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**THE INTERNATIONAL FINANCE CORPORATION**

**THE MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**COUNTRY PARTNERSHIP FRAMEWORK**

**FOR**

**GEORGIA**

**FOR THE PERIOD FY19-FY22**

**April 25, 2018**

**The South Caucasus Country Management Unit  
Europe and Central Asia Region  
The International Finance Corporation  
Europe and Central Asia Department  
The Multilateral Investment Guarantee Agency**

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USD 1	2.41 Lari

**THE GEORGIAN GOVERNMENT'S FISCAL YEAR**

January 1 – December 31

**ABBREVIATIONS AND ACRONYMS**

AA	Association Agreement	IMF	International Monetary Fund
ADB	Asian Development Bank	JICA	Japan International Cooperation Agency
ASA	Advisory Services and Analytics	KfW	Reconstruction Credit Institute, <i>Kreditanstalt für Wiederaufbau</i>
CE	Citizen Engagement	MIGA	Multilateral Investment Guarantee Agency
CPF	Country Partnership Framework	MOF	Ministry of Finance
CPS	Country Partnership Strategy	MSMEs	Micro, Small, and Macro Enterprises
DCFTA	Deep and Comprehensive Free Trade Area	NBG	National Bank of Georgia
DPO	Development Policy Operation	NDC	Nationally Determined Contribution
EBRD	European Bank for Reconstruction and Development	PEFA	Public Expenditure and Financial Accountability
EC	European Commission	PFM	Public Financial Management
ECA	Europe and Central Asia	PPA	Power Purchase Agreement
EIB	European Investment Bank	PPP	Public Private Partnership
EU	European Union	RDP	Regional Development Project
FDI	Foreign Direct Investment	SCD	Systematic Country Diagnostic
GDP	Gross Domestic Product	SMEs	Small and Macro enterprises
GEL	Georgia Lari	SOEs	State-Owned Enterprise
GENIE	Georgia National Innovation Ecosystem Project	STAREP	Strengthening Auditing and Reporting in the Countries of the Eastern Partnership
GiZ	German Federal Enterprise for International Cooperation	TA	Technical Assistance
GVCs	Global Value Chains	TSA	Targeted Social Assistance
IBRD	International Bank for Reconstruction and Development	UHC	Universal Health Coverage
IDP	Internally Displaced Persons	UNICEF	United Nations International Children's Emergency Fund
ICT	Information and Communication Technology	WBG	World Bank Group
IFC	International Finance Corporation		
IFRS	Internal Financial Reporting Standards		

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**FY19-FY22 COUNTRY PARTNERSHIP FRAMEWORK FOR  
GEORGIA**

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# FY19–FY22 Country Partnership Framework for Georgia

## I. Introduction

**1. This Country Partnership Framework (CPF) for FY19–FY22 sets out the World Bank Group’s (WBG) proposals for supporting the Government of Georgia’s vision of developing a market-based economy while ensuring nationwide prosperity and strengthening its regional position.** Georgia has undergone significant transformations over the past 25 years, achieving middle-income status, dramatically reducing extreme poverty, and implementing social policies to support its poorest regions and segments of the population. The government’s vision for the country’s development is driven by the “Georgia 2020” Platform, which emphasizes freedom, rapid development, and prosperity through four policy goals—economic reform, education reform, spatial arrangement and infrastructure, and governance. Georgia’s Nationally Determined Commitments (NDC) highlight the need to address both climate change adaptation and mitigation, stressing preparedness, adaptive capacity, and reducing greenhouse gas emissions.

**2. Building on the strong foundation put in place by the previous FY14–FY17 Country Partnership Strategy (CPS)<sup>1</sup>, this CPF will work to consolidate gains and move the economy toward addressing next-generation development challenges for sustained and inclusive growth and poverty reduction.** The CPF proposes a strategic shift in focus from an infrastructure-heavy program to one that emphasizes expanding human capital. WBG interventions over the next four years will aim to reduce gaps in human endowments and create economic opportunities that will ensure inclusive and sustainable economic growth. The WBG will support Georgia in sustaining strong productivity-led growth while maintaining a direct line of sight to the “Bottom 40”—those Georgians whose annual household income falls into the bottom 40 percent of the country. The shift toward a human capital-based approach will enable the adequate use and better deployment of labor resources in Georgia, which are critical to the country’s future growth. Furthermore, it will enable people in both urban and rural areas to be better equipped for new work possibilities, thus making the entire economy more competitive in global markets and strengthening prospects for achieving equitable, inclusive growth for poverty reduction and shared prosperity. The program will continue address challenges to connectivity highlighted in the Systematic Country Diagnostic (SCD) and support the alleviation of existing infrastructure gaps.

**3. To support the government in achieving the twin goals of eliminating extreme poverty and promoting shared prosperity, the CPF envisages support to Georgia across three focus group areas:** (i) enhancing inclusive growth and competitiveness, (ii) investing in human capital, and (iii) building resilience. The CPF will pay special attention to vulnerable groups and lagging regions that have not benefited from the fruits of growth. Interventions will target special groups such as women, youth, and

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<sup>1</sup> FY14–FY17 Country Partnership Strategy report #85251-GE discussed by the Executive Directors on April 7, 2014

rural communities where most poor people live. Across the three focus areas, the CPF will rely on three engagement principles to guide the selection of interventions: (i) maximizing finance for development (MfD), which aims to leverage the private sector for growth and sustainable development; (ii) spatial equity, as a means to redress currently regional imbalances within the country; and (iii) innovation, given the rapid pace of technological changes and digitization and its effects on productivity and competitiveness. Preparation of the CPF benefited from strategic discussions with the government in identifying priorities and client demand, as well as from the WBG’s engagement with the private sector, academia, civil society, and other development partners. Stakeholder feedback contributed to the formulation of strategic focus areas for WBG engagement and specific CPF objectives (Annex 8).

**4. Lending commitments will evolve during the CPF—as they have throughout the WBG’s engagement with Georgia—and the current portfolio of investments and advisory services and analytics (ASA) will serve as a solid base to enable the WBG to achieve the intended strategic shifts in this CPF.** The effectiveness of CPF interventions will be maximized under a “One World Bank Group” approach by using the comparative strengths of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA), as well as high-quality feedback from citizen engagement and other development partners. Available resources from the IBRD will build on a strategic program of ASA and will be utilized in a highly selective manner to promote value for money and to leverage partnerships and private sector participation. The ASA program will fill knowledge gaps identified in the recent SCD, advance key second-generation reforms, and respond to Georgia’s strategic needs and shifts. Capacity building for institutional development will be pursued throughout the program to support governance reforms.

## II. Country Context and Development Agenda

### II.1 The Social and Political Context

**5. A Country Social Analysis for Georgia, conducted in 2017, revealed that people from marginalized groups face substantial barriers to employment and participation in the country’s economic growth.**<sup>2</sup> These groups—persons with disabilities, internally displaced persons (IDPs) who have been affected by conflict or natural disasters, homeless people, street children, and people living in rural, remote, and high mountainous areas—not only face barriers to accessing services such as education and economic opportunities in labor markets, but are also subject to negative social attitudes and stigma. Georgia has one of the world’s highest shares of IDPs relative to total population, at approximately 7 percent,<sup>3</sup> and thus faces the burden of ensuring sustainable housing and livelihoods for a population that

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<sup>2</sup> World Bank. 2017. *Social Exclusion in Georgia: A Country Social Analysis*. Washington, DC: World Bank. Available at: <http://hdl.handle.net/10986/28317>.

<sup>3</sup> Data are from December 2016, provided by the Ministry of Refugees and Accommodation. The national census estimates the IDP population at 190,000 (GEOSTAT 2017), while the Internal Displacement Monitoring Centre estimates that there are 206,000 IDPs in Georgia (IDMC 2016). The MRA registry number is higher because it includes the children of IDPs, who also hold IDP status.

still depends largely on social transfers. Low levels of education and employment are the two key contributors to lower living standards for marginalized groups.

**6. Despite progress toward closing gender gaps in recent years, a country gender assessment prepared in 2016 highlights persistent gender inequality in economic opportunities, agency (that is, women’s ability to make decisions about their own lives), and endowments.**<sup>4</sup> Globally, Georgia ranks 94<sup>th</sup> out of the 144 countries included in the 2017 World Economic Forum Global Gender Gap Index—just ahead of its South Caucasus neighbors (Armenia at 97<sup>th</sup> and Azerbaijan at 98<sup>th</sup>), but behind most European Union (EU) countries. The country has shown continuous improvement in its ranking, however, rising from below average to the top 45 percent between 2006 and 2017. Three key challenges in gender equality include skewed gender birth ratios, low labor force participation among women, and a wide gender wage gap. Women’s financial dependence in Georgia not only prevents them from contributing actively to the economy, but may also aid negative social phenomena such as vulnerability to gender-based violence.<sup>5</sup>

**7. Politically, Georgia has demonstrated democratic maturity during the last decade.** The country saw a peaceful change in administrations, from the United National Movement to the Georgian Dream, following elections in 2012. Four years later, the Georgian Dream-Democratic Georgia party secured a constitutional majority in the October 2016 parliamentary election. This paved the way for continuity with pro-European foreign policy and a far-reaching domestic reform agenda. Georgia and the EU recently adopted an Association Agreement (AA) for the period 2017–20. The AA builds on a 2014–16 agreement and 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 dedicated Deep and Comprehensive Free Trade Area (DCFTA) chapter, and covers cooperation in sectors such as energy, transport, employment, and social policy. In March 2017, the EU granted Georgian citizens visa-free travel to the 26 countries of the Schengen Area.

**8. Following the October 2016 elections, the ruling party initiated several important constitutional amendments.** Changes to the electoral system were approved in September 2017. For example, the president will no longer be elected through direct ballot, but through the mandate of the college of electors, composed of 300 members, including members of parliament and representatives of local and regional governments. Changes in land ownership were also introduced; the constitutional amendment now allows only citizens of Georgia to buy agricultural land.

**9. During the most recent municipal elections in October 2017, the ruling Georgian Dream party won in a majority of districts in the party-list contest, including all 10 districts of Tbilisi.** According to the National Democratic Institute, the legislative and electoral framework largely met international standards and was conducive to the conduct of democratic elections.

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<sup>4</sup> World Bank. 2016. *Georgia Country Gender Assessment*. Washington, DC: World Bank. Available at: <http://hdl.handle.net/10986/26091>.

<sup>5</sup> World Bank. 2017. *Gender Based Violence in Georgia: Links Among Conflict, Economic Opportunities and Services*. Washington, DC: World Bank. Available at: <http://hdl.handle.net/10986/29108>.

## II.2 Recent Economic Developments and Outlook

**10. Between 2007 and 2016, the Georgian economy grew at an average annual rate of 4.5 percent.** Over this period, growth was driven by consumption and high rates of investment, with mostly negative contributions from net exports. After the economic downturn of 2008–09, fiscal stimulus and a pickup in external demand helped growth rebound to 5.8 percent annually during 2010–13. Georgia’s growth then decelerated, however, to 2.8 percent in 2016—its weakest performance since the 2008–09 global financial crisis—when total exports fell by 4 percent (after falling by 23 percent in 2015). Preliminary data for 2017 suggest a rebound in growth to 5.0 percent, driven by strong exports underpinned by regional recovery and coupled with fiscal reforms and the ongoing International Monetary Fund (IMF) Extended Fund Facility (EFF) program.

**11. Persistent current account deficits led to high external financing needs, and the country’s external debt reached 113.5 percent of Gross Domestic Product (GDP) in 2017.** Foreign direct investment (FDI) and official loans remain resilient sources of financing, but large capital inflows have led to an appreciating trend of real exchange rate that has hampered the price competitiveness of Georgia’s exports. Because of the oil price crisis late 2014, the Georgian lari adjusted and depreciated by over 50 percent against the US dollar as of end-2016. Georgia’s external position strengthened in 2017, with the current account deficit narrowing to 8.7 percent of GDP in 2017, down from 12.8 percent in 2016. Exports of goods and services increased by 22 percent on the back of strong external demand, and tourism proceeds rose by almost 27 percent. The recovery in external demand boosted workers’ remittances by 21 percent in 2017.

**12. Georgia had previously maintained a countercyclical fiscal policy stance, which allowed public debt to remain within sustainability margins.** Spending increased significantly after 2012, as the new administration prioritized social policies and sought to respond to the external shock of the oil price crisis in late 2014. The fiscal deficit has widened as a result since 2015, reaching 3.9 and 3.8 percent of GDP in 2016 and 2017, respectively. The public debt-to-GDP ratio rose to 44 percent by the end of 2017, compared to 33 percent of GDP in 2012.

**13. To return to a more sustainable path, the government developed a fiscal consolidation program at the end of 2016.** This program was reflected in the annual State Budgets for 2017 and 2018 and in the government’s medium-term framework, which envisages a gradual reduction in the deficit to 2.4 percent of GDP by 2022. Achieving this goal rests upon the successful implementation of a set of ambitious targets that aim to: (i) reap efficiency gains in current spending, (ii) restrict the management of the wage bill at central and local levels of government, (iii) impose additional spending controls on local authorities for the purchase of goods and services, (iv) place more emphasis on the most vulnerable in public health care and improve the management of claims, (v) improve the management of public investment projects through the introduction and implementation of public investment management (PIM) guidelines at the central and local budget levels, and (vi) reduce fiscal and quasi-fiscal risks by monitoring contingent liabilities and enacting a new law on public-private partnerships (PPPs). In the meantime, revenue performance has been continuously robust, and the revenue shortage risks associated with the



elimination of profit taxes on reinvested profits (Estonian model) have been minimized by a sharp increase in excise tax rates on fuel and tobacco starting in 2017.

**14. Georgia’s banking sector is well capitalized and profitable, although vulnerabilities remain high.**

The banking sector’s capital adequacy ratio stood at 19.1 percent in December 2017, exceeding the National Bank of Georgia’s (NBG) required ratio of 10.5 percent. The liquid-to-total assets ratio was 21.3 percent. Profitability remains high, with return on equity and return on assets at 20.7 and 2.8 percent, respectively. Nonperforming loans (NPLs) are lower than in neighboring countries and show a declining trend—falling to 6 percent in December 2017 compared to 7.3 percent in 2016. NPLs under the IMF financial soundness indicators (FSI)<sup>6</sup> methodology was around 2.8 percent (NBG). Strict banking supervision, reasonable bank underwriting standards, and continued credit growth have added to the sector’s solid performance. At the same time, however, systemic financial sector vulnerabilities remain, driven by the market share of the top two banks, retail loan growth, and high dollarization, against a background of deficient financial safety nets and a weak crisis preparedness framework. The authorities are aware of these risks and are improving financial safety nets, and the NBG has taken steps to strengthen liquidity management, de-dollarize<sup>7</sup> the economy, and improve communication.

**15. Georgia’s growth outlook is expected to be positive over the medium term.**

Encouraging external developments have helped to accelerate growth, benefiting from the resilience demonstrated during the recent crisis. The steady implementation of the government’s reform program is expected to further accelerate growth over the medium term, to 5 percent by 2022. Annual inflation is expected to converge with the NBG’s target rate of 3 percent by the end of 2018, and the current account deficit to narrow to below 8.5 percent of GDP by 2022. Fiscal operations will continue to shift gradually from current to capital spending in the medium term. The considerable consolidation of administrative spending, the streamlining of subsidies, and a more efficient social safety net will help to achieve medium-term fiscal consolidation while providing space for capital spending. The government’s fiscal deficit is expected to decline gradually to 2.5 percent of GDP by 2022, helping to stabilize public debt at around 40 percent of GDP. The positive outlook is anchored in and reinforced by an ongoing IMF EFF program approved in April 2017, which supports the government in strengthening financial stability, reducing external imbalances, enhancing fiscal credibility, increasing infrastructure investment, and undertaking structural reforms. Since Georgia does not have substantial natural resources or a large domestic market, future GDP growth and job creation will hinge on its ability to produce and sell goods and services competitively in the global marketplace. However, Georgia has not yet demonstrated success in tapping into vertically integrated international production networks, and the quality and sophistication of its export basket has not evolved much over the last decade. Firms’ survival probability in new export markets is considerably below that of other countries in the Europe and Central Asia (ECA) region.

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<sup>6</sup> Financial soundness indicators provide insight into the financial health and soundness of a country’s financial institutions, as well as corporate and household sectors.

<sup>7</sup> The government and the NBG have adopted a 10-point plan focusing on increasing long-term lari funding, reducing foreign exchange credit risk, and promoting pricing in lari.

**Table 1: Selected Macroeconomic and Social Indicators, 2014–22**

	2014	2015	2016	2017	2018p	2019p	2020p	2021p	2022p
	Actuals					Projections			
(Percent change, unless otherwise noted)									
<b>National Accounts</b>									
Real GDP (percent change)	4.6	2.9	2.8	5.0	4.7	4.8	5.0	5.0	5.0
GDP nominal (in billions USD)	16.5	14.0	14.4	15.2	16.3	17.5	18.7	20.0	21.4
GDP per capita (In USD)	3,676	3,767	3,865	4,074	4,373	4,683	5,009	5,364	5,744
Consumer Price Index	3.1	4.0	2.1	6.0	3.1	3.0	3.0	3.0	3.0
In percent of GDP, unless otherwise indicated)									
<b>Investment and Saving</b>									
Gross investment	29.8	31.5	32.7	31.9	32.8	33.0	32.5	32.1	32.1
Public	5.6	5.6	5.1	5.9	6.5	6.5	6.8	6.8	7.0
Private	24.2	25.9	27.6	26.0	26.2	26.5	25.7	25.3	25.1
National Savings	20.0	19.2	19.8	23.2	23.5	23.9	23.7	23.6	24.3
(In percent of GDP, unless otherwise indicated)									
<b>General Government Operations</b>									
Revenues and grants	28.0	28.1	28.4	28.7	28.8	28.6	28.5	28.4	28.5
<i>Of which:</i> Tax revenues	25.1	25.1	25.8	25.7	25.8	25.7	25.6	25.8	26.1
Grants	1.0	1.0	0.9	0.8	1.0	0.9	1.0	0.9	0.9
Expenditure and net lending	31.0	31.9	32.3	32.5	32.4	31.9	31.4	30.7	30.1
Current expenditure	25.4	24.9	26.0	24.2	23.9	23.2	22.4	21.6	21.2
<i>Of which:</i> interest payments	0.9	1.0	1.2	1.3	1.4	1.2	1.5	1.7	1.2
Capital expenditure and net lending	5.6	7.0	6.3	8.3	7.6	7.6	7.9	8.0	8.4
Primary balance	-2.9	-3.8	-2.7	-2.5	-2.5	-2.1	-1.7	-1.1	-0.3
Overall fiscal balance	-2.1	-2.8	-3.9	-3.8	-3.6	-3.3	-2.9	-2.3	-1.6
Total public debt	35.6	41.4	44.9	44.1	43.6	42.8	42.7	40.0	39.0
(In percent of GDP, unless otherwise indicated)									
<b>External Sector</b>									
Current account balance	-10.6	-11.9	-12.8	-8.7	-9.2	-9.1	-8.8	-8.5	-7.8
Exports of goods and services	43.0	44.6	43.7	50.5	54.8	55.1	55.5	56.1	56.5
Imports of goods and services	61.0	62.3	59.3	62.1	67.6	67.9	68.3	68.4	68.5
Remittances	4.6	4.2	4.3	4.8	4.7	4.8	5.0	5.0	5.0
Total external debt	84.7	108.8	110.3	113.5	108.6	106.8	106.4	106.0	109.0
FDI (net)	8.5	9.5	8.3	10.5	9.2	8.9	8.6	8.6	8.2
Gross International Reserves									
(in months of GNFS imports)	3.4	3.5	3.5	3.3	3.5	3.6	3.7	3.9	4.0
(in billions of USD)	2.7	2.5	2.8	3.0	3.4	3.8	4.2	4.5	5.0

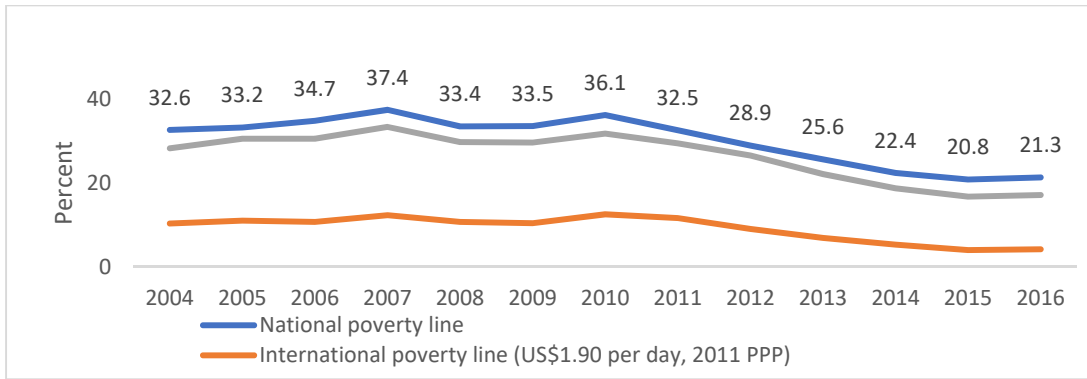
Source: Georgian authorities and Bank staff estimates and projections

## II.3 Poverty and Shared Prosperity

### 16. Georgia's recent economic reforms have favored economic growth and poverty reduction.

Coupled with a system of targeted social transfers, these reforms helped to nearly halve the poverty rate in from 37.4 percent in 2007 to 21.3 percent in 2016 (Figure 1), and to improve the income and living conditions of the bottom 40 percent of the population.

**Figure 1: Poverty Headcount Since 2004**

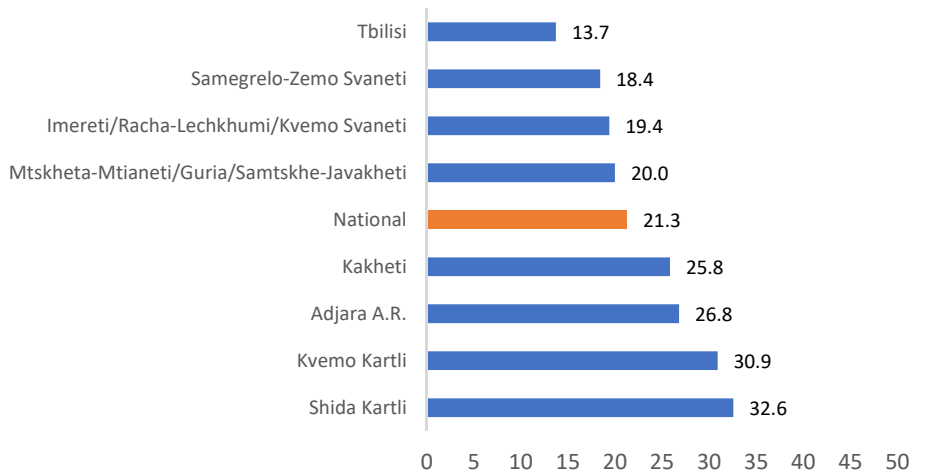


Source: For the National Poverty Line: GeoStat; for International Poverty Estimates – World Bank calculations based on the Integrated Household Survey (2004-2016). Note: Three measures of poverty refer to: the national poverty line, the international poverty line (USD 1.90/day, 2011 PPP), and the lower-middle-income countries poverty line (USD 3.20/day, 2011 PPP)

**17. Nevertheless, roughly one in every five Georgians is still poor, and almost half the poor population is vulnerable to falling into poverty.** Poverty is higher among female-headed households (between 2012 and 2016, female-headed households reported on average poverty levels almost 4 percentage points higher than male-headed households).<sup>8</sup>

Gender inequalities are explained by the availability of fewer economic opportunities for women than for men.<sup>9</sup> Up to 44 percent of women do not receive any income from labor. In addition, Georgia has one of the highest levels of income inequality in the ECA region. Although inequality declined after 2010, reaching a consumption Gini coefficient of 38.7 percent in 2016<sup>10</sup>—lower than that of Turkey and Russia—it remains higher than that of

**Figure 2: Poverty Headcount by Region**



Source: World Bank calculations based on Integrated Household Survey Data 2016

Poland, Armenia, and Kyrgyzstan. The share of the population that is vulnerable to poverty<sup>11</sup> hovered

<sup>8</sup> World Bank calculations based on the Integrated Household Survey (2012-2016).

<sup>9</sup> World Bank. 2016. *Georgia Country Gender Assessment*. Washington, DC: World Bank. Available at: <http://hdl.handle.net/10986/26091>.

<sup>10</sup> National Statistics Office of Georgia (GeoStat). 2016. Integrated Household Survey.

<sup>11</sup> Vulnerability to poverty is defined as a likelihood of falling into poverty higher than a threshold of 10 percent.

between 47 and 54 percent during 2009–15.<sup>12</sup> A 4 percent inflation rate in 2015 increased poverty by close to 3 percent, and out-of-pocket health expenditures resulted in a further 6.6 percent of households falling into poverty. Large urban-rural and intraregional disparities in the incidence of poverty highlight the economic dualism in Georgia. Regional differences within rural areas are substantial, with remote and mountainous regions bearing the highest burden of poverty (Figure 2). Over 50 percent of rural households with unemployed heads are poor.<sup>13</sup> Along the urban-rural divide, the gap between rural and urban poverty rates has remained broadly stable over the past decade, at an average of around 8 percentage points.

**18. The main drivers of poverty reduction in Georgia have been labor income, pensions, and social assistance.** In Tbilisi, labor income dominates, whereas in rural and other urban areas social assistance and agricultural income dominate. Nationally, income from social assistance accounted for just over 41 percent of poor people’s total income (about 27 percent for pensions and 11 percent for targeted social assistance (TSA)).<sup>14</sup> During the crises of 2007–10, social assistance helped to maintain household income, but labor income has since become a more important driver of poverty reduction.

## II.4 Development Challenges

**19. Georgia’s development over the last decade can be considered a success story.** The country has established an outstanding record in improving governance and the business environment through far-reaching reforms. Georgia has been in the top decile of the Doing Business rankings since 2009. Liberalized trade, upgraded infrastructure, and strengthened public finances helped to boost economic growth to 9.3 percent between 2004 and 2007. Poverty has declined overall, and both new economic opportunities and favorable social policies have spurred welfare improvements among households in the bottom 40 percent of the income distribution. According to international governance rankings, Georgia has one of the lowest corruption levels in the ECA region. The Heritage Foundation considers it the most liberal economy in the region, ranking Georgia 16<sup>th</sup> out of 180 countries in the 2018 Index of Economic Freedom and pointing to substantial improvement in property rights, government integrity/freedom from corruption, tax burden, business freedom, labor freedom, monetary freedom, and trade freedom. Improvements in public service delivery and the business climate have attracted significant amounts of FDI, spurring growth and positive—albeit low—net job creation.

**20. Despite these achievements, many development challenges remain.** Georgia’s population is aging and shrinking due to low fertility and outmigration, thus creating new demands on service delivery and social protection systems. Poverty and inequality remain high in rural areas and among ethnic minorities. The country’s human capital potential remains untapped, owing in part to vestiges of

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<sup>12</sup> Figure 1b in: Tiwari, Sailesh; Cancho, Cesar; Meyer, Moritz; Fuchs, Alan. 2018. South Caucasus in Motion: Economic and Social Mobility in Armenia, Azerbaijan and Georgia. Policy Research Working Paper; No. 8329. World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/29317>

<sup>13</sup> World Bank calculations based on the 2015 Integrated Household Survey.

<sup>14</sup> The 2 percentage-point difference is due to other social assistance programs (IDPs’ transfers, veterans, educational grants, and so on).

traditional employment structure in which the agricultural sector accounts for almost half of total employment while contributing less than 10 percent to GDP. Consequently, the majority of Georgia’s labor resources are locked in low-productivity jobs that require low-level skills, while young people with higher levels of education face unemployment as a result of the persistent mismatch between the skills they have and the requirements of a labor market that is now driven by technological advancements and demands of the global marketplace. Despite significant investments in infrastructure, Georgia remains poorly connected, both internally and externally, and in terms of both transport and digital connectivity. Unfinished second-generation reforms and slow integration with global product markets continue to constrain business growth. Georgia’s economy, driven largely by FDI and nontradables, faces long-term sustainability challenges over the long run, given uncertainties in the external economic environment. Furthermore, Georgia is highly vulnerable to climate change and natural disasters.

#### **II.4.1. Maintaining Growth and Boosting Productivity in an Inclusive and Sustainable Way**

**21. To address its development challenges, Georgia will need to maintain high levels of inclusive and sustainable economic growth.** The SCD notes that Georgia could double its per-capita GDP and eradicate extreme poverty by 2030 if it sustained the 5 percent average growth rate it saw in the past 10 years. Achieving this level of growth would not require a new growth paradigm, but rather refining and sustaining the current model. To sustain economic growth levels, Georgia needs to tap increasingly into export markets by enhancing competitiveness and productivity. Productivity growth will require: (i) more effective integration into the global marketplace, with more competitively priced exports, greater market access, and better logistics infrastructure; (ii) addressing firm-level constraints to accessing global value chains; (iii) investing in people and equalizing access to economic opportunities by building skills and better matching them to labor market requirements; and (iv) building institutional capacity for better public service delivery at the local level.

**22. Enhancing Georgia’s export competitiveness will require efforts to modernize the agriculture sector, which remains labor-intensive and unproductive.** Modernizing agriculture, in turn, has the potential to increase employment and incomes in the rural economy. To tap this potential, Georgia needs to develop effective land markets to enable farmers to provide collateral for access to credit, adopt a value-chain approach to production so that complementary inputs become available for commercialization, implement an irrigation rehabilitation plan to mitigate the effects of drought, and upgrade the capacity of producers to meet export standards. The vibrancy of agricultural markets is threatened, however, by climate change projections that suggest a rise in temperatures along with an increase in the frequency and severity of droughts, floods, frosts, and extreme temperature events. In addition, the increasing “feminization of agriculture” (33 percent of female-headed households are farmers) suggests that climate change could have a strongly gendered impact in the agriculture sector. Climate shocks to agriculture exacerbate this vulnerability and necessitate efforts in climate-smart and well-targeted agricultural extension support, especially to female farmers.

**23. Efforts to boost trade and attract FDI are currently undermined by key gaps in transportation and information and communications technology (ICT) infrastructure, which hamper intra- and international connectivity.** The SCD highlighted the importance of augmenting both hard and soft connectivity—transport, logistics, and ICT—in an economy that is overly reliant on a small domestic market. Transport connectivity remains weak and is further undermined by deficiencies in logistics, which raise the cost of trade internally and internationally. Road, port, and airport facilities are overburdened by increasing traffic, and connectivity constraints are particularly prominent in rural areas. In the ICT sector, despite notable increases in affordability and usage, its impact is constrained by limited mobile network coverage and below-potential penetration of broadband Internet services (at 39 percent of the population). The economic impact of public investment in infrastructure will depend greatly on institutional capacity to prioritize, develop, and implement infrastructure projects.

**24. Georgia’s growth potential could be enhanced by improving access to finance and markets and facilitating innovation.** To promote economic growth, create jobs, and increase household welfare, Georgia’s financial sector needs to play a more diverse role in terms of both volume and service quality. Access to finance remains a constraint, specifically for small and medium enterprises (SMEs). This calls for action to ensure that the banking system remains on a solid footing, and to develop alternative, affordable sources of long-term finance through the development of a capital market. In addition, supporting Georgia’s capacity for innovation hold the promise of further improvements in productivity and export potential. The government intends to move toward an innovation-based economy, supported by a combination of technical, entrepreneurial, and managerial skills development. Improving financing for innovation and encouraging collaboration between the public and private sectors can bring the results of research and development activities to market.

**25. Reinvigorating the rural economy while equalizing economic opportunities between rural and urban areas will also sustain economic growth.** The SCD underscored the fact that Georgia is economically divided between “islands” of rapid progress and a large, mostly rural, hinterland that has not benefited as much from growth. These regional disparities constrain inclusive growth, are exacerbated by demographic changes, and are detrimental to Georgia’s long-term growth prospects and ability to leverage its skills pool. Almost half of Georgia’s population remains close to the poverty line and thus are vulnerable to falling back into poverty (most in rural areas). To move these vulnerable groups more securely into the middle class, future growth will need to generate more productive employment supported by equal access to quality services, such as education and health, for productive participation in the economy. The challenge going forward is twofold - Improving and equalizing access to opportunities will rely on connectivity, both digitally and physically through transport linkages as well as human capital investments in people.

#### **II.4.2. Investing in People**

**26. Enhancing productivity will require improving skills and making better use of labor resources.** The country’s labor force is currently underutilized, as evidenced by high unemployment, particularly among young people. Unemployment in urban areas is 21 percent and 5 percent in rural areas. However,

the type of employment most prevalent in urban areas is employee (77 percent) and to a lesser extent self-employed (20 percent) or unpaid family workers (4 percent). In rural areas, by contrast, 23 percent are employees, while self-employed is the largest group (41 percent) followed by unpaid family workers at 36 percent. Youth unemployment in urban areas is 42 percent and is slightly higher in secondary cities (48 percent) compared to Tbilisi (38 percent). The national unemployment rate in 2016 was 11.8 percent.<sup>15</sup> High unemployment among those with tertiary education reflects the relative scarcity of jobs, as well as a mismatch between existing skills and labor market requirements, which constrains business expansion and growth. The SCD highlights that innovative and growing firms suffer from skill shortages the most. Georgia's employers regularly report their dissatisfaction with the supply of skills and unmet demand for job-relevant and socio-emotional skills. Lack of skills prevents a move from low- to higher-productivity sectors and from rural to urban areas. Development of the right skills among workers is central to increasing labor productivity, as workers who acquire more relevant skills not only make capital and other workers more productive, but also facilitate the adoption and invention of new technologies. Addressing these challenges will require the development of education and training opportunities that are accessible to all and that produce a skilled workforce ready to participate actively in the economy. Georgia is undergoing significant demographic changes, with its population aging and shrinking at the same time. This trend underlies the growing rise in the share of the elderly and the decline in working-age population. Georgia faces other social challenges, including a gender gap, high unemployment, and low activity rates, particularly among women and youth. There is a strong need to increase labor force participation through activation of individuals who are out of the labor force altogether, encouraging labor mobility from informal to formal sectors, and promoting female labor force participation.

