ADB

Completion Report

Project Numbers: 48044-001, 48044-004 and 48044-005
Loan Numbers: 3190/3191, 3282/3283, 3417/3418
July 2017

Georgia: Improving Domestic Resource Mobilization for Inclusive Growth Program

Asian Development Bank

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
EDA	–	Entrepreneurship Development Agency
EU	–	European Union
GDP	–	gross domestic product
GITA	–	Georgia’s Innovation and Technology Agency
GRS	–	Georgia Revenue Service
IMF	–	International Monetary Fund
LEPL	–	legal entity of public law
MOESD	–	Ministry of Economy and Sustainable Development
MOF	–	Ministry of Finance
NBG	–	National Bank of Georgia
PPP	–	public–private partnership
SDR	–	Special drawing right
SMEs	–	micro and small-sized enterprises
SOE	–	state-owned enterprise
TA	–	technical assistance
TSA	–	treasury single account

NOTE

In this report, "$" refers to United States dollars.

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BASIC DATA

A. Loan Identification

1.	Country	Georgia
2.	Loan Numbers	Loan 3190/3191-GEO Loan 3282/3283-GEO Loan 3417/3418-GEO
3.	Program Titles	
	- Loan 3190 and 3191	Improving Domestic Resource Mobilization for Inclusive Growth Program (Subprogram 1)
	- Loan 3282 and 3283	Improving Domestic Resource Mobilization for Inclusive Growth Program (Subprogram 2)
	- Loan 3417 and 3418	Improving Domestic Resource Mobilization for Inclusive Growth Program (Subprogram 3)
4.	Borrower	Georgia
5.	Executing Agency	Ministry of Finance
6.	Amount of Loan	
	- Loan 3190	$16,000,000
	- Loan 3191	$59,000,000 (SDR39,286,000)
	- Loan 3282	$22,000,000 (€19,891,500)
	- Loan 3283	$53,000,000 (SDR37,966,000)
	- Loan 3417	$50,000,000
	- Loan 3418	$50,000,000 (SDR35,818,000)
7.	Program Completion Report Number	1630

B. Loan Data

1.	Appraisal	
	– Date started	
	Loan 3190/3191	7 July 2014
	Loan 3282/3283	20 April 2015
	Loan 3417/3418	30 May 2016
	– Date completed	
	Loan 3190/3191	18 July 2014
	Loan 3282/3283	1 May 2015
	Loan 3417/3418	11 June 2016
2.	Loan Negotiations	
	– Date started	
	Loan 3190/3191	22 September 2014
	Loan 3282/3283	28 July 2015
	Loan 3417/3418	7 July 2016
	– Date completed	
	Loan 3190/3191	7 October 2014
	Loan 3282/3283	28 July 2015
	Loan 3417/3418	7 July 2016

3.	Date of Board Approval	
	Loan 3190/3191	21 November 2014
	Loan 3282/3283	22 September 2015
	Loan 3417/3418	31 August 2016
4.	Date of Loan Agreement	
	Loan 3190/3191	21 November 2014
	Loan 3282/3283	6 October 2015
	Loan 3417/3418	1 September 2016
5.	Date of Loan Effectiveness	
	– In loan agreement	
	Loan 3190/3191	21 December 2014 (30 days after loan agreement)
	Loan 3282/3283	5 December 2015 (60 days after loan agreement)
	Loan 3417/3418	30 November 2016 (90 days after loan agreement)
	– Actual	
	Loan 3190/3191	15 December 2014
	Loan 3282/3283	6 November 2015
	Loan 3417/3418	6 December 2016
	– Number of extensions	1
6.	Closing Date	
	– In loan agreement	
	Loan 3190/3191	31 December 2014
	Loan 3282/3283	31 December 2015
	Loan 3417/3418	31 December 2016
	– Actual	
		5 January 2015
		18 December 2015
	Loan 3417/3418	30 December 2016
	– Number of extensions	None

7. Terms of Loan

– Interest rate

Loan 3190	LIBOR plus 0.50% p.a. + commitment charge of 0.15 p.a. (London Interbank Offered Rate)
Loan 3282	EURIBOR plus 0.50% p.a. + commitment charge of 0.15 p.a. (Euro Interbank Offered Rate)
Loan 3417	LIBOR plus 0.50% p.a. + commitment charge of 0.15 p.a.
Loan 3191 Loan 3283 Loan 3418	2% per annum

– Maturity (number of years)

Loan 3190	15 years
Loan 3282	15 years
Loan 3417	15 years
Loan 3191	25 years
Loan 3283	25 years
Loan 3418	25 years

– Grace period (number of years)

Loan 3190	3 years
Loan 3282	3 years
Loan 3417	3 years
Loan 3191	5 years
Loan 3283	5 years
Loan 3418	5 years

8. Terms of Relending (if any)

not applicable

9. Disbursements

a. Dates

i. Loan 3190/3191

Initial Disbursement	**Final Disbursement**	**Time Interval**
16 December 2014	16 December 2014	0
Effective Date	**Original Closing Date**	**Time Interval**
15 December 2014	31 December 2014	0.5 month

ii. Loan 3282/3283

Initial Disbursement	**Final Disbursement**	**Time Interval**
16 November 2015	16 November 2015	0
Effective Date	**Original Closing Date**	**Time Interval**
6 November 2015	31 December 2015	1.8 months

iii. Loan 3417/3418

Initial Disbursement	**Final Disbursement**	**Time Interval**
09 December 2016	09 December 2016	0
Effective Date	**Original Closing Date**	**Time Interval**
6 December 2016	31 December 2016	0.81 months

b. Amount

Category		Original Allocation	Amount Disbursed	Undisbursed Balance
i.	Loan 3190			
	($)	16,000,000	16,000,000	0
ii.	Loan 3191			
	(SDR)	39,286,000	39,286,000	0
	($)	59,000,000	57,496,632	
iii.	Loan 3282			
	($)	22,000,000	21,369,431	
	(€)	19,891,500	19,891,500	0
iv.	Loan 3283			
	(SDR)	37,966,000	37,966,000	0
	($)	53,000,000	52,387,765	
v.	Loan 3417			
	($)	50,000,000	50,000,000	0
vi.	Loan 3418			
	(SDR)	35,818,000	35,818,000	0
	($)	50,000,000	48,704,242	

C. Program Data

1. Program Costs ($ million)

	Appraisal Estimate	Actual
Loan 3190/3191		
Foreign exchange cost	75,000,000	75,000,000
Local currency cost	0	0
Total	**75,000,000**	**75,000,000**
Loan 3282/3283		
Foreign exchange cost	75,000,000	75,000,000
Local currency cost	0	0
Total	**75,000,000**	**75,000,000**
Loan 3417/3418		
Foreign exchange cost	100,000,000	100,000,000
Local currency cost	0	0
Total	**100,000,000**	**100,000,000**

2. Financing Plan ($ million)

	Appraisal Estimate	Actual
Implementation Costs		
Borrower financed	0	0
ADB financed		
(i) Loan 3190/3191	73,496,632	73,496,632
(ii) Loan 3282/3283	73,757,196	73,757,196
(iii) Loan 3417/3418	98,704,242	98,704,242
Total	**245,958,070**	**245,958,070**

ADB = Asian Development Bank.

