



Validation Report

Reference Number: PVR-292
Project Number: 43496
Loan Number: 2664
December 2013

Georgia: Social Services Delivery Program

Independent Evaluation Department
Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
MOF	–	Ministry of Finance
PCR	–	program completion report

NOTE

In this report, “\$” refers to US dollars.

Key Words

adb, asian development bank, counter cyclical budget policy, health care system, legal entities of public law, pensions, public expenditure management, social assistance expenditures, social protection, social sector

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PROGRAM BASIC DATA

Project Number:	43496	PCR Circulation Date:	Sep 2011	
Loan Number:	2664	PCR Validation Date:	Dec 2013	
Project Name:	Social Services Delivery Program			
Country:	Georgia		Approved (\$ million)	Actual (\$ million)
Sector:	Public Sector Management	Total Project Costs:	100.00	100.00
ADB Financing: (\$ million)	ADF: 0.00	Loan/Grant:	100.00	100.00
		Borrower:	0.00	0.00
	OCR: 100.00	Beneficiaries:	0.00	0.00
		Others:	0.00	0.00
Cofinancier:		Total Cofinancing:	0.00	0.00
Approval Date:	21 Sep 2010	Effectiveness Date:	29 Oct 2010	28 Oct 2010
Signing Date:	29 Sep 2010	Closing Date:	31 Mar 2011	8 Nov 2010
Project Officer:	L. Schou-Zibell	Location: ADB headquarters	From 2010	To 2010
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ADB = Asian Development Bank; ADF = Asian Development Fund; IED1 = Independent Evaluation Department, Division 1; IED2 = Independent Evaluation Department, Division 2; OCR = ordinary capital resources; PCR = program completion report.

I. PROGRAM DESCRIPTION

A. Rationale

1. Georgia's economic recovery from the impacts of the war in August 2008 and the global financial crisis has been slower than expected. The government has been responding to post-conflict challenges with support from the Asian Development Bank (ADB), the World Bank, and the International Monetary Fund. Revenue recovery was expected to take some time, and in the meanwhile, revenue shortfalls continued to exert pressure on public expenditures, particularly on social services. The program aimed to provide fiscal support to the government to maintain critical social services, and provide social protection and broader safety nets for the poor and socially vulnerable.¹

2. In addition to helping maintain essential expenditures on social services, the program aimed to promote greater effectiveness in service delivery by addressing concerns in the

¹ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for the Social Services Delivery Program*. Manila.

delivery of and access to social services, such as (i) expanding the coverage of health care and health insurance, (ii) training teachers and improving basic school infrastructure, (iii) expanding coverage of old age and disability pensions, and (iv) narrowing the gender gaps in access to health education and social protection services. The program lending modality was appropriate in this case because ADB could leverage its resources to support reforms in managing Georgia's public expenditure. The program's focus on service delivery reforms was to (i) ensure the maintenance of social service and social protection expenditures, (ii) support reform momentum in these sectors, and (iii) implement the inclusive growth strategy.

B. Expected Impact

3. Sustainable and inclusive social sector financing is the long-term expected impact of the program. Improved coverage of the poor and the vulnerable is expected to lower poverty incidence, a reduction in head count by 3 percentage points from 22.1% in 2008 to 19% in 2013. Gross national private savings, as a percentage of gross domestic product, was expected to increase from -3.4% in 2008 to 1.8% in 2013. Budgeted expenditures on health, education, and social protection are expected to be maintained at about 32% of the state budget.

C. Objectives or Expected Outcome

4. The program's objectives were to make coverage of social services inclusive with gender equity and support reforms needed for effective service delivery. The expected outcome was a more effective, efficient, and gender-responsive delivery of social services and social protection. These outcomes can be reflected in the indicators for gender equity in access to education and health care services. In addition, the program was expected to strengthen public financial management as indicated by the established internal audit units in concerned ministries.