**27. Participating fully in the global economy as technology accelerates requires a continuous investment in skills and learning built on solid foundational skills acquired from early childhood.**

Georgian authorities are aware that the country risks being marginalized in a competitive global knowledge economy if its education and training system is not able to equip learners with the skills they need in the 21<sup>st</sup> century. The quality of education remains poor, as evidenced by low student learning outcomes. Georgia remains far behind countries with similar per-capita income. In the most recent Program for International Student Assessment (PISA), for example, Georgia ranked 60<sup>th</sup> of 72 participating countries in mathematics, 63<sup>rd</sup> in science, and 65<sup>th</sup> in reading. In the Trends in International Mathematics and Science Study (TIMSS), Georgia ranked 33<sup>rd</sup> and 35<sup>th</sup> in 4<sup>th</sup> grade math and science, respectively, out of 42 participating countries, and 25<sup>th</sup> and 30<sup>th</sup> in 8<sup>th</sup> grade math and science out of 38 countries. Moreover, there are substantial in-country differences in performance by location, wealth, and availability of school resources. The quality and relevance of the vocational education (VET) system is constrained by limited access in rural areas, low overall enrollment rate, low popularity among young people, no smooth transition to other higher levels of education, and limited private sector involvement. The existing public financing model of higher education based on a fixed grant per student provides no incentive to improve the quality of teaching and learning or research capacity. The systemic as well as institutional reforms

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<sup>15</sup> Source: [http://geostat.ge/index.php?action=page&p\\_id=146&lang=eng](http://geostat.ge/index.php?action=page&p_id=146&lang=eng)

should emphasize building a close link with the labor market's need for a skilled and innovative labor force, not only as employees, but also as entrepreneurs. Early childhood development interventions will be critical to preparing Georgians for their working future, as most essential higher-order cognitive and socio-emotional skills, along with a strong sense of empathy, have their roots in the early years.

**28. The prevalence of entrepreneurship is low as indicated by the share of employer enterprises.** Possessing the right set of skills and behaviors is not only necessary to increase an individual's employability and productivity, but also valuable to empower entrepreneurial activity. Georgian entrepreneurs tend to have lower levels of educational attainment and lower scores in job-relevant, socio-emotional, and cognitive skills than wage earners, and have lower income levels, also constraining innovation and higher-productivity activities. On the other hand, since high-tech sectors already provide a substantial share of all workers, innovative sectors have good potential, given a supportive business environment.

**29. Investing in people also involves safeguarding their health.** Georgia has made substantial progress in improving its health care system, including through the introduction of Universal Health Coverage (UHC). Over 10 percent of households encountered catastrophic health expenditures, devoting over 25 percent of their total spending on health. Two-thirds of total out-of-pocket spending is on medicines. The WBG's 2017 Public Expenditure Review highlighted the need to reorient Georgia's health system toward a greater emphasis on primary care and reduced reliance on acute hospital and emergency care, while working to alleviate significant regional disparities in the quality of health care services.

**30. Sustaining economic growth and improving services will require strengthening institutional capacity for public service delivery.** Reform implementation has been uneven across layers of government and sectors, with capacity constraints exacerbating institutional limitations. Going forward, the challenge will be for Georgia to complete its institutional transition toward a world-class administration by filling the remaining gaps. While, for instance, Georgia has developed governance excellence in key elements of decision making at the central government level, this needs to be extended to lower, technical levels where connections are built between urban centers and rural areas. The financial sector has accumulated systemic vulnerabilities including borrowers' risks due to high dollarization that now exacerbate limited access to finance while undermining overall macro-financial stability. In areas where Georgia is doing well, such as the investment climate, institutional bottlenecks and areas for further improvements pertain to include deficient land markets, inadequate frameworks for firm exit and restructuring, and weak corporate governance.

### **II.4.3. Addressing Vulnerabilities to Strengthen Resilience**

**31. Reducing Georgia's vulnerabilities resulting from external economic shocks will be an important way to sustain economic growth.** Although Georgia has built a solid track record of macroeconomic policies that support stability and growth, significant vulnerabilities exist. These stem from growing social spending commitments and contingent liabilities, dollarization, and concentration in the financial sector,



as well as high exposure to external shocks due to a large structural current account deficit and a high external debt of over 100 percent of GDP.

**32. Vulnerability is also a challenge at the household level.** Two in five Georgians have income levels and characteristics that place them at real risk of falling back into poverty. Close to half of the households identified as poor in 2011, 2013, and 2015 were not poor during previous periods, which shows considerable movement in and out poverty. This means that small shocks can push many households into poverty and destitution. The pattern of growth observed in recent years appears to have been insufficient to overturn an uneven landscape of economic opportunities that excludes large segments of the population from active participation in growth. Ensuring the resilience of vulnerable households is a first step toward improving their economic prospects and access to economic opportunities. This requires engagement in universal pensions and social assistance programs as well as financial sector regulatory frameworks and financial literacy.

**33. Georgia's natural resources are a tremendous boon, yet the environment is increasingly under stress, and the sustainability of the country's natural wealth is under threat.** Georgia's mining sector is beset by an out-of-date and incoherent legal and policy framework as well as by weak institutions. Abandoned mine sites pollute the environment, with no identifiable responsible parties for their cleanup. High levels of indoor and outdoor pollution, illegal logging, and insufficiently controlled exploitation of natural resources adversely affect people's health and threaten Georgia's environmental sustainability, its EU approximation progress, and its potential as a major tourism destination and a producer of good-quality agricultural produce. Nearly three-quarters of Georgians are exposed to high levels of airborne particulate matter in cities, and rural households using solid fuel for heating and cooking are exposed to indoor air pollution at levels on average 30 times above recommended limits. Two-thirds of agricultural lands are eroded or degraded, and loss of land productivity as a result of degradation and the increased frequency and magnitude of floods, landslides, and mudflows greatly affect people in rural areas.

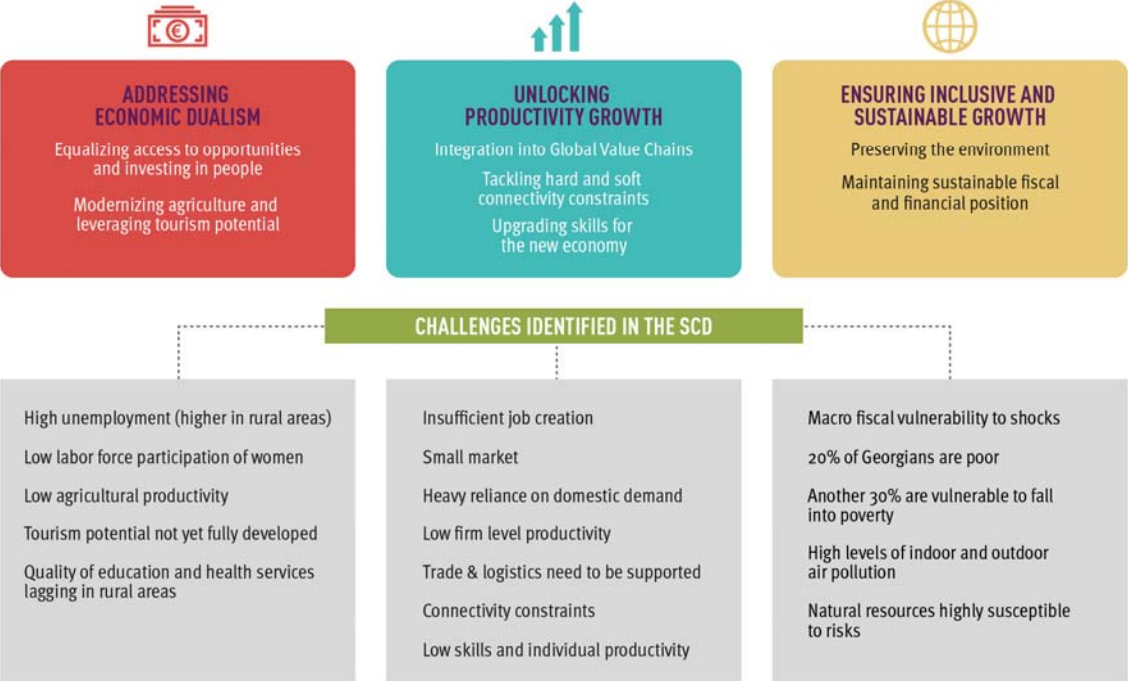
**34. Observed and anticipated climate change impacts are expected to exacerbate natural and environmental vulnerabilities.** Georgia is exposed to a range of potential natural disasters, in particular, floods, drought, and earthquakes. Based upon the resilience indicator developed by the WB, the annual average risk to assets is 0.95 percent<sup>16</sup> of GDP and risk to well-being is 1.4 percent. Increased occurrence of extreme weather, flash floods, and related landslides/mudflows pose the greatest threat. Stronger winds, hailstorms, and sea storms result in costly damage to agriculture as well as to residential infrastructure and communications. Fires have become an increasing threat to forests, protected areas, and other vegetation resources in Georgia because of climate change and land use patterns. A few models

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<sup>16</sup>The resilience indicator is looking beyond asset and production losses and focuses instead on how natural disasters affect people's well-being. Natural disaster risk and losses are measured using a metric that can capture their overall effects on poor and nonpoor people, even if the economic losses of poor people are small in absolute terms. See Stephane Hallegatte, Adrien Vogt-Schilb, Mook Bangalore, and Julie Rozenberg. 2017. *Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters*. Washington, DC: World Bank. Available at: <http://hdl.handle.net/10986/25335>.

of early warning systems were tested in parts of the country with the highest incidences of natural disasters, but a countrywide warning system has not yet been developed.

Figure 3: SCD – Challenges, Pathways, Priorities

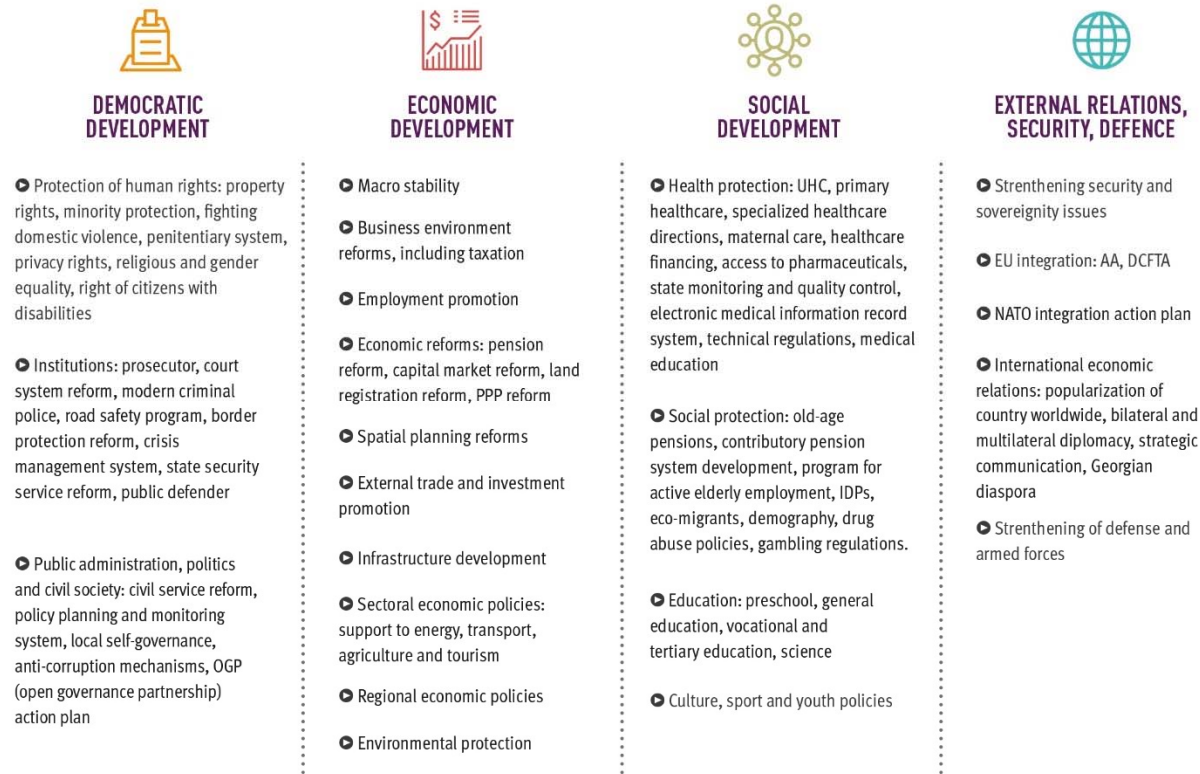


### III. The World Bank Group Country Partnership Framework FY19-FY22

#### III.1. The Government Program and Medium-Term Vision

35. The government’s vision for Georgia is driven by the “Georgia 2020” Platform - “Freedom, Rapid Development, Prosperity”. It highlights similar challenges to those raised in the SCD (Figure 4). The Platform sets out a vision for how Georgia will further develop a market-based economy while ensuring nationwide prosperity and strengthening its regional position, security, and territorial integrity as it pursues deeper integration with the EU and the North Atlantic Treaty Organization (NATO). The Platform’s implementation rests on four policy goals: economic reform, education reform, spatial arrangement and infrastructure, and governance—“the Four-Point Plan.” Georgia’s Nationally Determined Commitments (NDC) highlight the need to address both climate change adaptation and mitigation, stressing preparedness, adaptive capacity, and reducing greenhouse gas emissions.

**Figure 4: The Georgian Government’s Medium-term Policies and Directions (“Georgia 2020”)**



**36. These government’s four key policy goals are in alignment with the SCD’s priorities for inclusive growth.** Economic reform focuses on the private sector and a comprehensive package of actions that take full advantage of the attractive business environment in Georgia. Education reforms target the improvement of human capital and its effective engagement in the country’s development, through investment in policies to upgrade skills for the new economy. Spatial planning reform will act as a framework for the country’s inclusive and sustainable development, addressing the lack of economic opportunities and protecting the environment as Georgia deepens its integration with the EU. Finally, public governance reform supports sustainable growth by improving the quality of policies and services as well as the effectiveness of individual agencies and local institutions.

## III.2. Lessons from the FY14–FY17 CPS Completion and Learning Review

**37. Lessons highlighted in the CPS Completion and Learning Review have guided the selection of CPF activities and the approach to implementing the program.** The CPS’s development outcome was rated “moderately satisfactory” and the WBG’s performance was rated “good,” meaning that the WBG helped Georgia to reach some of its goals and is well positioned to assist with the next generation of reforms. The program was implemented with appropriate adaptations and in collaboration with a wide range of partners as Georgia’s development context evolved.

**38. The WBG’s strengths in environmental and social safeguards have benefited development partners and government officials.** The WBG paid intensive attention to safeguards and the fiduciary aspects of reform during the CPS, providing the borrower with substantial support and guidance in the preparation of large, high-risk infrastructure projects in transport and energy. The CPF will continue to emphasize upstream safeguards through capacity building with the government and other stakeholders, including during the rollout of the new Environmental and Social Framework.

**39. Grievance redress mechanisms and citizen engagement (CE) are applied consistently across the portfolio, but there is room to improve the quality and effectiveness of CE mechanisms.** The portfolio is fully compliant with the corporate requirement regarding citizen-oriented design, and partially (60 percent) with the required inclusion of beneficiary feedback indicators (due to the age of several projects). All World Bank projects have planned and at least partially operationalized a grievance redress mechanism, but these, along with consultations, are often limited to issues concerning safeguards and project-affected persons. Under the new CPF, additional attention will be paid to promoting more “active” CE instruments—such as citizen reports and score cards, and participatory planning and monitoring tools—and to demonstrating the possible benefits of a more proactive engagement with citizens.

**40. The FY14–FY17 CPS explored innovative implementation tools that will be used during new and ongoing interventions.** The introduction of output and performance-based contracts (OPRCs) in the transport sector has proven highly effective and will be expanded during the CPF period. Piloting this innovative contracting approach required a comprehensive and in-depth assessment of: (i) the potential

### Box 1: Key Findings of the Georgia Country Opinion Survey, 2017

Stakeholders continue to positively assess Georgia’s development path, highlighting education (52 percent of respondents) and economic growth as the country’s greatest development priorities as well as the best vehicles for poverty reduction. These have remained the top development priorities since FY05 and are considered to have been key to reducing poverty in Georgia. Private sector development, job creation, and employment are ranked third in terms of development priorities and poverty reduction vehicles. Respondents suggest that Bank resources should focus on education (46 percent of respondents), economic growth (28 percent), agricultural/rural development (about 25 percent), and private sector development (about 25 percent).

The WBG’s greatest value is in providing financial resources (55 percent of respondents) followed by policy advice (37 percent) and knowledge sharing (30 percent), while ASA is seen as being the Bank’s most effective instruments. Respondents favor more innovative financial products (27 percent) and increasing the level of capacity development in the country (23 percent) to increase the value of WBG engagement. The WBG has been most effective in transport (8.4 out of 10), and Bank knowledge services are rated highly as a source of relevant global practices, as being accessible, and as leading to practical solutions and are relevant to Georgia’s development challenges. Overall perceptions highlight the WBG’s contribution to institutional capacity and the use of country systems. Respondents agreed that the WBG is an effective development partner and collaborator, particularly as a long-term partner, and that it treats both clients and stakeholders with respect. Selected findings of the FY18 Country Opinion Survey are presented in Annex 9.

road network area, (ii) public and private sector capacity, (iii) macroeconomic factors, and (iv) the time required for adjustments during implementation. As the government already intends to generalize the use of OPRCs across Georgia starting in 2019, and it is engaging with other donors to seek their financial support, the Bank will provide technical support in evaluating existing OPRC models.

**41. The CPS program promoted synergies across the WBG that will be scaled up during implementation of the CPF under a “One World Bank Group” approach.** The World Bank and IFC reinforced and complemented each other’s efforts in the health care, energy, tourism, and financial sectors. IFC’s investments in private health care provision followed health sector reforms implemented with IBRD support. In the energy sector, the WBG’s priorities were guided by a continuous dialogue between IBRD and IFC sector teams, which led to a true “One WBG” engagement in the construction of a greenfield power plant. Here, IFC arranged financing and MIGA provided guarantees that led to private investment by a South-South investor. In the tourism and financial sectors, IFC and IBRD interventions were highly complementary. The IBRD focused on upstream reform to create conditions for capital market development, while IFC partnered with leading private sector players to increase the scale of capital market transactions. The CPS showed that there is considerable potential for MfD (Annex 11). Continued WBG collaboration will be critical for successful implementation of the MfD agenda. Hence, the CPF will adopt the MfD approach as an overarching engagement principle in Georgia, expanding it into other sectors such as infrastructure, municipal finance, and health.

**42. The Independent Evaluation Group’s (IEG) work attests to the critical importance of strong government ownership in ensuring the program’s coordination and successful completion, as well as in leveraging resources from other donors.** IEG recommendations taken into consideration during the preparation of this CPF include: (i) the key role of development policy operations (DPOs) and policy dialogue in supporting challenging reforms; (ii) the need for program flexibility in order to better grasp the country’s changing context and priorities; (iii) the importance of designing programs in a way that facilitates continuous dialogue with all stakeholders and the donor community; (iv) the need to align and direct investments toward sectors with a strategic, long-term vision; (v) the importance of working with municipalities in regional development, which in turn calls for enforcing fiscal discipline to help municipalities learn how to function in a market-based borrowing environment; and (vi) the longer-than-expected time frame for land acquisition and resettlement procedures, as evidenced by the project portfolio experience.

### **III.3. An Overview of the Proposed World Bank Group Partnership Framework**

**43. This Country Partnership Framework (FY19–FY22) aims to support Georgia in achieving inclusive and sustainable economic growth.** All activities under the CPF will ensure a direct line of sight to the “Bottom 40 percent.” Activities will embrace the MfD agenda and identify and secure (through capacity development) the institutions that matter in bringing about an environment that is supportive of private sector development. The CPF’s broader approach to integrated regional development, together with its engagements in connectivity and innovation, are complemented by interventions in human capital and

resilience to support productive employment and improve access to opportunities for the “Bottom 40 percent.” Two selectivity filters are used to define the WBG program.

**44. The WBG program is defined on the basis of two selectivity filters, the first of which puts engagements at the intersection of growth and spatial equity to tackle the SCD’s high-priority areas.** As such, the CPF will pursue growth-oriented interventions that improve productivity and skills development, address high vulnerability by focusing on economic dualism, and help to manage environmental risks. The SCD highlights the need to enhance the competitiveness and export orientation of the economy and the productivity of key sectors, as well as addressing spatial disparities to accelerate poverty reduction and boost shared prosperity. The proposed focus areas of the CPF—enhancing inclusive growth and competitiveness, investing in human capital, and building resilience—broadly parallel the seven priority areas identified in the SCD.

Figure 5: Direct Line of Sight to the Bottom 40% in the CPF



**45. The second selectivity filter involves mobilizing the WBG’s comparative advantage to sustain, deepen, and extend economic growth and development.** Given its long-standing engagement with Georgia, the WBG is seen as a trusted partner and as an institution with the experience and expertise to guide and assist economies that face new and complex development challenges. The CPF proposes to focus on current, more complex, multisectoral engagements with the potential for greater impact in promoting inclusive growth. The Bank has led key interventions in Georgia on, for example, institutional development, connectivity, and regional development. This CPF will reinforce the Bank’s role and leadership in guiding next-generation reforms in logistics, spatial connectivity, and human capital. Within these areas, the CPF will concentrate on reforms that are achievable and/or where progress can be made within the time frame of the CPF, as well as on those through which the CPF can most effectively promote progress toward the twin goals. Furthermore, the CPF will address areas where it can advance the agenda from diagnosis of reform challenges to implementation, crowd in and enable private sector participation, promote innovation, and build upon recent achievements to pursue second-generation reforms.

**46. This CPF will rely on a strong ASA program that will advance key reform areas, fill SCD knowledge gaps, and thereby help to inform a highly selective IBRD program.** In particular, the ASA program will be geared primarily toward addressing key second-generation reforms and knowledge gaps identified by the SCD. Under this approach, ASA would play an upstream strategic role in uncovering: (i) the underlying causes of economic dualism and informality in Georgia, which inhibit the development and optimal use of human capital, constrain mobility, and lead to urban-rural territorial inequalities; (ii) alternative means to improve the quality of health care and the unit cost of health care services provision; and (iii) opportunities and bottlenecks in further leveraging MfD as a strategic approach in key sectors such as agriculture.

**47. Limited IBRD resources will be utilized in selective areas where these could leverage partnerships and private sector participation.** In support of this goal, WBG collaboration will be further strengthened through a regular country coordination mechanism, coordinated ASA, and other operations to bring synergies between reforms and public and private investments—in, for example, the health care, agriculture, tourism, financial, transport, and ICT sectors. The WBG will expand ongoing partnerships and build new ones, playing a lead donor coordination role in key sectors.

**48. The proposed WBG strategy relies upon three interconnected focus areas—enhancing inclusive growth and competitiveness, investing in human capital, and building resilience—underpinned by nine objectives.** The three focus areas build on the ongoing country program and extend it through proposed new and complementary engagements that will: (i) strengthen underlying institutions and the implementation of ongoing reforms, and (ii) embark upon a gradual shift in engagement for the WBG toward those SCD priorities that target human capital, “soft” connectivity, and an integrated approach to regional development beyond tourism. These mutually reinforcing focus areas work together to support the twin goals. The first focus area is expected to lead to more job creation through a stronger private sector and expanded exports. The second focus area will support the development of human capital and skills to boost labor productivity and more inclusive labor market participation. The third focus area will mitigate economic, environmental, and household vulnerabilities.

**49. Three cross-cutting engagement principles—maximizing finance for development, spatial equity, and innovation—will guide CPF implementation.<sup>17</sup>** Under the “One WBG” approach, the CPF recognizes the strategic potential of the MfD agenda in Georgia and will systematically seek to identify and promote private sector solutions in order to limit public debt and contingent liabilities. Spatial equity challenges will be addressed by systematically assessing access, inclusion, and equity issues in services and economic opportunities. Finally, the CPF recognizes that the rapid pace of technological change and digitization favors a greater focus on innovation-led approaches to sustainable and inclusive growth and will therefore adopt an innovation lens throughout all engagement areas and prioritize activities that deploy innovative solutions and increase innovation capacity.

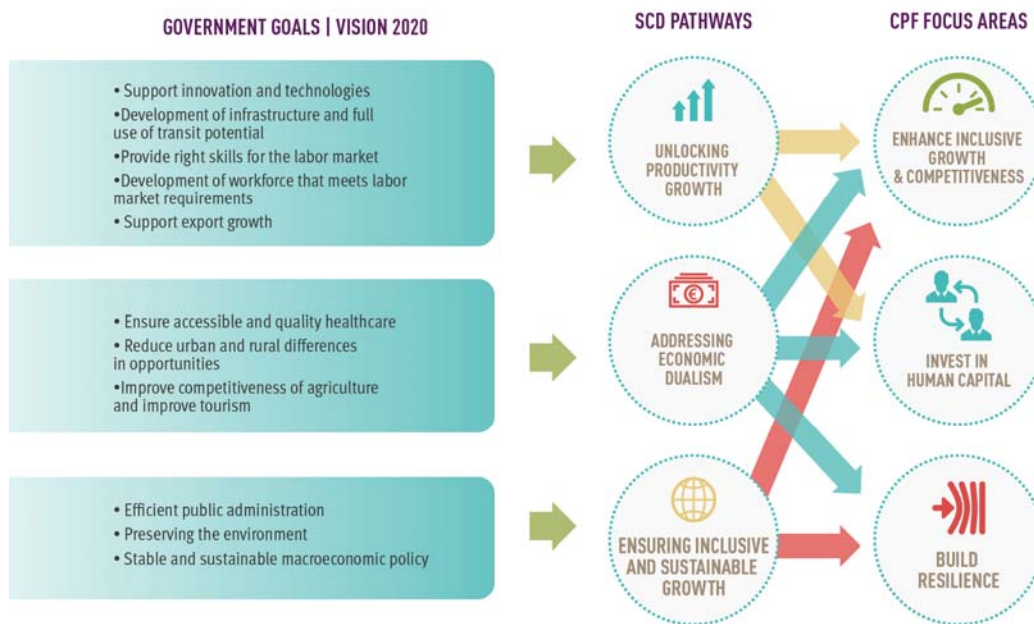
**50. The CPF is approaching the MfD agenda systematically by deploying a broad range of WBG instruments across different levels of interventions.** At the macroeconomic level, engagements aim to advance “last mile” investment climate reforms as a prerequisite to attracting more private investment, developing finance infrastructure, and upgrading service delivery. At the policy and regulatory level, reforms will be pursued where barriers to private sector participation exist, and risk mitigation instruments (such as guarantees) will be utilized wherever they could facilitate private investment. This approach will support improved identification and management of private sector solutions, capital market development, and the diversification of financial sector instruments to mobilize finance. At the sector level, concrete opportunities to facilitate private sector participation in investments will be sought. In the roads sector, for example, tolling, operations and maintenance, and logistics are areas with MfD potential. In agriculture, institutional development to organize smallholder farmers to engage in commercial-scale

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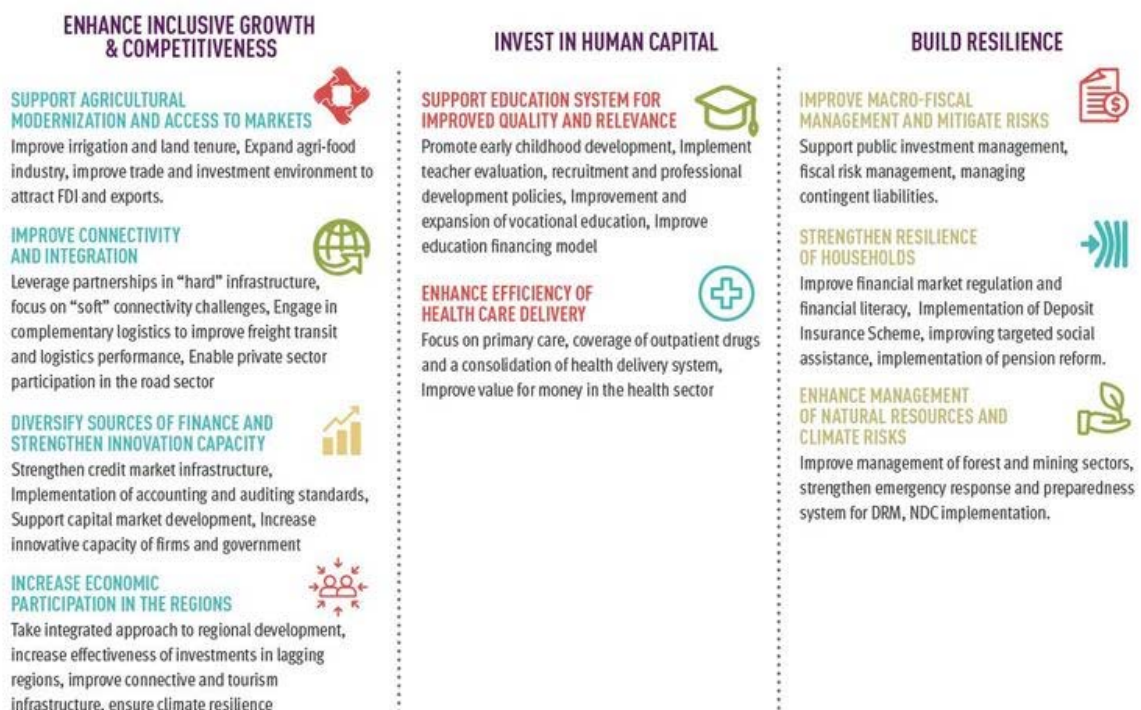
<sup>17</sup> “Tags” within the objective discussions will highlight engagement principles involved in proposed activities.

farming will support the MfD agenda. At the firm level, the WBG will support innovation and innovative firms and crowd in private capital at the earliest stages of the investment chain (Annex 11).

**Figure 6: Government Priorities, SCD Pathways, and CPF Focus Areas**



**Figure 7: CPF Focus Areas and Objectives**



Engagement Principles: Maximizing Finance for Development – Spatial Equity – Innovation



### III.3.1. Focus Area 1: Enhance Inclusive Growth and Competitiveness

**51. Boosting productivity will be key to maintaining Georgia’s high rates of economic growth.** Long-term growth models point to a core challenge of reigniting productivity growth, particularly when considering Georgia’s demographic dynamics and limited scope to dramatically boost domestic savings. The SCD noted that Georgia should continue to improve the environment in which firms operate, paying attention to sectoral value chains and interventions at the firm level while keeping the door open for broader cross-cutting interventions to improve competitiveness.

**52. The CPF will take a two-pronged approach to tackling the challenge of enhancing inclusive growth and competitiveness by (i) addressing cross-cutting factors that constrain firm productivity and deter investment, particularly FDI and inadequacy skilled labor force; and (ii) boosting Georgia’s integration with the global marketplace through greater export orientation.** Using this approach, and employing the selectivity filters and engagement principles discussed above, the CPF will work toward four key objectives. First, the CPF will support agricultural modernization and access to markets. The WBG’s engagement will contribute to a more diversified rural economy with the potential to increase incomes for underserved groups that face greater barriers to achieving sustainable livelihoods, such as women, young people, and minority groups. Second, the CPF will work to improve connectivity and integration. Connectivity has been an area of strong WBG involvement to date, and the WBG enjoys a comparative advantage in this area. By continuing to develop selected infrastructure and improve the flow of goods and people along key corridors and crossing points, the WBG program will over time support the creation of jobs and business opportunities, address spatial inequalities, and promote inclusive growth. Third, the CPF will support efforts to diversify sources of finance and strengthen innovation capacity. The WBG program will provide support for credit market infrastructure, responsible finance, capital market development, and financial reporting, coupled with skills development. Fourth, the CPF will help to increase economic participation in the regions. Tourism is a major contributor to GDP and a strategic sector for regional economic transformation—e.g. the Kakheti region. The World Bank is broadening its ongoing work to implement an integrated approach to tourism development in lagging regions with a focus on infrastructure, urban renewal, cultural heritage restoration, skills development, and the attraction of private sector investments.

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<b>Objectives of Focus Area 1:</b>	1.1 Support agricultural modernization and access to markets
	1.2 Improve connectivity and integration
	1.3 Diversify sources of finance and strengthen innovation capacity
	1.4 Increase economic participation in the regions

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## Objective 1.1: Support agricultural modernization and access to markets



**53. The World Bank’s ongoing engagement on agricultural modernization aims to improve access to irrigation services and develop the land registration system for more secure land tenure.** The intervention is expected to have significant long-term benefits. The WBG is supporting institutional capacity for land administration and land use policies that promote inclusive growth in the agriculture and agribusiness sectors. Land registration is expected to support active rural land markets and the use of registered land as collateral for commercial lending, thereby increasing landowners’ access to credit. Investments in high-value irrigated agriculture and horticulture will serve as a foundation for expanding the agri-food industry, with the potential to create rural jobs and reduce regional disparities. The WBG will support the development of competitive agri-food value chains and the private sector’s engagement in agri-infrastructure—for example, through agricultural mechanization. An analysis of “climate-smart” agriculture will inform policy in this sector, and will highlight the government’s potential to move from production subsidies toward investment enhancement. The ongoing Digital Agriculture and Agriculture Mechanization study and the proposed ASA for improving agriculture water productivity through climate-smart agriculture will close the most critical knowledge gaps. Knowledge work on women’s participation and entrepreneurship in key sectors will include consideration of property rights.

**54. IFC will contribute to this objective through investment and advisory services to support the development of competitive agri-food value chains.** IFC will seek opportunities to invest in agribusiness value chains, including: (i) primary production such as fruits and nuts, (ii) agri-processing, (iii) downstream suppliers (such as producers of fertilizers and construction materials for agriculture), and (iv) upstream sectors (such as packaging, food retail, traders). IFC will be open to supporting PPP projects in agri-infrastructure if opportunities arise. IFC’s potential investment operations will be grounded in upstream analytical work—such as industry deep dives to identify competitive niche products for Georgia and roadmap plans for their development. Under the new WBG advisory projects on Trade, Investment, and Agribusiness Competitiveness (TIAC), interventions will focus on the improvement of food safety in Georgia, both in general and at specific levels (for example, honey) as a prerequisite for entry into the EU market. This work will be supported by the ongoing Agribusiness Standards project. These projects build upon a complementary program of the Swiss government that focuses upon rural finance as well as upon an EU program to strengthen key public-sector institutions and services.