3. Cost Breakdown by Program Component

Not applicable

4. Program Schedule

Not applicable

5. Program Performance Report Ratings

Not applicable

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members[a]
Loan 3190/3191				
Project-specific/consultation	28–31 Jan 2014	1	6	a,d
Loan reconnaissance	17–25 Mar 2014	1	3	a,d
Loan fact finding	7–18 Jul 2014	3	8	a,c,d
TA Inception	1–7 Feb 2015	4	7	a,c,d,e
Loan 3282/3283				
Loan fact finding	20 Apr–1 May 2015	3	10	a,b,d
Consultation	5–9 Oct 2015	3	5	a,d
TA review	5–9 Oct 2015	3	5	a,d
Loan 3417/3418				
Loan reconnaissance	29 Feb–05 Mar 2016	6	7	a,d,f,g,h,i,j
TA review	29 Feb–05 Mar 2016	6	7	a,d,f,g,h,i,j
Loan review	11–16 May 2016	6	6	b,d,e,f,g,i,j
Loan fact finding	30 May–11 Jun 2016	4	10	a,b,c,d,h
Program Cluster				
Program completion review	20–24 Mar 2017	4	5	b,d,e,k

TA = technical assistance.

[a] a = public resource management specialist, b = financial sector specialist, c = principal economist, d = economics officer (Georgia Resident Mission), e = TA pension reform specialist, f = TA capital market specialist, g = TA capital markets and pension legal specialist, h = young professional (economics), i = project assistant, j = TA project coordinator, k = project analyst (Georgia Resident Mission).

I. PROGRAM DESCRIPTION

1. Owing to economic and institutional reforms and sound macroeconomic policies, Georgia's economy has averaged an annual growth rate of nearly 6% between 2004 and 2013. Reforms that strengthened public finances, improved the business climate, enhanced social services, fought corruption, liberalized trade, and upgraded infrastructure helped the country achieve an impressive average growth of more than 9% between 2004 and 2008.

2. In 2008, the dual shocks of the global financial crisis and the conflict with the Russian Federation sharply reduced capital inflows, and private investment and growth contracted by 3.7% in 2009. Subsequently, from 2010 to 2012, the government provided countercyclical fiscal stimulus by increasing social spending and public investment to help mitigate the adverse impact of the crisis on poverty. While the fiscal stimulus paid off—growth rebounded and averaged more than 5% during 2010–2013—public finances came under significant pressure: the fiscal deficit widened because of the large increase in social expenditures and limited ability to raise revenues. The Government of Georgia requested support from the Asian Development Bank (ADB) to maintain fiscal consolidation and achieve its development goals by improving the living conditions of the population.

3. The Improving Domestic Resource Mobilization for Inclusive Growth Program was designed in a programmatic approach with three subprograms to help increase the fiscal space needed to improve social service delivery and make it more inclusive, and to enable economic growth. The program was estimated to cost $200 million equivalent for a 3-year period (2014–2016) but its actual cost increased to $250 million.[1] ADB also provided related technical assistance (TA) for capital market development, pension reforms, public–private partnerships, and public debt management.[2]

4. The program aimed to improve domestic resource mobilization in Georgia via (i) stronger debt and fiscal risk management, (ii) more robust revenue and public expenditure management, (iii) generation of domestic savings, and (iv) mobilization of private resources for investment.[3] Inequality of income and economic opportunities was tackled through the redistributive role of fiscal policy in tax and social protection measures.

5. The intended impact of the program was that citizens, particularly women, would benefit from better living standards and employment opportunities. The outcome was (i) effective mobilization of domestic resources for public and private investments; (ii) more fiscal space for social expenditures and public investment; (iii) more business opportunities; (iv) better pension systems and more sustainable social services delivery, especially for women; and (v) a healthier environment for economic growth. This report presents the results of the program. The design and monitoring framework is in the Appendix 1.

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[1] ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loans to Georgia for Subprogram 1 of the Improving Domestic Resource Mobilization for Inclusive Growth Program.* Manila (Loans 3190/3191). ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans to Georgia for Subprogram 2 of the Improving Domestic Resource Mobilization for Inclusive Growth Program.* Manila (Loans 3282/3283). ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans to Georgia for Subprogram 3 of the Improving Domestic Resource Mobilization for Inclusive Growth Program.* Manila (Loans 3417/3418).

[2] ADB. 2014. *Technical Assistance to Georgia for Strengthening Domestic Resource Mobilization*. Manila (TA 8716).

[3] Domestic resource mobilization refers to public and private sector activities. The public sector mobilizes resources through public revenue generation, for social services and infrastructure investment. The private sector mobilizes savings of households and firms through financial intermediaries, for investment in productive activities.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

6. The program was *highly relevant* at appraisal and remains so at completion. During appraisal, its design was consistent with government policy and with ADB's country assistance to Georgia. The Socio-Economic Development Strategy of Georgia (Georgia 2020) provided key policy directions for sustainable and inclusive economic growth, guiding the program design in the following key areas:[4]

(i) Establish preconditions for economic growth via fiscal efficiency, sustainable management of public debt, financial system stability, and improved management of public policy.
(ii) Enhance private sector competitiveness by improving the business and investment environment (especially for small and medium-sized enterprises), strengthening capacity for innovation, and developing infrastructure.
(iii) Improve human capital through development of a labor-market-oriented workforce, strengthening of social security, and high-quality health care.
(iv) Improve financial inclusion by promoting old-age provisions, developing capital markets, and expanding market access for small and medium-sized enterprises.

