Validation Report
December 2018

Georgia: Improving Domestic Resource Mobilization for Inclusive Growth Program

Reference Number: PVR-554
Project Numbers: 48044-001, 48044-004, and 48044-005
Loan Numbers: 3190, 3191, 3282, 3283, 3417, and 3418

Independent Evaluation ADB

Raising development impact through evaluation

CURRENCY EQUIVALENTS

Currency Unit – lari (GEL)

		At Appraisal (27 Oct 2014)	At Program Completion (30 December 2016)
GEL1.00	=	$0.5693	$0.3759
$1.00	=	GEL1.756	GEL2.660

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
DMF	–	design and monitoring framework
GAP	–	Gender Action Plan
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOESD	–	Ministry of Economy and Sustainable Development
MOF	–	Ministry of Finance
MSME	–	micro, small, and medium-sized enterprises
OCR	–	ordinary capital resources
PBL	–	policy-based lending
PCR	–	project completion report
RRP	–	report and recommendation of the President
SDR	–	special drawing rights
TA	–	technical assistance

NOTE

In this report, “$” refers to United States dollars.

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PROGRAM BASIC DATA

Project Numbers	48044-001, 48044-004, and 48044-005	**PCR Circulation Date**	11 July 2017	
Loan Numbers	3190, 3191, 3282, 3283, 3417, and 3418	**PCR Validation Date**	Dec 2018	
Project Name	Improving Domestic Resource Mobilization for Inclusive Growth Program			
Sector and subsector	Public Sector Management Finance	Public expenditure and fiscal management Finance sector development Insurance and contractual savings Money and capital markets		
Strategic agenda	Inclusive economic growth			
Safeguard categories	Environment		C	
	Involuntary Resettlement		C	
	Indigenous Peoples		C	
Country	Georgia		**Approved** ($ million)	**Actual** ($ million)
ADB Financing ($ million)		**Total Project Costs**	250.00	245.96
	ADF: 59.00 (Loan 3191) 53.00 (Loan 3283) 50.00 (Loan 3418)	**Loan** 3191 3283 3418	 59.00 53.00 50.00	 57.50 52.39 48.70
	OCR: 16.00 (Loan 3190) 22.00 (Loan 3282) 50.00 (Loan 3417)	**Loan** 3190 3282 3417	 16.00 22.00 50.00	 16.00 21.37 50.00
		Borrower	0.00	0.00
		Beneficiaries	0.00	0.00
		Others	0.00	0.00
Cofinancier	-	**Total Cofinancing**	0.00	0.00
Approval Date 3190/3191 3282/3283 3417/3418	 21 Nov 2014 22 Sep 2015 31 Aug 2016	**Effectiveness Date** 3190/3191 3282/3283 3417/3418	 21 Dec 2014 5 Dec 2015 30 Nov 2016	 15 Dec 2014 6 Nov 2015 6 Dec 2016
Signing Date 3190/3191 3282/3283 3417/3418	 21 Nov 2014 06 Oct 2015 01 Sep 2016	**Closing Date** 3190/3191 3282/3283 3417/3418	 31 Dec 2014 31 Dec 2015 31 Dec 2016	 05 Jan 2015 18 Dec 2015 30 Dec 2016
Program Officers	T. Niazi	**Location** ADB headquarters	**From** Jan 2014	**To** Dec 2016
IED Review **Director** **Team Leader**	 W. Kolkma, IETC H. Son, IETC*			

ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IETC = Thematic and Country Division, OCR = ordinary capital resources, PCR = program completion report, RM = resident mission.

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I. PROGRAM DESCRIPTION

A. Rationale

1. Georgia is a small country with a population of 4.5 million in 2013, and a gross domestic product (GDP) of GEL26.8 billion ($16.2 billion in current prices) with a per capita income of GEL5,988 ($3,607). Georgia's economy grew at an average annual rate of about 6% between 2004 and 2013, partially because of the implementation of economic and institutional reforms and the adoption of sound macroeconomic policies by the government. However, the period showed varying rates of growth. Reforms that strengthened public finances, improved the business climate, enhanced social services, fought corruption, liberalized trade, and upgraded infrastructure enabled the country to achieve growth averaging about 9.4% from 2004 to 2007.[1] The impact of the global financial crisis and the subsequent conflict with the Russian Federation reduced capital flows and private investment, resulting in much slower growth in 2008 at 2.4% and even a contraction of the economy in 2009 by 3.7%.