D. Components and Outputs

5. The program envisaged four specific outputs: (i) effective and gender-equitable coverage of social services, through the implementation of a medical insurance program for the poor and adoption of law on gender equality to ensure equal access to health care and education; (ii) initiatives to support retirement needs, which include a review of national retirement needs and the strengthening of legal and regulatory framework for private pensions; (iii) inclusive allocation of resources for education and health through the adoption of revised minimum service standards for health service providers participating in the government's medical insurance program, and through teacher training and resources for textbooks and grants for students from poor and socially vulnerable families; and (iv) sound management of public resources for social services delivery and social protection to improve transparency and strengthen internal audit and inspection.

E. Provision of Inputs

6. ADB provided a \$100 million loan from its ordinary capital resources to help finance the program. Estimated expenditures included (i) about \$21 million allocated to public expenditures and fiscal development; (ii) \$45 million to health programs; (iii) \$30 million for education sector development; (iv) \$300,000 for insurance and contractual savings; and (v) \$3.3 million for secondary, tertiary, and higher education. The loan had a 15-year maturity with a grace period of 3 years and with annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility. It was disbursed in a single tranche after the government's

compliance with the policy actions for the program and after the loan agreement was declared effective. Consultancy services were not contracted during program implementation.

F. Implementation Arrangements

7. The executing agency for the program was the Ministry of Finance (MOF) and the implementing agencies were the Ministry of Education and Science, the MOF, the Ministry of Labor, Health and Social Affairs, and the National Bank of Georgia. Loan proceeds were to be disbursed upon satisfaction of policy actions and in accordance with ADB's simplified disbursement procedures and related requirements for program loans. Loan proceeds disbursed against imports required a certificate from the government stipulating that the value of the total imports of Georgia less imports from nonmember countries, ineligible imports and imports financed under other official development assistance, was equal to or greater than the amount of the loan disbursed during that particular year. ADB reserved the right to audit the use of loan proceeds to verify the accuracy of the government's certification.

8. All the loan covenants have been complied with and the government made good progress in implementing public financial management reforms. Loan proceeds were used to finance imports procured in ADB member countries, other than the items specified in the list of ineligible items and imports financed from other sources.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

9. The program was consistent with Georgia's development objectives to provide social protection and basic social services to the poor and vulnerable in the light of fiscal stress induced by the twin shocks of conflict in 2008 and the global financial crisis; and it was responsive to the country's changing circumstances. However, the program was not consistent with the strategic priorities (municipal, transport, and energy infrastructure) identified in ADB's interim operational strategy for Georgia.² But it was consistent with the financing needs identified by the Joint Needs Assessment by the United Nations and the World Bank where ADB was also a participant.³ ADB coordinated well with these development partners in filling up part of the financing gap to support the government's countercyclical budget policy and ensure funding for critical social needs.

10. The program remained relevant during implementation and completion due to the country's continued need for fiscal support. The policy reforms set out in the policy matrix can help strengthen program impact by ensuring gender equity and inclusion of the poor in key social services. The program did not include any innovative features that could have led to high impact or achievement of outcomes beyond the targets. Also, the indicators were not designed to be able to attribute the outcomes to the program. The PCR rated the program *highly relevant*.⁴ This validation rates the program *relevant*.⁵

² ADB. 2008. *Georgia: Interim Operational Strategy, 2008–2009*. Manila.

³ United Nations and World Bank. 2010. *Georgia Joint Needs Assessment, A Second Progress Report*. Tbilisi.

⁴ ADB. 2011. *Completion Report: Social Services Delivery Program in Georgia*. Manila.

⁵ The operations department did not agree with the downgrade of the relevance rating to *relevant* as the results were quite strong based on good structuring of the one tranche loan.

B. Effectiveness in Achieving Project Outcome

11. The program helped the government implement reforms to make social service delivery more gender-responsive and increase the coverage of the poor. The validation does not concur with the PCR's *highly effective* rating. It is difficult to attribute to the program the reduction in incidence of poverty. The reform process takes time and it may be too early to see evidence of the reform's impact on outcomes (e.g., establishment of audit units may not result in sound management of public resources within a year). However, budget support for expenditure on social services appears to have prevented poverty from rising. Poverty incidence fell by less than 1 percentage point between 2008 and 2009, but this cannot be attributed to the program as the loan effectiveness date was October 2010.