**55. The WBG will engage in broader activities to facilitate access to markets, support efforts to attract FDI through trade and investment interventions, and boost exports.** Sector assessments of key value chain constraints and challenges, particularly in agriculture, will be carried out to explore MfD opportunities to bring in private sector solutions. Interventions under this objective will build upon successful past engagements and complement them with second-generation business environment reforms (such as insolvency regimes or subnational/sectoral assessments of the investment climate) and interventions to help address firm-level constraints.

**56. By enhancing the export potential of agriculture in Georgia, the CPF aims to achieve key outcomes in support of agricultural modernization and access to markets.** While ongoing work on irrigation and land tenure should lead to improvements in access to credit and economic benefits for smallholder farmers, the CPF aims to extend the development agenda towards high-value irrigated agriculture serving as a foundation for modernizing the agriculture sector, expanding the agri-food industry and creating jobs. Furthermore, the CPF expects to contribute to an improved environment for trade and investment to attract FDI and generate exports.

## **Objective 1.2: Improve connectivity and integration**



**57. Strengthening connectivity is critical for Georgia to achieve its growth potential.** The CPF will build on the strong partnerships forged through the WBG’s substantial ongoing program to focus on three aspects of connectivity: roads and transport logistics, ICT, and energy.

**58. Continued funding for the improvement of the East-West Highway Corridor (EWHC), a priority of the Government’s 2014 Action Plan, is aligned with the EU Association Agreement and will be essential to promoting connectivity and further opening the country to global markets and revenues from freight transit and logistics.** It will also be important in reducing spatial disparities and supporting poor and vulnerable people in Georgia’s rural and remote areas to better connect to services, jobs, markets, and other opportunities within the country. Over two-thirds of funds in ongoing IBRD investment projects in Georgia are supporting the EWHC and the secondary roads agenda. The Bank’s ongoing roads and highway financing will continue into 2023 in line with the government’s strong desire to retain the Bank as a trusted partner in this area. The Asian Development Bank (ADB), the Japan Internationalcooperation Agency (JICA), the European Commission (EC), and the European Investment Bank (EIB) continue to be partners in financing the highway and roads expansion agenda in the country.

**59. These partnerships leverage financial resources for investments in “hard” infrastructure and allow the WBG to focus increasingly on “soft” connectivity challenges.** Under the CPF, the WBG will shift its attention to efforts to improve freight transit and the logistical performance of, for instance, the Trans-Caucasus Transit Corridor benefiting from the Belt and Road Initiative, as well as countrywide connectivity. IFC will explore opportunities to support private sector providers of logistics services, including freight, storage, and e-commerce, and will prioritize investment and advisory support for logistics services, which would promote faster and more cost-efficient market access for Georgian exports. A partnership with the German Cooperation Agency (GIZ), which is focusing on vocational and technical training in freight and logistics professionals, will complement Bank and IFC engagements in this area. In collaboration with the EU and other international financial institutions (IFIs), the Bank will support Georgia’s participation in the Trans-European Transport Network (TEN-T) and the Eastern Partnership Transport Panel, notably in helping the country to develop a list of priority projects to improve national and international connectivity, to develop a green connectivity advantage that delivers improved outcomes on energy efficiency and transport sustainability, and to strengthen its road safety and asset management capabilities.

**60. Exploring opportunities to promote women’s engagement and employment in the roads sector will be a key aspect of the new CPF.**

To date, a pilot model of performance-based road contracting under the Secondary Road Asset Management Project (SRAMP) has shown promising results for significant involvement of local women in the provision of some routine road maintenance services. With support from the Public–Private Infrastructure Advisory Facility, SRAMP has launched a new initiative to promote women’s employment in performance-based contracts and in Georgia’s roads sector more broadly. A gender assessment and analysis of legal, regulatory, social, and cultural barriers to women’s employment in the roads sector will

**Box 2: The Impact of East-West Highway Corridor Investments**

The Government of Georgia has prioritized infrastructure investments to improve connectivity (local and global). During the past two decades, about USD 5 billion have been committed to develop the East West Highway Corridor (EWHC) with support from several IFIs. The economywide direct and indirect benefits of such investments in the EWHC have been found to be significant. Indirect benefits have been assessed using a computable general equilibrium model calibrated for Georgia. The transmission channels modeled are the reduction in transportation costs—reduction in vehicle operating costs and time savings—resulting from the construction and upgrading investments along the EWHC.

Indirect benefits estimated are over and above direct impacts associated with the civil works, which on their own have a considerable impact on real GDP and employment. The analysis revealed that indirect benefits from the EWHC investment program have an overall positive impact on key macroeconomic and welfare variables over the medium and long term. Real GDP was assessed to increase by 1.5 percent over a medium-term horizon and 4.2 percent over a long-term horizon. Both exports and imports are expected to expand in the long run, with exports growing faster on average. Infrastructure development contributed to growth in welfare of all categories of households, although the lowest two income quintiles would gain relatively less than other household groups. On average, rural households are to gain more than urban households.

support the development of policy recommendations and a set of proactive measures that road contractors can take to promote equal work opportunities. Institutional strengthening will focus on building the skills of the staff of the Ministry of Regional Development and Infrastructure of Georgia (MRDI) and the Roads Department of Georgia to implement a gender-sensitive approach to countrywide operations and to develop a Gender Action Plan for the sector in collaboration with the full range of stakeholders.

**61. Enabling private sector participation in the roads sector will be important for its sustainability.**

There is a growing financing gap to sustaining investment in the roads sector, as around 75 percent of the investment is development partner-financed, and there is little private sector participation. The WBG is uniquely positioned to facilitate the complementary roles of the public and private sectors in Georgia’s road sector. The new CPF will support the government to identify and assess a range of different business models for engaging with the private sector to operate and sustainably maintain the EWHC. Subject to the findings of the IBRD feasibility study on private sector participation options, IFC will explore opportunities to develop viable PPP structures and bring in reputable private sector players to operate the highway. IFC will also consider direct investment in highways expansion. This would be a logical application of a cascade approach to mobilizing private sector finance for development, as IFC engagement would evolve from the IBRD’s long-standing program of policy, technical, and lending support for the development of this major national infrastructure asset. Thus, the WBG will aim to introduce financing mechanisms capable of sustainably financing the operation and maintenance of major commercial road corridors. MfD in this area could be further leveraged through a proposed project on Maximizing Finance for Development for Logistics and Sustainability of Transport Investments. This could

utilize the Bank's comparative advantage in improving regulatory and legislative aspects for the transport sector, mobilize resources for hard infrastructure investments, especially by crowding in and enabling private sector participation. IFC will explore opportunities to invest or provide advisory services to improve Georgia's transport infrastructure, including road, rail, port, and airport, depending on private sector interest and involvement through PPP modalities. MIGA could also support such investments with its political risk insurance covers. Additionally, MIGA could leverage its business development partnership with IFC to identify new opportunities.

**62. The WBG supports the ICT connectivity agenda by closing the digital divide between urban and rural areas.** Under one of the priority areas of the EU4Digital initiative in the Eastern Partnership region, with financial assistance from the EU - the WBG is supporting Georgia in the elaboration of its broadband development strategy with a view to conforming with EU norms, overcoming the digital divide across urban and rural areas, and identifying opportunities to open markets further, attract private investment, and enable competition. The existing Georgia National Innovation Ecosystem (GENIE) project is financing a broadband voucher scheme. IFC and Bank teams will work together to identify opportunities to implement the MfD approach with a focus on rural connectivity. IFC will explore the option of leveraging its Global Digital Infrastructure Initiatives to support investments in the modernization of programs of telecommunications operators, broadband expansion and strengthening, and promoting the emergence of independent operators of shared infrastructure (for example, data centers and telecom towers).

**63. The WBG will support energy connectivity by developing financing modalities for power system expansion and exchange.** Georgia's connectivity with Armenia, Azerbaijan, Russia, and Turkey could establish it as a regional power exchange hub with positive spin-offs for growth, providing the investment climate remains favorable and market-based reforms continue in accordance with the European Energy Community's *acquis*. The engagements are also expected to increase Georgia's capacity to reliably exchange electricity with neighboring countries, which will include investments in increasing transit potential. A regional electricity study will assess the potential for regional power exchange and inform government policy. This will complement a donor-coordinated policy-based operation in the energy sector, currently under discussion among stakeholders (including KfW, EIB, EBRD, and EU). IFC is open to considering investment opportunities in energy distribution and transmission, but for transmission, most likely in the second half of the CPF period and if the sector opens up for private sector participation. An energy sector MfD assessment - done jointly by the Bank and IFC- will provide the government with a road map for optimizing the combination of private and public investment and creating the enabling environment necessary to achieve its objectives. This assessment will be carried out by the WBG, involving other IFIs, and could pave the way for a private sector solution under a possible Power System Expansion Investment Project. MIGA will explore providing guarantees to the private sector for investments in the transmission sector investments.

**64. Institutional capacity building to better plan and manage infrastructure initiatives, including with private sector participation, will be strengthened.** WBG interventions will build capacity within the public sector to improve utilization of appropriate PPP mechanisms, support development of PPP projects,

analyze risks and returns, bring projects to the market, and supervise them throughout their implementation.

**65. The expected outcomes of connectivity engagements will lead to better integration within Georgia, and between Georgia and the rest of the world, thereby facilitating increased exports and spatial equity.** In the transport sector, expected outcomes include the development of a more conducive environment for attracting and engaging the private sector in the financing, operation, and maintenance of logistical facilities and transport services. This will include developing a trade performance monitoring tool, improving logistics performance, and addressing related challenges, including in the areas of supply chain management and cross-border management. In the ICT sector, expected outcomes will be increased efficiency of existing infrastructure, reduced prices and improved affordability, and an expansion in network services. In the energy sector, expected outcomes are the development and implementation of a plan for electricity sector expansion.

### **Objective 1.3: Diversify sources of finance and strengthen innovation capacity**



**66. Following on the SCD's identification of the need to deepen and diversify access to finance and innovation as key driver of productivity the CPF will support capital market development and access to long-term finance.** MfD through increased domestic financial intermediation, capital market deepening, and diversification of local currency financing instruments is a key government priority. The ongoing pension and capital market reforms initiated by the government will address some of the gaps by developing the longer-term savings market and diversifying the sources of finance. This work will be complemented by assistance to the design and implementation of pension reform. The expected accumulation of longer-term resources from the pension fund brings an opportunity for expanding the scale, liquidity, and instruments for longer-term financing in Georgia. New instruments may include infrastructure bonds, covered bonds, and asset-backed securities, that will provide alternative investment opportunities for domestic and international investors. These will be instrumental for leveraging public funds with private capital for the development of national infrastructure and social projects amid the reduced fiscal space. IFC will continue supporting off-shore and on-shore bond issuances of Georgian banks and possibly nonfinancial corporates from other sectors.

**67. The WBG will support access to credit by underserved segments through existing and new activities.** The WBG's policy dialogue and technical assistance (TA) will aim to strengthen credit market infrastructure (secured transactions framework and credit reporting supervision) to streamline access to finance and reduce credit risks. Upcoming TA on Financial Sector Infrastructure and Innovations, implemented in partnership with the EU, will further support the development of nonbank financial services (including new financial products/FinTech) to reach unbanked clients, especially smaller firms and entrepreneurs in rural areas, in a responsible financial manner. Financial literacy will be supported through TA to enhance SME access to finance.

**68. IFC will support access to financial intermediation by strengthening the sector's capacity to expand lending to underserved segments.** It will rely on both investments and technical assistance to support the outreach of financial intermediaries to the MSME sector. IFC will continue to provide funding for equity, loans, revolving credit lines, and risk mitigation facilities, thus enabling financial intermediaries to expand their on-lending to micro, small, and macro enterprises (MSMEs) and female entrepreneurs. It will also continue to provide advisory services to enhance the SME operations of banks in areas such as strategy, market segmentation, product development, risk management, and IT-Management Information System (MIS) facilities. In line with the spatial equity focus of this CPF, IFC's banking clients have a strong footprint in rural Georgia, which helps with outreach to underserved segments and frontier areas.

**69. Ongoing TA to enhance SME financial reporting will be scaled up during the CPF to support better implementation of accounting and auditing standards by the private sector, and by SMEs in particular.** Proposed TA, supported by the EU and implemented by the WBG, will build on the achievements made under the Strengthening Auditing and Reporting in the Eastern Partnership (STAREP) program and the 2015 Report on the Observance of Standards and Codes, Accounting and Auditing (A&A ROSC), which paved the way for improved legislation on corporate financial reporting in Georgia. The TA will support the implementation of the 2016 Accounting and Audit Law that aims to increase the availability of financial information and raise the quality of audits with relevance for both SOEs and SMEs.

**70. The WBG will provide support to increase the capacity for innovation among firms and individuals, as well as their participation in the digital economy.** A proposed project on Innovation and Skills for the 21<sup>st</sup> Century will help new firms to emerge both in the digital sector and beyond, and existing firms to move up the value chain, connect to global value chains, and contribute to the growth of exports—thus supporting Georgia's transition to an innovation-based economy. Innovation services support to business start-ups and local development activities will place a special focus on the needs of youth and excluded groups. Through a Jobs and Innovation ASA, the CPF will support an assessment of the potential for transferring technologies from research institutes to the market, augmenting the currently available (albeit limited) data on such potential. While preliminary research points to existing potential in the areas of biotechnology, life sciences, and nutrition, the CPF assessment will also explore the potential in other sectors, including digital and information technology. As a follow-up to the assessment, the CPF will provide support for strengthening institutional capacity to facilitate technology transfer processes, with an emphasis on the knowledge necessary to support transactions.

**71. Expected outcomes under the CPF would be access to more diverse sources of finance and a greater capacity for innovation.** By 2022, it is expected that regulations for credit bureau licensing and oversight will be enacted, that the secured transactions registry for movable assets will have been modernized, and that the capital markets development strategy will have been developed. Support to enhance SMEs' capacity for financial reporting using International Financial Reporting Standards (IFRS) is expected to facilitate their access to finance, leading to higher lending to SMEs and an enhanced legal framework for capital market infrastructure. Supporting capacity for innovation is expected to lead to

greater entrepreneurial activity, a greater incidence of innovation hubs, and an increased number of firms having received innovation financing.

#### **Objective 1.4: Increase economic participation in the regions**

INNOVATION

SPATIAL EQUITY

**72. Given the importance of regional development in driving economic transformation and employment for the poorest and most vulnerable, the CPF will implement an integrated approach to tourism development in lagging regions.** Ongoing activities are focused on increasing the contribution of tourism to the local economies of the Imereti, Samtskhe-Javakheti, and Mtskheta-Mtianeti regions. The World Bank will ensure that climate risk considerations are integrated into the design of its interventions in the remote mountainous regions, which are prone to adverse weather-related events. Increased emphasis will be placed on greener and more sustainable models of regional development, with a particular focus on the mountainous regions.

**73. During the CPF period, the WBG will pursue an increasingly integrated approach to regional development.** New infrastructure will be designed with a commitment to universal access to ensure that persons with disabilities can make use of it. Youth needs assessments will be integrated into selected subprojects. Support for small urban centers will be leveraged to assist them in becoming efficient service hubs. Collaboration with Swiss Development Cooperation supports a wide range of community-identified projects on connective and tourism infrastructure, climate resilience, and the capacities of local authorities. In collaboration with the Swedish International Development Agency, a new wastewater treatment system for Telavi and Tskaltubo will benefit local citizens and visitors alike and will increase the attractiveness of these destinations for longer-stay tourism. Lessons from the ongoing Empowering Local Community Entrepreneurs project, financed by the Japanese Social Development Fund (JSDF), around successful outreach and support to female entrepreneurs to start or expand businesses in the tourism and hospitality sector, as well as from previous research on women in tourism value chains, will be integrated into new regional development engagement. IFC aims to contribute to these objectives by: (i) continuing to invest in the expansion of hospitality infrastructure, particularly affordable hotels outside Tbilisi; and (ii) supporting the development of agri-tourism with complementary investments in agri-business, services, and light manufacturing in areas with potential for tourism.

**74. Interventions under the GENIE project will complement the integrated approach to regional development.** The Bank is supporting the establishment of regional innovation hubs and centers, providing access to infrastructure, knowledge, and information. The centers will serve as tool for identifying latent innovators, supporting start-up establishment and development, and helping enterprises to innovate, with a focus on female entrepreneurs. Internet access remains a challenge for rural households, and service quality is an issue for enterprises in rural areas. The Broadband for All program will address these challenges through TA and infrastructure development, leveraging partnerships with other IFIs and the EU.

**75. The expected outcome in this area is to enhance the participation of the local population in economic activities, mainly in the tourism sector but also in complementary sectors.** Increasing the



effectiveness of investments in lagging regions will rely upon successful diversification of the local economy, skills development in the rural population, and the creation of opportunities for women, young people, and other vulnerable segments of the population.

### III.3.2. Focus Area 2: Invest in Human Capital

**76. As the single largest component of wealth,<sup>18</sup> human capital offers a clear path to ending extreme poverty and boosting shared prosperity in any country.<sup>19</sup>** The CPF aims to support human capital in Georgia by improving the quality of education, strengthening equality in access to education services, and safeguarding these gains through more efficient delivery of health services. The SCD’s findings show that developing the population’s skills and human capital are key to boosting productivity and growth, addressing spatial equity, and achieving the twin goals. Addressing shortfalls in human capital is critical for Georgia’s firms and workers to remain competitive into the future, especially given the need for the country to integrate more with the global economy.

**77. The CPF promotes “investing in people” as a key factor in sustaining inclusive growth over the long term.** The WBG will support the ongoing efforts of Government to improve current service delivery systems in education and health care. In doing so, engagement will focus on an undifferentiated access to quality services while working towards sustainable financing models. These activities will support reforms for greater efficiency and delivery and improved opportunities for maximizing finance for development.

Objectives of Focus Area 2	2.1: Support education system for improved quality and relevance
	2.2: Enhance efficiency of health care delivery system

#### Objective 2.1: Support the education system for improved quality and relevance



**78. The CPF will help promote early childhood development to help prepare Georgia for the future of work.** Activities will focus on closing the participation gap in preschool education, particularly in lagging regions and among those in disadvantaged ethnic groups and with lower socioeconomic status. Expansion of early childhood development services not only enhances children’s school readiness but also enables greater participation of women in labor force, as childcare responsibilities and the lack of childcare services are among the key constraints to female labor force participation.

<sup>18</sup> Glenn-Marie Lange, Quentin Wodon, and Kevin Carey, eds. 2018. *Changing Wealth of Nations 2018: Building a Sustainable Future*. Washington, DC: World Bank. Available at: <http://hdl.handle.net/10986/29001>.

<sup>19</sup> In October 2017, the WBG launched the Human Capital Project to help countries invest more and better in people. The project is developing new metrics in education and health to help countries assess their performance in building human capital and investing in the next generation.

**79. The WBG will play a key role in providing implementation support for the new policy on teaching quality.** The proposed Education Sector Improvement Program will focus on teacher evaluation, recruitment and professional development policies, available financial resources, and the staging of essential elements in the implementation of the reform. Ongoing ASA on improving funding mechanisms for general and higher education will support of evidence-based policymaking to develop a financing model that will align more closely with the government’s strategic sector priorities and incentivize the quality of teaching, learning, and research capacity.

**80. In collaboration with several development partners, the WBG will test dual and work-based learning approaches to help narrow the skills gap between the education outcomes and labor market expectations, which disproportionately affects women, young people, minorities, and rural residents.** Activities will involve the ASA to help improve and expand VET facilities as well as their geographical reach. The World Bank is entering into a development coordination mechanism to complement the activities of various development partners (mainly the United Kingdom, GIZ, KfW, the United Nations Children’s Fund (UNICEF), the European Bank for Reconstruction and Development (EBRD), and Swiss Cooperation) that is providing support for the development of inclusive and demand-oriented cooperative training in technical professions in selected sectors such as winemaking, construction, and tourism. IFC will seek opportunities to support companies that provide on-the-job training and to finance providers of private higher education, including global or regional institutions. IFC will explore the potential for developing viable PPP schemes in education services provision.

**81. Expected outcomes include targeted improvements in policies to support the quality and delivery of education services from preschool to higher education.** The WBG will provide guidance to the government to maximize its current investments by using social accountability processes and citizen engagement. Over the CPF period, it is expected that there will be an increase in the number of municipalities that undergo preschool benchmarking assessments to measure improved preschool delivery. The proposed lending program will help to implement teaching reforms and ensure that those enrolling in teacher preparation programs will have above-average achievement in their university admission exams. Ongoing technical assistance will inform on performance-based funding for the financing of general and higher education.

## **Objective 2.2: Enhance efficiency of health care delivery system**



**82. The CPF’s health sector support will focus on strengthening the health delivery system, increasing the coverage of outpatient drugs, implementing good manufacturing and distribution standards, and consolidating fragmented health delivery systems.** Due to weak monitoring capacity and misalignment of incentives of health providers and policy makers, direct payments by patients account for about 60 percent of total health expenditures, putting heavy burden on most Georgians, particularly for the poor and vulnerable. Under the proposed Health Care System Strengthening project, the introduction of an e-health system and enhancement of primary care systems will improve access to health services, particularly among poor and vulnerable segments of the population. The e-health system

will help to monitor service delivery (primary compared to inpatient care) and assess the degree of coordination and continuity of care across providers.

**83. ASA will be used to inform the formulation of policies that promote effective coverage and better value for money in the health sector.** Ongoing policy dialogue and analytical support will aim to enhance the institutional capacity of the Ministry of Health, Labor, and Social Affairs (MOHLSA) for evidence-based policy-making and to raise awareness of noncommunicable disease risk factors such as tobacco use. WBG support over the CPF period will be important in facilitating dialogue between the MOHLSA, macrofiscal agencies such as the Ministry of Finance (MOF), and other development partners, and will ultimately contribute to improved access to quality health services and to the financial sustainability of Georgia's UHC policy.

**84. IFC will continue to support investments in the expansion and improvement of service delivery by private health care providers.** These investments are expected to lift overall standards of health care service delivery in the country through demonstration effects. They may also complement efforts in the area of tourism sector development, as the SCD identified health care tourism as a promising avenue for diversifying and expanding tourism potential. IFC will continue its dialogue with the Partnership Fund on potential PPP engagements in Georgia's health care sector.

**85. Expected outcomes are for improved efficiency in the healthcare system that will ultimately free up resources to improve quality, especially in the regions.** The bulk of the proposed program – lending and technical assistance – will be introduced during the CPF cycle such that results in the medium term will fall early on in the results chain and link more closely to improvements in the system's efficiency and reductions in out-of-pocket expenses. Over the longer term, as reforms take hold, outcomes for the overall health of the population and access to services in rural and lagging areas are expected to improve.

### **III.3.3. Focus Area 3: Build Resilience**

**86. Macroeconomic management is an area in which the Bank has traditionally supported Georgia, notably with the inclusive growth DPO series, financial sector modernization, and a series of public financial management interventions.** The CPF program envisions deepening these engagements. Pursuing sustainable macroeconomic policies is a prerequisite to delivering poverty reduction and economic growth over the CPF period. The SCD noted the importance of maintaining a sustainable fiscal and financial position. Underlying vulnerabilities on the fiscal, financial, and external side caution the solid track record of macro policies, while widespread vulnerabilities among households—particularly in rural and lagging regions—place these at high risk of falling back into poverty. In addition, the SCD highlighted the economic and social importance of preserving the environment as a means to maintain the country's critical natural resources.

**87. The CPF will look at ways to address vulnerabilities and build resilience in the economy, among households and in natural resources.** This agenda will focus on three key objectives: improving macrofiscal management and risk mitigation; strengthening households' resilience through stronger safety nets,

insurance markets, and financial inclusion; and improving the management of natural resources and climate risks.

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**Objectives  
of Focus  
Area 3**

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3.1: Improve macro-fiscal management and mitigate risks

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3.2: Strengthen the resilience of households

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3.3: Enhance management of natural resources and climate risks

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**Objective 3.1: Improve macro-fiscal management and mitigate risks**



**88. The CPF will support the Georgian government’s commitment to fiscal consolidation by helping to strengthen public investment monitoring, and provide for a more complete analysis of fiscal risks through targeted analytical and TA activities that will complement policy-based instruments in addressing key macroeconomic risks.**

Regular macroeconomic monitoring and outreach on key development and structural issues will contribute to the continuity in dialogue regarding the adequacy of the macroeconomic policy

**Box 3: World Bank–IMF Coordination**

The WBG continues its close collaboration with the IMF to help Georgia improve the adequacy of its macroeconomic policy framework and the momentum of its economic policy reform initiatives. Debt analysis, fiscal macroeconomic monitoring, and economic outlooks are discussed during regular consultations. The Financial Sector Assessment Program (FSAP), conducted jointly by the Bank and the IMF in 2014, provided a baseline for coordination and follow-up support to strengthen the financial sector. The WBG works closely with the IMF to support the government’s efforts to manage fiscal and quasi-fiscal risks and the contingent liabilities of state-owned enterprises throughout the preparation of the fiscal risks assessment annex to the budget law and by limiting the accumulation of contingent liabilities through power purchase agreements and memoranda of understanding. Other structural reforms with a fiscal impact are also subject to an exchange of views, including pension reform, deposit insurance reform, and education and health financing reforms.

framework. Policy-based development operations are envisaged during the course of the CPF to support sound macroeconomic management and the country’s reform momentum. Engagement in selective areas—such as PIM (including fiscal risk management), managing contingent liabilities stemming from SOEs and PPPs, and improving SOEs’ governance and financial reporting—will help to ensure fiscal sustainability. These engagements will also contribute to the CPF’s MfD agenda by strengthening institutional capacity (particularly in PIM, and financial risk and contingency liability management) and optimizing the utilization of scarce public resources in strengthening the investment climate to attract investment and upgrade service delivery. Proposed knowledge work will focus on a new series of programmatic public expenditure reviews and macro/micro assessments to identify constraints to growth, investment, and trade.

**89. Public Expenditure and Financial Accountability (PEFA) validations and assessments will be carried out at the national and subnational levels, in partnership with the EU.** The findings will feed into the 2018-2021 public financial management (PFM) strategy of the Ministry of Finance, which chairs the PFM Reform Implementation Coordination Council and ensures consistency of the PFM reforms across the relevant institutions, such as State Audit Office, State Procurement Agency and Budget and Finance

Committee of the Parliament of Georgia. The implementation of the PFM reforms will be buttressed by institutional capacity building and targeted support for strategy. In public procurement, the Bank is working with the United Kingdom and the EU to support the introduction of an electronic procurement platform to increase transparency, thereby encouraging free and fair competition and minimizing the risk of corruption while generating substantial savings for the public sector.

**90. Expected outcomes under the CPF are for fiscal outcomes to comply with Georgia’s fiscal rule that public debt remains sustainable.** In addition, it is expected that a plan will be developed to manage contingent liabilities in case they materialize, that PFM at national and subnational levels will be strengthened, that SOE governance and financial reporting capacity will improve, and that public procurement data will be used more—and more effectively. The World Bank will continue to support the Georgian Public Procurement Authority to further improve the public procurement regulatory framework, strengthen business processes and procedures, and modernize the e-procurement platform.

### **Objective 3.2: Strengthen the resilience of households**



**91. The CPF will support efforts to further improve the efficiency and effectiveness of Georgia’s social safety net in order to enhance household resilience.** Building on previous World Bank support for improvements in the TSA’s targeting model, the next phase under the CPF will aim to further strengthen the efficiency of the social protection system by digitizing key implementation processes and integrating social services and benefit delivery. Under the CPF, the WBG aims to help Georgia to establish a European “rights and responsibility approach” in its TSA model, in which social assistance beneficiaries need to actively engage in requalification and job search activities in order to continue to receive benefits. The goal is to bring more people—especially poor people and women—into the labor market. This activity will have a strong skills development component in close coordination with UNICEF.

**92. Strengthening household resilience is also contingent on financial inclusion and financial literacy, which in turn depends on a well-functioning, regulated financial and insurance market so that households can hedge themselves against shocks.** The WBG will support financial resilience on several fronts, including ongoing analytical work and TA to support capacity building for credit reporting and its regulatory framework, consumer protection, and regulation of nonbank financial institutions. In partnership with the EU, the Financial Sector Deepening and Inclusion project aims to help develop new insurance products (such as motor third-party liability insurance) in line with EU directives. The Georgia Deposit Insurance Strengthening Project will work to ensure the availability and timeliness of funding arrangements, in cooperation with KfW and the EBRD. IFC’s strong support through its portfolio, as well as new investments to support the overall stability of the financial sector and increased financial inclusion of underserved segments, will be key to achieving this objective.

**93. The Bank will support the government in meeting its commitment to improving household resilience through pension reform.** On the basis of substantial World Bank assistance, guidance, and donor coordination, a comprehensive pension reform law is being discussed in parliament and is expected to be adopted during 2018. The Bank will support the creation of a pensions agency, together with

enforcement mechanisms and procedures for the collection of contributions and the possible indexation rule of basic pensions.

**94. Recognizing the role of gender-based violence (GBV) in dampening household resilience, the WBG will engage in coordinated multidonor support for the newly established Inter-Agency Commission on Gender Equality, Violence Against Women, and Domestic Violence.** This engagement will build on a comprehensive study on gender-based violence in Georgia undertaken as part of the recently completed Strengthening Capacity for Prevention and Response to Sexual and Gender Based Violence in Georgia project. Across the portfolio, the CPF will pursue opportunities to better support GBV survivors in the health, education, social protection, and justice sectors, and to strengthen economic interventions to support their independence and empowerment. The CPF's preschool interventions under the second focus area will contribute to this objective, as the provision of child care is important in strengthening female participation in the labor market, which can in turn help alleviate gender disparity in earnings and voice.

**95. Expected outcomes under the CPF would be a stronger framework to support household resilience through more effective pension and insurance markets, together with social safety nets that cover the most vulnerable segments of society.** Over the CPF period, it is expected that the Deposit Insurance Agency will become fully operational, motor third-party liability insurance for domestic vehicles and other insurance products will be introduced, and a pensions agency will be created and put into operation. In addition, it is expected that the TSA will be expanded to cover 60 percent of those in the bottom income quintile.

### **Objective 3.3: Enhance management of natural resources and climate risks**



**96. Building on the World Bank's support for environmental reform under the multidonor European Neighborhood Policy Instrument—Forest Law Enforcement and Governance Programme (ENPI-FLEG), and drawing on well-established working relations with several national and international nongovernmental organizations (NGOs), the CPF aims to improve capacity for natural resource management and increase the sustainability of Georgia's forests.** Ongoing ASA (including household surveys on forest use, a study on poverty and vulnerability to natural hazards, and the Forestry and Mining Dialog ASA, respectively) is examining the relationship between forest use, poverty, and natural hazards for informed and efficient policymaking and reinforced policy dialogue. Follow-up ASA will identify concrete actions for implementation, such as improving national readiness and capacity for forest fire prevention and reforming wood-based energy markets in a socially responsible manner. Under ENPI-FLEG, the Bank is helping to develop a national strategy for protected areas and forest finance, to increase the communities' capacity to manage forest resources, and to strengthen the legal trade of forestry products. CPF activities will identify new and innovative mechanisms for engaging the private sector and leveraging financing, for example through locally based, small rural business activities. There are strong cross-pillar synergies in this area, as hydropower development, eco-tourism, and agriculture activities under Focus Area 1 will all benefit from sustainable landscape management practices. Similarly, improving

environmental and natural resource management can substantially strengthen households' resilience to health shocks and thus complements interventions proposed under Focus Area 2. The World Bank will collaborate with GIZ and the EU in pursuing forestry management objectives.

**97. As part of its environmental reform and resilience agenda, the CPF seeks to modernize the mining sector and its environmental management capacity.** The ongoing Mining and Forest ASA and a proposed Mining Sector Regulatory and Policy Framework ASA will identify regulatory, institutional, and capacity gaps and inform the development of an action plan subject to the government's willingness to implement findings and provide a committed counterpart. These efforts could also help to crowd-in private investment. The WBG will collaborate with the EBRD, given their expressed interest in the sector, to ensure complementarity. In addition, the World Bank has joined efforts with the United Nations Development Programme (UNDP), the EU, the International Fund for Agricultural Development (IFAD), and other partners in supporting Georgia with the development of thematic climate change mitigation plans. The Bank is also assisting Georgia in preparing a National Action Plan for Adapting to Climate Change Impacts on the Black Sea Coastal Zone in support of its NDCs, as well as to improve climate risk management for the country's secondary roads network.

**98. The CPF will build on the WBG's long-standing engagement in disaster risk management (DRM) in Georgia.** The WBG will support analysis and TA and an ongoing ASA operation on Advancing the DRM Agenda and a proposed Risk Reduction and Emergency Preparedness TA operation to help Georgia's Ministry of Economy and Sustainable Development improve the country's fragmented regulatory system, eschew outdated construction codes and standards, and work toward adopting a unified building code system by 2020. Under the Disaster Risk Reduction and Emergency Preparedness ASA, the World Bank will build upon progress made in legislation and regulation<sup>20</sup> by conducting a rapid assessment of the country's emergency response and preparedness system, and will provide support for the development of a quantifiable baseline and an investment plan.

**99. The Bank will continue to support the sustainable development and resilience of Georgia's capital, Tbilisi.** The Tbilisi Urban Regeneration and Resilience program builds upon long-standing TA cooperation between the WBG and the city of Tbilisi, as well as upon synergies with Tbilisi's status as a member of the Rockefeller Foundation's 100 Resilience Cities network, and it will help build capacity in the municipality to plan and prioritize urban regeneration investments, improve the city's green amenities, and enhance the energy efficiency of city assets. The Bank's work will align with IFC's Sustainable Cities Initiative, which supports investment in the modernization and strengthening of city infrastructure (such as public transport, solid waste management, and street lighting). MIGA will seek to utilize its extensive support for urban transport projects in the ECA and other regions to support such investments in Georgia.

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<sup>20</sup> As part of its Association Agreement with the EU, Georgia has begun to integrate best practices related to the prevention and management of disasters into its national legislative and regulatory framework.

**100. Ongoing and planned activities in the electricity sector complement the CPF’s resilience agenda.**

The ongoing Transmission Grid Strengthening Project aims to increase the national grid’s technical resilience to extreme climatic conditions, while analytical work examines ways to promote the energy efficiency of public buildings in Tbilisi and to target vulnerable households under the planned financial cost of underheating. IFC’s strong power sector program and its envisaged engagements in renewable energy and energy efficiency will help improve access to reliable energy and boost Georgia’s export capacity and competitiveness while also contributing to climate change mitigation.