2. From 2010 to 2012, the Government of Georgia provided countercyclical fiscal stimulus by increasing social spending and other public investment to help mitigate the adverse impact of the economic slowdown, especially on poverty. The fiscal stimulus enabled growth to rebound, averaging 6.6% from 2010 to 2012. Growth nevertheless slowed down to 3.4% in 2013 and 4.6% in 2014, and suffered a further decline to 2.9% in 2015. The overall budget deficit of about GEL1.2 billion in 2010 fell to GEL0.5 billion in 2012 and increased thereafter because of large increases in social spending and relatively static revenues (footnote 1).

3. Recognizing these problems, the government requested support from the Asian Development Bank (ADB) to maintain fiscal consolidation and achieve its development goals by improving living standards. The ensuing loan—Improving Domestic Resource Mobilization for Inclusive Growth Program—was designed to increase fiscal space to improve inclusive delivery of social services and promote economic growth. It comprised three subprograms, which involved the release of funds to support annual programs implemented in 2014, 2015, and 2016.[2] The program approach was adopted to allow the sequencing of reforms and incorporating flexibility to change according to the progress achieved. This allowed the government to build on achievements and lessons from the reforms and guide the subsequent phases. This approach was appropriate under the circumstances.

4. At appraisal in July 2014, the program was estimated at $200 million equivalent for a 3-year period (2014–2016)[3] but subprograms 2 and 3 each increased by $25 million for a revised program cost of $250 million.[4] ADB also provided grant funds to strengthen capacity under a related policy advisory technical assistance (TA) project for capital market development, pension reforms, public–private partnerships, and public debt management.[5] Six loans were extended to

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[1] ADB. 2017. *Key Indicators for Asia and the Pacific 2017*. Manila.

[2] ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Programmatic Approach and Policy-Based Loans Subprogram 1 (Georgia) for Improving Domestic Resource Mobilization for Inclusive Growth Program*. Manila; ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Policy-Based Loans for Subprogram 2 Improving Domestic Resource Mobilization for Inclusive Growth Program (Georgia)*. Manila; and ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Policy-Based Loans Subprogram 3 for Improving Domestic Resource Mobilization for Inclusive Growth Program.* Corrigendum (Georgia). Manila.

[3] Subprogram 1 with $75 million, subprogram 2 with $50 million, and subprogram 3 with $75 million (footnote 2).

[4] Subprogram 2 increased to $75 million upon the government's request in 2015 to cover the larger than expected financing gap; subprogram 3 increased to $100 million to narrow down the government's development funding gap.

[5] ADB. 2014. *Technical Assistance to Georgia for Strengthening Domestic Resource Mobilization*. Manila.

the government of Georgia for the program, three each from ADB's ordinary capital resources (OCR) and the Asian Development Fund. Originally, they were sovereign policy-based loans for subprograms 1 and 2 but were renamed as policy-based loans under subprogram 3.[6]

B. Expected Impacts, Outcomes, and Outputs

5. The program aimed to improve domestic resource mobilization to help achieve more inclusive growth in Georgia. This was to be accomplished through (i) improved debt and fiscal risk management, (ii) strengthened revenue and public expenditure management, (iii) enhanced generation of domestic savings, and (iv) increased mobilization of private resources for investment. Inequality of income and economic opportunities was addressed through the redistributive role of fiscal policy in tax and social protection measures.

6. The intended impact of the program was that, people of Georgia, particularly women, benefit from higher living standards and more employment opportunities. This was to be measured by three targets for 2020 against the baselines for 2012: (i) a reduction in the fiscal deficit to 1.5% of GDP (baseline, 3.0%), (ii) absolute poverty reduced to 18% of population (baseline, 22.4%), and (iii) Gini coefficient reduced to 0.35 (baseline, 0.42). The program outcome was the effective mobilization of domestic resources for public and private investment. The intention was to enable improvements in fiscal space; business opportunities; pension arrangements for women; sustainable social services delivery, especially for women; as well as an improved environment for economic growth. Each subprogram was classified as effective gender mainstreaming.

7. The program's three annual subprograms supported the government's reform agenda as outlined in its Social-Economic Development Strategy of Georgia—Georgia 2020,[7] and the national action plan on gender.[8] There were four outputs:

- **Output 1: Management of debt, cash, and fiscal risk improved.** To strengthen public debt, cash, and fiscal risk management.

- **Output 2: Revenue and public expenditure management strengthened.** To increase the efficiency and effectiveness of revenue collection, improve public expenditure management, and strengthen local government transfers.

- **Output 3: Generation of domestic savings enhanced.** To streamline the government's universal pension and establish a sustainable private pension savings scheme. This would help prevent old-age poverty and provide income replacement during retirement that is affordable for individuals and taxpayers, and fiscally sustainable in the long term.