7. On 27 June 2014, Georgia signed the Association Agreement including a Deep and Comprehensive Free Trade Area with the European Union (EU). This was a vital step toward integration with the EU, deepening political, economic, and trade relations. The alignment of Georgia's legal and regulatory framework to the EU standard constitutes a large and comprehensive reform agenda for the coming years. The program is anchored in the reform agenda of the Deep and Comprehensive Free Trade Area, and is aligned with ADB's country partnership strategy for Georgia[5] as well as the 2014–2016 National Action Plan for Implementation of Gender Equality Policy.[6]

8. During appraisal, the government requested support for fiscal consolidation and public financial management reform, and for undertaking two other major reforms—pensions and capital markets development. During the first two subprograms, the main emphasis was on improving fiscal risk management and strengthening revenue and public expenditure management. These reforms were incremental in nature and complemented ongoing support by the International Monetary Fund (IMF) and the World Bank. Under subprograms 1 and 2, diagnostic work on pension and capital market reforms as well as wide stakeholder consultations were carried out, followed by the execution of the related main policy actions under subprogram 3.

9. Continued strong government commitment allowed to cover a wide range of reforms. They converged in improving domestic resource mobilization built on sound macroeconomic fundamentals and establishing sound prudential regulations to support financial system stability and improve access to finance. In the short term, the government is tightening its public resource management by building up its risk management capacities, and improving its revenue collection and its efficiency of public spending. In the longer term, the government aims to mobilize private sector savings through private pensions, which in turn will provide long-term

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[4] Government of Georgia. 2013. *Socio-Economic Development Strategy of Georgia, 2020.* Tbilisi.
[5] ADB. 2014. *Country Partnership Strategy: Georgia, 2014–2018.* Manila.
[6] Parliament of Georgia. 2014. *2014–2016 National Action Plan for Implementation of Gender Equality Policy in Georgia.* Tbilisi.

resources for the capital market. Throughout program implementation, close coordination with the government and with development partners ensured complementarity of the actions. The TA provided timely support in preparing diagnostics and legal reforms and in building the skills of the institutions involved.

B. Program Outputs

10. **Output 1: Improved management of debt, cash, and fiscal risk.** The objective of this output was to strengthen debt, cash, and fiscal risk management. The government is exposed to fiscal risk related to macroeconomic shocks, financial system stability, debt sustainability, contingent liabilities, and risks arising from state-owned enterprise (SOE) operations.

11. **Debt and cash management.** Domestic debt consists of treasury bills, treasury notes and treasury bonds, loans issued by the National Bank of Georgia (NBG), and liabilities inherited from the Soviet Union. The Ministry of Finance (MOF) borrows public debt based on transparent criteria and within previously approved fiscal targets ratified by the Parliament. At appraisal in 2013, public debt represented 34.7% of gross domestic product (GDP), of which around three-quarters were in foreign currency and the rest in lari. Public borrowing procedures were well established but poorly documented for external borrowings, and the government's capacity to carry out debt sustainability analysis was limited. The government's right to issue securities was limited to short-term instruments to cover short-term cash needs and to finance the budget deficit. Cash management was weak since the government relied on a cash buffer in the NBG. A debt management strategy was not yet in place to effectively monitor and assess fiscal risks, and the legal framework for debt management needed to be updated.[7]

12. Reforms were achieved as envisaged under the three subprograms, resulting in stronger debt management based on (i) a procedures manual for external borrowing, (ii) a debt strategy, and (iii) legal amendments underpinning the debt strategy. On 22 June 2016, Parliament approved the amendments to the Public Debt Law. Treasury bill issues now aim to fund the budget deficit and develop the domestic debt securities market to reduce the share of foreign debt and hereby mitigate risks of exchange rate volatility and refinancing risks to public debt.

13. In addition, the program supported the establishment of the Debt Management Middle Office, responsible for formulating the debt strategy and for covering risk management and related analytical work on public debt under subprogram 2.[8] Under subprogram 3, the middle office was strengthened with an upgraded debt management and risk analysis system, integrated with the e-budget and e-treasury systems. All monetary resources are deposited in the treasury single account (TSA), which strengthens the ability to reconcile debt reports on a regular basis. The TSA is linked to the settlement system with banks. The treasury single multi-currency account was subsequently created for all transactions denominated in foreign currency. The transparency of reporting was increased by publishing information on projects and programs financed by external sources, and a statistical bulletin on public debt.

14. MOF's cash management has improved significantly. The ministry took over the cash management from NBG and is now responsible for cash forecasting and management. Under subprogram 2, the Cash Forecasting and Management Department was created in the State

[7] World Bank. 2013. *Debt Management Performance Assessment.* Washington, DC.

[8] The Department of State Debt comprises (i) a back office responsible for the processing of loans, grants, financial instruments, and debt-related operations; (ii) a newly established middle office to prepare analyses such as debt sustainability, sensitivity analysis, portfolio assessment, and debt threshold against GDP analysis; and (iii) a front office accountable for auctions (e.g., treasury bills are auctioned) and general reporting.

Treasury of MOF, with 9 staff, which prepares monthly forecasting of revenues and expenditures, the settlement of revenues, and reporting. MOF supports the provision of longer-term liquidity through treasury bonds of 2–5-year maturity. It deposits the receipts from the sale of treasury instruments with commercial banks, which the banks may use as collateral.

15. **Fiscal risk management.** At the onset of the program, fiscal risks such as contingent liabilities related to public–private partnership (PPP) investments and state-owned enterprise (SOE) operations were not identified or reported, nor were implicit subsidies to SOEs reflected in the budget. The SOEs' assets represent a significant share of the economy, equal to 19.8% of GDP in 2015.

16. During the program, MOF substantially improved its understanding, monitoring, and reporting of fiscal risks related to SOEs. Under subprogram 1, MOF prepared an inventory on the fiscal position of large SOEs, and developed a framework for monitoring fiscal risks. Under subprogram 2, MOF created a Macroeconomic Analysis and Forecasting Department in 2015, which identifies SOE- and PPP-related public debt, and contingent liabilities of SOEs, and carries out analyses covering macroeconomic risk, external debt sustainability, risks associated with guarantees, and similar contractual contingent liabilities. Under subprogram 3, MOF provided a comprehensive fiscal risk analysis, including an analysis covering the largest SOEs, analyzing their financial position, profitability, liquidity, and solvency. The 2016 analysis of SOEs is based on 2 years of fiscal data and was added as a supplement to the 2016 state budget documents. Further progress is being made in reporting fiscal risks. The 2017 fiscal risk statement covers SOEs and power-purchase agreement liabilities. The 2018 fiscal risk statement will further expand the coverage of SOEs, including any quasi-fiscal activities.