**101. Expected outcomes under the CPF include improved government capacity to manage natural resources and mitigate climate risks in support of promoting a more sustainable growth trajectory.**

By the end of the CPF period, it is expected that a greater proportion of forest resources will be under sustainable management and the costs of land degradation and deforestation reduced. The CPF expected to help the government develop the capacity to avoid the creation of new risks and reduce existing ones, while improving the quality and timeliness of emergency responses. In the energy sector, the CPF envisions the adoption of policies to reliably integrate renewable generation in order to significantly reduce power outages, establishment of annual technically feasible limits to non-hydro renewable integration, and the development of a feasible financing mechanism for improving space heating efficiency. By improving energy efficiency, the latter is expected to mitigate the effects of rising energy prices and disruptive extreme weather conditions on households and businesses.

**III.4. Implementing the Country Partnership Framework FY19-FY22**

**102. The current IBRD/IDA portfolio of investment projects provides a solid basis for delivering results.** Implementation of the ongoing portfolio—12 investment lending operations with commitments totaling around USD 709 million<sup>21</sup> (of which 55 percent is yet to be disbursed)—will have a significant impact on achieving CPF development outcomes. Results from the new activities will complement and scale up the existing portfolio in addition to filling the knowledge gaps in moving from first to second generation reforms.

**Table 2: Indicative IBRD Program by Focus Area**

Activity	Focus Area
<b>FY19/20</b>	
Education Sector Improvement Program	2
Improving Health Sector Efficiency	2
Integrated Regional Development	1,2,3
Development Policy Operation	1,2,3
<b>FY20/22</b>	
MfD for Trade & Sustainable Transport	1
MfD for Energy Sector	1
Innovation and Skills for 21st Century	1,2
Climate Smart Agriculture	1,3
Forest & Landscape Management	3
Development Policy Operation	1,2,3

<sup>21</sup> Including a USD 10 million recipient-executed trust fund.



**103. The World Bank is proposing a selective, multiyear, programmatic ASA.**

Analytical work and policy dialogue will be increasingly important to engage in new areas and support capacity building in institutions, including in areas toward which the CPF is making a strategic shift. The CPF program will be underpinned by a combination of policy dialogue, TA, analysis, broad programmatic engagements, and just-in-time assistance.

Trust-funded activities will also be subject to the CPF’s engagement approaches and principles.

**Table 3: Indicative Upstream ASA Program FY19-FY20**

Activity	Focus Area
<b>FY19/20</b>	
Human Capital Needs Assessment	1,2,3
Firm-level productivity diagnostic	1
Financial Infrastructure and Innovation TA	1
Economic Management and PFM TA	1
Regional Broadband for Innovation Strategy	1
Improving relevance of education diagnostic	2,3
Skills, jobs & Innovation in lagging regions study	1,2
Mining Sector Regulatory and Policy Framework TA	1,3
Climate Smart & Export Oriented Agriculture TA	1,3
Disaster Risk Reduction and Emergency Preparedness TA	3

**104. Subject to client interest, innovative instruments will be tested during the CPF.** The lending program will aim to utilize the first policy-based guarantee (PBG) operation in the country and the first results-based operation in the education sector. Interest buy-down by private partners in support of an IBRD operation in health is being discussed. IFC’s PPP Transaction Advisory is planning to finalize the structuring of its first PPP infrastructure project in Georgia. Building on its global experience in innovative, structured financial products-and in particular its success in 2017 in originating the first-ever offshore corporate bond issued in Georgia-IFC will explore further opportunities to anchor bond issuances outside the financial sector, both in local and hard currencies, complementing the WBG’s support to developing capital markets and diversifying financial instruments in Georgia.

**105. The Bank will continue its support to long-standing policy and institutional reforms through development policy engagements.** The program proposes to support the country’s economic reform process with policies that help improve economic management, competitiveness and private sector development. The government has expressed demand for continuing the policy reform dialogue, noting that the significance of the Bank being active in this area is more relevant than the actual level of financial resources provided by a DPO.

**106. A new CE Country Roadmap will inform CPF implementation.** An in-depth review of the level of implementation of CE and the quality of the mechanisms deployed is underway. The roadmap for Georgia (Annex 7) establishes country-level objectives and priorities, puts in place a set of practical actions that will be taken throughout the CPF period, and monitors the progress made in the context of Bank engagements. CE in Georgia is strongly gender informed, and through the findings of a recent Country Social Analysis the Bank seeks to ensure the inclusion of other vulnerable and marginalized groups in Georgia such as IDPs, persons with disabilities, residents of high mountain communities, and ethnic

minorities. Building on this foundation, the new CPF will strive to expand its cross-cutting and strategic focus on closing gender and equity gaps.

**Box 4: Citizen Engagement in the Georgia Program**

*A CE review of the WBG's Georgia portfolio, conducted in January and February 2018, found the following:*

- Planned CE mechanisms at concept and appraisal stage are usually operationalized and implemented, with Georgia having the highest level of operationalization in the ECA region. However, many projects rely upon narrowly defined or relatively passive CE mechanisms (such as consultations, grievance redress mechanisms (GRMs) and satisfaction surveys) are usually applied in relation to safeguard issues. The type of citizen feedback is therefore restricted.
- The quality of CE mechanisms increased after FY14, following the adoption of the WBG's Strategic Framework on Citizen Engagement. However, the depth and number of channels that citizens can use to engage in dialogue or provide feedback is relatively low by ECA standards.
- Only 60 percent of projects approved after FY14 comply with the requirement of a beneficiary feedback (BF) indicator, with other projects not consistently reporting on these. The quality of beneficiary feedback has improved since FY14, in particular, its ability to provide actionable information. The level of reporting is too low to provide evidence of action taken, however.














*The following recommendations from the review have informed the CPF:*

- Focus support to improve the quality of CE by moving away from safeguard-related actions into broader CE mechanisms that allow for continuous dialogue and strengthen the interface between government and citizens.
- Expand the scope of the grievance redress mechanisms to ensure meaningful consultations with feedback loops, and disseminate good practices to other country management units by participating in cross-learning activities, including within the country management unit.
- Formulate targets and goals for sector-specific activities in the upcoming CPF by building upon existing projects and activities (transport, regional development, energy) as well as potential new areas (education, health, rural livelihoods).
- Improve CE reporting in Implementation Status and Results Reports to reach 100 percent for FY14-FY15 projects by the end of calendar year 2018.

**107. As highlighted throughout this CPF, implementation of this program will be closely informed by climate and gender considerations.** Ongoing and planned operations that address natural resource management aim to build resilience to climate shocks, “decouple” economic growth and carbon emissions, and improve the sustainability of the country’s natural resources. Infrastructure activities are designed to promote both climate change adaptation and mitigation. Gender sensitivity will be pursued in all facets of the lending and ASA portfolio. Project implementing entities will continue to receive assistance in designing and implementing gender-inclusive project activities; in conducting gender assessments, gender-balanced consultations and gender-sensitive data collection; and in building the capacity of project staff across all areas of specialization on gender inclusion. The World Bank team will provide ongoing support to project gender specialists or focal points to build their knowledge and tools for strengthening gender inclusion and to provide a forum for them to share experiences across projects. Moreover, the ongoing regional (South Caucasus) gender work program will continue to generate data and analytics on emerging gender inequality issues to support selected stakeholders in engaging in informed dialogue on policies and opportunities for gender-inclusion, and to help selected WBG operations and clients to strengthen the design of gender-targeted activities, better monitor gender impacts, and facilitate collaboration across global practices to enhance women’s economic empowerment.

**108. Partnerships will be critical in delivering results under the CPF.** Efforts to strengthen collaboration with bilateral and multilateral organizations, as well as with the private sector, are a key feature of this CPF. Drawing on established coordination mechanisms, together with the certainty of financing for some of Georgia’s large development projects (such as those in transport), the WBG can lead

development partners during the CPF into new areas-soft connectivity, education, and health systems, for example-that will underpin Georgia’s next generation of reforms. Table 4 shows the sectors in which

	DAC5 Code	IFI	WBG	ONGOING PARTNERSHIPS	NEW CPF PERIOD PARTNERSHIPS
	Agriculture	ADA, GIZ, CDA, EBRD, EU, NDA, SDC, SIDA, USAID	WB, IFC		●
	Banking and financial services	KfW, EBRD, EIB, EU, USAID	WB, IFC	●	●
	Basic education	ADB, EU, USAID, MCC, UNICEF	WB		●
	Business and other services	GIZ, EBRD	IFC		
	Communications	EBRD, EU, NDA, SIDA			
	Conflict prevention and resolution, peace and security	ADA, EU, USAID, UNHCR, UN Women			
	Construction	EBRD	IFC		
	Emergency response and Disaster Risk Management	ADA, EU	WB	●	
	Energy generation, distribution and efficiency - general	ADB, EBRD, EIB, DANIDA, KfW, USAID, EU	WB, IFC, MIGA	●	●
	Energy generation, renewable sources	EBRD, EIB, KfW, USAID	IFC	●	
	Forestry	ADA, GIZ, KfW, EU	WB	●	●
	General environmental protection	GIZ, SIDA, USAID, UNDP, IFAD	WB	●	●
	Government and civil society, general	ADA, ADB, GIZ, CoE, EU, NDA, SDC, SIDA, USAID, UK, UNDP	WB	●	
	Health, general	EBRD, WHO, CF	WB, IFC		●
	Heating, cooling, and energy distribution	BMZ, EIB		●	
	Industry	ADB, EBRD, EIB, EU, USAID, EU	IFC		
	Other social infrastructure and services (incl. social protection)	ADB, AFD, UNICEF, SIDA, EU, USAID	WB	●	
	Population policies/programs and reproductive health	ADA, WHO			
	Post-secondary education	SIDA, MCC, UK, GIZ, EBRD	WB		●
	Reconstruction relief and rehabilitation	EU			
	Secondary education	ADB, EU, SDC, MCC, UNICEF	WB		●
	Trade policy and regulations and trade-related adjustment	EU, SDC, GIZ, EBRD, ADB			
	Transport and storage	ADB, BMZ, EBRD, EIB, EU, JICA, AIIB, Kuwait Fund, Korea International Cooperation Agency (KOICA)	WB	●	●
	Urban and Municipal Development	SDC, ADB, EIB, UNDP, EU	WB	●	●
	Water and sanitation	ADB, BMZ, EIB, EU, SIDA, USAID	WB	●	

**Table 4: Georgia Partnership Map, OECD DAC classification**

international financial institutions will be working during CPF implementation and where new partnerships will enhance the achievement of mutual goals<sup>22</sup>.

**109. Successful of operations implementation will require strengthening procurement and financial management capacity.** Although procurement capacity in key implementing agencies is deemed adequate, maintaining capacity has been a challenge due to frequent turnover of fiduciary staff, which often delays project implementation, increases risks, and leads to institutional memory loss. The challenge is exacerbated given the government’s plans to significantly ramp up capital spending on roads, municipal infrastructure, housing for IDPs, and hydropower rehabilitation and transmission. The CPF will therefore include work with higher education institutions to develop public procurement curricula. This effort could play a vital role in maintaining a pool of qualified procurement practitioners in Georgia. Similarly, financial management activities during the CPF period will focus on two interlinked objectives: fiduciary oversight of projects, and capacity building for PFM as described under Focus Area 3. The Bank conducts regular capacity building on accounting, reporting, disbursement, and other topics of interest to the respective staff. The objective is to support and sustain PFM reforms from central to local Government levels, enhancing the efficiency of service delivery.

**110. The CPF will draw on the strengths of a “One World Bank Group” approach.** The proposed lending program provides scope for collaboration between the Bank, IFC, and MIGA in sectors with existing synergies (such as agriculture, energy, and tourism) as well as new sectors where collaborative engagement could be envisioned (including vocational education and training, health, and soft connectivity), thereby consolidating gains made in the previous CPS period. The CPF assumes total IBRD resources to be available at the level of around USD 300 – 400 million for the CPF period (FY19-FY22). The program for the outer years of this CPF (FY21-FY22) is indicative (including for ASA) and would depend on the evolution of IBRD lending capacity, progress on the structural reform agenda and satisfactory implementation of the country program. It is expected that IFC will continue its strong engagement in Georgia and pursue opportunities in new areas such as the roads sector and urban infrastructure. During this CPF period IFC plans to invest between USD 300 million and USD 400 million on its own account. MIGA will continue to seek to promote foreign private investments with its political risk guarantees and credit enhancement instruments to promote foreign private investments.

**111. Progress will be monitored closely to highlight any needed course-corrections and allow timely adaptation of activities and approaches in line with the results framework in Annex 1.** Implementation

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<sup>22</sup>*Key for the Partnership Map in Table 4:* Agence Française de Développement (AFD), Austrian Development Agency (ADA), Asian Development Bank (ADB) Council of Europe (CoE), Czech Development Agency (CDA), Danish International Development Agency (DANIDA), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), European Union (EU), German Federal Enterprise for International Cooperation (GIZ), Global Fund (GF), Japan International Cooperation Agency (JICA), Kreditanstalt Für Wiederaufbau (KfW), Millenium Challenge Corporation (MCC), Netherlands Development Agency (NDA), Swedish International Development Cooperation Agency (SIDA), Swiss Agency for Development and Cooperation (SDC), United Nations Development Programme (UNDP), United Nations International Children’s Emergency Fund (UNICEF), United States Agency for International Development (USAID), United Kingdom (UK), World Health Organization (WHO)

progress will be assessed mid-stream through a Performance and Learning Review, which will determine whether any adjustments to the strategy are needed. The World Bank will continue its good practice of portfolio “deep dives” with government counterparts to collaboratively unlock implementation bottlenecks, accelerate disbursements, and address systemic challenges. The Bank will also build upon past monitoring and evaluation programs with the client to expand training and carry out monitoring and evaluation framework assessments. The latter will contribute to improving portfolio quality, strengthening institutional capacity and improving data collection and reporting.

## IV. Managing Risks to the Program

**112. The overall risk to achieving CPF objectives is moderate.** However, there are risks that could have a substantial impact on the economy and on CPF implementation, including a growth trajectory that is vulnerable to external shocks and continued fiscal pressures, and challenges with regard to the government’s institutional capacity to address complexities arising from program implementation and environmental risks.

**113. Georgia remains vulnerable to external shocks, particularly given its high current account deficit and high total external debt.** Spillover effects from geopolitical uncertainties and slow recovery in the EU could potentially dampen investment inflows to Georgia. Tighter global financial conditions and a stronger US dollar could deteriorate debt dynamics. Georgia is highly dependent on external financing, which has resulted in the accumulation of a large stock of external debt. Further fiscal vulnerabilities emanate from pressures to increase social spending, as well as from contingent liabilities arising from SOEs, PPPs, and power purchase agreements (PPAs). Mitigating factors include the World Bank-supported public investment management reforms; the government’s commitment to fiscal consolidation, as evidenced by the 2018 budget and continued engagement with the IMF and World Bank on strengthening the regulatory framework for PPPs; robust macroeconomic institutions featuring a flexible exchange rate policy guided by an inflation-targeting mechanism; fiscal rules guiding fiscal discipline; the IMF program; and a strong policy anchor guided by the DCFTA and access to the European Market. The CPF will further emphasize support to fiscal challenges and debt management. Engagement in infrastructure and in social sectors will increasingly emphasize efficiency of investments and spending.

**114. Risks in the financial sector stem from concentration in the banking sector and high dollarization.** While the banking sector is well capitalized and profitable and the level of NPLs is not concerning, structural vulnerabilities remain high. High loan dollarization (on a declining trend from 65 percent at the end of 2016 to 57 percent at the end of 2017) increases risks from foreign exchange for borrowers, especially for non-export-oriented ones, SMEs, and households that rely on income in the local currency and are thus unprotected against any depreciation of the Georgian lari. The authorities are taking steps to address these risks by strengthening financial safety nets and adopting the larization plan to reduce dollarization in the economy. The two top banks have become larger as a proportion of GDP (65.3 percent of GDP by the end of 2017) and more concentrated in terms of market share (71 percent of the total banking sector in 2017). Their size brings the benefits of scale, greater risk diversification to help sustain profitability, and access to international financing at an advantageous funding cost—but if even

one of these banks were to fail, the impact on the financial system could be substantial. The WBG is supporting mitigating measures through its financial sector infrastructure and innovation engagement, deepening and diversifying the financial sector presence in Georgia.

**Table 5: Systematic Operations Risk-Rating Tool (SORT) for Georgia**

<b>Risk Categories</b>	<b>Rating</b>
<b>Political and governance</b>	Moderate
<b>Macroeconomic</b>	Substantial
<b>Sector strategies and policies</b>	Moderate
<b>Technical design of project or program</b>	Moderate
<b>Institutional capacity for implementation and sustainability</b>	Substantial
<b>Fiduciary</b>	Moderate
<b>Environment and social</b>	Substantial
<b>Stakeholders</b>	Moderate
<b>Overall</b>	<b>Moderate</b>

**115. There are risks related to the capacity of the public sector to deliver results, particularly line ministries and local government levels.** Lessons learned from the previous FY14-FY17 CPS have shown that the limited implementation capacity of public institutions has at times hindered the achievement of expected results in WBG interventions. In particular, the strategic shift in the CPF towards new areas of engagement such as soft connectivity and social sectors (including logistics, education, and health) may pose a challenge in terms of existing systems, standards and capacities. The CPF will mitigate these risks by focusing on the identification of capacity gaps and coordinating capacity building in new engagement areas (especially in education and health). This will include a renewed emphasis on partnerships for capacity building support from other donors. The Georgian government’s commitment to aligning with EU norms in fields such as accounting, auditing, and procurement and to strengthening its capacities will help further mitigate risks.

**116. Environmental risks are substantial, with two persistently problematic areas being forestry and mining.** Despite forest coverage of around 40 percent and the growing importance of nature-based tourism in Georgia, subsidies for the provision of firewood to rural households may jeopardize Georgia’s potential to reach climate mitigation goals under the Paris Climate Agreement and may diminish the capacity of forest ecosystems to provide vital ecosystem services, causing significant negative health impacts for the population, particularly women and children. Many poor and near-poor rural households (around 20 and 50 percent, respectively), including a large proportion of female-headed households (33 percent), rely upon low-productivity agriculture and other informal work. Climate shocks to agriculture from floods and drought exacerbate the vulnerability of these groups and require efforts in climate-smart and well-targeted agricultural extension support. The government has acknowledged the need for deep and comprehensive reforms in the mining sector, but this needs more time and efforts on both the public and private side. In order to address these risks, the WBG has recently prepared guidance for both climate-smart health systems and disaster recovery. Several important pieces of legislation were adopted with the Bank’s support, including the Environmental Assessment Code (June 2017), but more needs to be

done going forward. The CPF emphasizes environmental and natural resource management as an objective to support disaster risk management, paving the way for specific mitigating measures and continuing to maximize synergies with other partners, most importantly with the EU, which is a strong driver for the improvement of Georgia's environmental legislation.

## V. Annexes

### Annex 1: CPF Results Framework

Focus Area 1: Enhance Inclusive Growth and Competitiveness		
<p>Georgia’s economic reforms have favored economic growth and poverty reduction. Yet challenges remain – pressure from demographic trends of an aging and shrinking population, economic dualism between pockets of rapid progress and a mostly rural population, an unproductive agricultural sector and poor connectivity within the country and to the rest of the world. The SCD noted that Georgia should continue to improve the environment in which firms operate, paying particular attention to sectoral value chains and interventions at the firm-level. It identified tourism and agriculture as having strong export potential and highlighted the importance of augmenting both hard and soft connectivity – transport, logistics and ICT. In addition, access to finance and greater innovation are two critical productivity enablers as Georgia continues to enhance growth and competitiveness. The CPF presents a two-pronged approach to addressing these challenges with direct positive implications for spatial equity: (i) addressing cross-cutting factors that constrain firm productivity and deter investment; and; (ii) boost Georgia’s integration with the global marketplace through greater export orientation.</p>		
<p><b>CPF Objective 1.1:</b> Support agricultural modernization and access to markets</p>		
<p><b>Intervention Logic:</b> Agriculture’s economic potential is constrained by non-registered land rights, access to irrigation services, access to credit and absence of a value-chain approach to production that would enable the commercialization of complementary inputs. These factors act as a brake on modernizing agriculture, limiting the potential for increased employment – particularly female employment, given that one third of female household heads are farmers - and incomes, particularly in the rural economy where growth lags behind the urban areas. Poor market connectivity, a strong reliance on subsistence agriculture and unfavorable climate change projections add to the constraints. Against this, growing demand for agricultural produce in traditional CIS, EU and Chinese markets offers potential for development. Ongoing WBG engagements – irrigation services, land registry, institutional capacity for land administration and land use policies - will pave the way for further investments in high-value irrigated agriculture and horticulture, expanding the agri-food industry, increasing jobs, raising income and improving spatial equity. The IFC, through investment and advisory services will support agri-food value chains in: primary production, agri-processing, downstream supplying sectors (e.g. fertilizers) and, upstream sectors (e.g. packaging). Access to Markets for Climate Smart Agriculture – (likely in the second half of CPF implementation) will support climate smart productivity improvements in agriculture generating further links between domestic agri-businesses and foreign markets. Proposed analytical work will inform the better management of water resources for adaptation to climate risks and protection of people and assets thus linking to Focus Area 3 “Building Resilience”. Sector assessments of key value chain constraints and challenges will be carried out to explore MfD opportunities and bring in private sector solutions to address these. Depending on market and regulatory conditions, and if opportunities arise, IFC could invest or support PPP projects in agri-infrastructure. Over the longer term, this support will collectively raise agricultural productivity, but this improvement will be gradual with the largest impact likely coming outside the timeframe of the CPF.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program



<ul style="list-style-type: none"> <li>• # of farmers reached with IFC direct investments and advisory (IFC IS and AS) <ul style="list-style-type: none"> <li>❖ <i>Baseline: 740 (2016), Target: 1500 (2019)</i></li> </ul> </li> <li>• Area provided with new/improved irrigation or drainage services (Ha) <ul style="list-style-type: none"> <li>❖ <i>Baseline: 0 (2018) Target: 20,000 (2022)</i></li> </ul> </li> <li>• Number of land titles registered under the ILMMD project <ul style="list-style-type: none"> <li>❖ <i>Baseline: 14,550 (2018) Target: 48,000 (2022)</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Investment Generated by investment climate interventions in targeted sectors (IFC) <ul style="list-style-type: none"> <li>❖ <i>Baseline: 0 (2018) Target: 10.5 million USD (2022)</i></li> </ul> </li> <li>• # of new firms that export to the EU market (IFC AS) <ul style="list-style-type: none"> <li>❖ <i>Baseline: 0 (2018) Target: 6 (2022)</i></li> </ul> </li> <li>• National diagnostic assessment on Digital Agriculture opportunities in Georgia undertaken and National Roadmap developed</li> </ul>	<p><u>Current programs:</u></p> <ul style="list-style-type: none"> <li>• Irrigation and Land Market Development Project (P133828)</li> <li>• Georgia: Empowering Local Community Entrepreneurs (P146123)</li> </ul> <p><u>Current ASA/TA/BETFs:</u></p> <ul style="list-style-type: none"> <li>• South Caucasus: Digital agriculture and agriculture mechanization in the climate change context (P165884)</li> </ul> <p><u>Potential new programs:</u></p> <ul style="list-style-type: none"> <li>• Access to Markets &amp; Climate Smart Agriculture</li> </ul> <p><u>Potential ASA/TA/BETFs:</u></p> <ul style="list-style-type: none"> <li>• Climate Smart and Export Oriented Agriculture</li> <li>• Agriculture Water Productivity through Climate Smart Agriculture</li> <li>• Firm Level Productivity Analysis</li> </ul> <p><u>IFC current and planned program:</u></p> <ul style="list-style-type: none"> <li>• Investments and/or advisory in agri- business/food value chains</li> <li>• Investments and/or advisory for PPPs in agribusiness</li> <li>• SME credit lines targeting underserved segments including farmers</li> </ul>
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**CPF Objective 1.2: Improve connectivity and integration**

**Intervention Logic:** Weak logistics and underdeveloped infrastructure raise trade costs and isolate communities, making Georgia less desirable for foreign direct investment and contribute to spatial disparities, hindering the economy’s competitiveness, growth and development. Logistic facilities are poorly operated and maintained, delaying the transport of goods into and out of the country, while insufficient policy and regulatory frameworks fail to encourage private investment in infrastructure, logistics and transport services. The road network has expanded in recent years, primarily highways, including with WBG support but a weak network of secondary roads perpetuates economic dualism, which is compounded by a large digital urban-rural divide and unreliability of electricity in the regions. Constrained borrowing capacity and mounting liabilities due to guarantees limits the Government’s ability to fund electricity expansion. Potential new programs seek to improve the regulatory and legislative aspects of the transport sector as well as build capacity leading to the development of a more conducive environment for attracting and engaging the private sector in the financing, operation and maintenance of logistical facilities and transport services. In addition, the focus on hard infrastructure will be maintained. The intervention approach for ICT focuses on closing the digital divide across urban and rural Georgia, thus directly addressing spatial inequity. Given the pressure on fiscal space, proposed analytical work will examine how best to include the private sector in helping to finance infrastructure needs. Proposed technical assistance will target regional connections – for broadband and electricity, helping to establish Georgia as a regional power exchange hub

with Armenia, Azerbaijan, Russia and Turkey. By continuing to develop selected infrastructure and improve the flow of goods and people along key corridors and crossing points, the current WBG program will lead overtime to the creation of jobs and business opportunities, address spatial inequalities and promote inclusive growth.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> <li>• Contribute to increased asset value of the East West Highway corridor from Tbilisi to Sarpi (GEL Million) <i>Baseline: 812 (2018), Target: 4,880 (2022)</i></li> <li>• Reduction in travel time to socio-economic centers or district centers in Guria region (minutes):               <ul style="list-style-type: none"> <li>❖ Under design-build contracts: <i>Baseline: 135 (2018), Target: 100 (2022)</i></li> <li>❖ Under OPRC roads: <i>Baseline: 320 (2018), Target: 255 (2022)</i></li> </ul> </li> <li>• Improvement in Georgia’s score on the Logistics performance index               <ul style="list-style-type: none"> <li>○ <i>Baseline: 2.35 (2016), Target: 2.51 (2022)</i></li> </ul> </li> <li>• Rural Households with access to the Internet (%)               <ul style="list-style-type: none"> <li>○ <i>Baseline: 57% (2017) Target: 75% (2022)</i></li> </ul> </li> <li>• Power Generation (GWh) supported (IFC)               <ul style="list-style-type: none"> <li>❖ <i>Baseline: 11530 GWH (2017) Target: 11,960 GWH (2022)</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Length of project roads managed under innovative practices in (OPRC)               <ul style="list-style-type: none"> <li>❖ <i>Baseline: 80km (2018), Target: 340km (2022)</i></li> </ul> </li> <li>• Private sector participation in the maintenance of the road infrastructure and monitoring of logistics performance along corridors</li> <li>• Development of a prioritized green transport investment plan to integrate Georgian with the core Trans-European Network for Transport (TEN-T).</li> <li>• Assessment of barriers to women’s employment in the road sector is undertaken and policy recommendations are adopted by the Roads Department and the Ministry of Regional Development and Infrastructure.</li> <li>• Power Generation (# of customers reached) (IFC)               <ul style="list-style-type: none"> <li>❖ <i>Baseline: 0 (2017) Target:</i></li> </ul> </li> </ul>	<p><u>Current Programs:</u></p> <ul style="list-style-type: none"> <li>• Fourth East -West Highway Improvement Project (P130413)</li> <li>• Second Secondary and Local Roads Project (P122204)</li> <li>• Third Secondary and Local Roads Project (P148048)</li> <li>• East-West Highway Corridor Improvement Project (P149952)</li> <li>• Secondary Road Asset Management Project (P149953)</li> <li>• Transmission Grid Strengthening Project (P147348)</li> </ul> <p><u>Current ASA/TA/BETFs:</u></p> <ul style="list-style-type: none"> <li>• Improving Freight Transit and Logistics Performance of the Trans-Caucasus Transit Corridor (P161595)</li> <li>• Private Sector Participation and Sustainability Options for the East-West Highway (P161225)</li> <li>• Innovative Financial Solutions for Georgia’s Road Sector (P166130)</li> <li>• Eastern Partnership Transport Panel Secretariat (Georgia is one of six countries) (P162871)</li> <li>• Greener Transport Connectivity for the Six Eastern Partnership Countries (P165756)</li> <li>• Increasing Sustainability of Georgia’s Road Network through Performance-Based Contracting</li> <li>• Energy Sector PPPs and MFD</li> <li>• Assessment of Fiscal Costs and Tariff Impact of Power Purchase Agreements</li> <li>• Broadband for All ASA (P266275)</li> </ul> <p><u>Potential new programs:</u></p> <ul style="list-style-type: none"> <li>• MfD for Trade and Sustainable Transport</li> <li>• MfD for Energy Sector</li> </ul>

<ul style="list-style-type: none"> <li>• New Investment Financing Facilitated by IFC AS in power sector <ul style="list-style-type: none"> <li>❖ <i>Baseline: 0 (2017) Target: 0.9 billion USD (FY19)</i></li> </ul> </li> <li>• Total electricity evacuated from newly developed power generation stations in Southwestern Georgia through the grid (GWh) <ul style="list-style-type: none"> <li>❖ <i>Baseline: 0 (2018), Target: 400 (2022)</i></li> </ul> </li> <li>• Reduction in vehicle operating costs and travel times along the Zemo Osiauri – Chumateleti – Khevi section of the East-West Highway <ul style="list-style-type: none"> <li>❖ Vehicle operating costs for cars (USD/km): <i>Baseline: 0.24 (2018), Target: 0.21 (2022)</i></li> <li>❖ Vehicle operating costs for trucks (USD/km): <i>Baseline: 0.63 (2018), Target: 0.50 (2022)</i></li> <li>❖ Travel time: <i>Baseline: 12 minutes (2018), Target: 6 minutes (2022)</i></li> </ul> </li> <li>• New household and MSME broadband subscriptions catalyzed by voucher program. <ul style="list-style-type: none"> <li>○ Baseline: 0</li> <li>○ Target: 33,000</li> </ul> </li> </ul>	<p style="text-align: center;"><i>71,000 (2019)</i></p> <ul style="list-style-type: none"> <li>• Electricity transmission lines constructed or rehabilitated (km) <ul style="list-style-type: none"> <li>❖ <i>Baseline: 103 (2018), Target: 244 (2022)</i></li> <li>❖ Georgian electricity exchange platform is available for regional electricity exchange/trade</li> </ul> </li> </ul>	<p><u>Potential ASA/TA/BETFs:</u></p> <ul style="list-style-type: none"> <li>• Regional Georgia Power Exchange</li> <li>• Regional Broadband for Innovation Strategy</li> </ul> <p><u>IFC current and planned program:</u></p> <ul style="list-style-type: none"> <li>• Investment in power generation, distribution, and transmission</li> <li>• Investment and/or PPP advisory in the transportation/logistics</li> <li>• Advisory in the ICT sector (Global Digital Infrastructure Initiatives)</li> </ul>
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<ul style="list-style-type: none"> <li>• MSMEs selling via e-commerce platforms <ul style="list-style-type: none"> <li>❖ Baseline: (will be established during CY 2018), Target: 400 (2021)</li> </ul> </li> </ul>		
<b>CPF Objective 1.3: Diversify sources of finance and strengthen innovation capacity</b>		
<p><b>Intervention Logic:</b> A relatively shallow and poorly diversified financial sector in Georgia limits the development of a strong private sector with adverse consequences for growth, job creation and competitiveness. The non-banking sector, at just 9% of GDP lacks sophistication in terms of products, skills and regulation, while the capital market is relatively undeveloped - a modest volume of domestic government and corporate securities issuances, no developed secondary market and market capitalization at 7 percent of GDP. Undiversified sources of finance limit innovation among firms and few firms engage in research and development, utilize technology transfer or collaborate with research institutions. Access to finance remains a constraint, particularly for SMEs. During the CPF the WBG will strengthen credit market infrastructure (secured transactions framework and credit reporting supervision) to streamline access to finance and reduce credit risks. Upcoming TA with the EU (Financial Sector Infrastructure and Innovations TA) will support development of non-bank financial services for unbanked clients in particular, while IFC will pursue investments and TA to support outreach of financial intermediaries to the MSME sector. Financial literacy TA will enhance SME access to finance while ongoing TA for financial reporting will support implementation of accounting and auditing standards for the private sector including SMEs. Supporting capacity for innovation (Innovation and Skills for the 21<sup>st</sup> Century) is expected to lead to greater entrepreneurial activity generating a greater pool of entrepreneurs and owner managers, a greater incidence of innovation hubs and an increased number of firms having received innovation financing. Interventions are expected to lead to improved credit market infrastructure that will in time diversify the sources of finance – short term and long term - available to the private sector, SMEs and to the underserved segments of the population as well as better financial reporting and consumer protection.</p>		
<b>CPF Objective Indicators</b>	<b>Supplementary Progress Indicators</b>	<b>WBG Program</b>
<ul style="list-style-type: none"> <li>• Outstanding SME portfolio (IFC Client Banks): <ul style="list-style-type: none"> <li>❖ <i>Baseline: 1.37 billion USD (2017) Target: 2 billion USD (2022)</i></li> </ul> </li> <li>• Enhanced access to credit by SMEs: Total SME lending (Gel billion) <ul style="list-style-type: none"> <li>❖ <i>Baseline (Gel billion): 5.2 (end 2017); Target: Increase by 15% (2022)</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• # of Outstanding MSME portfolio (IFC) <ul style="list-style-type: none"> <li>❖ <i>Baseline: 151,000 (2016) Target: 400,000 (2022)</i></li> </ul> </li> <li>• Credit Reporting Regulation <ul style="list-style-type: none"> <li>❖ <i>Baseline (2017): no regulatory framework is in place</i></li> <li>❖ <i>Target: NBG enacted regulation for credit bureau licensing and oversight (2020)</i></li> </ul> </li> <li>• Secure transactions for movable assets <ul style="list-style-type: none"> <li>❖ <i>Baseline: Existing registry is</i></li> </ul> </li> </ul>	<p><u>Potential new programs:</u></p> <ul style="list-style-type: none"> <li>• Innovation and Skills for 21<sup>st</sup> Century</li> </ul> <p><u>Ongoing ASA/TA/BETFs:</u></p> <ul style="list-style-type: none"> <li>• Strengthening auditing and reporting in the Eastern Partnership (STAREP)</li> <li>• Improving efficiency and transparency in public procurement (P160448)</li> <li>• IT Audit Development in the State Audit Office of Georgia (P158658)</li> <li>• Georgia PFM Implementation Support</li> </ul>