- **Output 4: Mobilization of private resources for investment increased.** To develop capital markets to better mobilize long-term finance, and enhance access to funding for micro, small, and medium-sized enterprises (MSMEs).

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[6] ADB. 2016. Policy-Based Lending. *Operations Manual.* OM D4/BP. Manila.

[7] Government of Georgia. 2013. *Socio-Economic Development Strategy, 2020*. Tbilisi. http://www.mrdi.gov.ge/sites/default/files/social-economic_development_strategy_of_georgia_georgia_2020.pdf

[8] Government of Georgia, Parliament. 2014. *2014–2016 National Action Plan for Implementation of Gender Equality Project in Georgia*. Tbilisi.

8. Under subprogram 1, the government adopted a Gender Action Plan (GAP) for 2014–2016, setting milestones for the country to achieve gender equality in different areas of political, social, and economic life relating to program outputs 2, 3, and 4.

C. Provision of Inputs

9. The total size of the program was $250 million. Subprograms 1 and 2 each amounted to $75 million equivalent. Subprogram 3 was initially allocated $50 million equivalent but was increased to $100 million following the government's request. Subprogram 1 comprised a loan of $16 million from ADB's OCR and a component under the Asian Development Fund in various currencies equivalent to special drawing rights (SDR) 39.3 million ($59.0 million equivalent). Subprogram 2 comprised a loan of $22 million from ADB's OCR and SDR38 million ($53 million equivalent) from ADB's Special Funds resources. Subprogram 3 comprised a loan of SDR35.8 million ($50 million equivalent) from ADB's Special Funds resources and another of $50 million from ADB's OCR. The initial amount earmarked for the program was $200 million.

10. A TA project worth $570,000 was approved in September 2014 and became effective in October 2014 (footnote 5). ADB was to finance $500,000 of the cost from its Technical Assistance Special Fund-V while the government was to provide in-kind contributions as counterpart support, including for counterpart staff, office accommodation, translation, and administrative support for meetings and coordination. In December 2015, the TA grant amount was increased by $480,000 to $980,000 to accommodate an increased scope of work, and the original closing date of September 2016 was extended to December 2017. An additional funding of $300,000 from the Technical Assistance Special Fund-Others was approved in June 2017 to continue services of international and national specialists. This increased the total TA project amount to about $1.3 million and extended the implementation by 1 year until 31 December 2018 to ensure technical support for ongoing capital market development and pension reforms. This was the second extension, increasing the project duration to a total of 27 months.

11. Disbursements followed the simplified procedures used for policy-based loans in accordance with ADB guidelines. The loan proceeds were released for each subprogram relatively quickly within 2 weeks of subprogram loan effectiveness and 60 days after Board approval. The first subprogram loans were fully disbursed 55 days after ADB Board approval, the second 25 days after Board approval, and the third 100 days after Board approval.

D. Implementation Arrangements

12. The Ministry of Finance (MOF) was the executing agency responsible for overseeing, coordinating and reporting the program actions. The MOF and the Ministry of Economy and Sustainable Development (MOESD) were the implementing agencies. A program steering committee chaired by the deputy minister of finance comprised senior officials from the two ministries. It met semi-annually and reviewed the progress in achieving the policy actions. The program completion report (PCR) notes that the implementation arrangements were adequate to achieve the proposed outcomes.[9] This validation concurs with this assessment.

13. The release of funds under subprogram 1 required undertaking 24 policy actions, all of which were complied with by 15 September 2014. Subprogram 2 had 27 policy actions with 2 additional ones relating to improved access to finance for small businesses and the creation of

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[9] ADB. 2017. *Completion Report: Improving Domestic Resource Mobilization for Inclusive Growth Program in Georgia*. Manila.

a training and knowledge exchange platform. All were complied with and a number of the targets were exceeded. One policy action on the submission of a capital market strategy to the cabinet was modified according to a review and approval by the Economic Council prior to cabinet discussions. There were 25 policy actions for subprogram 3, and all were completed. Also, three additional policy actions were completed in 2016—these are the issuance of lari bonds by international financial institutions equivalent to $99 million to facilitate the financing of MSMEs, passing the Law on Registration Fees for these issuances, and the establishment of accounting standards according to European Union norms to facilitate the issuance of corporate securities. There were no delays in meeting the conditions for effectiveness. All 19 loan covenants were relevant and in line with program requirements. None were modified, suspended, or waived.