17. **Output 2: Strengthened revenue and public expenditure management.** The objective was to increase the efficiency and effectiveness of revenue collection, improve public expenditure management, and strengthen local government transfers. Fiscal consolidation requires government expenditure restraint as well as revenue increases, with a focus on the tax system to improve domestic resource mobilization.

18. **Revenue collection.** The Georgia Revenue Service (GRS) was created in 2007 as a one-stop-shop service responsible for collecting taxes for central and local governments as well as customs duties, thus providing a business-friendly, effective service. At the start of the program, high levels of tax arrears impaired the smooth functioning of tax administration.

19. Under subprogram 1, the GRS established a new department to improve its analytical capacity for more effective recovery of tax arrears and revenue collection. The department uses risk profiling for revenue collection, and is responsible for taxpayer debt management and collection. During the program, the GRS recovered GEL640 million in arrears and wrote off GEL2.5 billion of tax arrears from defunct businesses and tax payers. A major reform under the program was the full transition to internal auditing and phasing out the external audit option. Over the program period, the number of tax audit staff was increased from 230 to 397, 47% of whom women, while external audits were discontinued at the beginning of 2015 and risk-based auditing was further enhanced. According to a 2016 business perception survey, the tax audit is not seen as a major hindrance for most businesses.[9]

[9] United States Agency for International Development, Governing for Growth (G4G). 2016. *Business Perception Survey on Policy Reforms.* Tbilisi.

20. The GRS tax revenue collection improved from GEL6.7 billion (2013) to GEL8 billion in 2015. In 2016, the IMF undertook an assessment of the tax administration system and acknowledged the innovative use of technology by the GRS.[10] Based on the IMF findings, the GRS prepared its 2017–2020 strategy with the aim of becoming a transparent and fair service provider for the taxpayers.

21. **Public expenditure management.** Public capital expenditure, a significant driver of economic growth, declined from 7.8% of GDP in 2009–2011 to 6.3% in 2012–2013 as a result of the uncertainty associated with delays in budget execution. The program tackled the weaknesses related to budget execution that were identified in the 2012 Public Expenditure and Financial Accountability Assessment, including the need to increase the information content of budget documentation, and to improve the process to raise the effectiveness of appraising and monitoring capital projects.[11]

22. At the beginning of the program, only the central government finances were managed centrally through MOF's public financial management system and the TSA, with local self-governments and legal entities of public law (LEPLs) managing their own accounts. As a result, local government accounts, which represent about 10% of the central budget, were not recorded. Under subprogram 1, the Budget Code was amended to centrally manage such accounts. Under subprograms 2 and 3, all cash operations of local self-governments and LEPLs were channeled through MOF's financial management information system and the TSA. By 2018, all schools will be included in the centralized treasury system.

23. So far, a few big PPP projects have been initiated in Georgia, but without a policy and legal framework. In 2013, the government decided to establish a clear and comprehensive enabling framework for private sector participation in infrastructure and service delivery in a structured manner. ADB is actively supporting PPP development with technical assistance.[12] ADB is supporting the Ministry of Economy and Sustainable Development (MOESD) in the development of the PPP legal and institutional framework, including PPP law and secondary legislation.[13] MOF is being supported in developing the framework to identify and manage the fiscal risks associated with PPPs, including contingent liabilities. The capacity of key line ministries (health, roads, and energy) and the City of Tbilisi to select, develop, and implement PPP projects is being developed through learning-by-doing and guidelines on project identification, development, procurement (concession, non-concession, and unsolicited PPPs) and implementation. Standardized PPP documentation, including development of a model concession agreement for toll and maintenance PPPs in road projects, and a model power purchase agreement for energy projects, is under discussion. The aim is to have at least one PPP project competitively tendered by the end of 2018.

24. **Local government finances.** Local government costs have increased steadily since 2012, from approximately 7% of GDP to 8.9% of GDP in 2016. Currently the only tax source

[10] IMF. 2016. *Georgia. Technical Assessment Report – Tax Administration Diagnostic Assessment Tool – Performance Assessment Report*. Washington, DC.

[11] World Bank. 2013. *Public Expenditure and Financial Accountability (PEFA) Assessment 2012.* Washington, DC.

[12] ADB. 2015. *Technical Assistance to Georgia for Development of Public Private Partnerships*. Manila. (TA 9019-GEO)

[13] Under the TA attached to the program, ADB prepared the gap analysis of the government's PPP framework. The European Bank for Reconstruction and Development has been providing TA to the government through MOESD to draft a PPP policy and PPP law, with ADB as peer reviewer. The PPP Policy was approved in June 2016. The initial draft of the PPP Law was prepared in 2015 by the European development partner. Subsequently, the government requested ADB to assist with the PPP Law, as well as secondary legislation to support PPP Policy and PPP Law.

available to local governments is the property tax, making them heavily dependent on central government grants. To ensure the intergovernmental transfers, the program supported the approval of the Local Self Governance Code. Under subprogram 2, local government revenue autonomy was improved through amendments to the Budget Code, separating revenues by budgets of state, autonomous regions, and municipalities. Under subprogram 3, the government increased intergovernmental transfers in line with GDP growth.

25. **Output 3: Enhanced generation of domestic savings.** The objective of this output is to prevent old-age poverty and to provide income replacement during retirement that is affordable for individuals and the taxpayer, and fiscally sustainable in the long term. The program is supporting the government in the development of a multi-pillar pension system by streamlining the universal pension, the so-called zero pillar, and by creating two supplementary private pension schemes, pillars 2 and 3. Pillar 2 is an occupational pension plan with contributions from employees and employers, and a government subsidy, which is largely mandatory in nature. Pillar 3 is a personal pension plan with voluntary contributions by the participant.

26. **Universal pension.** The state-funded universal pension provides all citizens with a flat-rate pension from the age of 60 for women and 65 for men. It is the main mechanism to keep a large part of the population out of poverty. The flat rate has been increased on an ad hoc basis since 2006. The last such increase was decided in 2015 and became effective in January 2016. While the flat rate has doubled since 2006, it remains modest by international standards, providing a monthly pension equal to 18% of the average wage during 2015, marginally above the subsistence level. However, financing the universal pension constitutes the largest social spending item, accounting for 16.0% of public expenditure and 4.1% of GDP in 2015. This expenditure item will grow and, if unaddressed, will strain Georgia's fiscal sustainability, especially if the government tries to maintain the pension above the subsistence level.