<ul style="list-style-type: none"> <li>• Volume of fixed income securities (government &amp; corporate securities) <ul style="list-style-type: none"> <li>❖ Baseline (2017): GEL 2.8 billion</li> <li>❖ Target (2022): Increase by 30%</li> </ul> </li>   <li>• Increase in total entrepreneurial activity: Share of population (percentage) who are entrepreneurs/owner managers <ul style="list-style-type: none"> <li>❖ <i>Baseline: 8.58 (2016), Target: 11 (2022)</i></li> </ul> </li>   <li>• New/improved products and services introduced to new or existing markets <ul style="list-style-type: none"> <li>❖ Baseline: 0 (2017); Target: 200 (2022)</li> </ul> </li> </ul>	<p>redundant (2018)</p> <ul style="list-style-type: none"> <li>❖ <i>Target: legal framework is enhanced and registry is in line with international best practice and online (2022)</i></li> </ul> <ul style="list-style-type: none"> <li>• Capital markets development strategy is developed <ul style="list-style-type: none"> <li>❖ <i>Baseline: 2016 Capital market strategy designed but expired, no longer-term vision exists.</i></li> <li>❖ <i>Target: New comprehensive 5-year capital market strategy with action plan developed (2020)</i></li> </ul> </li>   <li>• Capital markets legal and regulatory framework enhanced. <ul style="list-style-type: none"> <li>❖ <i>Baseline: There are gaps in Capital markets legal and regulatory framework</i></li> <li>❖ <i>Target: Amendments to the Law on securities submitted to Parliament (2020)</i></li> </ul> </li>   <li>• Regional Innovation Hubs and/or Community Innovation Centers Operating: <ul style="list-style-type: none"> <li>❖ <i>Baseline: 0, Target: 8 (2022)</i></li> </ul> </li>   <li>• Firms having received innovation financing (matching grants): <ul style="list-style-type: none"> <li>❖ <i>Baseline: 0 (2016), Target: 80 (2022)</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• PEMPAL Community of Practice</li> </ul> <p><u>Proposed ASA/TA/BETFs:</u></p> <ul style="list-style-type: none"> <li>• Financial Infrastructure &amp; Innovations</li> <li>• Financial Sector Advisory</li> <li>• Programmatic Growth, Investment and Trade Assessment</li> <li>• Innovation Age Jobs Analysis</li> <li>• Economic Management and PFM</li> </ul> <p><u>IFC current and planned program</u></p> <ul style="list-style-type: none"> <li>• Long-term finance to banks and NBFIs to expand financing to under-served segments</li> <li>• Advisory projects on SME finance, corporate governance, and risk management for financial intermediaries</li> <li>• Investments in the financial sector (equity, MSME loans, revolving credit lines, risk mitigation)</li> <li>• Capital market development - investments in Eurobond and local currency bond markets</li> <li>• Trade Finance</li> </ul>
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	<ul style="list-style-type: none"> <li>Enhanced transparent financial reporting by SMEs: <ul style="list-style-type: none"> <li>❖ <i>Number of SMEs preparing financial statements based on IFRS/IFRS for SMEs: Baseline: 0 (2016), Target: 500 (2022)</i></li> </ul> </li> </ul>	
<b>CPF Objective 1.4: Increase economic participation in the regions</b>		
<p><b>Intervention Logic:</b> Lagging regions have not benefitted from increasing economic opportunities. Moreover, these regions are economically and socially isolated and prone to adverse weather-related events. Access to quality education and health services are limited. These disparities are particularly stark for women, young people and other vulnerable segments of the population. During the CPF period, the Bank will take an increasingly integrated approach to regional development. The WBG will collaborate with development partners to focus on remote mountainous regions where tourism needs to be complemented with diversification of the local economy. Existing partnerships are already supporting a wide-range of community-identified projects, which support connectivity infrastructure, climate resilience and capacity of local self-government. IFC will continue to invest in hospitality infrastructure and encourage the development of agri-tourism with complementary investments in agri business services and light manufacturing in areas with high potential for tourism. The expected outcomes under this objective are to enhance participation of the local population in economic activities, particularly female owned or managed businesses in tourism and also in complementary sectors. Indicators will largely track direct employment in tourism, but progress on these measures will represent a much larger and broader impact on the economic well-being of the targeted communities.</p>		
<b>CPF Objective Indicators</b>	<b>Supplementary Progress Indicators</b>	<b>WBG Program</b>
<ul style="list-style-type: none"> <li>Growth of tourism employment in targeted regions as measured by the increase in number of people employed in hotels and restaurants <ul style="list-style-type: none"> <li>❖ <i>Baseline: 5320 (2018), Target: 8722 (2022)</i></li> </ul> </li> <li>❖ Increased tourism spending in targeted regions as measured by increased tourism enterprise VAT receipts <ul style="list-style-type: none"> <li>❖ <i>Baselines (2017):</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Number of micro and small businesses started or expanded by poor and vulnerable households in the tourism sector in Kakheti and Imereti regions <ul style="list-style-type: none"> <li>❖ <i>Baseline: 513 (end 2017), Target: 600 (2019)</i></li> </ul> </li> <li>Number of community-led investments supporting tourism-related local infrastructure in Kakheti and Imereti <ul style="list-style-type: none"> <li>❖ <i>Baseline: 15 (end 2017), Target: 35 (2019)</i></li> </ul> </li> <li>Number of female-owned or run enterprises in targeted regions supported</li> </ul>	<p><u>Current Programs:</u></p> <ul style="list-style-type: none"> <li>Second Regional Development Project (P130421)</li> <li>Third Regional Development Project (P150696)</li> <li>Second Regional and Municipal Infrastructure Development Project (P147521)</li> <li>Empowering Local Community Entrepreneurs (P146123)</li> <li>Sustainable Wastewater Management Project (P145040)</li> </ul> <p><u>Potential New Programs</u></p> <ul style="list-style-type: none"> <li>Integrated Regional Development Project</li> <li>Access to Markets &amp; Climate Smart Agriculture</li> </ul> <p><u>IFC current and planned program</u></p> <ul style="list-style-type: none"> <li>Investment in hospitality infrastructure</li> </ul>

<ul style="list-style-type: none"> <li>• Samtskhe-Javakheti – 1.4 million Lari</li> <li>• Mtskheta-Mtianeti – 2 million Lari</li> <li>• Imereti – 3.6 million Lari</li> </ul> <p>❖ <i>Target (2021): 100% increase in Samtskhe-Javakheti and Mtskheta-Mtianeti, 30% increase in Imereti</i></p>	<p>by the Empowering Local Community Entrepreneurs project)</p> <p>❖ Baseline 80% (end 2017), Target: Remain at baseline level or increase (2020)</p>	<ul style="list-style-type: none"> <li>• Investment in export-related sectors including logistics, services, and light manufacturing</li> <li>• IFC Cities Platform: municipal infrastructure projects (only when structured without implicit sovereign guarantee)</li> </ul>
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<p>Focus Area 2: Invest in Human Capital</p>
<p>The findings from the SCD note that developing the skills and human capital of a population are key for boosting productivity and growth and achieving the twin goals. Investing in human capital is critical for reducing regional inequities in social and economic opportunities. Targeting underserved areas in human capital, such as early childhood development and efficiency of health care delivery, would play a direct role in reducing regional disparities, boosting growth and competitiveness.</p>
<p><b>CPF Objective 2.1:</b> Support education system for improved quality and relevance</p>
<p><b>Intervention Logic:</b> The Georgian workforce lacks a relevant and applicable set of skills for the modern Georgian economy—employers flag soft skills as the most important weaknesses among potential workers, and the education system has failed to provide functional literacy to a large majority of students<sup>23</sup>, with substantial evidence of an urban-rural divide. The lack of relevant skills comes from four sources—three related to low quality of instruction, and one to a lack of opportunities for building skills. First, the uneven availability and quality of early childhood and preschool education, in part due to the variability in skills of teachers recruited, hampers the development of higher-order cognitive and socio-emotional skills. Second, teacher quality, commonly accepted as a key driver of learning outcomes, is weak at all levels of the system. Third, even though a large share of Georgians has completed tertiary education, higher education systems are incentivized to maximize the number of enrollees rather than improve the quality of teaching or research capacity. And fourth, students do not have sufficient opportunity to develop labor market-ready technical skills. The Government has adopted education reform as a pillar of its Four-Point Plan for development, with emphasis on policies to advance the skills agenda. The ongoing WBG portfolio has been supporting this agenda through analytic work as well as policy reforms in the education system. In the new cycle, the Bank is working to complement this ongoing dialogue and new analytical support with an incipient lending program that will collectively contribute to addressing these four drivers of a lower-skilled workforce. At the pre-school level, the Bank will advise the Government on using social accountability processes to make transparent quality in preschool delivery and support through lending the introduction of teaching reforms to ensure the recruitment of higher-skilled teachers. Across all levels, Bank lending will support changes to teacher evaluation, recruitment, and professional development to boost teacher quality, and</p>

23 [from PISA 2009 Plus via Programmatic Education Sector Support (P152696)]

advise on developing a new financing model that uses evaluation to incentivize higher quality teaching, learning, and research. The Bank will work with an array of development partners to help Georgia test dual and work-based learning approaches to link the skills new job entrants are learning with demand in the marketplace. Because much of this support will be newly designed and developed, outcomes derived from them will fall early on the results chain at the end of the period.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> <li>• Introduction of performance based funding system in higher education institutions               <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> Formula-based funding system (2018)</li> <li>❖ <i>Target:</i> Performance-based funding system implemented (2022)</li> </ul> </li>   <li>• Increase in share of new entrants into the teacher preparation programs with above average achievement in university admission exams:               <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 10%, (2018)</li> <li>❖ <i>Target:</i> 30% (2022)</li> </ul> </li>   <li>• Share of Survey respondents in communities targeted with GPSA grant reporting positive views on new preschool benchmarking and monitoring system               <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> n/a (Survey to be carried out in June 2018)</li> <li>❖ <i>Target:</i> 20 percent increase of survey respondents who confirm positive changes (2022)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Number of target Municipalities that undergo preschool benchmarking assessment               <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 0 (2018)</li> <li>❖ <i>Target:</i> 27 (2022)</li> </ul> </li>   <li>• New higher education financing model developed               <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 0 (2018)</li> <li>❖ <i>Target:</i> 1(2020)</li> </ul> </li>   <li>• New general education financing model developed               <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 0 (2018),</li> <li>❖ <i>Target:</i> 1 (2020)</li> </ul> </li>   <li>• Diagnostics of major issues and bottlenecks in vocational education sector for producing skills with market relevance carried out.</li> </ul>	<p><u>Current program:</u></p> <ul style="list-style-type: none"> <li>• RETF - Improving Preschool Education in Georgia through Social Accountability Processes GPSA grant;</li> </ul> <p><u>Proposed lending program:</u></p> <ul style="list-style-type: none"> <li>• Education Sector Improvement Program</li> <li>• Innovation and Skills for 21st Century</li> </ul> <p><u>Proposed ASA/TEF/BETFs</u></p> <ul style="list-style-type: none"> <li>• SABER-Early Childhood Development</li> <li>• Technical Assistance to Support Reforms to Education Financing</li> </ul>
<p><b>CPF Objective 2.2:</b> Enhance efficiency of health care delivery system</p>		



**Intervention Logic:** Universal health coverage (UHC) has mitigated the impoverishing effects of health shocks. However, out of pocket health spending remains high and 10 percent of households encounter catastrophic health expenditures. There are inefficiencies on utilization of health services. Georgia needs to re-orient its health system towards greater emphasis on primary care, reduced reliance on acute hospital and emergency care, and emergency care, and better coordinate primary and hospital care for improved efficiency of the system. This improved efficiency will ultimately free up resources to improve quality and address equity concerns. Georgia’s Social-Economic Development Strategy (“Georgia 2020”) identifies the need to improve the general population’s access to good quality health care as a key policy priority aimed at strengthening human capital. WBG will support that goal through contributions to increased access, equity, efficiency and quality of health services. Much of the proposed program will be introduced during the CPF cycle, and so results in the medium term will fall early on in the results chain, and be more closely linked to improvements in efficiency of the system and reduced out-of-pocket expenses. Over the longer term, as resources currently devoted to inefficient health care services are freed up and reforms to the system translate into improved quality and coverage of services, outcomes for the population’s health and access to services in rural and lagging regions are expected to improve. The Bank will provide support for the introduction of an e-health system, which will co-ordinate between primary care and hospital services so that patients are referred appropriately to hospitals and there is adequate follow-up. This will further enable the Social Service Agency (SSA) to monitor whether services are delivered in appropriate settings (primary care vs inpatient) and whether there is adequate coordination and continuity of care across providers and to reduce utilization of unnecessary hospital care, and encourage prescription of generic drugs, with a positive effect on out-of-pocket expenditures. The ongoing Georgia Health Sector Support ASA is providing policy inputs for more effective coverage and better value for money outcomes, thereby helping the government to improve the performance and financial sustainability of the health sector. IFC will support investments to expand and improve service delivery by private health care providers, including exploring potential PPP engagements.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> <li>• Reduction in household out-of-pocket spending on healthcare. <ul style="list-style-type: none"> <li>❖ <i>Baseline: 57% (2015),</i></li> <li>❖ <i>Target: 50% (2022).</i><sup>24</sup></li> </ul> </li>   <li>• Decrease Maternal Mortality rate/ratio (per 100.000 live births) <ul style="list-style-type: none"> <li>❖ <i>Baseline - 23.0 (2016)</i></li> <li>❖ <i>Target - 20 (2022)</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• E-health system rolled out <ul style="list-style-type: none"> <li>❖ <i>Baseline: 0 (2018), Target: 1 (2021)</i></li> </ul> </li>   <li>• Average length of hospital stay. <ul style="list-style-type: none"> <li>❖ <i>Baseline: 5 days (2016), Target: 4.7 days (2022).</i></li> </ul> </li>   <li>• Outpatient visits per person per year. <ul style="list-style-type: none"> <li>❖ <i>Baseline: 3.9 visits (2016), 25 Target: 4.2 visits (2022)</i></li> </ul> </li> </ul>	<p><u>Proposed lending program:</u></p> <ul style="list-style-type: none"> <li>• Georgia Health Care System Strengthening project</li> </ul> <p><u>Current ASA/TA/BETFs:</u></p> <ul style="list-style-type: none"> <li>• Georgia Health Sector Support ASA.</li> </ul> <p><u>IFC current and planned program:</u></p> <ul style="list-style-type: none"> <li>• Investments and/or PPP advisory services in healthcare sector</li> </ul>

<sup>24</sup> Source: MoLHSA, NCDC&PH. Health Care: Statistical Yearbook (2016)

<sup>25</sup> Source: MoLHSA, NCDC&PH. Health Care: Statistical Yearbook (2016)

<ul style="list-style-type: none"> <li>Decrease under-5 mortality rate (per 1.000 live births)</li> <li>❖ <i>Baseline – 10.7 (2016)</i></li> <li>❖ <i>Target - 9 (2022)</i></li> </ul>	<ul style="list-style-type: none"> <li>Introduction Performance-based healthcare financing system by 2021.</li> </ul>	
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Focus Area 3: Build Resilience		
<p>Pursuing sustainable macroeconomic policies is a prerequisite to deliver poverty reduction and economic growth over the CPF period. The SCD noted the importance of maintaining a sustainable fiscal and financial position. Underlying vulnerabilities on the fiscal, financial and external side caution the solid track record of macro policies while widespread vulnerabilities among households, particularly in rural and lagging regions place these at high risk of falling back into poverty. Economic growth has been uneven with many continuing to be excluded from economic opportunities and growing disparities between rural and urban areas. In addition, natural resources that are a tremendous resource for the country are also under threat and the SCD highlighted the economic and social importance of preserving the environment. Focus area 3 will look at the ways to address vulnerabilities and build resilience in the economy, among households and in the natural resources.</p>		
<p><b>Objective 3.1: Improve <i>macro-fiscal management and mitigate risks</i></b></p>		
<p><b>Intervention Logic:</b> Challenges to Georgia’s macroeconomic resilience stem from external imbalances and internal pressures. These include a significant trade deficit, pressure on the fiscal accounts from social expenditures and contingent liabilities and financial sector vulnerabilities. The government is committed to fiscal consolidation and is strengthening public investment monitoring while advancing with a more complete analysis of fiscal risks. Its activities include an on-track IMF program; a focus on price stability with a flexible exchange rate and improvements to the transmission mechanism; Larization of the economy; and IMF-supported efforts for financial sector resilience. The WBG will use its comparative advantage to undertake activities in select areas, such as public investment management for fiscal risks and contingent liabilities stemming from SOEs and PPPs, capacity enhancement of the government to formulate PFM in partnership with the EU, and procurement reforms and strategies. ASA studies may include focused notes on public expenditure. A policy-based development operation is envisaged to support sound macroeconomic management and the country’s reform momentum. The activities will produce outputs that enhance technical understanding of, and capacity to undertake, macroeconomic policy reforms, and will be coordinated with the IMF through monitoring of Georgia’s macro-fiscal framework sustainability and adequacy, and fiscal and quasi-fiscal risks. Strengthening institutional capacity (particularly in PIM, financial risk and contingency management) and optimizing utilization of scarce public resources to strengthen the investment climate, develop finance infrastructure, and upgrade service delivery will contribute to MfD. Progress towards achievement of the objective will be indicated by Georgia’s compliance with fiscal rules, a sustainable fiscal debt, a government plan to address contingent liabilities, and improvement of PFM at the national and subnational levels.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> <li>Compliance with fiscal rule and public debt remains sustainable</li> <li>❖ <i>Baseline:</i> Actual fiscal aggregates partly in line with fiscal rule; Public debt: 44 percent of GDP</li> </ul>	<ul style="list-style-type: none"> <li>PFM strategy adopted (2018)</li> <li>SOE Governance</li> </ul>	<p><u>Current ASA/TA/BETFs</u></p> <ul style="list-style-type: none"> <li>Macroeconomic Monitoring – Country Economic Update</li> <li>Strengthening Auditing and Reporting in the Eastern Partnership (STAREP)</li> </ul>

<p>(2017), <i>Target</i>: Actual fiscal aggregates in line with fiscal rule and public debt stabilizes below 50 percent of GDP (through 2022)</p> <ul style="list-style-type: none"> <li>• Government devises plan to address contingent liabilities <ul style="list-style-type: none"> <li>❖ <i>Baseline</i>: Contingent liabilities only reported (2018); <i>Target</i>: Fiscal Risk Annex contains well-defined and realistic plan to manage contingent liabilities with PPA obligations included in the budget law (2022)</li> </ul> </li> <li>• <i>PFM improves at the subnational level following PEFA</i> <ul style="list-style-type: none"> <li>❖ <i>Baseline</i>: will be set in 2019 <i>Target</i>: to be set at PLR stage after subnational PEFA's are performed</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>❖ <i>Baseline</i>: 15 SOEs publish IFRS FS (2017); <i>Target</i>: corporate governance assessment for 4 pilot SOEs; 25 SOEs publish IFRS financial statements (2022)</li> <li>• Sub-national level PEFA <ul style="list-style-type: none"> <li>❖ <i>Target</i>: Undertake local PEFA assessments for two self-governing municipalities --Tbilisi and Batumi</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Improving the Efficiency and Transparency of Public Procurement ASA</li> <li>• PFM TA (PEFA, PFM Strategy, PIM)</li> </ul> <p><u>Potential ASA/TA/BETFs</u></p> <ul style="list-style-type: none"> <li>• New series of Programmatic PERs</li> <li>• Programmatic ASA – Macro/Micro Assessments to identify constraints to Growth, Investment and Trade</li> <li>• Financial Infrastructure and Innovations TA (EU funded)</li> </ul> <p><u>Proposed Lending/RETFs</u></p> <ul style="list-style-type: none"> <li>• DPO</li> </ul>
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**CPF Objective 3.2: Strengthen resilience of households**

**Intervention Logic:** Close to half of the Georgian population remains vulnerable to falling into poverty as illustrated by the high degree of churning around the poverty line. A reliance on subsistence agriculture and high incidence of informal jobs attest to a lack of opportunities in rural areas. Underdeveloped financial markets and gaps in financial sector regulation including weak consumer protection are constraints to financial inclusion. Helping households to navigate systemic and idiosyncratic shocks requires an understanding of all available sources of income. The WBG will seek to address some of these problems by undertaking activities that improve the targeting of the TSA program so that more of the poor and vulnerable are included while also encouraging a ‘rights and responsibilities’ approach in the program to facilitate labor market activation of beneficiaries. Advancing legislation and regulation in support of pension reform and the creation of a pensions agency will promote the sustainability of the pension system while the development of the insurance market and insurance products are further areas of support for household resilience. Financial inclusion and financial literacy are critical for resilience and under the CPF, the WBG will support analytical and technical work for capacity building for credit reporting and its regulatory framework, consumer protection and regulation for non-bank financial institutions. Analytical work will identify the key constraints to job creation, promote policy reforms for improving jobs outcomes; and a methodology to measure the informal sector. Progress

towards achievement of the objective will be shown also by coverage of the bottom quintile by the TSA; enactment of pension reform legislation and establishment of a pension agency; and an operational Deposit Insurance Agency.		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> <li>• Coverage of the bottom quintile by TSA <ul style="list-style-type: none"> <li>❖ Baseline: 50% (2018), Target: 60% (2022)</li> </ul> </li> <li>• Pension reform legislation enacted and Pension Agency Established <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> Draft pension reform package in Parliament; no Pension Agency (2017); <i>Target:</i> Pension reform legal package enacted; Pension Agency is created (2022)</li> </ul> </li> <li>• Deposit Insurance Agency is fully operational with payout procedures and contingency financing framework developed <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> DIA created and DIA household insurance launched, no payout procedures and funding gap for DIA, no contingent financing arrangements (2017) <i>Target:</i> DIA is fully operational with established deposits payout procedures, contingent financing arrangements developed (2022)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Methodology for measuring informal sector size developed <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 0 (2018), <i>Target:</i> 1 (2022)</li> </ul> </li> </ul>	<p><u>Proposed Lending/RETFS:</u></p> <ul style="list-style-type: none"> <li>• Integrated Regional Development Program</li> <li>• Innovation and Skills for 21st Century</li> </ul> <p><u>Current ASA/TA/BETFS:</u></p> <ul style="list-style-type: none"> <li>• Operationalizing the Jobs Agenda in Georgia (P165644)</li> <li>• Financial Sector Deepening and Inclusion TA</li> <li>• Financial Sector Advisory TA (P165513)</li> <li>• Deposit Insurance TA (P143745)</li> <li>• Programmatic PERs</li> </ul> <p><u>Potential new ASA/TA/BETFS:</u></p> <ul style="list-style-type: none"> <li>• Innovation Age Jobs Analysis</li> <li>• The role of remittances and inter-households transfer to supplement household income</li> <li>• Financial Sector Advisory &amp; FSAP Update</li> <li>• Cyber Security TA (incl. IT security enhancement at NBG and commercial banks)</li> <li>• Financial Infrastructure and Innovations TA (EU funded)</li> </ul>
<b>CPF Objective 3.3: Enhanced management of natural resources and climate risks</b>		

**Intervention Logic:** People’s health suffers from high levels of indoor and outdoor pollution, while illegal logging and exploitation of natural resources threaten Georgia’s environmental sustainability and its EU approximation progress, as well as its potential for tourism and production of quality agricultural produce. Abundant forest resources are not being adequately managed, limiting their development potential and that of rural households, while management of the mining sector is decades behind other countries in the region. The country has many features that make it vulnerable to climate change including diverse physical geography and climates, significant coastline and mountain zones, and, an increasing experience of natural disasters. Extreme weather conditions reduce energy reliability for vulnerable households that already suffer from inadequate supply and reliability of renewable sources of generation. Climate resilience is thus a critical component of the ongoing and planned operations in the electricity sector, e.g. the Transmission Grid Strengthening Project aims to increase the national grid’s technical resilience to extreme climatic conditions. Current analytical work examines ways to promote the energy efficiency of public buildings in Tbilisi. Further outcomes under the CPF will target enhanced management of natural resources and climate risks. Potential new programs will help strengthen the capacity to manage forests and forested landscape in a sustainable and participatory manner, thus also improving the resilience of rural households. First steps in developing the mining sector will focus on analyzing the size of the knowledge gap and recommending measures to address this. Technical assistance activities targeting Disaster Risk Management (DRM) are expected to build the capacity of the Government of Georgia to (i) avoid the creation of new risks and reduce existing risks, and, (ii) improve the quality and timeliness of the emergency response. Additional outcomes under the CPF include the adoption of policies to reliably integrate renewable generation in order to significantly reduce power outages, establish annual technically feasible limits to non-hydro renewable integration, and develop a feasible financing mechanism for improving space heating efficiency, which is expected to mitigate the effects of rising energy prices and disruptive extreme weather conditions on households and businesses.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> <li>• Forest area under sustainable management (% of forest area – excluding protected areas – with updated forest management plans under implementation) <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 0% (2018) <i>Target:</i> 20% (2022)</li> </ul> </li>   <li>• Cost of environmental degradation from land degradation and deforestation reduced <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 191 million USD (2012) <i>Target:</i> 80 million USD (2022)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• National capacity to accurately monitor carbon sequestration in Georgian Forests is available.</li>   <li>• Updated forest management plans prepared (area, Ha) <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 0 (2018) <i>Target:</i> 400,000 (2022)</li> </ul> </li>   <li>• Forest officials from the National Forest Agency trained in modern forest management practices (%) <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 0 (2018) <i>Target:</i> 75% (2022)</li> </ul> </li> </ul>	<p><u>Current Lending Program:</u></p> <ul style="list-style-type: none"> <li>• Transmission Grid Strengthening Project (P147348)</li> </ul> <p><u>Potential new programs:</u></p> <ul style="list-style-type: none"> <li>• Forest/Landscape Management Project</li> <li>• Access to Markets &amp; Climate Smart Agriculture</li> </ul> <p><u>Current ASA/TA/BETFs:</u></p> <ul style="list-style-type: none"> <li>• Georgia’s Energy Efficiency and Social Equity (P165005)</li> <li>• Household Surveys on Forest Use, Poverty &amp; Vulnerability to Natural Hazards (P158355)</li> <li>• Forestry and Mining Dialogue (P165570)</li> <li>• Georgia: National Action Plan for Adapting to Climate Change Impacts in the Coastal Zone (P165927)</li> <li>• Advancing the DRM Agenda in Georgia (P155421)</li> </ul>

<ul style="list-style-type: none"> <li>• Development and Adoption of disaster risk emergency preparedness and response investment plan <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> Investment plan has not been developed (2018)</li> <li><i>Target:</i> Investment plan in place (2022)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Number of forest user villages supported and involved in management of their local forests <ul style="list-style-type: none"> <li>❖ <i>Baseline:</i> 0 (2018) <i>Target:</i> 500 (2022)</li> </ul> </li> <li>• National Action Plan for Adapting to Climate Change Impacts on the Black Sea Coastal Zone is developed</li> <li>• National Annex of Eurocode 8 is developed and adopted by the Ministry of Economy and Sustainable Development</li> <li>• New energy efficiency legislation is adopted</li> <li>• Action Plan for increasing the climate resilience of Racha’s road network is developed and adopted by the Roads Department.</li> </ul>	<ul style="list-style-type: none"> <li>• Resilient Building Regulation and Emergency Preparedness (P166986)</li> <li>• Tbilisi Urban Regeneration and Resilience – Phase 2 (P165174) FY18-19</li> <li>• Technical Assistance to Increase Climate Resilience of Georgia’s Road Network (P161222)</li> </ul> <p><u>Potential ASA/TA/BETFs:</u></p> <ul style="list-style-type: none"> <li>• Climate Smart and Export Oriented Agriculture</li> <li>• Mining Sector Regulatory and Policy Framework</li> <li>• Disaster Risk Reduction and Emergency Preparedness</li> <li>• Agriculture Water Productivity through Climate Smart Agriculture</li> <li>• Forest Management/Wood-Based Energy TA</li> </ul>
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## **Annex 2. Georgia FY14-FY17 Country Partnership Strategy (CPS) Completion and Learning Review**

Date of CPS (FY14-FY17): April 9, 2014 (Report Number: 85251-GE)

Date of CPS Performance and Learning Review (PLR): April 7, 2017 (Report Number: 108467-GE)

Period Covered by the Completion and Learning Review: April 9, 2014 – November 30, 2017

### **I. Summary of Key Findings**

- 1. The Completion and Learning Review (CLR) is a self-evaluation by the World Bank Group (WBG) of the development outcomes and implementation of the Georgia Country Partnership Strategy (CPS) for FY14-FY17.** The CPS was prepared in the aftermath of a major transition in the government of Georgia – a period marked by policy uncertainty and slow implementation of public programs that resulted in diminished consumer and investor confidence and lower growth. High unemployment, poverty, and lack of shared prosperity remained key challenges for Georgia. Hence, the overarching objective of the CPS was to help reduce extreme poverty and boost shared prosperity in Georgia in a sustainable manner. The CPS had two focus areas: strengthening public service delivery to promote inclusion and equity; and enabling job creation by the private sector through improving competitiveness.
- 2. The CLR uses the results framework as updated in the Georgia CPS FY14-FY17 Progress and Learning Review (PLR).** The PLR did not extend the CPS period. However, the CLR covers the period between April 9, 2014 (date of the CPS) and November 30, 2017 – five months beyond the formal CPS timeframe. While almost all of the objectives and indicators are evaluated based on the results achieved during the CPS period (with few exceptions where targets were set beyond the formal CPS timeframe), the CLR captures lending delivered in the first half of FY18 (CLR Annex 2) as part of the CPS delivery. This is justified by the fact that (a) the CPF is under preparation and has not been approved; (b) both operations delivered in FY18 were part of, and prepared within, the CPS time frame. The investment program delivered during the CPS period reflects all projects delivered during FY14, as they were not captured in the previous CPS completion report.
- 3. The CPS Program was well aligned with Georgia’s development priorities as well as the World Bank Group’s strategic goals of reducing extreme poverty and boosting shared prosperity.** Both focus areas of the program were fully aligned with Georgia’s medium-term vision at the time of CPS preparation as articulated in the Socioeconomic Development Strategy 2020 (SDS), focusing on achieving faster, inclusive, and sustainable growth backed by structural reforms and the realization of the benefits associated with the Deep and Comprehensive Free Trade Area (DCFTA) membership.
- 4. The Development Outcome of the CPS is rated as Moderately Satisfactory.** Out of the nine CPS objectives five were achieved, three were mostly achieved, and one was partially achieved. The first focus area is rated as Satisfactory (S), and the second one is rated as Moderately Satisfactory (MS). The CLR highlights key achievements attributed to the CPS interventions. A detailed assessment of individual objectives and respective indicators is presented in CLR Annex 1.
- 5. The World Bank Group’s performance in designing and implementing the CPS is rated as Good.** The program was largely implemented as designed, with some corrective measures introduced at the PLR stage. Collaboration within the WBG and with development partners grew significantly during the CPS period and has laid a strong foundation for the future. The lending program was complemented with a substantial and innovative program of analytical and advisory services. The program was gender-informed and promoted citizen engagement in the design, implementation and monitoring of projects during CPS implementation.
- 6. Key lessons learned include some of the challenges the program and the country faced during CPS implementation, and actions to be incorporated in the next country partnership framework (CPF) are proposed.**

## II. Progress Towards CPS Development Outcomes

7. **The CPS Development Outcome rating is Moderately Satisfactory (MS).** The overarching objective of the CPS was to help end extreme poverty and boost shared prosperity in Georgia in a sustainable manner. The CPS identified two areas of focus: Area of Focus 1 – Strengthening public service delivery to promote inclusive growth (with six objectives), and Area of Focus 2 – Enabling private sector-led job creation through improved competitiveness (with three objectives). Overall, out of the nine CPS objectives five were achieved, three were mostly achieved, and one was partially achieved. The ratings are presented in Table 1.

**Table 1:** Summary Ratings

		Number of indicators				Overall
		Met	Mostly Met	Partially Met	Not Met	
Area of Focus 1: S	<b>Objective 1:</b> Contribute to expansion and strengthening of social protection system.	1	1			Mostly Achieved
	<b>Objective 2:</b> Support government’s efforts of expansion “universal health coverage (UHC)” program and institutionalization of health service quality assurance	1				Achieved
	<b>Objective 3:</b> Contribute to elaboration of essential knowledge base for general education and pre-school	3				Achieved
	<b>Objective 4:</b> Support improvements in public investments and delivery of public services to citizens.	2		1		Mostly Achieved
	<b>Objective 5:</b> Contribute to sustained progress towards the adoption of modern public sector and fiscal	2				Achieved
	<b>Objective 6:</b> Support efforts to strengthen participatory local development and greater social accountability.	2				Achieved
Area of Focus 2: MS	<b>Objective 7:</b> Contribute to addressing key legal, regulatory or institutional constraints for the private	4	1			Achieved
	<b>Objective 8:</b> Contribute to provision of infrastructure and services to facilitate growth.	1	3	2	1	Mostly Achieved
	<b>Objective 9:</b> Support development of improved framework for matching labor supply with demand		1		1	Partially Achieved
<b>Overall Ratings</b>		<b>16</b>	<b>6</b>	<b>3</b>	<b>2</b>	<b>MS</b>

### Area of Focus 1 – Strengthening Public Service Delivery to Promote Inclusive Growth

8. **Area of Focus 1 is rated as Satisfactory,** since out of the six CPS objectives under this focus area four were achieved, and two were mostly achieved. The program contributed to the achievement of significant results by the government of Georgia, as outlined below.