14. The related TA project had four outputs that supported the program loan: (i) legal and institutional framework for a deeper capital market improved—capital market master plan finalized; (ii) legal and institutional framework for savings enhanced—pension reform strategy developed; (iii) legal and institutional framework for public–private partnership strengthened; and (iv) public debt management improved.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

15. The PCR rated the program highly relevant. It was aligned with the inclusive economic growth provisions of the Georgia 2020 strategy (footnote 8) and with ADB's country strategy. Georgia 2020 identified macroeconomic stability and effective public administration as the necessary preconditions for inclusive economic growth. It focused on three priority areas: private sector competitiveness, human capital development, and access to finance. The country partnership strategy sought to foster inclusive economic growth and its key priority sectors included public sector management and finance.[10]

16. The emphasis of the first two subprograms was on improving fiscal risk management and strengthening revenue and public expenditure management. These fiscal reforms were complemented by ongoing support by the International Monetary Fund (IMF) and the World Bank. Despite support from development partners, the widening fiscal deficit had been a concern, particularly without implementing any consolidation measure. With such concern on increased fiscal deficit in the medium term, the World Bank had deferred a component of its proposed development policy loan. IMF had also put its program for Georgia on hold because of two missed targets on fiscal stance and on the independence of the country's central bank. These developments did not only undermine the program's objective but were in fact contrary to what the program sought to achieve—that is, to generate long-term domestic savings and ensure the fiscal sustainability of the pension system.[11]

17. The deferral of IMF's and the World Bank's support contrasted with ADB's increased allocation for subprogram 3 from $50 million to $100 million. This seemingly diverging action between ADB and IMF and the World Bank indicated that ADB did not coordinate well with other international financial institutions at the time of the approval of the third subprogram. The nature and extent of ADB's collaboration with IMF and the World Bank was not discussed in the PCR. The assessment letter by IMF indicated that the IMF program was off-track at the time of appraisal, although this was not stated literally (as is usual with IMF assessment letters).

[10] ADB. 2014. *Georgia: Country Partnership Strategy 2014–2018*. Manila (para. 15).
[11] ADB. 2016. Record of Discussions at Board Meeting. Manila.

The off-track nature of the IMF program at the time of ADB's approval of the third subprogram was confirmed by IMF during a visit in February 2018, as was reported in the context of IED's recent policy-based lending (PBL) evaluation.[12] IMF saw the approval of the ADB subprogram as an inappropriate precedent, even though it conceded that, in retrospect, the fiscal situation was better than what IMF assumed it to be, ADB had a more correct forecast, and IMF approved an Extended Fund Facility with the new government in April 2017.

18. The targets set out in the design and monitoring framework (DMF) and the reports for the intended outcome of the program changed for each subsequent subprogram. Even the baseline figures were changed. While the PCR mentioned the change in the source of data for targets in the subprograms, it could have justified why the baseline targets were changed—for instance, were the modifications in baseline targets due to changes in the methodologies used by IMF and GeoStat.[13] The PCR did not highlight innovative or transformative measures to warrant a highly relevant rating though it could have done given the work on pension reform—the guidelines require this for providing such a rating. Overall, the validation assesses the program less than relevant in light of the coordination issue with IMF.

B. Effectiveness in Achieving the Program Outcomes and Outputs

19. The PCR rated the program highly effective. The intended outcome is the effective mobilization of domestic resources. The gross domestic savings rate, reported by the Georgian National Statistical Office and cited by ADB, increased from 9.3% of GDP in 2012 to 16.8%in 2016 (footnote 1). The reported gross domestic savings rate of 16.8% in 2016 was above the target of 13.5% for subprogram 3, but below the targets of 21.6% in subprogram 1 and 20.2% in subprogram 2. Despite the increase in the gross domestic savings rate, GDP growth decelerated and the budget deficit increased. GDP growth slowed from 2.9% in 2015 to 2.7% in 2016. The overall government budgetary deficit as a percentage of GDP increased from 2.6% in 2015 to 2.9% in 2016 largely because of increased expenditure from 30.5% of GDP in 2015 to 31.1% in 2016.

20. All output indicators were achieved. Under output 1, debt management involved improving processes, increasing transparency, strategy preparation, amending legislation and developing analytical and forecasting capabilities. Risks were tackled by drafting strategies for different risks and conducting risk assessments. In-house capacity was developed to monitor risks. The medium-term public debt management framework was implemented in 2016. The MOF prepared a supplement to the 2016 budget that analyzed the turnover of 95% of state-owned enterprises, and the public notification of fiscal risk assessment of state-owned enterprises in the MOF website.