12. Although budget expenditures on health, education, and social protection increased from 31.7% of state budget in 2009 to 32.7% in 2010, these expenditures fell from 12.2% to 11.4% between these years as a percentage of gross domestic product. However, the percentage of poor people among the beneficiaries of social services and social protection increased from 68% in 2009 to 71.5% in 2010. The number of poor people covered by the publicly funded health insurance increased and internal audit units were established in different ministries to strengthen public finance management. This validation gives an *effective* rating for the program.

C. Efficiency of Resource Use in Achieving Outcome and Outputs

13. The PCR rated the program as *highly efficient* in achieving its outcomes and outputs. However, no evidence is given for cost-effective use of funds and no discussion was made on how resources were spent and the extent of administrative costs of service delivery. Nevertheless, the reforms steps undertaken as a part of the program—such as establishing minimum standards for health services, introducing certification requirements for the teachers, giving approval of amendments to secondary legislation to the Law on Non-State Pension Insurance and Provision, and publishing gender disaggregated data for effective monitoring of gender-equitable coverage of social services—are likely to improve the effectiveness of public expenditure in these areas. The program can be considered efficient taking into account the speed of loan disbursement. The date of loan effectiveness was 28 October 2010 and the actual closing date was 8 November 2010, almost 5 months earlier than the closing date in the loan agreement (31 March 2011). This validation thus rates the program *efficient* in achieving its outputs and outcomes.

D. Preliminary Assessment of Sustainability

14. This validation concurs with the PCR's *likely to be sustainable* rating. The steps taken to improve standards of service delivery in both health and education are likely to result in better social outcomes. Even though the program was meant to provide short-term budgetary support to cope with the slow economic recovery, the reform measures put in place—such as the establishment of internal audit units in ministries for strengthened public finance management, and the implementation of comprehensive monitoring framework of legal entities of public law for enhanced transparency in the management of public resources—are likely to have a positive impact on increasing the effectiveness of public expenditure in social sectors in the future.

E. Impact

15. This validation agrees with the PCR regarding the likely positive impact of the program in terms of greater coverage of the poor and gender equity leading to a sustainable and inclusive

social sector financing by the government. There are some indications of progress such as the increase in the number of people covered by social services and health care services. For example, the number of poor people receiving publicly funded health insurance increased from 790,640 in January 2010 to 834,981 in May 2011. However, there is not much increase in expenditures on health and education as a percentage of the state budget and the reduction in poverty incidence has not been substantial. Public financial management reforms—such as internal audit units and monitoring framework of legal entities of public law, steps taken to improve quality standards in health care and education, and the targeting of subsidies in the form of education grants and textbooks—are expected to have positive impact on education and health indicators. Therefore, this validation rates program impact *significant*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

16. The PCR rated the performance of the borrower and the executing agency (Ministry of Finance) *highly satisfactory*. The government complied with all loan covenants. It executed key expenditures as budgeted; resulting in an increase in expenditure on health, education, and social expenditure. The government's commitment to reforms is seen from the establishment of internal audit units in 12 ministries and in the Chancellery of the Government of Georgia. The Ministry of Finance issued a decree on the public finance management reform action on April 2011. The government submitted a PCR to ADB. This validation concurs with the *highly satisfactory* rating of the borrower and executing agency.

B. Performance of the Asian Development Bank

17. This validation agrees with the PCR's *highly satisfactory* rating of ADB's performance. ADB not only responded to the government's request for budget support but promoted public finance management reforms aimed at achieving greater effectiveness in service delivery and maintaining expenditures on essential social services and social protection. Program implementation was monitored, specifically in delivery of social services and in improvements in public finance management.