9. **Objective 1: “Contribute to the expansion and strengthening of the social protection system; in particular, targeted social assistance and pension” is Mostly Achieved.** The CPS recognized the high importance of social protection systems in reducing poverty. Coverage of the poorest decile by Targeted Social Assistance (TSA) increased from 50 percent in 2013 to 56.6 percent in 2016, and is on track to achieve the CPS target of 60 percent for 2017. The WBG contributed to the achievement of the results through a series of Inclusive Growth Development Policy Operations (IG DPOs), complemented by solid technical assistance (TA). Implementation of pension reform (supported by the World Bank’s Pension Reform TA, in collaboration with other development partners and the Private Sector Competitiveness DPO (PSC DPO) series has advanced beyond the targets set out in the CPS. The roadmap was completed and published in March 2016. Furthermore, the French Development Agency (AFD) provided parallel budget support based on the policy reform matrix supported by the PSC DPO2 in 2017.

10. **Objective 2: “Support for the government’s efforts of the expansion of the universal health coverage (UHC) program and institutionalization of health service quality assurance process” is Achieved.** The WBG supported an increase in the UHC registration rate from 60 percent in 2013 to the target of 90 percent in 2017, of



which around 52 percent are females. In addition, the World Bank, through its Service Delivery Quality Improvement TA provided the Government with comprehensive recommendations on quality improvement measures. Following the UHC reforms supported by the International Bank for Reconstruction and Development (IBRD) interventions, the International Finance Corporation (IFC) delivered on its commitment to support private sector participation in the health care sector. IFC provided financing of USD 39 million to support expansion plans of two leading private health care companies. These investments promote greater access to quality and affordable health care services.

11. **Objective 3: “Contribute to the elaboration of an essential knowledge base for general education and preschool education” is Achieved.** Since other development partners<sup>26</sup> had important investments in the education sector, the Bank’s support was complementary, mainly through knowledge services and policy advice, which produced some notable results. Targets were achieved on teacher effectiveness evaluation tools. All standardized instruments for a multidimensional new teacher evaluation system have been developed and adopted by the government of Georgia. Parliament passed the Law on Preschool Education in 2016, setting an institutional framework for early childhood education for the first time in the country. Progress has also been made in quality assurance, with interventions put into place to improve the monitoring and delivery of preschool and early childhood education.

12. **Objective 4: “Support improvements in public investments and delivery of public services to citizens” is Mostly Achieved.** Tbilisi municipality started using Public Investment Management (PIM) guidelines (prepared with assistance under the Enhancing Public Investment Management TA and approved by the Cabinet of Ministers in 2016) as part of a pilot involving five other municipalities (Rustavi, Gardabani, Kutaisi, Batumi, and Poti). The number of published annual IFRS based financial statements of state-owned enterprises (SOEs) increased from 4 in 2013 to 15 in 2017, overachieving the CPS target.

13. The WBG, through a range of instruments including Investment Lending (IL), such as the Second Regional and Municipal Infrastructure Development project (SRMIDP), and the Inclusive Growth Development Policy Operation (IG DPO) complemented by TA helped to strengthen the Government’s capacity at the local and central levels to prioritize, procure, implement, and monitor programs and projects.

14. **The World Bank program made an important contribution to improved municipal services and infrastructure through its regional and municipal development program,** including five IL projects. The TA program under the SRMIDP project, for example, offered robust training programs to more than 200 public servants and community leaders from 70 municipalities around the country in disciplines including: infrastructure project cycle management, financial discipline and program budgeting and; spatial planning and asset management, all resulting in better municipal services for the respective communities. However, the targeted number of beneficiaries served by infrastructure improvements under these projects has been only partially met. The number of direct beneficiaries under the SRMIDP and the three Regional Development Projects have reached 256,000 compared to the expected target of one million (which was overly ambitious and not consistent with the coverage of Bank interventions) and therefore is only partially achieved.

15. **The Bank supported the Government of Georgia in drafting the law on accounting, reporting, and auditing** (adopted in June 2016) as well as in establishment of Service for Accounting, Reporting, and Auditing Supervision (SARAS) through the Reform Momentum and Support TA. The law requires gradual publishing of IFRS-based financial statements (depending on the size and category of an entity) beginning from 2018. Along with this, the National Agency of State Property, the regulator of most state-owned enterprises (SOEs) in the country, initiated their own review of policies and procedures, advising SOEs to report under IFRS. This proactive position of the Government and its agencies, along with several SOEs beginning to disclose their IFRS reports, contributed to successful

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26 Millennium Challenge Corporation (MCC), U.S. Agency for International Development (USAID), European Union (EU)

achievement of the CPS target ahead of the regulatory deadline: at least 15 SOEs have published annual IFRS based financial statements in 2017.

16. **Objective 5: “Contribute to sustained progress toward the adoption of modern public sector and fiscal management systems” is Achieved.** The quality and timeliness of annual financial statements has improved, as measured by the PEFA indicator PI-25, which moved from C+ to B+, overachieving the initial target rating of B. The effectiveness of internal audits has also improved, with the associated PEFA indicator PI-21, which moved from C+ to B. The World Bank program’s support for the government’s efforts to streamline and harmonize public sector accounting and reporting standards, and to strengthen the public internal and external audit, public financial internal control, and oversight systems was complementary to the interventions of other development partners (mainly the EU), through the activities in the Internal Audit Community of Practice of Public Expenditure Management Peer Assisted Learning network (PEMPAL<sup>27</sup>), of which Georgia is a member.

17. **Objective 6: “Support efforts to strengthen participatory local development and greater social accountability” is Achieved.** The Youth Inclusion and Social Accountability project<sup>28</sup> promoted inclusion of youth in local government decision making processes in three pilot municipalities of Sagarejo, Tskaltubo, and Terjola. Youth groups developed Municipal Action Plans and implemented them jointly with the municipalities. The Municipal Development Fund (MDF) under the SRMIDP project developed a tool for beneficiary feedback on municipal services that was piloted in seven Municipalities (Marneuli, Lagodekhi, Zestaponi, Gori, Khashuri, Kobuleti and Zugdidi).

#### **Area of Focus 2 – Enabling Job Creation by the Private Sector through Improving Competitiveness**

18. **Area of Focus 2 is rated as Moderately Satisfactory** since out of three objectives under the area one is achieved, one – mostly achieved, and one – partially achieved. The WBG has supported Georgia’s competitiveness agenda through addressing legal, regulatory, and institutional constraints, improving access to finance, and improving the investment climate and infrastructure.

19. **Objective 7: “Contribute to addressing key legal, regulatory or institutional constraints for the private sector” is Achieved. The WBG program has supported a number of reforms and legislative initiatives that, along with expanded access to infrastructure, has improved the country’s competitiveness.** The PSC DPO2 along with advisory services and analytics has supported the modernization of the legal framework underpinning Georgia’s innovation ecosystem. The new Law on Innovation<sup>29</sup> facilitates private sector involvement in innovation, sharpens the incentives for researchers to cooperate with enterprises, and provides a clear framework for the government to advance the development of Georgia’s innovative ecosystem. The impact of these reforms would likely be an increase in the number of firms that have adopted innovative products or processes as a result of the services and financing provided by Georgia’s Innovation Technology Agency (GITA) supported by the ongoing Georgia National Innovation Ecosystem (GENIE) project and should be captured by the next CPF.

20. **The PSC DPO series supported reforms that contribute to financial sector stability and strengthen financial safety, will foster savings in the economy and support market development and deepening.** This includes introducing the deposit insurance system (DIS), which will increase the soundness and solvency of the insurance market, and reforming the pension system to protect the interests of pensioners and incentivize long-term savings

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*27 PEMPAL, established by the WBG in 2005, is a multilateral effort to develop capacity and share reform experiences among countries in Central Asia and Central and Eastern Europe. PEMPAL facilitates the exchange of professional experience and knowledge transfer among public finance management (PFM) practitioners. The network aims to contribute to strengthening PFM practices in the member countries through disseminating information on good PFM practices and their application.*

*28 Financed through the State and Peace Building multi-donor Trust Fund.*

*29 approved by Parliament on June 22, 2016.*

in Georgia. The enactment of the Deposit Insurance Law (DIS Law<sup>30</sup>) in May 2017 was a major step toward enhancing financial stability and protecting small depositors in case of a bank failure. Amendments to the Insurance Law were enacted in 2016, and continued regulatory and legal reform of the insurance market is underway (including the introduction of third-party motor vehicle liability insurance).

21. **IFC supported the Government's efforts to further reduce compliance costs for businesses, insure greater investor protection, improve tax transparency and foster greater corporate transparency.** IFC's Investment Climate Advisory Project has supported the Georgia Revenue Service (GRS) in the implementation of transfer pricing audits, helping Georgia to achieve compliance with the international best practices promoted by the Global Forum on Transparency and Exchange of Information (GFTEI). This project has also helped to streamline customs processes and administration of the VAT and corporate income tax and establish a service for foreign investors aftercare. IFC's Corporate Governance Advisory Project has supported important reforms to strengthen the protection of minority investor rights and assisted four midsize private financial intermediaries in the implementation of good corporate governance practices, which helped these clients attract financing of a total of USD 40 million.

22. **IFC supported Georgia's efforts to increase compliance with international food safety standards aiming at helping domestic producers gain access to new and more sophisticated markets.** Georgian agricultural products often do not comply with the food safety standards of the EU, which hampers the opportunities offered by a USD 50 billion market. To address this bottleneck, IFC's Food Safety Advisory Project worked with the National Food Agency to improve the efficiency of food safety inspections, trained companies on international food safety standards, and partnered with a leading local retailer to improve the food safety inspection capacity of local - mostly small and medium enterprises (SMEs).

23. **The WBG supported an increase in access to finance, especially for SMEs.** Credit penetration increased during the CPS period. Domestic private credit expanded from 39 percent of GDP in 2013 to 56 percent in 2016. The share of micro, small, and medium-size enterprises (MSMEs) in the banking sector loan portfolio increased from a baseline of 20 percent to 21 percent<sup>31</sup>, although in absolute terms the volume of MSME loans almost doubled during the CPS reporting period. Low credit penetration within the MSME sector is partially explained by the fact that some banks classify entrepreneurs as retail borrowers, not as businesses. More fundamental challenges are related to banks' higher risk perception of MSME borrowers. The share of non-bank financial institution assets in total private assets grew by 1 percentage point to 10.2 percent by the end of 2016. Nevertheless, access to finance by the MSMEs remains constrained.

24. **IFC maintained a strong focus on strengthening the financial sector and improving MSME access to finance.** The number of MSME loans in the outstanding portfolio of IFC's client banks has increased from 110,000 to 296,000 between 2012 and 2016. Concurrently, the total volume of MSME outstanding loans almost doubled from USD 0.8 billion to over USD 1.5 billion, exceeding the CPS target by 30 percent. Micro loans provided by two of IFC's microfinance clients accounted for about a third of the increase.

25. **IFC aimed to address demand and supply side constraints in the financial sector through a combination of investment and advisory services.** To increase the supply of MSME loans, IFC provided almost USD 200 million of long-term financing to four financial institutions for capital support, MSME and mortgage loans, and risk management products. To tackle the demand side financing constraints for SMEs, IFC's SME Resilience Advisory Project supported one of its client banks in launching an online training platform to promote SMEs' awareness of financing products, and increase their financial literacy.

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30 The DIS law envisions creation of a simple pay-box deposit insurance system aimed at protection of individual account holders-depositors up to GEL5,000 per depositor per bank, with potential expansion of the DIS scope and coverage by 2020.

31 No target was set by the results framework.

26. **IFC scaled up efforts to promote capital market development.** In FY17, IFC supported two local currency bond issuances of one of its client groups: a Eurobond, and the first-ever Georgian off-shore corporate bond. IFC's participation as an anchor investor greatly assisted in providing confidence to more than 100 private and institutional investors. These transactions contributed to the deepening of the local fixed income and currency market, supporting the government's ongoing de-dollarization efforts. They also helped the client lower the cost of issuance.

27. **The WBG program has facilitated investments in the regions through support to an improved investment climate and infrastructure, and contributed to increased tourism spending and employment.** Investments under the regional development program, for example, helped attract investments of over USD 70 million in the Kakheti and Imereti regions. Tourism development supported by Bank operations and IFC investments demonstrated good progress: tourism spending has tripled in the Kakheti region during the CPS period as demonstrated by increased VAT payments by tourism businesses in the region. The program also helped to open up new employment opportunities. The tourism sector in Kakheti has created more than 500 new jobs over the CPS period, doubling number of people employed in the sector. IFC made three investments in agribusiness in two regions covered by IBRD's regional development projects and financed a hotel in the affordable class segment.

28. **Objective 8: "Contribute to provision of infrastructure and services to facilitate growth" is Mostly Achieved. The WBG program has contributed to decreasing travel time and vehicle operating costs** by financing construction and the upgrading of sections of the East-West Highway,<sup>32</sup> as well as selected secondary and local roads throughout the country, benefiting all categories of households. These investments also improved the ability of small businesses to connect to global markets, multiplying the impact of the investments that Georgia is making - with WBG support - to expand their use of ICT services, including e-commerce (details are presented in CLR Annex 1).

29. **IFC's programmatic engagement in Georgia's power sector has contributed to the development of its vast clean energy potential and enhanced energy security.** During the current CPS period IFC supported increasing Georgia's new hydropower generation capacity by: (i) arranging financing for a landmark hydropower project to construct the 187 MW Shuakhevi Hydropower Plant (HPP) on the Adjaristsqali Cascade designed to increase domestic supply during the winter months when the country faces the peak of electricity demand and to enable Georgia to export energy to Turkey; (ii) financing development/feasibility work of the 150 MW Koromkheti HPP also on the Adjaristsqali cascade, (iii) acting as the lead advisor to the government for the 280MW Nenskra HPP designed to meet up to 12 percent of total domestic demand, and (iv) supervising construction of the 87MW Paravani HPP, for which financing was provided during the previous CPS period. The Shuakhevi HPP plant, co-developed by India's Tata Power neared physical completion by the end of the CPS period and will become the first hydropower project in Georgia certified by the UN Framework Convention on Climate Change to reduce carbon emissions (by 200,000 tons per year). In addition to IFC co-financing, Tata Power utilized the Multilateral Investment Guarantee Agency (MIGA) political risk guarantees against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract. Support for this project was aligned with MIGA's strategic priority of supporting transformational projects, as per the Agency's Strategy for FY15-FY17. In addition, IFC arranged the debt financing package for this project including co-financing by the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD).

30. **Progress in enhancing the energy regulatory system and aligning the electricity market rules with the EU Energy Policy (as applicable to Georgia under the association agreement (AA) and Energy Community Treaty) has accelerated, but has been slow overall.** Detailed plans for the revision of regulations to allow new trading arrangements are being prepared. The Parliament adopted amendments to the Law on Electricity and Gas on June

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32 The Highway carries over 60 percent of total foreign trade and is seen as a central piece in the Governments strategy of transforming Georgi into a transport and logistics hub for trade between Central Asia and the Far East, and Turkey and Europe

30, 2017. The new law set a deadline of May 1, 2018 for the introduction of new trading arrangements for the electricity; however, full adoption of the new trading arrangement fully consistent with Energy Community Treaty acquis may take longer. According to the law all electricity customers connected at the 35 kV voltage level and above will be deregulated. Development of a detailed, time-bound road map for secondary regulation to enable new trading arrangements is expected in the 2<sup>nd</sup> half of 2018.

31. **Improvement of irrigation services is delayed.** While delays were experienced at the start of the Irrigation and Land Market Development project, civil works are underway and the project is expected to achieve its intended outcomes. The pilot land registration activities under this project are providing a foundation for greater investments in infrastructure once land owners have clear title to their lands.

32. **Objective 9: “Support development of improved framework for matching labor supply with demand” is Partially Achieved. The Bank contributed toward the government’s higher-level and long-term goal of increasing employment.** A Social Protection and Labor TA has supported the government in the development of a labor market information management system ([www.lmis.gov.ge](http://www.lmis.gov.ge)), an integrated public web portal that provides updated information on labor market trends, career guidance, and occupational profiles for various stakeholders (students, job seekers, research institutions, governmental bodies, private sector, etc.). It can be considered as an information bank, gathering labor market indicators that are visualized and easily understandable to users. Worknet.gov.ge has also launched modules of employers, vacancies, the automatic connection of job seekers, and the feedback and registration of job seekers is ongoing. While the system provides the possibility of automatic matching between a job seeker and an employer, it is not yet capable of matching a job seeker with an appropriate training program, as envisaged by the CPS.

### III. World Bank Group Performance

33. **Overall Performance of the World Bank Group in designing and implementing the CPS was Good.** The assessment is based on the arguments elaborated below.

#### Design

34. **The CPS was fully aligned with the government’s development priorities, as outlined in the country’s Socioeconomic Development Strategy 2020 (SDS), and has remained relevant throughout program implementation.** The SDS had the overarching objective of achieving faster, inclusive, and sustainable growth, and was built around three strategic areas: (1) Private sector competitiveness (including improving the investment and business environment, enhancing innovation and technologies, facilitating the growth of exports, and developing the infrastructure to fully realize the country’s transit potential); (2) Human Capital Development (including the development of a workforce that meets labor market demands, tightening social safety nets, and ensuring accessible and high-quality health care); and (3) Access to finance (mobilizing investments, and the development of financial intermediaries). CPS Focus Area 1 - Strengthening public service delivery to promote inclusion and equity supporting the SDS Strategic Area 2, while focus area 2 - Enabling job creation by the private sector through improving competitiveness responded to all SDS three Strategic Areas. The CPS also focused on the necessary preconditions for inclusive economic growth identified by the Government: macroeconomic stability and effective public administration.

35. **Lessons learned from the implementation of the previous CPS were incorporated in the design and implementation of the program** and included the importance of analytical work, selectivity and complementarity within the WBG, and between the WBG and other development partners, as outlined below.

36. **The CPS program was selective and engaged in the sectors where the Bank had a comparative advantage.** The program focused on reforms that could be achieved through designing two series of development policy operations that complemented one another, and envisaged them as proceeding in parallel. New investment lending was built on previous successful experiences, and was largely concentrated on infrastructure projects in the transportation, regional development, energy, and rural sectors.

37. **Advisory Services and Analytics (ASA) has remained an essential component of the program, underpinning WBG engagement, and complementing the investment portfolio.** The ASA program provided policy advice and TA across multiple sectors and produced valuable inputs in key focus areas such as climate change and disaster risk management, air pollution and forestry, green transport, poverty assessment, and gender. The program informed reforms and strategies in education, health, pension, ICT and innovation, urban development, energy, and tourism. IFC delivered advisory services, financed by the Donor Trust Funds, client fees and internal resources, which totaled about USD 3 million. The advisory projects supported improvements in investment climate and corporate governance, promoted greater access to finance, increased compliance with international food safety standards, and provided support for the structuring of the Nenskra HPP public private partnership (PPP).

38. **The CPS program promoted synergies across the WBG.** The World Bank and IFC reinforced and complemented their efforts in the healthcare, energy, tourism and financial sectors. IFC's investments in private healthcare provision followed UHC reforms implemented with IBRD support. They also aimed to contribute to efficiency improvements in healthcare provision that will be essential in reducing fiscal pressures associated with UHC. In the energy sector, the WBG priorities have been guided by the continuous dialog between the IBRD and IFC sector teams. The development of the Adjaristsqali hydropower cascade was a true "One WBG" engagement, with IFC developing and co-financing the construction of a greenfield power plant, MIGA providing guarantees to one of IFC project sponsors, and IBRD financing a transmission line to strengthen the Southwestern part of the grid. IFC prioritized real sector job-creating investments in the regions covered by the IBRD regional development program. IBRD focused on upstream reform to create the conditions for capital market development by promoting pension reform and supporting market infrastructure through DPOs and TA. IFC partnered with leading private sector players in Georgia to scale up capital market transactions.

39. **The WBG has put significant efforts into helping to ensure adequate participation of key stakeholders in the design and implementation of the CPS,** including in-depth discussion of Georgia's development priorities and Bank's interventions, results, and challenges, through a series of roundtable meetings with representatives of development partners, civil society, and the private sector. Country Opinion Surveys informed the preparation of the CPS, PLR, and subsequently the new CPF.

40. **The WBG coordinated effectively with other development partners in leveraging financial as well as technical assistance.** Collaboration with development partners was particularly noteworthy in the transport sector, where the Bank led annual donor meetings to agree on road sector financing plans, especially for the East-West Highway Corridor Development Program, a program that will be completed with parallel financing from several development partners (ADB, European Investment Bank (EIB) and possibly the Japan International Cooperation Agency (JICA)). In addition, the Bank leveraged co-financing from EIB in the amount of USD 90 million to supplement USD 20 million of IBRD resources for the East-West Highway Corridor Additional Financing.

41. **The Risks and mitigation measures identified were relevant.** The foreseen macroeconomic risk did materialize, **although** after the 2016 elections the Government demonstrated its renewed commitment to the pursuit of the reforms outlined in SDS 2020 to manage economic challenges, and developed measures that have brought the macroeconomic framework back on track. In response to the changes in the country's economic context, the WBG has worked with the government to help mitigate risks through the policy advice, analytical support, and actions envisaged in the DPOs.

42. **The results framework was somewhat complex, with some indicators being measured by several sub-indicators.** For example, CPS Objective 7 was measured by five indicators, of which two (d and e) were measured by four and three sub-indicators respectively. There were a few instances where baselines and/or targets were either missing or inaccurate (including overly ambitious). Some indicators assumed that reliable data would be available as of the CLR stage. One lesson learned from this experience is that it would be advisable to have CPF indicators directly linked to the program and its instruments as opposed to targeting improved rankings in different international

assessments. Attribution of some achievements to the WBG instruments was also challenging, as the Bank's intervention was complementary to more significant financing provided by the Government and other donors.

### **Implementation**

43. **The CPS program was largely delivered as envisaged.** The CPS indicative IDA/IBRD lending program amounted to USD 1.09 billion, which was roughly 30 percent higher than the program delivered under the previous CPS (USD 823 million in FY10–13). The actual program delivered by IBRD/IDA under the CPS amounted to USD 836.8 (CLR Annex 2) due to some revisions introduced at the PLR stage as discussed below.

44. **IFC delivered a strong investment program that exceeded expectations, particularly with regard to financing mobilization from third parties.** IFC's total long-term finance commitments at own account reached USD 370 million in sixteen new projects, compared to USD 250-350 million set forth in the CPS document. IFC also mobilized long-term finance in the amount of USD 825 million from other international financial institutions (IFIs) and commercial lenders: this translates into a very high mobilization ratio of more than 2, particularly considering the almost absent track record in mobilizing resources from third parties in Georgia. Working alongside IFC, MIGA issued USD 77 million of MIGA guarantees in two projects in the hydropower and financial sectors. This brings the total financing volume delivered or facilitated by IFC in Georgia during the CPS period to nearly USD 1.3 billion. (See CLR Annex 3 for details). About 60 percent of total commitments supported projects in the financial sector, followed by hydropower with 32 percent, and the remainder in agribusiness and real estate/tourism. IFC also supported about USD 60 million worth of trade flows through its active trade finance lines with three local banks.

45. **MIGA expanded its engagement in Georgia by supporting two projects during the CPS period, with an outstanding gross exposure of USD 107 million.** The first project is a guarantee of USD 63 million issued in FY2015 in relation to the Adjaristsqali Cascade. This project involves the construction and operation of the 187 MW Shuakhevi hydropower project, consisting of the 178 MW Shuakhevi plant and the 9 MW Skhalta plant. The second project relates to the insurance of mandatory reserves at the Central Bank of Georgia by ProCredit Holding AG & Co for USD 44 million. The MIGA guarantee for the latter was against the risk of expropriation of funds for mandatory reserves held by the subsidiary in the Central Bank, thereby obtaining capital relief from capital adequacy ratio requirements and allowing funds to be injected into subsidiary banks for lending operations. Both projects have been performing well during the CPS period.

46. **The structure of the IBRD/IDA program changed compared to the previous CPS.** The portfolio size has steadily increased from eight to fourteen projects with active commitments of around USD 809 million (including USD 10 million Recipient-executed TF), historically the highest. The portfolio has also diversified: by the close of the CPS period, the investment portfolio included investment project engagement in urban and regional development, energy, transport, water, trade and competitiveness, and ICT & innovation.

47. **The IFC portfolio became more diversified across sectors as a result of the deliberate strategy to expand operations in the real sector.** IFC's committed investment portfolio at own account expanded by about 30 percent during the CPS period from USD 341 million to USD 446 million, of which 96 percent has been disbursed as of November 2017. The share of IFC's financial sector portfolio declined from 65 to 50 percent, while the share of infrastructure projects more than doubled reaching about 33 percent of the total committed portfolio, driven by IFC investment in hydropower. Also, the share of healthcare projects in the committed portfolio reached 9 percent of the total (compared to zero in the beginning of the CPS period). A number of smaller projects in agribusiness, manufacturing and tourism were committed during the current CPS period; the share of such projects in the total remains relatively small at about 7 percent, reflecting the scale of the domestic players in these sectors.

48. **The PLR was undertaken late in the CPS cycle (prepared in the final year of CPS implementation),** but it was still useful as it came in time to introduce some measures to address changes in the country environment. More specifically, both the Inclusive Growth, and the Private Sector Competitiveness programmatic DPO series were

truncated from three to two operations<sup>33</sup>, and the amount of the additional financing to the East-West Highway Corridor Improvement project was reduced from USD 80 million to USD 20 million (while leveraging co-financing from the EIB, as discussed above). Because the PLR was prepared at a later stage, the Bank team made only minor adjustments to the results matrix.

49. **The Bank's investment projects approved during the CPS period faced some challenges at the implementation stage, largely caused by poor project readiness and quality at entry.** Some of these challenges resulted in delays in the effectiveness and implementation of projects, and finally in the downgrading of four projects<sup>34</sup>. The Irrigation and Land Market Development project (ILMDP) and Sustainable Wastewater development project DO ratings have been downgraded to Moderately Unsatisfactory because delays in implementation at the early stage made the achievement of the development objectives doubtful within the project closing date and highlighted the need for project extensions. The GENIE project's Implementation Progress rating was also downgraded to Moderately Unsatisfactory due to the slower than anticipated pace of implementation, and insufficient funding allocation in the state budget. As identified during the Georgia Portfolio Deep Dive Review carried out by the Bank jointly with the respective Government counterparts in June 2017, delays in several projects were attributed to weaknesses at the time of project preparation which could have been avoided with better readiness filters. The poor quality of detailed designs has been identified as a problem in almost every project with civil works. Moreover, the poor quality of civil works (which were often accepted by the project implementing entities with defects), delayed procurement processes. Problems with Resettlement Action Plan (RAP) implementation, and damages to the environment, especially in environmentally challenging locations further affected portfolio performance.

50. **The Bank has proactively supported the effective implementation of the investment portfolio, and taken timely measures to encounter the challenges faced by the program.** Bank teams addressed many of the issues through intensive implementation support combined with project restructurings. Out of the eight investment projects approved during the CPS period it is expected that at least four projects are undergoing (or will undergo) restructuring to address initial implementation delays through project closing date extensions, as well as shortcomings in project results frameworks, in order to make indicators more specific, measurable, and attributable to project interventions. It is expected that the problem projects will be upgraded in the coming months as the restructuring packages are processed, bringing the Georgia portfolio back into shape before CPF implementation starts.

51. **Regular portfolio performance reviews carried out jointly with the Ministry of Finance and respective line ministries have been a helpful tool for strengthening program implementation.** Bi-annual portfolio discussion meetings with the Government counterparts have proved to be useful in terms of sharing information and observations, as well as agreeing on corrective measures for project-level challenges. Lessons learned from the latest Portfolio Deep-Dive Review has also informed the CLR.

52. **IFC's investment portfolio performed well throughout the CPS period.** There were no non-performing loans (NPLs) in the current portfolio. IFC's equity participation in two leading Georgian banks supported their ability to successfully list in London Stock Exchange, and resulted in a high return, which has significantly contributed to IFC's overall profitability.

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33The truncation was justified by the fact that Georgia was in the midst of SCD/CPF preparation and future areas of cooperation between the Bank and the government could be better aligned with the priorities identified in the CPF. The Bank and the government agreed to conclude both programmatic series with the second operations and align future operations with the new CPF.

34 Of which 3 IDA/IBRD and 1 – TF-financed. One project downgraded in Q4 of FY17, three – in Q1 of FY18.



53. **The WBG's attention to safeguards and fiduciary aspects was intensive. The Bank provided substantial support and guidance to the Borrower in the preparation of large, high-risk infrastructural projects in the transport and energy sectors.** Proactive procurement and financial management (FM) oversight of projects by the Bank teams helped mitigate fiduciary risks. The Bank teams have delivered several trainings to the Borrower's staff on FM and procurement aspects. Environmental and social safeguards management has been rigorously supervised throughout the CPF period, as reflected in Aide Memoires and the World Bank Tracking Social Performance system. The capacity of project implementation agencies to ensure compliance with social and environmental safeguards has increased substantially, and been of benefit to projects financed by other IFIs as well.<sup>35</sup> Environmental performance of most operations was maintained at satisfactory or moderately satisfactory level, with the only one project slipping to moderately unsatisfactory rating.<sup>36</sup> The portfolio has remained compliant with safeguard policies. When an instance of social safeguard non-compliance was observed, it was addressed promptly by counterparts with guidance from the task team. This experience has resulted in learning that has strengthened safeguards supervision across the portfolio including safeguards tracking application currently being developed. The Bank's Social Development team has supported implementing entities to establish more robust grievance redress mechanisms, including recording systems, and to build in-house capacity to handle grievances. The Bank team ensures that all grievances received by the Bank are responded to in a timely manner, as well as followed up on with the relevant implementing agency.

54. **The Bank has promoted citizen engagement (CE) in the design, implementation and monitoring of projects during CPS implementation.** A strategic framework for mainstreaming CE in WBG operations (adopted in 2013) has established corporate requirements for investment projects to include both citizen-oriented design and a beneficiary feedback indicator, and to report on the CE activities carried out. The Georgia portfolio of investment projects is 100 percent compliant. An in-depth review of the level of implementation of CE, and the quality of the mechanisms employed is currently underway as part of the South Caucasus CE Knowledge Management program. A CE Country Roadmap is being prepared under the same program and will inform the preparation of the next CPF.

55. **A focus on gender equality has also been central to the WBG's support.** Gender has been systematically mainstreamed in projects across the portfolio. Since FY14 all new projects have been gender-informed in all three dimensions. IFC has continued to support financial institutions that expand access to finance for women entrepreneurs: three of the IFC client financial institutions provide customized gender finance products, and they have significantly increased the outstanding portfolio of MSME loans to women-owned businesses.

56. **The WBG showed efforts for improving alignment with country systems.** Following extensive assessments and collaboration with the State Procurement Agency and other counterparts, the Bank has pioneered the use of Georgian E-GP system in projects it finances starting in September of 2014. The Bank has also been conducting joint post-reviews of the awarded contract together with the State Audit Office (SAO) of Georgia.

57. **Overall, World Bank portfolio performance has been satisfactory.** The Independent Evaluation Group (IEG) has evaluated three out the seven projects which exited the Georgia portfolio during the period of FY14-17 and confirmed high quality of project preparation, monitoring and evaluation, good performance by both the borrower and the WB teams, and validated satisfactory outcomes of the evaluated projects. Disbursement rates were above 22 percent for the first three years of the CPS. Key portfolio indicators are presented in CLR Annex 5.

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35 The World Bank supported this through project implementation support and structured trainings, e.g., Resettlement and Social Sustainability Training in Tbilisi (May/June 2017)

36 Noncompliance with pre-agreed safeguard documents under this Project was mainly due to rushed delivery of civil works under the time pressure of the approaching deadline of delivery. It suggests that issues with contract management should generally be taken as a potential risk for safeguards compliance, and proactive action should be taken to avoid damage to the natural and social environment.

#### IV. Alignment with WBG Corporate Goals

58. **The CPS was fully aligned with the WBG's corporate goals of ending extreme poverty and boosting shared prosperity.** Through Area of Focus 1, the program supported improving the effectiveness and efficiency in the delivery of public services (including targeted social assistance and access to affordable and quality healthcare), which contributes to both reduction of extreme poverty and boosting shared prosperity. Area of Focus 2 has supported a sustainable growth pattern that will generate employment and provide better opportunities for the bottom 40 percent of the population. It should also be noted that Georgia has made steady progress in reducing poverty, mostly since 2010, with labor income, pension and social assistance as the major drivers.

#### V. Lessons Learned

59. **Project implementation would benefit from the Government and the Bank and devising and agreeing on readiness filters for projects under preparation.** No project should go to the Board unless it meets certain characteristics (such as the existence of initial detailed designs for civil works that are of acceptable quality; clear project implementation arrangements; approved procurement plan, etc.) to be agreed upon between the Bank and the Ministry of Finance of Georgia in detail, as part of the ongoing dialogue and portfolio review exercise. Additional risk mitigation measures during the upcoming CPF period should include the development of readiness filters for each phase of project preparation.

60. **A strong results framework is important to effectively capture all of the outcomes of the program interventions.** The CPS objectives were broader than the indicators suggest, and for several of the objectives the attribution of achievements was difficult, as there was no direct or unique link to the WBG interventions. Indicators in the CPF Results Matrix should elevate above the specific project indicators, and should capture the additional benefits that the interventions are bringing to the country's development.

61. **Insufficient capacity in the procurement and contract management profession throughout the country affects implementation of the WBG portfolio.** The WBG should support the introduction of a formal training/curriculum in these disciplines. This has become of higher importance given the increased complexity and the number of the Government investment projects.

62. **Tackling multisector policy challenges through DPOs has proven successful.** The parallel dialogue and progress of the two DPO series (IG DPO and PSC DPO) have reinforced the Bank leverage while allowing the policy dialogue to span across many areas. Strong government commitment to the reform program and continuous engagement by the Bank's team have been also key for a successful implementation of the DPO series. DPOs have also proven to be successful in leveraging additional financing such as the parallel financing provided by the AFD to the PSC DPO, and a large TA operation funded by the EU as a follow-up of WBG engagement in several areas supported by DPOs (financial sector development, innovation, financial reporting). Looking forward, carefully crafting a combination of policy-based operations with ASA and investment lending will be important to maximize sustainable finance for the country development goals, supported by the new CPF in the context of constrained lending volumes.