21. Output 2 involved the replacement of external auditors by in-house professionals; increased collection of taxes and arrears; integration of budget functions of government entities into the public financial management system and the treasury single account; and strengthening the project investment framework, including public–private partnerships. At least GEL80 million of tax arrears were recovered in the 2015 tax year and about GEL100 million was the estimated collection in 2016. In 2016, 397 in-house tax auditors were appointed, of whom 186 or 47% were women. This exceeded the target of 330 auditors, of whom 45% should be women. Tax

[12] Independent Evaluation Department. 2018. *Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design*. ADB: Manila: ADB. (para 130).

[13] Subprogram 1 baseline 2012, 10.2%; subprogram 2, baseline 2012, 18.1%; and subprogram 3, baseline 2014, 12.3%. Under subprograms 1 and 2, the national savings rate as reported by the IMF was used, and under subprogram 3, the gross domestic savings rate as reported by GeoStat was used.

liability imposition was reduced to 3 years from 4 years following the amendment of the Tax Code in 2015, and the draft amendments have been prepared to cover the gaps in the legal and regulatory framework of public–private partnerships.

22. Output 3 supported the government in developing a multi-pillar pension system by streamlining the universal pension and creating two supplementary private schemes. These were (i) an occupational private pension plan with contributions from employees and employers and a government subsidy, which was essentially a mandatory scheme, and (ii) a personal pension plan with voluntary contributions by the participants. In 2016, the government shifted from an ad-hoc universal pension payment increases to rule-based indexation to maintain its purchasing power while keeping public expenditure affordable, and introduced private pension schemes. These substantially enhanced the income replacement rate and provided additional long-term investors for Georgia's capital markets.

23. Output 4 reforms were to stimulate bond market development, related legal and regulatory aspects, and introduce money market instruments to absorb pension inflows and generate reasonable investment returns for pension schemes. The review of legislation for capital markets was submitted in June 2016, amendments and additions to the existing regulations and rules of the National Bank of Georgia were initiated in 2016, international financial institutions issued lari-denominated bonds worth $99 million in 2016, GEL12 million matching grants were provided to MSMEs, and the gender target of 40% of funds allocated to women was achieved.

24. The reforms undertaken complemented ongoing support by IMF and the World Bank. The PCR is not always clear about the role the policy actions and the TA project played in the success of several reforms. Therefore, it is not possible to attribute all the outcomes achieved only through the reforms supported by the ADB program, and to any particular contribution by ADB through the TA project and policy dialogue. The PCR does not always assess the criticality of the policy actions (or the TA project)[14] and ADB's role in these, to achieving the reforms. The program indirectly contributed to containing the fiscal deficit while protecting pro-poor social expenditures through the universal pension. There were also other economic benefits from additional policy actions that included issuing local currency bonds by international financial institutions equivalent to $99 million—European Bank for Reconstruction and Development, $49 million; Black Sea Trade and Development Bank, $20 million; and ADB, $30 million; and aligning accounting and auditing standards with the European Union directives. The bond issues facilitated local currency financing of MSMEs, reducing their exposure to foreign exchange risks.

25. The GAP was adopted under subprogram 1 covering 2014–2016. Targets were set for outputs 2, 3, and 4. Output 2 involved the recruitment of women in-house auditors where the targets were exceeded for subprograms 2 and 3. Those for pension system reform, documentation, public awareness, and communications under output 3 were met and thus ensured equitable treatment of men and women and the breakdown of pension recipients and retirement ages by gender under subprograms 2 and 3. Output 4 involved the implementation of public awareness on benefits of capital market development and the provision of matching grants for MSMEs with 30% to 40% of grants and loans allocated to women entrepreneurs under subprograms 2 and 3. The GAP under subprogram 1 was successfully implemented in subprograms 2 and 3, and the performance targets were achieved with results publicly reported. The PCR claimed that the GAP implementation resulted in an increase in the proportion of women

[14] Though some of the TA that worked in the context of PBL could have had the result without the PBL itself being critical to the success of subsequent policy reforms.

in the Parliament and in local councils, but no supporting figures or sources were presented. Under the program, an increase in the participation of women was achieved. The PCR also indicated that the gender targets of programs of the Entrepreneurship Development Agency and the Georgia Innovation and Technology Agency were met.