27. Under subprogram 1, the government established a pension reform unit in MOESD to prepare a pension reform policy. Under subprogram 2, the unit completed diagnostics of the pension system and prepared a pension reform policy with proposed revisions to the pension system, which were approved by Cabinet under subprogram 3.[14] The pension reform strategy includes a proposed mechanism for increasing the universal pension (indexation) and the creation of a complementary pension component, a contributory private pension. The key objectives of the reform are to (i) retain and increase the purchasing power of the universal pension, (ii) improve the ratio of pension income with respect to the annual salary (through the introduction of a private pension), and (iii) ensure the financial sustainability of the universal pension.

28. **Private pension.** The government is introducing the contributory private pension to supplement the universal pension and thereby provide a decent income replacement rate and ensure the long-term sustainability of the pension system. Incorporating contributions to the pension system will increase old-age income from private sources (employees, self-employed, and employers) while limiting contributions from the state budget. The combined pensions (universal plus private pension) will help generate a more adequate replacement rate for the pensioners while maintaining a minimum pension as protection against extreme poverty for all. Private pension savings will gradually improve the mobilization of long-term investments through the finance sector.

[14] Government of Georgia, Ministry of Economic and Sustainable Development, 2016. *Reform of the Universal Pension Benefit and Introduction of a Supplementary Pension Scheme.* Tbilisi.

29. Under subprogram 2, a pension policy paper outlining the key parameters of the private pension scheme was prepared, followed by extensive public consultation and a nationwide awareness campaign. Under subprogram 3, the draft Private Pension Law was submitted to the Economic Council,[15] along with the implementation framework for the mandatory private pension (pillar 2).

30. With the anticipated passage of the Private Pension Law in autumn 2017, two private pension schemes will come into force in 2018. Pillar 2 is an occupational pension plan based on defined contributions, where each participant has an account into which contributions and investment earnings are credited. At the time of retirement, the pension amount will be calculated based on the accumulated amount in the participant's account. Pillar 2 will become mandatory for employees aged 40 years or less, optional for employees above 40 years after an initial contribution of 3 months, and voluntary for the self-employed. Under pillar 2, employee and employer will each pay the equivalent of 2% of the employee's salary up to an annual maximum of GEL60,000. The government will also pay 2% up to an annual maximum of GEL24,000, and 1% between GEL24,000 and GEL60,000. The self-employed will pay 4% of their total personal income, and the government 2% of the personal income up to the ceiling. The employee and employer may opt to pay higher contributions under pillar 2. Pillar 3 is a voluntary personal pension plan fully funded by the participants.

31. The reform of the pension system ensures continuity of equitable treatment of men and women. The universal pension favors women thanks to their higher longevity and their entry into retirement five years ahead of men. In 2013, 70% of universal pension recipients were women. Aligning the retirement age for men and women under the universal pension was considered at the design stage of the program, but an increase of women's retirement age to 65 years proved politically unfeasible. The government was concerned that the increase would derail efforts to establish and introduce the private pension scheme. The retirement age under the private pension scheme will be gender neutral and contributions may be paid up to age 70. Women can expect a lower replacement rate form the accumulations in their private pension accounts because on average they have shorter careers and lower average wages, but a longer life expectancy. The combined pensions will eventually lead to a higher replacement rate and higher living standards for the elderly, both men and women.

32. **Output 4: Increased mobilization of private resources for investment.** The objective was to mobilize long-term finance and broaden access to finance for micro and small-sized enterprises (SMEs). The reforms were to stimulate bond market development, and related legal and regulatory reforms, introduce money market instruments to absorb pension inflows, and generate reasonable investment returns for pension schemes.

33. **Capital market development.** The economy lacks long-term private financing for productivity-boosting investments. The financial system is dominated by banks, and capital markets used to be nonexistent.[16] Under subprogram 1, the government established a working group on capital market development formed by high-level officials from MOESD, MOF, and NBG. Under subprogram 2, the working group submitted a strategy and action plan for capital market development to the Economic Council. The strategy aims to facilitate the diversification

[15] The Economic Council includes prime minister, finance minister, economy minister, energy ministers, regional development and infrastructure minister, agriculture minister, minister of environment protection and natural resources, tax ombudsman, chairperson of National Agency of State Property, general director of Gas and Oil Corporation, executive direcote of Partnership Fund, and general director of Georgian Railway.

[16] IMF. 2014. *Georgia. Financial System Stability Assessment.* Washington, DC.

of the financial system, increase availability of investment resources, support the de-dollarization of the economy, and improve the resilience of the finance sector against shocks. Under subprogram 3, MOESD concluded a review of capital-market-related legislation and completed a public awareness campaign.

34. Under subprogram 3, ADB and other international financial institutions issued lari-denominated bonds, creating crucial ground for the development of a corporate bond market. The issuance of such bonds needs to continue in the future, especially via public offerings. The private pension schemes will provide additional institutional investments in long-term lari resources. A stronger corporate bond market in local currency is important to offer attractive investment opportunities and returns to the pension fund, and to contribute to de-dollarization. Under subprogram 3, the draft law on accounting, reporting, and auditing was prepared and submitted to the Economic Council in line with EU directives.

35. **Enterprise support.** Although Georgia has more than 370,000 registered enterprises (2014),[17] only 40,000 are considered active. With an estimated 14% of GDP (2014) the informal economy is still substantial. About 95% of active enterprises are classified micro and small—with annual turnover of up to GEL1.5 million, employing 6.2 staff on average—and represent 43% of the enterprise workforce or 10% of the total workforce.[18] About 2,100 enterprises classified medium-sized employ 57% of the enterprise workforce or 21% of the total workforce. Since 2010, employment in micro and small enterprises absorbed an additional 4.1% per annum, while employment in medium-sized enterprises grew by an annual 9.8%. This highlights the high potential for growth and workforce absorption of medium-sized enterprises with annual turnover of more than GEL1.5 million and at least 100 staff. However, enterprise growth in low-productivity segments such as wholesale, retail, construction, and services still represents 75% of value added, while industry (21%), hospitality (2%), and agriculture (1%) have potential for value addition.

36. The small number of high-growth enterprises points to barriers to growth as highlighted by a World Economic Forum business survey, which cites inadequately qualified management and staff and limited access to finance as major obstacles. The survey also confirms that while the regulatory framework for banks is strong, the penetration of banking services to farms and enterprises is low because of the absence of client-responsive lending processes and reliance on costly documentation.[19] Lenders face the problem that their clients are often unable to articulate their business vision and a plan to improve their performance through adequately qualified staff and marketing.

37. To respond to these challenges by improving access to financial services and the technical skills of enterprises, the government, under the auspices of MOESD, created the Entrepreneurship Development Agency (EDA) under subprogram 1. In addition, MOESD created the Georgia Innovation and Technology Agency (GITA) to boost innovation.