C. Others

18. The PCR did not cite any adverse environmental impacts or other issues relating to safeguards. There was also no mention of any governance-related or fiduciary issues.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

19. The PCR rated the program *highly successful* based on its *highly relevant*, *highly effective*, *highly efficient*, and *likely sustainable* ratings. The validation however rates the program *successful*,⁶ rating it as *relevant*, *effective*, *efficient*, and *likely to be sustainable* (see table). It was consistent with the country's development agenda and supported the financing needs identified by the Joint Needs Assessment. Most of the program outputs were achieved such as the adoption of quality standards for health and education services, and the implementation of public finance reforms for improved transparency and accountability. More

⁶ Despite IED's rationale for the revision of the rating, the concerned operations department expressed that it would like to see the PCR's rating maintained.

poor families were covered by the social services and health and education services, although baseline counterfactual information is lacking to be able to attribute benefits to the program.

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance:	Highly relevant	Relevant	The program was not consistent with the strategic priorities (municipal, transport, and energy infrastructure) identified in ADB's interim operational strategy for Georgia, although it was consistent with the financing needs identified by the Joint Needs Assessment by the United Nations and the World Bank where ADB was also a participant. Moreover, the program lacked innovative features (e.g., identifying/targeting the poor) that can lead to high impact (paras. 9–10).
Effectiveness in Achieving Outcome:	Highly effective	Effective	Although the program achieved most of its expected outputs, the evidence appears to be weak in some cases. For example, expenditures on health and education have fallen as percentage of GDP even though they were maintained stable as percentages of total budget. It is also difficult to attribute the changes in poverty to the program alone (paras. 11–12).
Efficiency in Achieving Outcome and Outputs:	Highly efficient	Efficient	There is not much evidence provided on the cost effective use of funds (para. 13).
Preliminary Assessment of Sustainability:	Likely sustainable	Likely sustainable	
Overall Assessment:	Highly successful	Successful	
Borrower and Executing Agency:	Highly satisfactory	Highly satisfactory	
Performance of ADB:	Highly satisfactory	Highly satisfactory	
Impact:	Not rated	Significant	
Quality of PCR:		Satisfactory	Refer to para. 23.

ADB = Asian Development Bank, GDP = gross domestic product, IED = Independent Evaluation Department, PCR = program completion report.

Source: ADB Independent Evaluation Department.

B. Lessons

20. This validation agrees with the lessons identified by the PCR. Rapid disbursements that help maintain budget expenditures on critical social services during periods of crisis can help the poor and the vulnerable, when combined with reforms that make public spending inclusive. Loan size needs to be determined based not only on the expected budgetary financing

requirement but also on the fiscal costs of reform. In addition, this validation notes some more lessons. The government's commitment to reforms to enhance accountability and transparency in use of public resources is essential for the success of social services delivery programs. The effectiveness of public expenditure can be improved by maintaining higher quality standards for services.

C. Recommendations for Follow-Up

21. This validation agrees with the recommendation of the PCR that realizing the projected impacts of the program and ensuring their sustainability requires continued policy dialogue with the government to leverage reforms. In addition to governance reforms, sustainability of quality services requires ensuring effective budget planning and allocation of public funds for continued funding of training programs and maintenance of standards. The validation also agrees that a program performance evaluation be undertaken in the future to not only check if the reform measures have all been implemented and outcomes realized, but also if they are likely to be sustained.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

22. Overall, the program had an effective monitoring system. For some indicators such as the increase in service coverage, and the implementation of reforms; performance monitoring relied on the records of the ministries due to the program's short time frame. However, for some indicators (e.g., macroeconomic indicators and budget expenditures) it relied on statistics published on an annual basis. Developing baseline data or counterfactual scenario analysis would be helpful in attributing progress in service delivery coverage to the program.

B. Comments on Program Completion Report Quality

23. The PCR follows the PCR guidelines (Project Administration Instruction 6.07) and is internally consistent. The report is written clearly and concisely and it identified appropriate lessons and recommendations. Data on coverage of social services to the poor provided adequate evidence; however, there is lack of counterfactual analysis to attribute changes in certain variables to the program.

C. Data Sources for Validation

24. Program completion report, the report and recommendation of the President, back-to-office reports of the country consultation mission and of the fact-finding mission.

D. Recommendation for Independent Evaluation Department Follow-Up

25. Since the program duration is short term, most of the outcomes and impacts can be seen only after a few years. The program performance can therefore be assessed in about 5 years after program completion as recommended in the PCR.