26. The reports and recommendation of the President (RRPs) claimed the program would have no impact on the environment, involuntary resettlement, or indigenous populations because of the policy interventions in each of the three subprograms, and were classified as category C. The PCR confirmed this, and the validation does too. The ADB project safeguard assessment[15] rates the safeguard performance as not applicable for compliance with ADB's Safeguard Policies since the program was classified category C (no impact) and that categorization has remained valid over the life of the program. The RRP correctly stated that program activities were limited to policy and institutional reforms and none of the activities would lead to involuntary resettlement or affect indigenous peoples. No adverse environmental impacts were identified. The policy-based loan did not involve any construction works or had an impact on the environment. Thus, no environmental assessment was required, but environmental implications were reviewed according to the ADB Safeguard Policy Statement. To ensure compliance with ADB's policy on not financing activities on the prohibited investment activities, the exclusion list (negative list) was added to the loan agreement in 2014. A GAP was developed for the program planning and implementation. Project appraisal and supervision documents revealed that ADB loan withdrawals were not used during implementation to any physical assets that would require assessment and supervision for environmental and social safeguards. The categorization has remained valid over the life of the project.

27. The program had partially achieved the outcome indicator (only for subprogram 3) on domestic resource mobilization. This was accompanied by lower growth rate and increased budgetary deficit. However, all output targets were achieved, with some targets exceeded. On balance, although the PCR did not elaborate ADB's role in setting or implementing the program's policy actions, and the loans' criticality to achieving the reforms cannot be proved, the budget support must have had a dampening effect on the budgetary deficit. Hence, this validation rates the program effective.

C. Efficiency of Resource Use

28. The PCR rated the program implementation efficient. The intended outcome and outputs were achieved within the planned implementation period. Initially, the total ADB funding of the program was $200 million equivalent based on the government's financing needs, the nature and sequence of the required reforms, and the development impact. In light of Georgia's economic slowdown and currency depreciation in 2015 and 2016, the government's financing needs had increased to meet conflicting demands for fiscal consolidation, increasing domestic resource mobilization, and improving financial sector diversification and social protection. In response, the subsequent subprograms increased financing by $50 million. The policy actions on the pension system and additional actions justified the increase in the loan amount (footnote 4).

29. Subprogram 3 required a higher budget for the universal pension, estimated at $75 million equivalent,[16] due to accelerated structural reforms on pensions and capital markets

[15] ADB (Independent Evaluation Department). 2018. Program Safeguard Assessment: Improving Domestic Resource Mobilization for Inclusive Growth Program in Georia.7 March (internal). Manila.

[16] This was needed to increase the universal pension from GEL150 to GEL160. The additional amount offset the adjustment cost borne by the government with this increase.

carried out under the program in a challenging macroeconomic environment. This was characterized by the slowing economic growth from 2015 to 2016, aggravated by the 34% depreciation of the lari against the United States dollar, a 25% fall in overseas remittances and a 25% drop in export revenues in 2015.

30. As far as process efficiency is concerned, the misunderstandings between IMF and ADB at the time of approval of the third subprogram have been highlighted in the assessment of relevance. On balance, the validation rates the program efficient.

D. Preliminary Assessment of Sustainability

31. The PCR rated the program likely sustainable. The reforms related to fiscal risk and public financial management are likely to be further pursued by in-house staff at the MOF and with assistance from development partners. The MOF's Macroeconomic Analysis and Forecasting Department, established under the program, is well-equipped to maintain its fiscal risk management functions and enhance its capabilities by stress testing macroeconomic variables. Further capacity enhancements are planned by the Georgia Revenue Service based on the 2016 findings of the IMF assessment of the tax administration.

32. The reforms related to pension and capital markets are ongoing. The Private Pensions Law was submitted to the Parliament in December 2017. Institutional development of the Pension Agency is ongoing and the Private Pensions Law mentions June 2018 as the launch date for the private pension scheme. Information technology development for the new pensions' agency is ongoing, and other institutional development is under discussion. The capital market development-working group continues to monitor its action plan. However, the pension and capital market reforms need further support to become sustainable. ADB is continuing to provide TA support and is planning a follow-up program to support the sustainability of such reforms.[17] The validation views the program likely sustainable.

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impacts

33. The impact of the program is rated significant in the PCR. While the targeted impact on citizens, particularly women benefiting from higher incomes and more employment opportunities remains to be achieved, important steps toward that goal have been taken. The program resulted in an increase of domestic savings. Sustained higher savings combined with increased productivity will lead to faster economic growth, with higher incomes and additional employment opportunities. Public policies are in place to ensure that higher growth will also result in inclusive gains for all, including women. Georgia has an elaborate social protection system, including a universal pension for the elderly—of whom 70% are women, to increase inclusiveness. With program support, better access to finance was provided to MSMEs, resulting in a more inclusive growth.