38. EDA provides beneficiaries with collateral insurance which is up to 50% of loan amount and is co-financing annual interest rate of commercial loans for the first two years. During the program, 200 companies, out of which 23 are hotel construction projects, benefited from GEL13

[17] National Statistical Office. Georgia Statistics Database. http://www.geostat.ge/?action=page&p_id=32&lang=eng (accessed 1 June 2015).
[18] This report uses the term "micro and small enterprises" for those officially classified as SMEs, and uses the term "medium-sized" for entities that are classified as large in the official statistics.
[19] World Economic Forum. 2014. *Global Competitiveness Report 2014–2015*. Geneva.

million in subsidies. An audit of beneficiary SMEs revealed that the subsidies provided to these enterprises were below the corporate income tax revenues generated from these enterprises.[20]

39. In 2014, EDA started its micro and small business support program providing matching grants ranging from GEL5,000 to 15,000GEL as well as skills training. A total of 4,909 beneficiaries, of which 1,933 (40%) are women, obtained subsidies of GEL23 million. The program is perceived to be very attractive, with an increasing number of applicants (40,000 until the end of 2016), and with 98% of the supported businesses continuing their activities.[21] In 2017, EDA received a budget of GEL45 million, of which GEL14 million is earmarked for the micro and small business support program.

40. Since its inception in 2014, GITA has established technology parks in Tbilisi and Zugdidi, innovation centers, and business incubators. Under subprogram 2, GITA created Geolab, a learning center providing courses on design, and web and mobile programming. GITA also provides small and micro size grants to support innovative projects for commercialization. GITA invested GEL9.5 million in these programs from 2014–2016. In 2016, GITA, together with the Partnership Fund, set up a new initiative, Start-Up Georgia, with an allocation of GEL11 million for 2016, to finance innovative and high-tech start-ups with grants up to GEL100,000.

41. **Gender.** Under subprogram 1, the government adopted a gender action plan for 2014–2016, setting milestones for the country to achieve gender equality in different areas of political, social, and economic life. In addition, government also supported the development of other gender equality policies, like on women and security, gender-based violence, trafficking, anti-discrimination law as well as is making efforts in introducing new methods for gender-disaggregated data collection (like property and assets). Under the program, gender targets were set and achieved for matching grant programs by EDA and GITA (Appendix 4).

C. Program Costs

42. The program costs totaled $250 million. Subprograms 1 and 2 amounted to $75 million equivalent each, and subprogram 3 to $100 million equivalent. Subprogram 1 comprised a loan of $16 million and an Asian Development Fund-financed component of SDR39.286 million. Subprogram 2 comprised a loan of $22 million from ADB’s ordinary capital resources and a loan of SDR53 million from ADB’s Special Funds resources. Subprogram 3 comprised a loan in various currencies equivalent to SDR35,818,000 ($50 million equivalent) from ADB's Special Funds resources and a loan of $50 million from ADB’s ordinary capital resources. The initial amount earmarked for the program was $200 million. In 2016, the amount for subprogram 3 was increased by $50 million. This took into consideration the increase in the universal pension flat rate from GEL150 to GEL160, resulting in an additional budgetary cost of $75 million. The additional amount offsets the adjustment cost borne by the government with this contingent increase.

D. Disbursements

43. Disbursements followed simplified procedures for policy-based loans in accordance with ADB guidelines. The loan proceeds were released for each subprogram relatively quickly. The first subprogram loans were fully disbursed on 16 December 2014 (1 day after loan effectiveness and 55 days after ADB Board approval), the second subprogram loans were fully

[20] State Audit Office. 2016. *MOESD Audit Report.* Tbilisi.
[21] An evaluation of the program is scheduled to start in August 2017.

disbursed on 16 November 2015 (10 days after loan effectiveness and 25 days after Board approval), and the third subprogram loans were fully disbursed on 9 December 2016 (3 days after loan effectiveness and 100 days after Board approval). Disbursements occurred within 2 weeks of subprogram loan effectiveness and, on average, 60 days after Board approval.

E. Program Schedule

44. The implementation period for the overall policy-based program was from January 2014 to December 2016, of which subprogram 1 was implemented from January 2014 to December 2014, subprogram 2 from December 2014 to September 2015, and subprogram 3 from October 2015 to December 2016.

F. Implementation Arrangements

45. MOF was the executing agency responsible for overseeing, coordinating, and reporting on the program actions. MOF and MOESD were the implementing agencies. A program steering committee was set up with senior officials from the two ministries and chaired by the deputy minister of finance. The committee met at least semiannually to review the progress of policy actions. The implementation arrangements were adequate to achieve the proposed outcomes.

G. Conditions and Covenants

46. No delays in meeting the conditions for effectiveness occurred. Loan covenants were relevant and in line with program requirements. No covenants were modified, suspended, or waived. Appendix 3 contains updated details on compliance with program assurances and conditions.

H. Related Technical Assistance

47. TA of $500,000 was approved on 11 September 2014 and became effective on 6 October 2014. The outputs include (i) capital market master plan finalized, (ii) pension reform strategy developed, (iii) legal and institutional framework for public–private partnership strengthened, and (iv) public debt management improved. MOF is the executing agency and MOESD is the implementing agency. On 15 December 2015, the TA grant amount was increased by $480,000 to $980,000. The original closing date of 30 September 2016 was extended to 31 December 2017.

I. Performance of the Borrower and the Executing Agency

48. The performance of the borrower and the executing agency is *highly satisfactory*. MOF was responsible for the overall program administration. It has the institutional capacity needed to implement the program. Significant progress was made in implementing a wide range of reforms under the program in a timely manner. High-level leadership played a critical role in keeping implementation on track. When needed, either the cabinet, comprising all ministers, or the Economic Council (footnote 15) reviewed and decided on policy matters promptly.

J. Performance of the Asian Development Bank

49. ADB performance was *satisfactory*. A team of ADB staff from headquarters and the Georgia Resident Mission managed the program. ADB provided 281 person-days for missions

to Georgia in preparation of the subprograms. The ADB team maintained effective communication and coordination of policy actions with MOF and MOESD, ensuring timely resolution of issues. Efficient mobilization of TA consultants helped ensure timely support to meet policy actions. The Georgia Resident Mission provided effective support at short notice.

