior actions for PSC-2.

Indicators covered incremental private investments in the telecommunications sector and broadband internet subscriptions. In the former, investments reached US$237 million compared to a target of US$50 million; while in the latter, broadband subscription rates rose from a baseline of 33 percent to 69 percent, with a target rate of 45 percent.

Innovation policies

A Georgian Innovation and Technology Agency (GITA) and a Research and Innovation Council were established as prior actions for PSC-1. The former oversees innovation policy implementation, notably addressing supply-side failures and demand-side constraints on research and innovation; while the latter, which includes key ministers and stakeholders, is to bring coherence in prioritizing policy actions and allocating resources. A policy trigger for PSC-2 included the adoption of a new law on innovation to facilitate collaboration between the private sector and academia in innovation.

Results indicators measured the number of firms/individuals that received financing from GITA, and the number of technology parks established. GITA provided financing for 307 entrepreneurs, as well as training courses for some 1,800 prospective entrepreneurs. Four technology parks were established, compared to a target of two technology parks and 8 fabrication laboratories.

There are no information on actual instances of collaboration between the private sector and academia.

Promotion of fuel-efficient cars

As an element in promoting greener technologies, the tax code was amended as a prior action for PSC-2 to increase the excise taxes on imported cars with conventional engines and reducing excise taxes on hybrid cars, while maintaining the tax exemption on electric cars. While electric cars still have only a tiny share of the market in Georgia, between 2015 and mid-2019 (when the ICR was being prepared), hybrid cars had increased their share of the car park from 0.2 percent to 4.2 percent.

Improved quality infrastructure services

With certification of the Georgian National Agency for Standards and Metrology (GeoSTM) by the Euro-Asian Cooperation of National Metrological Institutions, and application for certification to the European Cooperation for Accreditation (ECA), as prior actions under PSC-1, and acceptance of the application by ECA as a prior action for PSC-2 , the government established internationally recognized accreditation and standards for Georgian private sector businesses.

Since the introduction of the quality infrastructure in 2014, 5,195 certificates have been issued by GeoSTM, compared to a target of 2,105, as laboratories have rapidly increased their capacity to calibrate instruments and machines for the private sector.

Rating
Substantial

5. Outcome

Relevance of objectives was rated **high**, as the series aligned with government policy and Bank strategy. Relevance of design was **substantial**, with minor misalignments in limited areas. Efficacy for the first objective was rated **substantial,** with almost full alignment between outcomes and objectives, and **high** for the second objective. The third objective was rated **substantial;** while three of the activities supported the objective, fuel efficiency in cars was unlikely to do so. Taken together, these ratings indicate only minor shortcomings in the operation, producing an outcome rating of **satisfactory**.

a. Outcome Rating

Satisfactory

6. Rationale for Risk to Development Outcome Rating

While the series was concluded with the second operation, the reform agenda remains relevant. It forms part of the government's ongoing reform plans, and several development partners are continuing to provide budget support and technical assistance to help maintain momentum. While the new CPF does not directly address the features included in the series, the Bank will continue its engagement with improving the space for private sector growth, and in particular economic reforms begun under the PSC series, notably in pensions, capital markets, insurance, financial inclusion, accounting and auditing, and facilitating external trade and investment promotion. Institutional strengthening is likely to be sustained, notably among major institutions such as the *Investors Council* to improve public-private partnerships; *EDA* to support entrepreneurship through business advisory and information services; the *pension agency,* through a new contributory pension scheme; the *DIS* to protect bank deposits; *SARAS* to regulate accounting and auditing functions; and *GITA* to develop an innovation eco-system.

a. Risk to Development Outcome Rating

Negligible

7. Assessment of Bank Performance

a. Quality-at-Entry

The series, with its focus on creating space for export-oriented private sector development, was strategically relevant, and the use of budget support was appropriate to help address difficult post-recession imbalances and for introducing market reforms that opened economic opportunity for the private sector. The design also drew on extensive engagement by the Bank in implementing an earlier first generation of business reforms, and on extensive field work; the series was preceded by, and partly overlapped with, a systematic country diagnostic that allowed adjustments to be made in the hiatus between PSC-1 and PSC-2, and it drew on close donor coordination. The results framework was consistent in drawing links between activities and outputs and allowed systematic monitoring of progress towards the three objectives. However, preparation may have placed more emphasis than necessary on the achievement of measurable outcomes, reflected in the change in emphasis in the PDO from “financial deepening” to “enabling conditions," with the latter more measurable in the short term.

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision

The Bank supervision team faced a diverse set of challenges in overseeing a broad set of interventions aimed at improving competitiveness of private enterprises in Georgia. In most instances, the team was successful, and recognition should be given to the restructuring of the series in mid-stream, and re-emphasizing of outputs as a more realistic concept than outcomes over the timeframe of the series. Here, the availability of in-country expertise through the local office was particularly helpful in maintaining the dialogue.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

The government was committed to reforms introduced under the series, and this is reflected in the timely passage of laws and regulations set out as prior actions. The hiatus in the program was mainly due to weakening in the economies of Georgia's main trading partners and, because of that, a deteriorating macroeconomic situation.

Government Performance Rating
Satisfactory

b. Implementing Agency Performance

Not assessed.

Implementing Agency Performance Rating
Not Rated

Overall Borrower Performance Rating
Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The policy and results matrix for the series provided a logical sequence of prior actions underpinning the policy changes. Key indicators for systematic tracking of outcomes were identified, including specifications of baselines and targets where appropriate. Most indicators were output indicators, as the time frame in most cases was too short to allow measures of impact to be determined.

b. M&E Implementation

Implementation was tracked by implementing agencies coordinated by the Ministry of Economy and Sustainable Development. Indicator targets were adjusted during implementation to better reflect reality on the ground.

c. M&E Utilization

The M&E framework tracked program progress and determined the pace of implementation.

M&E Quality Rating

Substantial

10. Other Issues

a. Environmental and Social Effects

No safeguard policies were noted in the ICR.

b. Fiduciary Compliance

No fiduciary concerns were noted in the ICR.

c. Unintended impacts (Positive or Negative)

None noted.

d. Other

Gender. Some activities explicitly targeted women: access to innovation, where 22 percent of recipients of GITA financing were women; and female-run SMEs, where the share of women using EDA services was 40 percent. The pension reform also benefited women disproportionately due to their higher life expectancy.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Risk to Development Outcome	Negligible	Negligible	---
Bank Performance	Satisfactory	Satisfactory	---
Borrower Performance	Satisfactory	Satisfactory	---
Quality of ICR		Substantial	---

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

12. Lessons

A DPO series that is well supported by the country dialogue and well coordinated with development partner programs is likely to be able to correctly gauge the government's willingness to pursue long-range, high-impact reforms. Because the PSC series had the right mix of reforms and was correctly timed for government commitment and capacity, it was able to achieve a broad range of high-impact reforms.

Banking reform is likely to be more successful when the banking sector is relatively sound. In Georgia, deposit insurance that requires regular contributions from banks may have been more difficult to introduce into a banking system in crisis; in Georgia, banks were solvent and financially solid.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provided a robust discussion of the environment into which the DPO was introduced, allowing results and ratings to be assessed. A more focused presentation of the results framework and the connections between actions, outputs, and, where appropriate, outcomes, would have provided a convenient summary of the evolution of an ambitious program that covered a broad area of sometimes not obvious connections. That said, the material was there to be found.

a. Quality of ICR Rating
Substantial