34. No interim assessment has been made for actual performance against the indicators outlined in the DMF for the impact of the program. However, latest estimates by ADB show that

[17] Policy advisory TA for the Development for Public–Private Partnerships has been combined with TA Support for Public Sector Management and Efficient Public Service Delivery, given the programmatic nature of the ongoing upstream support for public–private partnerships; and this TA worth $1 million is now in the 2018 firm pipeline. The policy advisory TA on Strengthening Domestic Resource Mobilization (TA 8716-GEO) will continue to support the ongoing reforms in the interim. ADB. 2017. *Country Operations Business Plan: Georgia, 2018–2020*. Manila.

Georgia's fiscal deficit in 2016 was 2.9% of GDP, higher than the 1.7% fiscal deficit in 2012 (footnote 1). About 20.1% of the population was below the national poverty line in 2015 and the Gini coefficient in 2014 was 0.4. All were higher than the initial targets set.

35. The institutional development from the program is rated by the PCR as significant. At the MOF, the debt management middle office was established to develop a strategy for managing fiscal risks. In the Georgia Revenue Service, a new administrative department has been created and in-house auditing capacity was enhanced to improve risk-based auditing. In MOESD, a pension risk unit was created to establish the private pension system. The PVR rates the program's development impact satisfactory.

B. Performance of the Borrower and Executing Agency

36. The performance of the borrower and executing agency are rated highly satisfactory in the PCR. The MOF as the executing agency was responsible for overall program administration. It had the institutional capacity needed to implement the program. Significant progress was made in implementing a wide range of reforms under the program on time. High-level leadership played a critical role in keeping program implementation on track. When needed, the Cabinet, which comprises all ministers, or the economic council, which consists of the Prime Minister and the ministers of finance and economy, promptly reviewed and decided on policy matters. This validation rates the performance of the borrower and executing agency highly satisfactory.

C. Performance of the Asian Development Bank

37. The PCR rated ADB performance satisfactory. A team of ADB staff from headquarters and the Georgia Resident Mission managed the program. ADB provided a total of 281-person days on missions to Georgia for the preparation of the three subprograms. The ADB team maintained effective communication and coordination of policy actions with the MOF and MOESD, ensuring the timely resolution of issues. Efficient mobilization of TA consultants helped ensure timely support for the policy actions. The Georgia Resident Mission provided effective support on short notice. ADB's safeguard work quality at approval was satisfactory, while that at supervision also was satisfactory (footnote 15). ADB's misunderstanding with IMF on the on- or off-track nature of the IMF program at the time of the third subprogram approval is noted here again (para. 17)—though to ADB's credit, its forecast proved to be correct in retrospect. This validation assesses overall ADB performance satisfactory.

D. Others

38. The government gave its commitment to the program at the highest level with the Cabinet and the Economic Council promptly reviewing decisions made on policies and supporting the enactment of reforms under the program. Furthermore, the PCR noted there was close coordination between the government and development partners. However, the PCR did not discuss the nature of coordination with IMF and the World Bank.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

39. The program was aligned with government and ADB priorities for macroeconomic stability and inclusive growth. However, persistent fiscal deficits undermined the program's relevance throughout implementation and at completion. The declining GDP growth rate and the increasing

budgetary deficit cast doubts about the accomplishment of the program's desired outcome, although all outputs have been achieved. It achieved the intended outputs within the planned implementation period. The ongoing pension and capital markets reform, as well as the high-level stewardship of the government and its improved management capacity could likely contribute to maintaining the program's achievements. Overall, this validation assesses the program successful.

Overall Ratings

Validation Criteria	PCR Rating	IED Review	Reasons for Disagreement and/or Comments
Relevance	Highly relevant	Less than Relevant	The program's relevance diminished throughout implementation and at completion as shown by the deferral of complementary support by other development partners due to missed fiscal targets.
Effectiveness	Highly effective	Effective	The program's outcome did not meet the targets of the original DMF on the declining GDP growth rate and the increasing budgetary deficit as a result of increasing expenditures.
Efficiency	Efficient	Efficient	
Sustainability	Likely sustainable	Likely sustainable	
Overall Assessment	**Highly successful**	**Successful**	Based on the differences in rating of relevance and effectiveness.
Preliminary Assessment of Impact	Significant	Satisfactory	
Performance of Borrower and Executing Agency	Highly satisfactory	Highly satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Para. 44.

ADB = Asian Development Bank, DMF = design and monitoring framework, GDP = gross domestic product, IED = Independent Evaluation Department, PCR = program completion report.
Source: ADB Independent Evaluation Department.

