



Validation Report

Reference Number: PVR-231
Project Number: 42529
Loan Number: 2531/2532
December 2012

Georgia: Growth Recovery Support Program

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	– Asian Development Bank
DMF	– design and monitoring framework
FDI	– foreign direct investment
GRSP	– Growth Recovery Support Program
IDP	– internally displaced persons
IED	– Independent Evaluation Department
IMF	– International Monetary Fund
JNA	– joint needs assessment
PCR	– program completion report
SBA	– standby credit arrangement
UN	– United Nation
WB	– World Bank

NOTES

- (i) In this report, “\$” refers to US dollars.
- (ii) For an explanation of rating descriptions used in ADB evaluation reports, see ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila.

Key Words

lessons, asian development bank, georgia, independent evaluation department, performance evaluation, growth recovery, support program

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PROJECT BASIC DATA

Project Number:	42529	PCR Circulation Date:	28 Dec 2010	
Loan Number:	2531 and 2532	PCR Validation Date:	Dec 2012	
Project Name:	Growth Recovery Support Program			
Country:	Georgia (GEO)		Approved (\$ million)	Actual (\$ million)
Sector:	Multisector	Total Project Costs	80.00	79.84
ADB Financing (\$ million)	ADF: 80.00	Loan	80.00	79.84
	OCR:	Borrower		
		Beneficiaries		
		Others		
Approval Date:	6 Jul 2009	Effectiveness Date	6 Sep 2009	16 Jul 2009
Signing Date:	6 Jul 2009	Closing Date	31 Dec 2009	24 Sep 2009
Project Officers:	J. P. Farinha Fernandes A. Schou-Zibell	Location: ADB headquarters ADB headquarters		
Validator:	B.Prakash, Consultant	Peer Reviewer:	R. Vasudevan, Evaluation Specialist, IED1	
Quality Reviewer:	R. Sabirova, Evaluation Specialist. IED1	Director:	W. Kolkma, IED1	

ADB = Asian Development Bank, ADF = Asian Development Fund, IED1 = Independent Evaluation Department (Division 1), OCR=ordinary capital resources, PCR = project completion report.

I. PROJECT DESCRIPTION

A. Rationale

1. Since 2004 Georgia's economy was growing steadily at an average rate of 10.5% per annum, until August 2008 when conflict with the Russian Federation broke out and interrupted this growth. The conflict eroded investor confidence, resulted in bank deposit withdrawals, built pressure on the exchange rate, and contracted bank lending.¹ The development partners, including ADB, but excluding the International Monetary Fund² (IMF), rallied to help Georgia address emergency needs arising from its war with the Russian Federation.³ The United Nations and World Bank led development partners and the government to undertake a joint needs assessment (JNA) and identified a multi-year multi-donor program amounting to \$3.25 billion over three years. The focus of JNA was to ensure that: (i) critical social and economic needs were met; (ii) internally displaced persons (IDP) were resettled, and (iii) critical new investments were undertaken. ADB provided support through the Emergency Assistance for Post-Conflict Recovery (EAPCR)⁴ approved in December 2009. Even before JNA could gather speed, Georgia was hit again by international financial crisis of 2008. It further decelerated its growth, decreased inflow of

¹ IMF. 2011. *Program Note on Georgia*, 14 June, <http://www.imf.org/external/np/country/notes/georgia.htm> accessed on 30 December 2011

² IMF was not, at that time, prepared to lend into the budget.

³ ADB. 2010. *Program Completion Report Growth Recovery Support Program (Georgia) (Loans 2531-GEO and 2532-GEO)*. Manila

⁴ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for Emergency Assistance for Post-Conflict Recovery*. Manila.

foreign direct investments, worsened the banking situation and led to credit squeeze affecting the domestic economy adversely. Unemployment that was high to begin with increased further and the incidence of poverty increased.

2. ADB's Growth Recovery Support Program (GRSP, or the program) was, launched anchored on JNA and the IMF's standby arrangement (SBA).⁵ The adverse impact on economic growth, first from the August 2008 conflict, and then from widespread international financial crisis was having serious negative repercussions on unemployment, financial sector stability and fiscal and monetary space. The country needed to maintain core public expenditure and augment foreign exchange reserves, while banking system remained stable.

B. Expected Impact

3. By partially mitigating the adverse economic and social impact of the global economic crisis, the expected impact of GRSP was to help the Georgian economy return to pre-crisis trajectory of growth and social development. More specifically, GRSP sought to restore real GDP growth to an average of more than 4% over the period between 2009 and 2012.