III. EVALUATION OF PERFORMANCE

A. Relevance

50. The program is rated *highly relevant*. It is fully aligned with the inclusive economic growth scope of the government's Georgia 2020 program and with ADB's country strategy. The design is appropriate for achieving the intended outcome: mobilization of domestic resources. The program design tackled the binding constraints the country is facing: dollarization of the economy and lack of long-term savings.

51. The program covered a wide range of reforms that could only be completed successfully with top government ownership and proper diagnostics. Diagnostics for risk management and public financial management benefited from analytical work prepared by the IMF and the World Bank and supplemented by TA resources, whereas diagnostics for pension and capital market reforms were prepared by the ADB TA.

52. Most policy actions under the three subprograms have been implemented as identified during appraisal of the first subprogram. Policy actions were added under subprogram 2 and 3. Under subprogram 3, pension reform actions were consolidated and regrouped to more clearly represent the reforms achieved on the universal pension, private pension legislation, private pension administration, and public communication campaign, while achieving outputs as originally designed. Changes to the policy actions are marked in bold (Appendix 2).

B. Effectiveness in Achieving Outcome

53. The program was *highly effective*. The intended outcome, effective mobilization of domestic resources, has been achieved. The performance indicator used to measure progress is domestic savings as a percentage of GDP. Under subprogram 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 (Georgia's national statistical office) was used.[22] There was a substantial increase in domestic savings using GeoStat data, and in the IMF's actual numbers up to 2015 (2016 numbers are still preliminary). As explained in footnote 22, the GeoStat data better reflect the increase in domestic savings that were achieved with program support. Higher saving will help Georgia to finance large investment needs. Higher domestic savings will also reduce Georgia's vulnerability to conditions outside the country.

Table 1: Domestic Savings as a Percentage of Gross Domestic Product

	2012	2013	2014	2015	2016
Gross national savings (International Monetary Fund)	18.1	19.5	19.2	20.1	19.4 (preliminary)
Gross domestic savings (GeoStat)	9.3	11.8	12.3	14.0	16.8

[22] Originally, the IMF gross national savings rate was used because it provides projections for years ahead, which Geostat does not provide. The IMF gross national savings rate includes net factor income and net current transfers, which were not targeted by the program because the focus was on savings only. Under subprogram 3, it was decided to use the GeoStat gross domestic savings rate, which better reflects the targeted program outcome.

54. Output targets have been substantially achieved. Major accomplishments under the program are:

(i) introduction of fiscal risk reporting for SOEs;
(ii) full transition from external to internal tax auditors at the GRS, and a move to risk-based audits;
(iii) shift from ad hoc universal pension increases to rules-based indexation so as to maintain the purchasing power of the pension while keeping public pension expenditure affordable;
(iv) introduction of private pension schemes that substantially boost the income replacement rate and generate additional long-term investments in Georgia's capital markets.

C. Efficiency in Achieving Outcome and Outputs

55. The program implementation is rated *efficient*. The intended outcome and outputs were achieved within the planned implementation period. Initially, total ADB funding of the program was estimated at $200 million equivalent based on the government's financing needs, the nature and sequence of the required reforms, and the development impact. The amount for subprogram 1 remained unchanged at $75 million equivalent. In light of Georgia's economic slowdown and currency depreciation in 2015 and 2016, the government's financing needs increased to meet conflicting demands for fiscal consolidation, stronger domestic resource mobilization, better finance sector diversification, and social protection. In response, the amount for subprogram 2 increased from $50 million to $75 million equivalent, and that for subprogram 3 increased from $50 million to $100 million equivalent.

56. The increase for subprogram 3 also considered the increase in the budget required for the universal pension by $75 million equivalent, as well as accelerated structural reforms on pensions and capital markets carried out under the program in a challenging macroeconomic environment—slowing economic growth (from 2.9% in 2015 to 2.7% in 2016), a 51% depreciation of the lari against the United States dollar, a 25% fall in overseas remittances, and a 25% drop in export revenues in 2015. The program indirectly contributed to containing the fiscal deficit while protecting pro-poor social expenditures via the universal pension. Finally, economic benefits materialized in terms of additional policy actions, such as the issuance of lari bonds totaling $99 million by international financial institutions and alignment of accounting and auditing standards with EU directives, which facilitates local currency financing of SMEs and contributes to the de-dollarization of the economy.

D. Preliminary Assessment of Sustainability

57. The program is rated *likely sustainable*. The reforms related to fiscal risk management and public financial management are likely to be further pursued via in-house staff at MOF and assistance from development partners. As for the development of fiscal risk management, MOF's Macroeconomic Analysis and Forecasting Department, established under the program, is well equipped to maintain its function and enhancing its capabilities by stress-testing macro variables. As for the GRS, further capacity enhancements are planned based on the 2016 findings of the IMF assessment of tax administration.

58. The reforms related to pension and capital markets are still ongoing. Submission of the Private Pension Law to Parliament is targeted for October 2017. Institutional development of the Pension Agency is ongoing and the launch of the mandatory private pension is targeted for the

second half of 2018. The working group for capital market development continues to monitor its action plan. Pension and capital market reforms need further support to become sustainable. ADB continues to provide TA support and is planning a follow-up program to bolster the sustainability of such reforms.

59. The institutional development achieved under the program is rated *significant*. At MOF, a middle office was established to develop a debt management strategy and manage fiscal risks. At the GRS, a new administrative department was created and in-house auditing was enhanced. At MOESD, a pension risk unit was created to establish the private pension system.

E. Impact

60. The impact of the program is rated *significant*. While the targeted impact—citizens, particularly women, benefiting from higher incomes and more employment opportunities—remains to be achieved, important steps toward that goal have been made. The program resulted in an increase in domestic savings, as reported by GeoStat (Table 1). Sustained higher savings growth combined with productivity growth will eventually result in sustained higher economic growth, higher incomes, and more employment. Public policies are already 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 which 70% are women), to increase inclusiveness. With support of the program, better access to finance is provided to SMEs, resulting in more inclusive growth. The program remains categorized as C for environmental and social safeguards in accordance with ADB's Safeguard Policy Statement (2009).

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

61. The program is rated *highly successful.* It was adequately designed and took into consideration the fiscal situation of the government, its commitment, and the absorptive capacity of government institutions to pursue reforms. The program is rated *highly relevant* and fully aligned with the inclusive growth target of the Georgia 2020 strategy. The program is rated *highly effective* in achieving the intended outcome and outputs. The program is rated *efficient* in achieving the intended results within the planned implementation period. The program is rated *likely sustainable* thanks to the high-level stewardship of the government, the build-up of government management capacity, and close coordination with development partners.