B. Lessons

40. The PCR identified the following useful lessons:

(i) **Country-level lessons.** Gradual and complex reforms, such as for pensions and capital markets, require simultaneous efforts including (a) broad stakeholder consultations and public awareness building, (b) formulation of relevant policy and legislation, and (c) institution building, which need to be closely coordinated under agreed schedules and continued top-level support and guidance. The program loan modality of ADB allowed for flexibility in making changes when needed. For instance, the addition of new policy actions under output 4, subprograms 2 and 3, in responding to changing circumstances. The programmatic approach for PBL combined with TA proved to be a suitable modality for such interventions.

The policy actions in the program provided triggers to maintain proper sequencing of reforms, and intermittent expert support was provided when necessary.

(ii) **Sector-level lessons.** Diagnostics were seen to play an important role before deciding on policy reforms. IMF, the World Bank, and the outputs of the TA project provided solid diagnostic analysis for the design of the reforms. They used standardized tools, such as public expenditure and financial accountability assessment, thus enabling policy actions, which were incremental in nature, to be implemented as designed. It would also be useful to discuss the lesson from coordinating with IMF and the World Bank to find out if there was duplication of efforts or the sequencing of reforms to ensure that they are aligned with one another.

41. This validation also provides some additional lessons as follows:

(i) **Program-level lessons.** Continuing TA support is required to ensure the sustainability of the program, especially to enhance domestic savings (output 3), and the increased mobilization of private resources focused on mobilizing private savings (output 4). Private savings through pensions and a more developed capital market will mobilize long-term finance. These reforms, however, are long-term in nature involving legislative changes and institutional strengthening. Capacity building is required to assist government in this endeavor, and to support more knowledge-intensive solutions and analytical work since these sectors are likely to be underdeveloped.

(ii) **Results framework and methodology level lessons**. The DMF was reasonably well-designed and the performance indicators—with the exception of the initial program impact indicators—targets, and baseline data were precise and generally easily measurable. However, the PCR assessed the program against the DMF prepared for subprogram 3, which, like subprogram 2 had no indicators to measure impact, although these were included for subprogram 1. The impact indicators under subprogram 1 were not reflective of the impact statement—measuring the reduction in the fiscal deficit, absolute poverty, and income distribution against the impact of higher living standards and more employment opportunities, particularly for women. The impact statement and its measurement need to be more closely aligned to the program and as such, indicated a design deficiency in the DMF. The risks for subprogram 1 related to a deteriorating external environment and delays to reforms, and weak economic growth that impact expenditure efficiency; weak economic growth was not included for subprograms 2 and 3. A lack of assessment and monitoring of contingent liabilities causing fiscal risk and limited coverage of public financial management affecting expenditure and fiscal consolidation was an additional risk identified for subprograms 2 and 3.

C. Recommendations for Follow-Up

42. The government has requested a follow-up program to continue the reforms, and this is included in ADB's Country Operations Business Plan for Georgia, 2018–2020 as standby for 2018 and firm for 2019. Launching the private pension system and establishing the pension agency to manage the private pension system will require a government budget of $3 million equivalent to cover its administrative expenses, and funding for the government's contribution to the private pension system. These progresses are worthy of follow-up.

The validation also suggests that since no assessment has been made of the progress toward the accomplishment of the indicators to measure the program impact, this be undertaken once data for 2020 is available. The impact is to be measured by the three indicators for 2020 as reported in the RRP for subprogram 1. Interim figures for 2016 show divergence from them.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

43. The PCR has suggested following up on the status of implementation of the reforms and their progress. This would enable lessons to be learned for future programs and drawing such lessons is supported by this validation.

B. Comments on Program Completion Report Quality

44. The PCR covered most of the requirements under the PCR guidelines and identified the results of the program appropriately except for the subprogram targets. While the PCR did not provide statistics to assess the program's intended impact and elaborate the role of ADB and TA consultants in the policy actions, it provided data on the program's outcomes and outputs. The PCR noted that the program benefited from diagnostic and analytical work by IMF and the World Bank on risk management and public financial management. It could have discussed in more depth the extent of ADB's cooperation with IMF and the World Bank in sequencing reforms, as well as the lessons that emerged from ADB's coordination efforts with other development partners. The criticality of the loans and the individual policy actions to the reforms is not assessed in detail— could the reforms have been done without the ADB loans; could the reforms have been achieved by government action alone, utilizing only ADB's TA work? Did the policy matrixes really drive the process? Overall, the validation assesses the quality of the PCR as satisfactory.

C. Data Sources for Validation

45. Data sources for this validation were the PCR, the three RRPs for the subprograms, progress reports on the release of the second and third subprogram loans, back-to-office reports and aide-mémoire relating to loan review missions, and program safeguard assessment.

D. Recommendation for Independent Evaluation Department Follow-Up

46. This validation does not recommend further IED follow-up.