C. Objectives or Expected Outcomes

4. The GRSP was to help implement a countercyclical fiscal stimulus response with immediate expenditure execution rates (within 2009). Three sets of outcomes were expected around key public expenditure items being executed as budgeted in the 2009 budget that included housing for the internally displaced persons (IDPs) and rehabilitation of roads. The underlying outputs related to meeting the incremental expenditure needs arising from worse-than-expected economic conditions in mid-2009 by the Government without complete withdrawal of cash balances at the National Bank of Georgia. The second underlying output was the successful delivery of the core public expenditure program for 2009.

D. Key conditions

5. The GRSP was a program loan aimed at providing budget support, in conjunction with 20 measures that were covenanted in the Loan Agreement. These conditions related to: (a) strengthen the banking regulatory framework effectiveness in dealing with system banking risk, (b) improve the inter-bank payment system, (c) establish system liquidity management tools, where the Georgian authorities were expected to have developed the regulatory framework for the government securities, (d) establish an operational framework for foreign currency auctions, and (e) develop a transition plan and design of foreign exchange dealing system.

E. Provision of Inputs

6. The input was an \$80 million loan from Asian Development Fund resources for GRSP.⁶ The Government and the National Bank of Georgia (NBG) entered into a \$750 million standby

⁵ IMF's SBA was initially in the amount of \$750 million but was subsequently augmented, and ended up extending \$930 million by 14 June 2011 when it was closed. The program achieved its objectives.

⁶ There were two loans – first loan was for \$50 million equivalent for a term of 24 years, with an 8-year grace period and an interest rate of 1% per annum during the grace period and 1.5% per annum thereafter. The second loan was \$30 million equivalent from the Asian Development Fund hard-term facility for a term of 24 years, with an 8-year grace period and an interest rate of 1.6% per annum during the grace period and for each interest period thereafter. ADB. 2009. *Report and recommendation of the President to the Board of Directors: Proposed Program Loan to Georgia for Growth Recovery Support*. Manila.

arrangement with the IMF (see footnote 5). The GRSP was designed to release funds in a single tranche upon loan effectiveness.

F. Implementation Arrangements

7. The Ministry of Finance of the Government of Georgia was designated as the Executing Agency for the GSRP. As part of the implementation arrangements, assisting monitoring and evaluation, and ensuring presence of fiduciary arrangements, a regional technical assistance was to be provided. It was expected to work closely with the government and implement its crisis budget effectively. However, this regional technical assistance did not materialize.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

8. The PCR assesses GRSP as *highly relevant*. It mentions that GRSP was consistent with the country's development objectives as outlined in the government's *Basic Data and Directions for 2008–2011*; the JNA approved in October 2008, and its periodic progress reports; the IMF stand-by credit arrangements (SBA) approved in October 2008; and the World Bank's Poverty Reduction Support operation.

9. More importantly, PCR states that GRSP was also consistent with ADB's interim operational strategy for Georgia, 2008–2009 approved in January 2008.⁷ The interim strategy explicitly focused to (i) improve service delivery in municipal infrastructure within the evolving decentralization process, (ii) reduce road transportation constraints on economic activity, and (iii) upgrade and develop energy infrastructure. The PCR has noted that the interim operational strategy recognized the need for ADB to be responsive to rapid changes in circumstances, implying that in the latter sense, the GRSP was consistent with the strategy.

10. Further, the PCR goes on to detail that the measures undertaken under GRSP complemented those undertaken by other development partners. The JNA estimated a financing gap of \$450 million for 2009. ADB's financing of \$80 million equivalent in 2009 filled part of that gap, with the balance coming from other development partners, including the World Bank, European Union, and United States.

11. The present validation, however, considers this approach slightly formulaic. The war with the Russian federation was a totally unexpected event that changed the course of developments in Georgia. Though these events were beyond the immediate control of Georgia's development partners, they had an obligation to respond to the needs of Georgia and help it cope with what followed in its wake. This response was defined in JNA in 2008. However, before Georgia could fully benefit from JNA's implementation, another set of negative developments unleashed by the 2008 US economic and financial crisis were breaking ashore.

12. The country found itself buffeted by a series of negative factors. Further, in this changing scenario, there was little time for either the country or its development partners to plan, as they were responding to a rapidly worsening situation. The priorities of the interim operational strategy of 2008-2009 included improved service delivery in municipal infrastructure, reduced road transport constraints, and upgrading energy infrastructure. The \$80 million equivalent was

⁷ ADB. 2008. Georgia: Interim Operational Strategy 2008-2009. Manila.

planned to be disbursed as a single tranche quick financing that contributed to meet the core government expenditure program for 2009.

13. Under the circumstances, there was little time, or few points of entry for ADB to examine and analyze the situation beyond the JNA assessment framework that was already prepared by the Government and development partners which sequenced public expenditure and revenue mobilization. Further, given the nature of crisis response it was agreed not to include a separate policy matrix, but prepare a program framework that was anchored in the IMF's SBA so as to allow GRSP of \$80 million to have immediate expenditure impact. The design of this quick response loan coupled with in-country reality through the JNA limited ADB additionality.