63. **Combining several types of WBG instruments in addressing development challenges proved to yield better results.** For example, combining several Bank instruments (DPO, ASA, TFs) helped to achieve objectives in the education sector even when the WBG did not have an investment lending operation. However, implementation of component 2 of the Transmission Grid Strengthening Project was delayed, because the Bank program did not have an instrument to support enhancement of the energy regulatory system and to implement electricity market rules (one of the indicators under CPS Objective 7, as well as a pre-requisite to implementation of this component). TA for developing regulatory framework was provided by USAID at the start of the CPS period, though adoption and implementation of the new framework could have progressed faster if it had been supported by DPO.

64. **Implementation of innovative contracting approaches, such as output and performance based contracts (OPRC) and design-build contracts in the transport sector in Georgia have yielded lessons to help inform the next**

**CPF as well as other countries' programs:** Piloting of such contracts requires a comprehensive and in-depth assessment of the potential road network area; the capacity of the public (implementing agency and policy-makers) and private sector representatives (contractors active in the country's market); and macro-economic factors. Implementation timeframes should consider that the pilots may require revisions and adjustments immediately after the first failed tender and/or during the first year of implementation of such contracts. The World Bank's guidance and technical expertise are particularly critical during the first two to three years of the pilot implementation as the implementing agency is learning, adjusting its approach and adopting new ways of working. As no one size fits all, it is important to develop and pilot at least two to three models of OPRC that will help the government determine which one best fits its needs, and the country's/sector's context.

65. **Georgia may benefit from utilization of IBRD's optimal financial instruments mix.** Georgia's portfolio is changing toward more complex projects and financing needs as the country has graduated into IBRD status. In this regard, the Bank is requested to handle complex infrastructure requests with challenging technical, environmental and social aspects. Looking forward, the Bank can play a more proactive role in offering instruments such as MIGA's political risk insurance guarantees and credit enhancement instruments, and Catastrophe Deferred Draw Down Option (CAT DDO), that would reinforce the efficiency of the Government's own public investment. The Bank should more actively maximize financing for development from the private and public sector and the development community, and should partner with other donors on soft components for policy reform and knowledge exchange for which there is a significant demand.

66. **The WBG support for energy sector development needs to be responsive to local demand and trends in the regional market.** WBG operations have contributed to the transformation of the energy sector in Georgia. Going forward, export demand will be constrained by slower growth of regional economies as well as overcapacity of supply in Turkey, Georgia's main electricity export market. The WBG, jointly with the Government of Georgia, needs to revisit the priorities in the energy sector, sequence new interventions based on ongoing changes in the regional market, and roles of private and public investments to maximize finance for development. The results of the Strategic Environmental and Social Assessment, and sound economic analysis, which will lead to a more balanced energy mix for the country. A thorough economic analysis to inform Georgia's medium-term energy sector strategy and upfront dialog with relevant stakeholders from public and private sectors will be critical to the continued success of the sector development.

67. **Cross-GP cooperation needs to be increased in such cross-cutting issues as job creation, climate resilience and adaptation, sector governance, and environmental and natural resource management.** For significant and desirable impacts, the efforts of one GP are insufficient as cross-cutting issues require the engagement of multiple stakeholders. Many of the themes being tackled in Georgia, including regional development, job creation, innovation, and climate change require multi-disciplinary solutions. The WBG is well placed to provide this kind of support and future country programs should prioritize engagements that transcend individual GPs.

68. **IFC's capital market transactions can be a powerful tool for mobilizing private finance for development, but they need to be carefully sequenced.** In FY17, IFC's USD 70 million investment in two bond issuances of a local bank helped mobilize almost USD 0.5 billion from other private and institutional investors. Both issuances were in local currency, hence, they supported the Government's concerted efforts to de-dollarize the economy. However, IFC's experience with the local currency bond issuance in the onshore market in FY15 was less successful. Since there were no local currency projects in IFC's immediate pipeline, the bond proceeds from the first issuance were swapped back into US dollars with the Currency Exchange Fund (TCX). Although this is common practice and the amount concerned was relatively small (GEL 30 million), this happened to coincide with the sharp depreciation in Russia and put some pressure on the Georgian Lari. Going forward, IFC will need to strive to align the timing of local currency issuances in the onshore market with the funding needs of the private sector.

Annex 1 of the CLR: Results Matrix

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
<b>AREA OF FOCUS 1: Strengthening Public Service Delivery to Promote Inclusion and Equity</b>				
<p><b>CPS Objective 1: <u>Mostly Achieved</u></b></p> <p>Contribute to expansion and strengthening of social protection system, in particular TSA and pensions</p>	<ul style="list-style-type: none"> <li>TSA Coverage of the poorest decile by TSA increases from 50 percent in 2013 to 60 percent in 2017; with equal coverage of men and women of the poorest decile</li> </ul>	<p><b>Mostly Met.</b></p> <p>TSA coverage for 2016 is 56.6 percent. By gender it is 28.6 percent for women and 27.6 percent for men.</p> <p>Source: Team calculations using Integrated Household Survey 2016.</p>	<p>The targets should have been specified for 2016, because 2017 data would not be available within the CPS timeframe.</p>	<p><b>IDA/IBRD Lending:</b></p> <p>DPO-3</p> <p>Series of IG DPOs</p> <p>Series of PSC DPOs</p> <p><b>ASA:</b></p> <p>Pension reform TA</p> <p>SP&amp;L TA</p> <p>South Caucasus Poverty, Equity and Gender TA</p> <p>Country Gender Assessment</p>
	<ul style="list-style-type: none"> <li>Pension reform roadmap developed</li> </ul>	<p><b>Met.</b></p> <p>Pension reform has been moving forward supported by the DPOs and TA. A roadmap was completed and published as part of the pension reform strategy published in March 2016. The draft law was approved by the Cabinet for public consultation in March 2017, and was presented to Parliament for discussion in December 2017.</p>	<p>Coordination between multiple government ministries and agencies (often with conflicting interests) took a long time and required significant effort even for the reform-oriented Government of Georgia.</p>	
<p><b>CPS Objective 2: <u>Achieved</u></b></p> <p>Support government’s efforts of expansion “universal health coverage (UHC)” program and institutionalization of</p>	<ul style="list-style-type: none"> <li>UHC registration rate from 60 percent of the target population in July 2013 to 90 percent in 2017, with tracking of female registration rate</li> </ul>	<p><b>Met</b></p> <p>The target of registration rate reached 90 percent with around 52 percent of females.</p> <p>Results achieved are attributed to the number of interventions (including ASAs and DPO series) gradually and</p>	<p>Improving efficiency by containing cost helps expand coverage.</p>	<p><b>IDA/IBRD Lending:</b></p> <p>DPO-3</p> <p>Series of IG DPOs</p> <p><b>ASA:</b></p> <p>Georgia Health TA</p> <p>Health Utilization and Expenditure Survey</p>

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
health service quality assurance processes		<p>consistently delivered over the previous and current CPS periods. 3<sup>rd</sup> Competitiveness and Growth DPO (FY14) supported Government's efforts to further improve health standards in all facilities providing primary healthcare, with potential benefit to all users but in particular women accessing reproductive health care.</p> <p>The interventions resulted in compliance with upgraded health standards among 65 percent of hospitals, outpatient facilities and laboratories which enabled the Government to increase the UHC coverage.</p> <p>Source: MoLHSA, SSA databases, Geostat (no link available)</p>		<p>ASA to support UHC in Georgia. Service Delivery Quality Improvement TA. Country Gender Assessment</p> <p><b>IFC Investments:</b> Two outstanding projects in private healthcare</p>
<p><b>CPS Objective 3: Achieved</b></p> <p>Contribute to elaboration of essential knowledge base for general education and pre-school education</p>	<ul style="list-style-type: none"> <li>Percent of teachers accumulating at least 1 credit according to the credit accumulation manual to increase from 21 percent in 2015 to 65 percent in 2018.</li> </ul>	<p><b>Met</b></p> <p>Percentage of teachers accumulating at least 1 credit according to the credit accumulation manual has increased from 21 percent in 2015 to 62 percent as of the end of the 2016-2017 academic year.</p> <p>This is measured based on the information provided by EMIS and shows the percentage of teachers</p>	<p>This indicator was introduced at the PLR stage and was consistent with the IG DPO2. For the purposes of CPS, target should have been defined for 2017.</p>	<p><b>IDA/IBRD Lending:</b> DPO-3 Series of IG DPOs</p> <p><b>ASA:</b> TA support for education sector strategy</p> <p>Capacity Building for Georgia's National Examination Center IDF</p>

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
		<p>that are involved in professional development activities, have completed them, uploaded the evidence in their portfolios in e-school and were evaluated positively at the end of the academic year 2016-2017 by the evaluation teams.</p>		
	<ul style="list-style-type: none"> <li>Teacher effectiveness evaluation tools developed &amp; adopted</li> </ul>	<p><b>Met.</b></p> <p>All standardized instruments for a multi-dimensional new teacher evaluation system (<i>which includes teacher self-evaluation and reflection, school-based internal assessment of teachers by school based assessment groups and external assessment of teachers via exams and classroom observation</i>) have been developed and adopted by the government. The new evaluation system was introduced as part of the Government's Teacher Recruitment, Evaluation, Professional Development and Career Advancement Scheme (Government Decree No. 68 dated February 20, 2015).</p> <p>Moreover, trainings and consultations were provided for all school assessment group members to train them in the new teacher evaluation instruments and methodology. E-tutorials and video</p>	<p>Using multiple measures and multiple instruments to assess teacher performance is an important strength of the new scheme compared to the previous certification system to support and strengthen professional development of teachers.</p> <p>The achievement of this outcome indicator was made possible by complementing several Bank instruments, such as DPO, Analytic and Sector work and trust fund support;</p>	

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
		<p>instructions have been released and are available on the following website:  <a href="http://tpdc.gov.ge/?action=page&amp;p_id=1213&amp;lang=geo">http://tpdc.gov.ge/?action=page&amp;p_id=1213&amp;lang=geo</a></p> <p>These materials have also been translated into minority languages (Azeri, Armenian and Russian) and placed on the website.</p> <p>Source: Ministry of Education and Science Decree No. 13 dated January 18, 2016, Decree No. 56 dated March 21, 2017 and also introducing changes to the TPDC Director Order No 33 dated February 28, 2017, and Decree No. 107 dated May 5, 2017 on the approval of standardized instruments for teacher internal evaluation including a rubric for the assessment of model lesson and a rubric for the assessment of teaching practice;</p> <p><b>All evaluation instruments can be accessed on the following website</b>  <a href="http://tpdc.gov.ge/?action=page&amp;p_id=1162&amp;lang=geoite">http://tpdc.gov.ge/?action=page&amp;p_id=1162&amp;lang=geoite</a></p>		
	<ul style="list-style-type: none"> <li>Institutional framework elaborated for early and pre-school education service delivery and quality assurance, including support to</li> </ul>	<p><b>Met.</b></p> <p>The law was passed in 2016 for early and preschool education, thus setting, for the first time in the</p>	<p>The relatively moderate progress on this indicator is related to the fact that no implementation support was available to the government to</p>	

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
	<p>piloting of priority interventions.</p>	<p>country, a clear institutional framework for the ECE.</p> <p>For monitoring the quality of early and preschool education, the Ministry of Education and Science has adopted: (i) the National Early and Preschool Education and Care Standards were adopted; (ii) Professional Standards for Caregiver-Teachers; and (iii) Qualification Framework for Caregiver’s and caregiver-teachers’; The Ministry has also developed Professional development modules for methodists/specialists and caregiver-pedagogues.</p> <p>Amendments were made to the Charter of the MoES in July 2015, granting the responsibility for the adoption of preschool education standards to the MoES.</p> <p>The Bank mobilized a GPSA grant to improve accountability for service delivery for preschool education at the local government level at a later stage of CPS implementation however the results of this intervention will be accounted for under the next CPF</p>	<p>complement DPO. At the later stage of the CPS the Bank team mobilized GPSA grant to improve accountability for service delivery for preschool education at the local government level. Implementation of this project spans beyond the current CPS and outcomes will be captured by the next CPF.</p>	



CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
<p><b>PS Objective 4: <u>Mostly Achieved</u></b></p> <p>Support improvements in public investments and delivery of public services to citizens</p>	<ul style="list-style-type: none"> <li>Initiating the piloting of the newly approved PIM Guideline in Tbilisi Municipality for the selected projects with the estimated costs that are above GEL 5 million.</li> </ul>	<p><b>Met</b></p> <p>Tbilisi municipality has begun using the PIM Guideline as part of a pilot involving five other municipalities.</p> <p>Following training of the municipal staff, a project concept note was prepared in the appropriate format for a road rehabilitation project with an estimated cost of GEL80.0 million.</p> <p>The World Bank provided training, and worked with the institutions involved to apply the skills acquired, providing TA to develop a set of pilot projects from concept to appraisal, ready for presentation for budget funding. At present, the approach set out in the guidelines and the methods in the manual apply to projects above the GEL5.0 million threshold. Since the majority of municipality projects fall below the threshold, and yet some sort of systematic assessment is required, there is scope for developing a simplified approach to be applied to lower-value projects.</p>	<p>Sustained support will be required to maintain momentum during the further institutionalization of the approach set out in the PIM Guidelines.</p>	<p><b>IDA/IBRD Lending</b></p> <p>DPO-3</p> <p>Series of IG DPOs</p> <p>Series of PSC DPOs</p> <p>Regional and Municipal Development Projects</p> <p>Regional Development projects</p> <p><b>AAA:</b></p> <p>PER, programmatic</p> <p>CEM, programmatic</p> <p>Local Public Expenditure and Financial Accountability Assessment TA</p> <p>ROSC</p> <p>Urban Strategy</p> <p>Country Environmental Assessment</p> <p>Reform Momentum and Support (STAREP) TA</p>
	<ul style="list-style-type: none"> <li>Increased number of published annual IFRS based financial statements of SOEs from 4 in 2013 to 8 in 2017.</li> </ul>	<p><b>Met</b></p> <p>At least 15 SOEs published IFRS-based financial reports on their websites.</p>	<p>Following 2015 A&amp;A ROSC dissemination, the Government of Georgia has taken most of its recommendations into</p>	

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
	<ul style="list-style-type: none"> <li>Increased number of beneficiaries of improved municipal services and infrastructure from 0 at baseline to one million, of which 0.5 million are females.</li> </ul>	<p>MOF collected IFRS-based reports from 65 SOE reports. However, the law on accounting, reporting, and auditing adopted in June 2016 will require the publishing of reports gradually (depending on the size and category of the SOEs), beginning in 2018.</p> <p>The World Bank has supported the government of Georgia in drafting the law on accounting, reporting, and auditing, as well as in the establishment of a Service for Accounting, Reporting, and Auditing Supervision (SARAS) through Reform Momentum and Support (STAREP) TA (P146154).</p> <p>Number of direct beneficiaries under SRMIDP and the three Regional Development Projects reached 256,319: 32,319 under RDP1; 10,000 under RDP2; and 214,000 under SRMIDP. About 51 percent of the direct project beneficiaries are females.</p> <p>The number of indirect beneficiaries is much higher, and includes the general population of the respective municipalities, especially in the Kakheti and Imereti regions, which are benefitting from increased tourism.</p>	<p>action. In parallel, the National Agency of State Property (NASP), the regulator of most SOEs in the country, initiated their own review of policies and procedures, advising those SOEs in their oversight, to report under IFRS. This proactive position of the Government and its agencies, along with several SOEs beginning to disclose their IFRS reports, contributed to successful achievement of the indicator ahead of the regulatory deadline.</p>	

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
<p><b>CPS Objective 5:</b> <b><u>Achieved</u></b></p> <p>Contribute to sustained progress towards the adoption of modern public sector and fiscal management systems</p>	<ul style="list-style-type: none"> <li>Quality and timeliness of annual financial statements (PEFA PI-25) Baseline: C+ Target: B; 2);</li> <li>Effectiveness of internal audit (PEFA PI-21): Baseline: C+ Target: B)</li> </ul>	<p><b>Met</b> Quality and timeliness of annual financial statements (2017 PEFA PI-29) Baseline: C+ Result B+</p> <p><b>Met</b> Effectiveness of internal audit (2017 PEFA PI-26): Baseline: C+ result: B</p> <p>Source: MOF PEFA self-assessment report</p>	<p>Indicators were based on the assumption that the PEFA assessment would be available by the time of CLR. It would be appropriate to develop indicator that is not dependent on such an assessment.</p>	<p>PEMPAL activities and knowledge-sharing</p>
<p><b>CPS Objective 6:</b> <b><u>Achieved</u></b></p> <p>Support efforts to strengthen participatory local development and greater social accountability</p>	<ul style="list-style-type: none"> <li>New pilot mechanisms for citizen engagement and feedback are put in place including (i) development of new forum for youth to engage with local government in the creation of joint action plans; and (ii) establishment of pilot beneficiary feedback mechanisms to provide feedback on municipal services</li> </ul>	<p><b>Met</b> (i) <b>Met.</b> Inclusion of Youth in social accountability was promoted in three <b>pilot</b> municipalities and youth Municipal Action Plans were developed and implemented jointly with municipalities.</p> <p>(ii) <b>Met.</b> The tool has been developed by MDF as part of broader social inclusion approach and piloted in six municipalities.</p>		<p><b>IDA/IBRD Lending</b></p> <p>Second Regional and Municipal Development Project</p> <p>Regional Development Project</p> <p>Youth Inclusion and Social Accountability Project (State and Peace Building multi-donor TF)</p>

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
	<ul style="list-style-type: none"> <li>Increased citizen satisfaction with municipal service provision and municipal response from 40 percent to 70 percent.</li> </ul>	<p><b>Met</b></p> <p>Satisfaction rate in the Telavi and Kvareli municipalities reached 76 percent and 80 percent respectively.</p> <p>Beneficiary households in Telavi and Kvareli were asked to express their level of satisfaction with the regeneration and renovations in their respective towns.</p>		
<b>AREA OF FOCUS 2: Enabling job creation by the private sector through improving competitiveness</b>				
<p><b>CPS Objective 7: Achieved</b></p> <p>Contribute to addressing key legal, regulatory or institutional constraints for the private sector.</p>	<p><u>(a) Stronger regulatory framework:</u></p> <ul style="list-style-type: none"> <li>Business environment and property rights protection enhanced with Georgia's ranking in economic freedom (Heritage Foundation) improved from 34<sup>th</sup> position in 2012 and intellectual property rights enhanced from 129<sup>th</sup> position in 2013 (out of 130) as ranked by the International Intellectual Property Rights Ranking</li> </ul>	<p><b>Met</b></p> <p>Georgia's ranking has improved from 34<sup>th</sup> position in 2012 to 13<sup>th</sup> with overall score of 76 in the 2017 Index of Economic Freedom (Heritage Foundation <a href="http://www.heritage.org/index/country/georgia">http://www.heritage.org/index/country/georgia</a>).</p> <p>Georgia's Ranking by the International Intellectual Property Rights improved to overall ranking of #88 as of 2017: <a href="https://internationalpropertyrightsindex.org/full-report">https://internationalpropertyrightsindex.org/full-report</a></p>		<p><b>IDA/IBRD Lending:</b></p> <p>DPO-3 Regional Development Projects Regional and Municipal Development Projects IG DPO Series PSC DPO series Georgia National Innovation Ecosystem Project</p> <p><b>AAA:</b> South Caucasus Poverty, Equity and Gender TA</p> <p>ROSC CEM, Programmatic National Tourism Strategy</p>

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
	<p>(b) Increased innovation capacity:</p> <ul style="list-style-type: none"> <li>Increased Georgia's innovation index ranking from 73<sup>rd</sup> in 2013 (INSEAD-WIPO report)</li> </ul>	<p><b>Met</b></p> <p>Georgia's innovation index ranking is now 68<sup>th</sup>, with the score of 34.4  <a href="http://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2017.pdf">http://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2017.pdf</a></p>		<p>Urban Strategy            FSAP            Country Gender Assessment</p> <p><b>IFC Investments</b>            In Financial Institutions, agribusiness, manufacturing and real estate.</p>
	<p>(c) <u>Strengthening competition in key product markets</u></p> <p>Georgia's intensity of local competition improved from 123<sup>rd</sup> (out of 142 in 2012) in the Global Innovation Index</p>	<p><b>Met</b></p> <p>Georgia's intensity of local competition is now 75<sup>th</sup> out of 127 economies, with a score of 66.1 compared to 48.3 in 2012.   <a href="http://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2017.pdf">http://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2017.pdf</a></p>		<p><b>IFC Advisory Services:</b>            IFC Investment Climate Advisory Project            SME Banking Advisory Project            ECA Region Agribusiness Standards Advisory            ECA Region SME Resilience Advisory Project</p>
	<p>(d) <u>Increased access to finance:</u></p> <ul style="list-style-type: none"> <li>Increased access by SMEs to bank financing with share of loans to SMEs in banks' loans increased from 20 percent (baseline 2013)</li> </ul>	<p><b>Mostly Met</b></p> <p><b>Partially Met</b></p> <p>The share of SME loans in total banks' loans increased slightly:            2013 – 20 percent            2014 – 19 percent            2015 – 23 percent            2016 – 21 percent</p> <p>However, in nominal terms, SME loans almost doubled during 2013-2016. According to the NBG annual reports, some retail loans were reclassified as SME in 2015 and</p>	<p>Due to a change in the classification of the loans, it is difficult to estimate actual growth of the SME loans during the CPS period.</p>	<p>ECA Region Corporate Governance Project            IFC Treasury Operations: Local currency bond issuance</p> <p><b>MIGA Guarantees:</b>            MIGA engagement in the energy and finance sectors</p>

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
		<p>reclassified as retail in 2016. Adjusted for the exchange rate effect, SME loans y-o-y increased by 12 percent in 2014, by 26 percent in 2015 and 3 percent in 2016.</p> <p>Source: <a href="#">NBG 2016 Annual Report</a> (page 74)</p>		
	<ul style="list-style-type: none"> <li>Improved access of SMEs to more diversified products and sources of funds, with share of NBF assets (including MFI, leasing, factoring and other formal financial sector lenders) in total private financial sector assets increased from 3 percent in 2013</li> </ul>	<p><b>Mostly Met</b></p> <p>Share of non-bank financial institutions assets increased from 9.3 percent in 2013 to 10.2 percent in 2016.</p> <p>Share of Non-Bank Credit Institutions assets increased from 6.1 percent in 2013 to 8.1 percent in 2016.</p> <p>The share of NBFs increased slightly. However, there is a need for further legislative work to eliminate loopholes in financial services regulation, to create level playing field for the development of financial institutions and services, and to reduce consumer risks and eliminate information asymmetry.</p>	<p>The baseline of 3percent seems to be a typo.</p>	
	<ul style="list-style-type: none"> <li>Volume of outstanding loans to MSMEs in the portfolio of financial intermediaries</li> </ul>	<p><b>Met</b></p> <p>The volume of outstanding loans to MSMEs in the portfolio of financial intermediaries supported by IFC increased to around USD 1.6 bn.</p>		

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
	supported by IFC increased by 50 percent from USD 0.8 billion to USD 1.2 billion			
	<ul style="list-style-type: none"> <li>Increased financial penetration, with share of private credit to GDP from 30 percent in 2013.</li> </ul>	<p><b>Met</b></p> <p>Loans to Non-Financial Sector and Households/GDP: December 2013 – 39 percent; December 2014 – 44 percent; December 2015 – 51 percent; December 2016 – 56 percent</p>		
	<p>e. <u>Facilitate investment in the regions through support to an improved investment climate and infrastructure.</u></p> <ul style="list-style-type: none"> <li>Increased tourism related SMEs (points of sales) in renovated cultural heritage sites and cities by 30 percent (from 248 to 323).</li> </ul>	<p><b>Met</b></p> <p><b>Met</b></p> <p>Tourism related points of sales in renovated culture heritage sites and cities increased by 36 percent (from 248 to 337)</p>		
	<ul style="list-style-type: none"> <li>Growth of tourism employment in project region Kakheti as measured by increase of number of people employed in hotels and restaurants</li> </ul>	<p><b>Met</b></p> <p>The number of people employed in the hotel and restaurant sector in Kakheti (RDP1 project sites) has increased from 507 in 2012 to 1045 in 2015.</p>		

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
		Source: RDP supervision documents		
	<ul style="list-style-type: none"> <li>Increased tourism spending in targeted regions as measured by increased tourism enterprise VAT receipts</li> </ul>	<p><b>Met</b></p> <p>VAT Payments by the Tourism Sector in Kakheti region increased drastically from GEL 231,731 in 2013 to GEL 1,855,954 in 2016.</p> <p>Source: Communication from the Ministry of Finance.</p>		
<p><b>CPS Objective 8: <u>Mostly Achieved</u></b></p> <p>Contribute to provision of infrastructure and services to facilitate growth.</p>	<ul style="list-style-type: none"> <li>Decreased travel time and vehicle operating costs in rehabilitated East-West Highway sections by 30 percent and 10 percent respectively.</li> </ul>	<p><b>Mostly Met</b></p> <p>Travel time and vehicle operating costs (cars) in rehabilitated East-West Highway sections decreased by around 27 percent and 10 percent respectively.</p>		<p><b>IDA/IBRD lending:</b></p> <p>DPO 3</p> <p>IG DPO Series</p> <p>PSC DPO series</p> <p>East West Highway Projects</p> <p>Secondary &amp; Local Roads Projects</p> <p>Energy Transmission Grid Strengthening Project</p> <p>Irrigation and Land Management Project</p> <p><b>AAA:</b></p> <p>Smallholders in agrifood chain TA</p> <p>Georgia Energy Sector Strategy</p> <p>CEM Programmatic</p> <p>Green Freight Transport and Logistics</p>
	<ul style="list-style-type: none"> <li>Reduction of travel time in rehabilitated secondary and local roads sections by 47 percent.</li> </ul>	<p><b>Mostly Met</b></p> <p>Travel time decreased by an average of 35 percent on the rehabilitated sections of the secondary and local roads under the SLRP2 and SLRP3 projects.</p> <p>The target was revised from 20 percent to 47 percent during the PLR, though 47 percent was incorrectly calculated when combining the SLRP2 target of decreased travel time</p>		



CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
		<p>(by 44 percent) and the SLRP3 target of increased vehicle speed (kilometers per hour by 50 percent which corresponds to 33 percent reduction of travel time). Correct weighted average reduction of travel time target should have been 39 percent.</p> <p>Source: ISRs</p>		<p><b>IFC Investments:</b>  Paravani HPP  InfraV Shuakhevi HPP  Shuakhevi HPP  InfraV Koromkheti</p> <p><b>IFC Advisory Services:</b>  IFC Energy Infrastructure Advisory Program  IFC PPP transaction advisory for structuring Nenskra HPP</p> <p>MIGA Guarantee in relation to Shuakhevi HPP, part of the Adjaristsqali cascade.</p>
	<ul style="list-style-type: none"> <li>Reduction in vehicle operating costs in rehabilitated secondary and local roads sections by 22 percent for cars and 27 percent for trucks.</li> </ul>	<p><b>Met</b></p> <p>Vehicle operating costs have reduced by 29 percent and 30 percent for cars and trucks respectively on the roads sections rehabilitated under the SLRP3 project. This indicator was not measured under SLRP2.</p>		
	<ul style="list-style-type: none"> <li>Enhanced energy regulatory system and electricity market rules are implemented in line with EU Energy Policy applicable to Georgia under the AA and Energy Community Treaty.</li> </ul>	<p><b>Partially Met</b></p> <p>Detailed plans for the revision of regulations to allow new trading arrangements are being prepared. The Parliament adopted amendments to the Law on Electricity and Gas on June 30, 2017. The new law set a deadline of May 1, 2018 for the introduction of the new trading arrangements for electricity. However, full adoption of new trading arrangement fully consistent with Energy Community Treaty acquis may take longer. According to the law all customers of electricity connected at the 35 kV voltage level</p>	<p>Including “hard” infrastructure that is dependent on adoption of regulation/legislation to make the infrastructure useful takes a longer time to implement. Without adequate technical support in combination with policy based lending to drive the regulatory/legislative changes that underpin the infrastructure, leads to delay in delivery of infrastructure.</p>	

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
		<p>and above have to trade with electricity on the electricity market. Development of a detailed, time-bound road map for secondary regulation to enable new trading arrangements is expected by the end of November 2017.</p> <p>Legislative portal:  <a href="https://www.matsne.gov.ge/ka/document/view/3738238">https://www.matsne.gov.ge/ka/document/view/3738238</a></p>		
	<ul style="list-style-type: none"> <li>• Increased power supply and improved reliability of power grid infrastructure measured by <ul style="list-style-type: none"> <li>(i) A reduced number of electricity interruptions in the south-western part of the grid, particularly Batumi areas, measured by number of electricity interruptions at KV220</li> <li>(ii) Use of net transfer capacity at new back-to-back station increased from close-to-zero to 300 MW.</li> <li>(iii) Increased power generation capacity by 274MW</li> </ul> </li> </ul>	<p><b>Mostly Met</b></p> <ul style="list-style-type: none"> <li>(i) <b>Mostly Met:</b> Outages in south-west part of Georgia have been reduced to a cumulative 0.76 hours for 2016.  ESCO Website:  <a href="http://esco.ge/import-eksporti/by-year">http://esco.ge/import-eksporti/by-year</a></li> <li>(ii) <b>Mostly Met:</b> The use of net transfer capacity of power through back-to-back station to Turkey reached 115 MW, 253 MW in 2015 and 2016 respectively. The transit in 2016 accounted for 35 percent of the total transfer capacity in July 2016.</li> <li>(iii) <b>Met</b></li> </ul>	<p>The infrastructure that underpins this indicator became available from Summer 2017. The Bank's program has started contributing to the net transfer capacity from that point onwards.</p>	

CPS Objectives	CPS Outcome Indicators	Status of Achievement	Comments, Lessons Learned	WBG Program
		Construction of both new plants completed, Paravani (87 MW) is fully operational and Shuakhevi expected launch of the Shuakhevi HPP cascade (187 MW) will be refined after the technical issues of operation are finalized / completed.		
	<ul style="list-style-type: none"> <li>The area provided with improved irrigation services is at least 10,000 ha.</li> </ul>	<p><b>Not Met</b></p> <p>Effectiveness and Implementation of the Irrigation and Land Market Development project was significantly delayed: however, the civil works are currently ongoing, and the development objectives of the project are expected be achieved in the next CPF cycle.</p>	It is of high importance to introduce project implementation readiness filters, which should include availability of quality detailed designs for civil works	
<p><b>CPS Objective 9: <u>Partially Achieved</u></b></p> <p>Support development of improved framework for matching labor supply with demand</p>	<ul style="list-style-type: none"> <li>Procedure to match unemployed with training programs developed and implemented.</li> </ul>	<p><b>Not Met</b></p> <p><a href="http://www.worknet.gov.ge">www.worknet.gov.ge</a> provides automatic matching possibility between job-seeker and employers, however it is not yet able to match the unemployed with respective training programs.</p>		<p><b>IDA/IBRD Lending:</b></p> <p>IG DPO Series PSC DPO series</p> <p><b>ASA:</b> Social Protection &amp; Labor</p>
	<ul style="list-style-type: none"> <li>Labor Market information system is in place that will allow for evidence-based policy making</li> </ul>	<p><b>Mostly Met</b></p> <p><a href="http://www.lmis.gov.ge">www.lmis.gov.ge</a> is developed and provides updated information on labor market trends, career guidance and occupational profiles for various stakeholders.</p>		<p>Country Gender Assessment</p>

**Annex 2 of the CLR: Planned Lending Program and actual deliveries**

<b>FY</b>	<b>Proposed Program</b>	<b>Actual/Expected Approval Date</b>	<b>CPS proposed Lending US\$ m</b>	<b>Actual Lending and forecast US\$ m</b>
<b>FY14</b>	Irrigation and Land Market Development Project	5/23/2014	50	50
	Transmission Grid Strengthening Project	5/13/2014	60	60
	Georgia Competitiveness and Growth DPO3	6/26/2014	92.8	92.8
	Second Regional and Municipal Infrastructure	Moved to FY15	30	-
	Third Secondary and Local Roads Project	Moved to FY15	75	-
	<b>Sub-Total IDA/IBRD</b>		<b>307.8</b>	<b>202.8</b>
<b>FY15</b>	Second Regional and Municipal Infrastructure Devt	7/3/2014	-	30
	Third Secondary and Local Roads Project	7/3/2014	-	75
	First Programmatic Inclusive Growth DPO	4/28/2015	50	60
	Private Sector Competitiveness DPO1	4/28/2015	50	60
	Innovation & ICT	Moved to FY16	40	-
	Regional Devt	Moved to FY16	95	-
<b>Sub-Total IDA/IBRD</b>		<b>235</b>	<b>225</b>	
<b>FY16</b>	East-West Highway Corridor Improvement	12/3/2015	140	140
	Third Regional Development Project	7/1/2015	50	60
	Second Regional Development Project - AF	4/4/2016		9
	Secondary Road Asset Management Project	3/18/2016		40
	Georgia National Innovation Ecosystem	3/18/2016		40
	Programmatic Inclusive Growth DPO2	Moved to FY17	50	-
	Private Sector Competitiveness DPO2	Moved to FY18	50	-
	<b>Sub-Total IDA/IBRD</b>		<b>290</b>	<b>289</b>
<b>FY17</b>	Programmatic Inclusive Growth DPO2	4/28/2017	80	50
	East-West Highway Corridor Improvement AF	Moved to FY18	60	
	Programmatic Inclusive Growth DPO3	Truncated	60	
	Private Sector Competitiveness DPO3	Truncated	60	
	Agriculture	Moved to outer years		
<b>Sub-Total IDA/IBRD</b>		<b>260</b>	<b>50</b>	
<b>FY18</b>	Private Sector Competitiveness DPO2	7/31/2017		50
	East-West Highway Corridor Improvement AF	11/8/2017		20
	<b>Sub-Total IDA/IBRD</b>		<b>0</b>	<b>70</b>
	<b>GRAND TOTAL IDA/IBRD FY14-18</b>		<b>1092.8</b>	<b>836.8</b>