14. Within this, the GRSP's design especially the DMF had also some limitations that were pointed out during the program preparation phase. As noted in the PCR itself, the two main output indicators were not "clearly defined" and therefore "could not be reviewed and monitored" (page, 9. para. 27). For these reasons of limited additionality and some limitations in the DMF, this validation report assesses the relevance of the program as *relevant*.

B. Effectiveness in Achieving Program Outcomes

15. The PCR assessed the GRSP as *effective*. It mentions that the program enabled Government to maintain critical public expenditures and execute the 2009 budget. It also mentions that while the achievement of two performance targets, (viz., mitigating effects of the financial crisis and restoring growth rate of the economy to the pre-crisis trajectory of 4%, and social development) could not be verified, going by the account of JNA reports and the government's own statements, these appeared to have been fulfilled.

16. The PCR has noted, "the target to return the Georgian economy to average economic growth of 4% in 2009-2012 is unlikely to be met because of the slower than envisaged return of foreign direct investment to pre-crisis level" (PCR, p.11. paragraph 35). The estimated economic growth for the period is mentioned in the PCR to be 2.7%, thus, clearly revealing it to be lower than the intended impact.

17. When support is provided for countercyclical measures in the form of a budgetary support, it is a natural outcome that execution of public budget gets facilitated. The validation report concurs with the PCR that as a minimum, the GRSP enabled this to happen. However, out of the two outputs that were planned to be achieved, economic growth was reportedly under-achieved⁸ and social development outcomes could not be verified. The PCR noted that the performance indicators in regard to housing for IDPs (up to 300 houses and collective centers were rehabilitated) and roads (up to 575 kilometers of roads were rehabilitated or constructed) have not been verified because of inadequately defined performance targets (PCR, p.10. para. 34).

18. The PCR also mentioned that quarterly reports that were expected to be generated during the life of the program were also not prepared (PCR, p.10. para. 27). Further, the government has not prepared and shared with ADB its program completion report (PCR, p.9, para. 30). In light of these factors, but given that the program broadly achieved its intended objectives the validation report assesses effectiveness of the GRSP as *effective*.

⁸ The reading of IMF's subsequent reviews of the SBA, however, suggests that its performance targets were fully achieved. Economic growth has been restored, fiscal deficit has been reduced, inflation is subsiding, etc. One gets the impression that GRSP could rightly claim to have succeeded except that its performance indicators were not adequately formulated, i.e., 4% growth across 2009–2012 period.

C. Efficiency of Resource Use in Achieving Outputs and Outcomes

19. The PCR assessed the GRSP as *highly efficient*. It mentioned that the program was the most cost-effective way of transferring resources to the Government. It enabled the government to execute its budget for 2009 without drawing down its cash balances at NBG (PCR, page, 11, para.38). Due to the program, the government was able to maintain a DMF target of GEL100 million balances.

20. As the GRSP was a single tranche program loan, there are not many issues related to portfolio monitoring. However, as mentioned earlier, an important condition of the program loan was that it would be reviewed jointly by ADB and the government on a quarterly basis (PCR, page 9, para 27). This could not take place as the related regional technical assistance that was to be processed by ADB was not implemented. According to the PCR, while quarterly reviews of program implementation were not conducted, ADB hired a staff consultant who carried out a review mission and provided advisory assistance to the National Bank of Georgia in the area of banking supervision and regulation.

21. The regional technical assistance was expected to monitor public expenditure and identify audit trails so that it could be verified as required. It is unclear whether such trails have been identified by the staff consultant or not. The government's program completion report could have clarified the situation, but its absence did not enable this to happen. For these reasons, the present validation downgrades PCR's assessment in relation to efficiency of resource use in achieving outputs and outcomes to *efficient*.

D. Preliminary Assessment of Sustainability

22. The PCR assessed GRSP as *likely sustainable*. It viewed the program as a "short-term stop gap measure to help the economy and the people of Georgia weather the exogenous shock brought about by the global financial crisis" (PCR, page 12, paragraph 40). It further stated that GRSP was anchored on the JNA and IMF's SBA, and that "nine policy actions were identified and complied with." The PCR's discussion of GRSP varied between a stop-gap financing to long-term structural issues responding to the JNA as well as IMF's SBA. This validation notes that GRSP as small to either stall exogenous factors from worsening or to catalyze the structural reforms in the financial sector. The program was constrained by the lack of measureable indicators for the projected outputs and outcomes, and added to this the regional technical assistance also did not materialize. However, keeping in view the large number of development partners, especially IMF, World Bank, United Kingdom's Department for International Development, and European Union and their commitment to Georgia, this validation as also rates the program *likely sustainable*.

E. Impact

23. The PCR states that mitigation of the adverse economic and social impacts of the global economic crisis and of the return of the Georgian economy to its pre-crisis trajectory of growth and social development is not likely to be met. The program, backed as it was by a number of development partners and a significant amount of resources, including those of ADB, contributed to positive development impact in the country. The Government itself maintained a high standard of governance, and facilitated in the achievement of GRSP objectives. By mid-2011, when IMF program was closed, almost all major indicators had improved and returned to the pre-crisis levels except for some weakness in FDIs that was continuing under the Eurozone influence. As such, this validation assesses the impact as *significant*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

24. The PCR rated the performance of the Borrower and EA as *satisfactory*. Among its peers, the government of Georgia has management and fiduciary system with high governance standards. The EA was committed to implement the reforms whether these were in accordance with JNA expectations or IMF's SBA. In balance, the present validation concurs with the PCR rating of the borrower's performance as *satisfactory*.

B. Performance of the Asian Development Bank

25. The PCR rated the performance of ADB as *satisfactory*. It responded promptly to the government's request and coordinated well with different development partners. More importantly, ADB continued to review and monitor GRSP even after the only tranche had been released. ADB also participated in program review missions along with other development partners. This validation considers ADB's performance as *satisfactory*.

C. Other

26. There were no other significant issues under GRSP related to safeguards, gender, governance, or anticorruption fiduciary aspects.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

27. The economy of Georgia was developing at a high rate of more than 10% per annum since 2004 till conflict with Russian Federation erupted in August 2008. Since the growth was primarily driven by the private sector, it was quickly affected by the conflict. Overseas' investments slowed down, reversing current account balance, squeezing credit markets and decline in banks' lending. Domestic economy slowed drastically and the bank's non-performance loans increased. Unemployment and poverty increased.

28. The government sought help to restore economic growth and put a floor to the social development. Development partners rallied and came up with JNA to help Georgia. Even before this could be implemented with some momentum, the global economic and financial crisis broke out, and further buffeted the already weak Georgian economy. The government sought help from IMF in the form of SBA in the amount of \$750 million. The GRSP was ADB's response to Georgia to restore economic growth to pre-crisis level and promote social development in the amount of \$80 million.

29. The GRSP was designed as a single tranche program loan and was disbursed quickly upon approval. During the early stages of its processing, IED had drawn attention to an important point about evaluability of the program. It had noted that no amount of urgency of processing and assisting the developing member countries in a hurry should serve as an excuse in monitoring the support properly and following up on the beneficiaries and stakeholders. This does not seem to have been done. Other than some minor deficiencies in the DMF, absence of a regional technical assistance activity that was stated in the RRP, and non-submission of completion report by government, the GRSP was implemented satisfactorily. The

PCR assessed it as *successful*, and this validation concurs with it. Detailed assessment of different aspects as per IED's evaluation criteria are given below.

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement/Comments
Relevance	Highly relevant	Relevant	The design of the program had some limitations (para. 14).
Effectiveness in achieving outcome	Effective	Effective	
Efficiency in achieving outcome and outputs	Highly efficient	Efficient	The regional technical assistance that was expected to monitor public expenditure did not materialize (para. 22).
Preliminary assessment of sustainability	Likely sustainable	Likely sustainable	
Overall assessment	Successful	Successful	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Impact	Not rated	Significant	See para. 24.
Quality of PCR		Satisfactory	See para. 35.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.

Source: IED Validation team

B. Identification of Lessons

30. The PCR has identified a number of lessons with which the present validation fully concurs. These represent many of the limitations that GRSP displayed. These related to inadequate DMF, and insufficient monitoring and reporting. Improving capability in these areas is particularly important for subsequent program loans and budgetary support.

C. Recommendations for Follow-Ups

31. The PCR put forth a number of detailed recommendations that were both program related and general ones. These are supported by this validation report.

D. Monitoring and evaluation framework.

32. This was one of the limitations of the GRSP. Monitoring and reporting forms the basis for any evaluation, but it is all the more important for a budgetary support under program loans to ring-fence certain components. In this context, the DMF plays a critical role in operationalizing monitoring and reporting. In GRSP, formulation of DMF was inadequate.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

33. The IMF had undertaken a fairly detailed and regular analysis of the Georgian economy. Similarly, JNA was based on detailed needs assessment. Hence, it should have been easier to document the interim milestones and record the progress. However, the GRSP did not do so for a number of reasons. ADB did not provide the regional technical assistance that was mentioned in the RRP.

B. Comments on Project Completion Report Quality

34. The PCR is well written. It follows the format and argues its case cogently. Thus, this validation rates the PCR quality *satisfactory*.

C. Data Sources for Validation

35. The PVR is based on RRP, PCR, and a number of UN and World Bank documents related to JNA, and IMF documents related to SBA.

D. Recommendation for Independent Evaluation Department Follow-Up

36. No recommendations are put forth for IED.