**Annex 3 of the CLR: IFC Long-Term Financing during CPS FY14-FY17**

		Project count	Own Account	Mobilization	MIGA Mobilization	Total
<b>Financial Institutions</b>	Fin. Sector client	1	4.0			4.0
	Fin. Sector client	1	0.3			0.3
	Fin. Sector client	1	20.0			20.0
	Fin. Sector client	1		56.5		56.5
<b>Infrastructure</b>	Infra client	1	101.4	179.7		281.1
<b>FY14</b>		<b>5</b>	<b>125.7</b>	<b>236.2</b>	<b>0.0</b>	<b>361.9</b>
<b>Financial Institutions</b>	Fin. Sector client	1	70.0	20.0		90.0
<b>Manufacturing, Agribusiness &amp; Services</b>	MAS client	1	2.0			2.0
	MAS client	1	2.0			2.0
	MAS client	1	8.5	6.8		15.3
<b>Infrastructure</b>	Infra client	1	4.3			4.3
	Infra client	-			63.0	63.0
<b>FY15</b>		<b>5</b>	<b>86.8</b>	<b>26.8</b>	<b>63.0</b>	<b>176.6</b>
<b>Financial Institutions</b>	Fin. Sector client	1	30.0			30.0
<b>Manufacturing, Agribusiness &amp; Services</b>	MAS client	1	11.5	11.5		23.0
	MAS client	1	7.0			7.0
<b>Infrastructure PPP</b>	Infra client	1		63.0		63.0
<b>FY16</b>		<b>4</b>	<b>48.5</b>	<b>74.5</b>	<b>0.0</b>	<b>123.0</b>
<b>Financial Institutions</b>	Fin. Sector client	2	70.0	487.0		557.0
	Fin. Sector client	-			14.3	14.3
<b>Manufacturing, Agribusiness &amp; Services</b>	MAS client	1	25.0			25.0
	MAS client	1	13.8			13.8
<b>FY17</b>		<b>4</b>	<b>108.8</b>	<b>487.0</b>	<b>14.3</b>	<b>610.1</b>
<b>Total</b>		<b>18</b>	<b>369.9</b>	<b>824.5</b>	<b>77.3</b>	<b>1,271.7</b>
<i>Financial Institutions</i>		<i>8</i>	<i>194.3</i>	<i>563.5</i>	<i>14.3</i>	<i>772.1</i>
<i>Manufacturing, Agribusiness &amp; Services</i>		<i>7</i>	<i>69.8</i>	<i>18.3</i>	<i>0.0</i>	<i>88.2</i>

**Annex 4 of the CLR: Evolution of IFC committed and outstanding portfolio during CPS FY14-FY17**

		FY13		FY17	
		Committed	Outstanding	Committed	Outstanding
<b>Financial Institutions</b>	Fin.Sector Client	1	1	-	-
	Fin.Sector Client	-	-	9	9
	Fin.Sector Client	-	-	23	23
	Fin.Sector Client	-	-	15	15
	Fin.Sector Client	-	-	4	4
	Fin.Sector Client	-	-	45	45
	Fin.Sector Client	-	-	7	7
	Fin.Sector Client	-	-	25	25
	Fin.Sector Client	-	-	70	70
	Fin.Sector Client	-	-	2	2
	Fin.Sector Client	4	-	-	-
	Fin.Sector Client	4	4	-	-
	Fin.Sector Client	22	22	-	-
	Fin.Sector Client	7	-	-	-
	Fin.Sector Client	25	-	4	4
	Fin.Sector Client	20	20	-	-
	Fin.Sector Client	4	-	-	-
	Fin.Sector Client	5	3	0	0
	Fin.Sector Client	4	3	-	-
	Fin.Sector Client	8	8	1	1
	Fin.Sector Client	3	3	-	-
	Fin.Sector Client	33	33	-	-
	Fin.Sector Client	18	18	-	-
	Fin.Sector Client	38	38	-	-
	Fin.Sector Client	7	7	-	-
	Fin.Sector Client	2	2	-	-
Fin.Sector Client	15	15	18	18	
Fin.Sector Client	1	1	-	-	
	<b>Sub-total</b>	<b>222</b>	<b>179</b>	<b>224</b>	<b>224</b>
<b>Manufacturing, Agribusiness &amp; Services</b>	MAS client	-	-	25	25
	MAS client	-	-	15	10
	MAS client	-	-	12	12
	MAS client	-	-	7	-
	MAS client	-	-	2	2
	MAS client	-	-	2	2
	MAS client	-	-	7	7
	MAS client	2	-	-	-
	MAS client	10	-	-	-
	MAS client	1	1	0	0
	MAS client	8	8	-	-
	MAS client	34	34	-	-
		<b>Sub-total</b>	<b>56</b>	<b>44</b>	<b>70</b>
<b>Infrastructure</b>	Infra client	-	-	36	36
	Infra client	-	-	2	0
	Infra client	-	-	70	70
	Infra client	5	5	-	-
	Infra client	41	25	35	35
	Infra client	8	8	-	-
		<b>Sub-total</b>	<b>53</b>	<b>37</b>	<b>143</b>
<b>Funds</b>	Funds client	9	4	9	8
	<b>Sub-total</b>	<b>9</b>	<b>4</b>	<b>9</b>	<b>8</b>
	<b>Total</b>	<b>341</b>	<b>265</b>	<b>446</b>	<b>430</b>

**Annex 5 of the CLR: Portfolio Status Indicators for IBRD/IDA**

<b>Fiscal year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018*</b>
# Proj	8	10	12	12	13	13
Net Comm Amt	600	743	790	739	789	799
IBRD Net Comm Amt	371	469	590	582	632	642
IDA Net Comm Amt	230	274	200	157	157	157
Disb in FY	80	46	179	66	142	100
Disbursement Ratio	48%	24%	24%	24%	18%	11%
Comm At Risk	0	190	0	0	40	150
IBRD Disb in FY	33	10	152	37	133	96
# Proj At Risk	0	1	0	0	1	3
# Risk Flgs	8	12	14	13	14	15
# Restruct	0	0	0	0	1	0
% Proactivity			100			
% Realism Index		55.0				

\*2018 data as of January 26, 2018

### Annex 3: Indicators of Bank Portfolio Performance and Management as of April 18, 2018

Indicator*	FY15	FY16	FY17	FY18
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	12.0	12.0	13.0	12.0
Average Implementation Period (years) <sup>b</sup>	2.3	2.1	2.9	3.5
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	0.0	7.7	25.0
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	0.0	5.1	20.0
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	0.0	7.7	25.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	0.0	5.1	20.0
Disbursement Ratio (%) <sup>e</sup>	23.1	25.9	17.7	12.4
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	53	3
Proj Eval by OED by Amt (US\$ millions)	1,655.7	294.0
% of OED Projects Rated U or HU by Number	18.9	0.0
% of OED Projects Rated U or HU by Amt	17.8	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.



## Annex 4. Operations Portfolio (IBRD/IDA and Grants) as of April 18, 2018

The current IBRD/IDA portfolio of investment projects will represent the solid basis for delivering results under the CPF. Twelve investment lending operations with the commitments of about USD 709 million<sup>37</sup> (of which 55 percent undisbursed) will have a larger impact on the achievement of the CPF development outcome, than any of the proposed new lending operations. While as of end February 2018 four out of the twelve investment projects are at risk due to challenges faced at the earlier stages of implementation (as articulated in the Completion and Learning Review), the respective Bank teams and Government counterparts are proactively addressing

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
<b>Energy &amp; Extractives</b>		1	1	1	1	1	1			
Transmission Grid Strengthening Project										
<b>Macro Economics &amp; Fiscal management</b>	1	1	1		1	1				
Georgia Competitvness and Growth DPO2										
Georgia Competitvness and Growth DPO3										
Georgia Inclusive Growth DPO										
Georgia Inclusive Growth DPO 2										
<b>Social, Urban, Rural and Resilience GP</b>	3	4	4	5	5	5	2	1		
Regional & Municipal Infra Development 2 (incl. AF)										
Third Regional Development										
Regional & Municipal Infra Dev										
Regional Development										
Regional Development 2										
Sustainable Wastewater Management										
<b>Trade &amp; Competitvness</b>			1	1	1	2	1	1	1	
Private Sector Competitvness DPO1										
Private Sector Competitvness DPO2										
GENIE Project										
<b>Transport &amp; ICT</b>	4	4	5	5	5	5	4	2	2	1
Third Secondary and Local Roads										
East-West Highway Corridor Improvement (incl. AF)										
Secondary Road Asset management Project										
EW Highway Improvement 3										
Kakheti Regional Roads										
Second Secondary and Local Roads										
East-West Highway 4										
<b>Water</b>		1	1	1	1	1	1	1		
Irrigation & Land Market										
<b>Active Projects</b>	8	11	13	13	14	15	9	5	3	1

the bottlenecks. It is expected that these projects will be restructured and back on track by FY19. The Bank will continue to proactively support implementation of the lending program. Annual portfolio deep-dives combined with the bi-annual portfolio discussion reviews jointly with the Ministry of Finance and respective line ministries will help identify and address implementation bottlenecks, and systemic challenges and will support strengthening program implementation. Government and the Bank will devise and agree on readiness filters for projects under preparation as informed by the CLR. The filters will include characteristics such as the existence of initial detailed designs for civil works that are of acceptable quality, clear project implementation arrangements, approved procurement plan, etc. to list a few. Additional risk mitigation measures during the upcoming CPF period will include the development of readiness filters for each phase of project preparation.

<sup>37</sup> including USD 10 million Recipient-executed TF.

**Closed Projects 64**

**IBRD/IDA\***

Total Disbursed (Active)	361.27
of which has been repaid(1)	3.34
Total Disbursed (Closed)	1,581.85
of which has been repaid	348.68
Total Disbursed (Active + Closed)	1,943.13
of which has been repaid	352.02
Total Undisbursed (Active)	383.04
Total Undisbursed (Closed)	0.33
Total Undisbursed (Active + Closed)	383.3671558

**Active Projects**

Project ID	Project Name	Last PSR			Fiscal Year	Original Amount in US\$ Millions					Difference Between Expected and Actual Disbursements <sup>a</sup>	
		Supervision Rating		Fiscal Year		IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
		Development Objectives	Implementation Progress									
P130413	East-West Highway 4	S	S	2013	38.0	37.0		0.0	12.6	13.9	0.0	
P149952	East-West Highway Corridor Improvement	S	S	2016	160.0	0.0		0.0	133.9	-25.4	0.0	
P152441	GENIE Project	MU	U	2016	40.0	0.0		0.0	37.8	-2.2	1.9	
P133828	Irrig & Land Mkt	MU	MS	2014	0.0	50.0		0.0	30.6	29.7	6.9	
P155553	Private Sector Competitiveness DPO2	#	#	2018	50.0	0.0		0.0	0.0	0.0	0.0	
P130421	REG DEV 2	S	MS	2013	9.0	30.0		0.0	9.0	1.0	5.2	
P147521	Reg & Muni Infra Dev II	S	S	2015	30.0	0.0		0.0	13.4	9.8	0.5	
P149953	Secondary Road Asset Management Project	S	MS	2016	40.0	0.0		0.0	33.5	7.5	0.0	
P122204	Second Secondary and Local Roads Project	S	MS	2012	30.0	40.0		0.0	8.8	9.4	6.7	
P150696	Third Regional Development Project	MS	MS	2016	60.0	0.0		0.0	51.9	36.6	13.6	
P148048	Third Secondary and Local Roads Project	S	MS	2015	75.0	0.0		0.0	35.5	27.8	0.0	
P147348	Transmission Grid Strengthening Project	MS	MU	2014	60.0	0.0		0.0	16.0	2.7	3.5	
<b>Overall Result</b>					<b>592.0</b>	<b>157.0</b>		<b>0.0</b>	<b>383.0</b>	<b>110.7</b>	<b>38.3</b>	

\* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

**Annex 5: Statement of IFC's Held and Disbursed Portfolio as of January 31, 2018 In USD Millions**

Industry	<u>Committed - IFC Own Account</u>				<u>Committed Participant</u>	<u>Outstanding - IFC Own Account</u>				<u>Outstanding Participant</u>		
	Loan	Equity	Quasi Loan & Quasi Equity	G/RM	Total Own Account	Total Participant	Loan	Equity	Quasi Loan & Quasi Equity	G/RM	Total Own Account	Total Participant
Manufacturing, Agribusiness and Services - TOTAL	66.29	0.00	0.00	0.00	66.29	12.18	61.30	0.00	0.00	0.00	61.30	12.18
Infrastructure and natural resources - TOTAL	34.59	36.23	72.14	0.00	142.97	9.82	34.59	35.65	70.00	0.00	140.24	9.82
Financial Institutions Group - TOTAL	43.69	7.46	0.00	0.98	52.13	0.00	43.69	7.46	0.00	0.98	52.13	0.00
Telecom, Media, Technology and Venture Investment - TOTAL	0.00	9.35	0.00	0.00	9.35	0.00	0.00	7.89	0.00	0.00	7.89	0.00
<b>Total Portfolio</b>	<b>212.73</b>	<b>53.04</b>	<b>142.14</b>	<b>2.18</b>	<b>410.10</b>	<b>42.01</b>	<b>207.75</b>	<b>51.00</b>	<b>140.00</b>	<b>2.18</b>	<b>400.93</b>	<b>42.01</b>

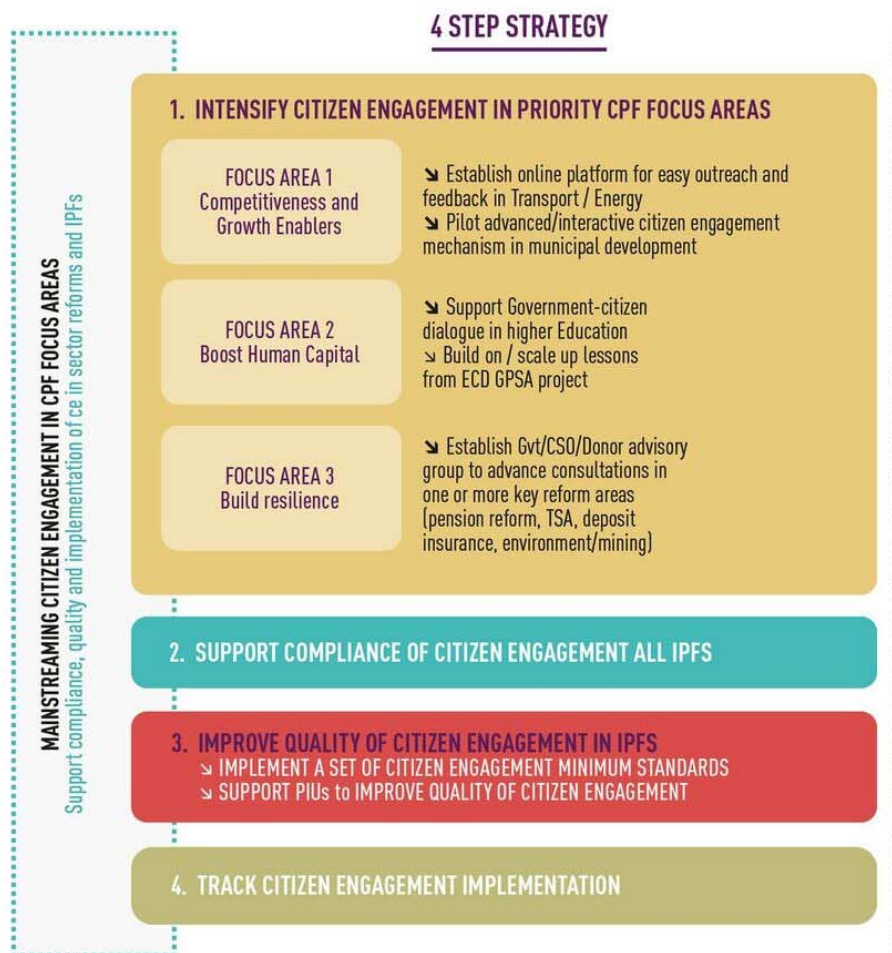
## Annex 6: MIGA Portfolio in Georgia

MIGA's outstanding gross exposure in Georgia was USD 107 million as of December 2017, in two projects. The first project, the Adjaristsqali hydropower, involves the construction and operation of the 187MW Shuakhevi hydropower project, consisting of the 178 MW Shuakhevi plant and the 9MW Skhalta plant. This project helps to ensure continued reliable domestic energy supply and bolsters electricity production from hydropower plants to expand regional electricity trade. The second project, entails the issuance of MIGA guarantees for a financial institution client against the risk of expropriation of funds for mandatory reserves held by subsidiaries in the central bank. Through these guarantees, the client can obtain capital relief from the capital adequacy ratio requirements and optimize its capital management. MIGA is looking to support new cross-border investments into Georgia through political risk guarantees, including investments that help Georgia integrate into global value chains (GVCs). MIGA will continue to seek opportunities for supporting investments in renewable energy, aligned with Georgia's environmental sustainability priorities. MIGA will also explore opportunities for applying its credit enhancement instruments to support projects aligned with the CPF and government priorities.

**Table 9.1: MIGA's outstanding exposure in Georgia, as of December 4, 2017**

	FY14	FY15	FY16	FY17	FY18 YTD
Number of Projects	2	3	2	2	2
Number of Guarantees	4	5	2	2	2
Gross Exposure (\$M)	24	94	92	107	107
Adjusted Net Exposure (\$M)	24	94	92	107	107

## Annex 7: Proposed Georgia Citizen Engagement Roadmap



## 9 CONCRETE ACTIONS

Identify priority areas for targeted support, aligned with CPF Focus Areas

1. **TRANSFORMATIONAL PLATFORM IN TRANSPORT and /or ENERGY sector:**
  - a. Establish app for communication with and feedback from citizens/project-affected persons (TGSP)
  - b. Establish online platform for road users to report problems (Transport)
2. **PILOT ACTIVE CE MECHANISM IN MUNICIPAL DEVELOPMENT:**
  - a. citizen report / citizen score card (RDP; RMIDP II)
  - b. Participatory planning in local investments (RDP; RMIDP II)
3. **ADVANCE PUBLIC DIALOGUE IN EDUCATION**
  - a. Support / strengthen inclusive Government-citizen interface in higher education
  - b. Build on / scale up lessons from ECD GPSA project
4. **PROMOTE TRANSPARENCY AND DIALOGUE IN KEY REFORM AREA/S (PENSION REFORM, TSA, DEPOSIT INSURANCE, ENVIRONMENT/MINING):**
  - a. Establish Government / CSO / Donor Advance advisory group;
  - b. Pilot survey;
5. **100% COMPLIANCE IN ALL IPFS AND TRUST FUNDED PROJECTS**
6. **AGREE TO INCREASE BOTTOM LINE STANDARDS (E.G. FOR QUALITY OF FEEDBACK CHANNELS AND FREQUENCY) OF CITIZEN ENGAGEMENT**
7. **COMMITMENT TO CAPACITY BUILDING OF PIUs**
8. **IMPROVE PIU AND TASK TEAM REPORTING (STARTING IN FY19), INCLUDING REPORTING IN ISRS AND ON GRM RESULTS**
9. **COMPILED CE INDICATOR IN CPF RF, AND MONITORING IN ANNUAL PORTFOLIO REVIEWS**

## **Annex 8: CPF Consultations**

The CPF has been developed in partnership with the Government of Georgia and reflects a range of face-to-face and online consultations with a broad range of stakeholders. Consultations for the CPF took place during the period December 1, 2017 through February 13, 2018, focusing on how best to leverage the comparative advantage of the WBG to support Georgia's development objectives as outlined in the Government's Socioeconomic Development Strategy – 2020 and Four-point action plan. The preparation of the CPF also benefited from meetings with stakeholders during preparation of the CLR focusing the implementation lessons from the CPS (FY14–FY17) and later during SCD consultation process starting in May 2017.

Engagement with stakeholders focused on the identified challenges, SCD priorities, and proposed CPF focus areas of engagement. The Bank eventually received feedback and views on the development goals facing Georgia considering the effectiveness of the WBG resources—financial support, knowledge work, and the WBG convening power.

This outreach was conducted in a variety of formats including formal consultations with the Government at all levels, multi-stakeholder engagement (face-to-face meetings with civil society and private sector representatives, academia, development partners and bilateral donors), public outreach through extensive online consultations, and country opinion survey.

### **Online Campaign**

The campaign used the hashtags #GeorgiaOnTheMove and #ReformerToPerformer, and was aimed to engage broad public in the online consultations, encourage them to provide inputs and feedback using the multimedia and social media tools. In total, eight posts have been published in the period between December 1, 2017 and February 10, 2018. They were promoted via World Bank ECA Twitter, IFC Europe and Central Asia Facebook, and Youth Voices Georgia Facebook channels and have reached 888,000 people, were viewed by 703,500 and have garnered 2,513 reactions and 616 shares. A page on World Bank Consultations Portal and a dedicated page on the World Bank Georgia website has been created in English, with all multimedia materials also available in Georgian. However, with only 1,012 page visits combined, the effectiveness of the Consultation Portal page and the dedicated page pales in comparison with the social media campaign. Additionally, a periodic newsletter was created and sent out in English and Georgian languages to different segments of our target audience on biweekly basis. Altogether 4 newsletters were sent over 8 weeks and in total they were opened 1,321 times. Finally, an online survey was created on the SurveyMonkey platform, which was split in 4 different phases, each addressing a specific topic: general development, growth potential, youth, and environment.

# GEORGIA CPF

Online Consultations



Population of Georgia  
**3.7 Million**



Total Reach  
**888.000**

## TIMEFRAME



DEC. 1 2017  
FEB. 10 2018



Total Views  
**703.500**

Reactions  
**3.525**

Comments  
**181**

Shares  
**616**

## MULTIMEDIA TIMELINE



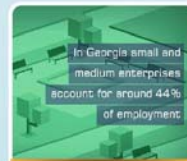
DECEMBER 1



DECEMBER 14



DECEMBER 29



JANUARY 18



JANUARY 31

01

02

03

04

05

## AUDIENCE

### Online & Face to Face

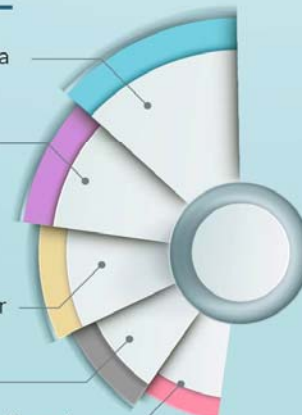
Civil Society  
Bilateral Donors  
Citizens

Private Sector  
Development Partners  
Academia



## ENGAGEMENT

Social Media  
WB Website  
Newsletter  
Surveys  
WB Consultations Portal



**Across the various groups of stakeholders, common themes, and priorities emerged as follows:**

- Focusing on improving general education throughout the country while attracting young teachers to public schools.
- Supporting innovation and start-up programs in all sectors of the economy.
- Enhancing business climate with better access to finance and infrastructure.
- Continue strengthening public-private partnerships.
- Creating investment opportunities for medium-sized companies.
- Focusing on improving agriculture productivity and providing market access. Support 'smart' agriculture.
- Continue strengthening the Targeted Social Assistance program, especially in areas hosting large IDP communities.
- Continue with much needed pension reform and help investments into private pension funds.
- Improving resilience to natural disasters by providing alternative means of livelihoods, as well as sustainable sources of energy.
- Continue improving forestry management, control of air pollution levels, etc.
- Continue strengthening Georgia's potential to become a transport hub, but also tourism, health, and education center in the region.
- Strengthen citizen engagement in the World Bank financed projects, and help build platforms that create accountability, transparency, and greater public participation.



## Annex 9: Selected Findings of the Country Opinion Survey

Questions	Top Five Responses of Country Opinion Survey Respondents				
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>d</sup>	4 <sup>th</sup>	5 <sup>th</sup>
Georgia's development priorities	Education 52 percent	Economic growth 29 percent	Private sector development 28 percent	Public sector governance 22 percent	Poverty Reduction 19 percent
Poverty reduction vehicles	Education 52 percent	Economic growth 42 percent	Jobs/employment 32 percent	Private sector dev. 27 percent	Agriculture/rural dev. 25 percent
Focusing Bank resources	Education 46 percent	Economic growth 28 percent	Agriculture/rural dev. 25 percent	Private sector development 24 percent	Jobs/employment 22 percent
WBG greatest value	Financial Resources 55 percent	Policy advice 37 percent	Knowledge Sharing 30 percent	Capacity Development 20 percent	Technical assistance 17 percent
Most effective WB instruments (10 maximum)	Advisory Services and Analytics 7.9	IFC Investment Services 7.8	Development Policy Financing 7.6	Investment Project Financing 7.6	IFC Advisory Services 7.4
Making WBG of greater value	More innovative financial products 27 percent	Increasing level of capacity development in the country 23 percent	Leveraging private sector more 19 percent Work more with Civil Society and beneficiaries 19 percent	Collaborate more effectively with the Government clients 15 percent	Reducing complexity of obtaining WBG financing 13 percent
WB effectiveness (10 maximum)	Transport 8.4	Global/regional integration; Public Sector Governance/Reform; Water Supply and Sanitation; Solid Waste Management; Tourism Development 7.7		Municipal, urban & Regional Devt; Energy 7.6	Environment; IDPs; Education; Economic growth; Agriculture 7.5
Rating Bank knowledge services are (10 maximum)	Source of relevant global good practices 7.9	Accessible 7.7	Leading to practical solutions 7.5	Addaptable/relevant to Georgia's dev. challenges 7.4	Timely 7.4
Overall Perceptions (10 maximum)	WB contributes to institutional capacity 8.1	Use of country systems, when adequate 8.1	Effective support to implementation; reasonable Safeguard Policies 7.6	WB lending conditions are reasonable 7.4	Timely approvals and reviews 6.7
WB as effective development partner	Being a long-term partner 8.5	Treating clients and stakeholders with respect 8.4	Collaboration with Government 8.2	Straightforwardness and honesty 7.9	Collaboration with other donors and development partners 7.8

Source: *Country Opinion Survey* (World Bank Group, Tbilisi, January 2018)

## **Annex 10: Summary of Georgia Country Gender Assessment (2016)**

**While making important strides towards closing gender gaps, gender inequality persists in Georgia.** The 2016 Georgia Country Gender Assessment reviewed the state of equality between men and women in areas of demography, human capital, economic opportunity, as well as voice and agency, and identified the main remaining gaps that, if closed or narrowed, could be beneficial not only for women but for the country. Globally, Georgia ranks 94 out of the 144 countries included in the 2017 World Economic Forum Global Gender Gap Index (Iceland, Finland, Norway, and Sweden top the rankings); the country is just two positions ahead of its South Caucasus neighbors in this ranking, but behind most EU countries. Georgia has shown continuous improvement in its ranking from being below the middle point in the ranking, to the top 45 percent between 2006 and 2017. The country is dragged down in the index due to three indicators: the sex birth ratios, the low participation of women in parliament, and women's estimated earned income.

**Economic opportunities gender gaps are expressed in low income levels among women.** Labor force participation of women stands at 58 percent, while not low for the ECA region levels, it is behind levels observed in EU countries. Women in Georgia make on average 35 percent less than men, although women's participation in education is higher. Among the factors contributing to the gender wage gap are work hours -women work fewer hours for pay but dedicate more hours to childcare and home-related tasks; and segregation by economic activity and in specific economic sectors. These differences are reflections of barriers in access to childcare, concentration of young women in some areas of education over others, and the roles rural women have. For example, the dip in female labor force participation observed among the 15 -34 age group, largely due to marriage and childbearing/childcaring offsets all the gains from women having more education than men. The presence of a child under the age of 14 in a household lowers the probability of female labor force participation by 30 percent. 56 percent of women are self-employed and over half of women who are employed work in the agriculture sector. In addition to agriculture, women are overrepresented in education, health care and social work, which are viewed as better suited for women who need to balance household work with paid employment. According to the latest census, about 30 percent of women younger than 29 years of age are not in education, employment or training. The underutilization of the available human capital of working-age women - based on the gap between female and male participation in the labor market it is estimated to have a cost of 11.3 percent of Georgia's GDP.

**No indicator more starkly captures the impact of the different value women experience in Georgian than the sex ratio at birth.** In 2016 the country saw 109 boy births per 100 girl births on average, and of 120 boys for 100 girls if the birth was the third or higher order. While women make up about 52 percent of the population in Georgia. From age 0-15 the 2014 Census shows are more boys than girls; at the same time, there are twice as many women as men over the age of 65. While the high sex ratio results from parental preference for sons in a context of declining family sizes and perceptions of sons providing more economic security; the difference in life expectancy (of 7 years between women and men) results from

specific risks associated with men’s behavior - diabetes, heart disease and other complications, a greater risk of death due to violence, and the effects of prolonged use of alcohol and tobacco.

**Women’s share of leadership roles in the public and private sector is still limited.** Women hold only 16 percent of positions in parliament, 10 to 12 percentage points lower than the average in low- and middle-income countries. 2 out of the 18 cabinet ministers are female, and in the Constitutional Court in 2016, three out of nine judges are women.

All of the below operations have received a 3 either in the gender tag or gender flag (if pre- 2016).

P128863	Third East West Highway Improvement Additional Financing	FY12
P129597	First Competitiveness and Growth Development Policy Operation	FY13
P130421	Regional Development Project II	FY13
P143060	GEORGIA Competitiveness and Growth DPO2	FY13
P133828	IRRIG & LAND MKT	FY14
P147521	REG & MUNI INFRA DEV II	FY15
P149991	First Programmatic Inclusive Growth Development Policy Opera	FY15
P149998	Private Sector Competitiveness DPO1	FY15
P155553	Private Sector Competitiveness DPO2	FY16

## Annex 11: How the Georgia CPF is embracing the MFD agenda

The Georgia CPF is systematically exploring a broad range of WBG instruments and partnerships to help Georgia crowd in resources – including private sector financing and management solutions. A multi-level engagement is envisioned to deploy complementary WBG financing/advisory/analytic interventions across all institutions.

- **Macroeconomic level:** At the macroeconomic level, support for sound macroeconomic and fiscal policies will be provided through policy advice, support for stronger PFM performance, and possible policy-support operations to facilitate scarce public resources to strengthen the investment climate as a prerequisite to attract investment, develop finance infrastructure, and upgrade service delivery.
- **Policy and institutional level:** Support will be provided to further strengthen the policy and institutional environment for private sector solutions, capital market and the diversification of financial sector instruments to mobilize finance; support to public investment management, including fiscal risk management covering private sector participation and possible contingent liabilities. It will also entail supporting better management and corporate governance of the SOE sector (and possibly crowding in private sector solutions). There are also areas where, while critical, the WBG engagement might remain limited since other development partners are present – for example the PPP institutional framework and support to improving the judiciary, including insolvency and dispute resolution
- **Sector level:** There are opportunities for interventions at the sector level which are being sought actively. These include continuing the World Bank’s analytic support to facilitate private sector participation in the road sector, including tolling, operations and maintenance, and in logistics, where an IFC advisory will take place. In agriculture, support to institutional development to organize small holder farmers to enable commercial-scale farming will be MfD enabler. Other areas of engagement include sector assessments of key value chain constraints in agriculture and opportunities to support private sector solutions to address these, and the energy sector, where actual investments by IFC and IBRD are accompanied by guarantees facilitating private participation. For instance, the telecommunications sector has already benefited from competitive, private provision of services; now, deepening competition in markets, regulatory reforms, and targeted public policies can bridge the digital divide between urban and rural areas. Interventions will also be explored beyond traditional infrastructure sectors, in health for example. Support to new innovative firms will seek to crowd in private capital at the earliest stages of the investment chain.
- **Firm level:** Support to new innovative firms will seek to crowd in private capital at the earliest stages of the investment chain. Such funding may be provided through co-investment grants (such as the grants planned under the Georgia National Innovation Ecosystem Project), which will be awarded to firms demonstrating development, marketing, and/or exporting of new products, services, or processes that have also attracted matching private sector financing at the time of

grant receipt. Such private sector financing is likely to be provided by other firms, early stage (angel) investors, or foreign funds or individuals. In each of these cases, the financing from the private sector is also likely to be accompanied by technical and managerial know-how, the transfer of which could be further formalized through the CPF.

Specific MFD interventions are mainstreamed in the CPF with a number examples below:

- **Objective 1.1: Improve agricultural modernization and access to markets** contributes to the “Maximizing finance” agenda, by supporting in agriculture institutional development to organize small holder farmers to enable commercial-scale farming, supporting PPP where opportunities arise, and broadly supporting efforts to attract private FDI through trade and investment interventions.
- **Objective 1.2: Improve connectivity and integration.** In transport, the CPF contributes to the “Maximizing finance” agenda, by contributing to enabling private sector participation in the road sector by introducing financing mechanisms capable of sustainably financing the Operation and Maintenance (O&M) of major commercial road corridors and building capacity for the development of limited hard infrastructure to crowd in and enable the private sector. IFC will explore opportunities to invest or provide advisory services to improve Georgia’s transport infrastructure including road, rail, port, and airport, depending on private sector interest and involvement through PPP modalities. In ICT connectivity, the WBG will support legal and regulatory reforms, foster competitive markets, and create an enabling environment for private investments in the sector. In energy, an energy sector MfD assessment will provide the Government with a road map to optimize the combination of private and public investment and to create the enabling environment necessary to achieving its objectives. This assessment will be carried out by the WBG, involving other IFIs, and could possibly pave the way for a private sector solution under a possible Power System Expansion Investment project.
- **Objective 1.3: Diversify sources of finance and strengthen innovation capacity** contributes to the “Maximizing finance” agenda, by crowding in private finance through capital market development and greater access to finance by underserved segments, as well as supporting innovation in the private sector.
- **Objective 1.4: Increase economic participation in the regions** contributes to the “Maximizing finance” agenda by broadening the ongoing work to implement an integrated approach to tourism development in lagging regions with a focus on infrastructure, urban renewal, cultural heritage restoration, skills development, and the attraction of private sector investments with support from IFC.
- **Objective 2.2: Improve the efficiency of the health care delivery system** contributes to the “Maximizing finance” agenda by improving the policy and institutional setup of the healthcare system together with continued IFC support to investments in the expansion and improvement of service delivery by private healthcare providers. This is expected to lift overall standards of healthcare service delivery in the country through the demonstration effect. It may also be complementary to the development of the tourism sector, as the SCD analysis identified healthcare tourism as a promising avenue to diversify and expand this sector’s potential. IFC will

continue to dialogue with the Partnership Fund on potential PPP engagements in Georgia's healthcare sector. MIGA will consider opportunities to leverage its recent experience in supporting PPPs in the healthcare sector.

- **Objective 3.1: Improve macro-fiscal management and mitigate risks** contributes to the "Maximizing Finance" agenda, by supporting government's capacity to manage sustainably public investment and SOEs in relation with private finance solutions/fiscal risks.