B. Lessons

62. Diagnostics play an important role in deciding on policy reforms. The IMF and the World Bank as well as the TA outputs provided solid diagnostic analysis for the design of the reforms.

63. Gradual and complex reforms such as the pension and capital market reforms require simultaneous efforts such as (i) broad stakeholder consultations and public awareness building, (ii) policy formulation and legal drafting, and (iii) institution building that needs to be closely coordinated under a firm time schedule and continued top-level stewardship. While adherence to the sequence and timing of reforms is essential, flexibility is required to manage bottlenecks. The programmatic approach for policy-based lending combined with TA is a suitable modality to support such interventions. The policy actions in the program provide triggers to maintain proper sequencing of reforms, and intermittent expert support is provided when necessary.

C. Recommendations

64. **Further action or follow-up**. The government has requested a follow-up program to continue the reforms, especially in pensions, with timing to be decided based on need. Currently, the follow-up program is listed as standby for 2018 in ADB's Georgia country operations business plan, 2018–2020, currently under preparation. Preparations for the new program will start in late-2017.

65. The launch of the mandatory supplementary pension savings scheme (pillar 2) and its management through the Pension Agency requires a government budget of $3 million equivalent to cover the administrative expenses of the agency and to fund the government's contribution to the mandatory supplementary pension savings scheme.

66. **Timing of the program performance evaluation report**. To track meaningful impacts of the program, the program performance evaluation report should be carried out in or around 2022.

DESIGN AND MONITORING FRAMEWORK (SUBPROGRAM 3)

Impact the Program is Aligned with
Citizens, particularly women, benefit from higher living standards and more employment opportunities

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Status at Program Completion
Outcome Effective mobilization of domestic resources for increased public and private investment	By December 2016, domestic savings as a percentage of GDP increased to at least 13.5% (2014 baseline: 12.3%)	National Statistics Office of Georgia	Achieved. Domestic savings were 16.8% of GDP in December 2016.
Outputs 1. Improved treasury management of debt, cash, and fiscal risk	1.a By September 2016, a medium-term public debt management framework is implemented	1.a Government decree	Achieved.
	1.b By September 2016, MOF publishes information on debts and contingent liabilities of SOEs in the state budget documents	1.b State budget documents	Achieved. MOF prepared a supplement to the 2016 state budget with analysis of 95% of turnover of SOEs.
	1.c By September 2016, an assessment of fiscal risks for SOEs is completed by MOF	1.c Public notification of risk assessment on MOF website`	Achieved.
2. Strengthened revenue and public expenditure management	2.a By September 2016, at least GEL80 million of tax arrears are paid in the current tax year	2.a Annual report published on Georgia Revenue Service website	Achieved.
	2.b By September 2016, the number of GRS in-house tax auditors is increased to 330, of which 150 are women	2.b Annual report published on Georgia Revenue Service website	Achieved. 397 in-house tax auditors were appointed, of whom 186 (47%) are women.
	2.c By September 2016, GRS reduces the statutory time limit of tax notices from 6 to 4 years	2.c Annual report published on Georgia Revenue Service website	Achieved. Tax liability imposition has been reduced to 3 years following amendment of the Tax Code on 15 May 2015.
	2.d By September 2016, draft amendments prepared to cover gaps in the legal and regulatory framework of PPPs	2.d Annual report published on MOF website	Achieved.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Status at Program Completion
3. Enhanced generation of domestic savings	3.a By September 2016, revisions to the universal pension (zero pillar) are approved by cabinet, which ensure continuity of equitable treatment of men and women	3.a Cabinet approval of pension reform policy document	Achieved (main text, footnote 14). Reform document approved in March 2016.
	3.b By September 2016, MOESD develops a structural and implementation framework for the supplementary pension savings scheme (pillar 2) and further staffs the pension reform unit to undertake the preparatory work	3.b MOESD report on pension structural and operational framework and staffing plan	Achieved. Framework and evidence for additional staffing provided in June 2016.
	3.c By September 2016, the legal framework for the quasi-mandatory supplementary pension savings (pillar 2) and voluntary pension savings (pillar 3) schemes is drafted and submitted to the Economic Council, including draft amendments to tax and other laws	3.c Draft legal framework submitted to Economic Council	Achieved. Draft was submitted in June 2016.
4. Increased mobilization of private resources for investment	4.a By September 2016, MOESD completes a review of laws and regulations on investment	4.a MOESD policy brief	Achieved. The review of legislation affecting capital markets was submitted in June 2016.
	4.b By September 2016, MOESD contributes to money market development by approving accounting and prudential regulations for repos and securities lending	4.b Government approval of accounting and prudential regulations	Achieved. NBG initiated several amendments and additions to the existing NBG regulations and rules in June 2016.
	4.c By September 2016, $110 million of local currency bonds are issued by IFIs to increase access of local currency credit for SMEs (including issues by ADB, EBRD, and BSTDB)	4.c MOF certification of local currency bonds issued by IFIs	Achieved. IFIs issued GEL-denominated bonds worth the equivalent of $110 million. Latest issuance dates from June 2016.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Status at Program Completion
	4.d By September 2016, at least GEL12 million is provided to SMEs as a matching grant facility to spur investments, with 40% allocated to women entrepreneurs	4.d Annual report published by MOESD and MOF	Confirmed. EDA provided matching grants of GEL12 million and met the gender target.
	4.e By September 2016, at least GEL9.5 million provided as financial instruments to small businesses for encouraging innovation and technology, with 40% allocated to businesses owned or run by women	4.e Annual report published by MOESD and MOF	Achieved.

ADB = Asian Development Bank, ADF = Asian Development Fund, BSTDB = Black Sea Trade and Development Bank, EBRD = European Bank for Reconstruction and Development, EDA = Entrepreneurship Development Agency, GDP = gross domestic product, GEL = lari, GRS = Georgia Revenue Service, IFI = international financial institution, MOESD = Ministry of Economy and Sustainable Development, MOF = Ministry of Finance, NBG = National Bank of Georgia, OCR = ordinary capital resources, PPP = public–private partnership, SMEs = micro and small -sized enterprises, SOE = state-owned enterprise.
Source: Asian Development Bank.

POLICY MATRIX

Policy Actions	Subprogram 1 2014	Subprogram 2 2015	Subprogram 3 2016	Status at Program Completion
Output 1: Improved management of Debt, Cash and Fiscal Risk				
Strengthened debt and cash management	MOF approves internal procedures manual for external borrowing for investment project financing and budget support describing the scheme of process including roles of NBG, MOESD, Ministry of Justice and the parliament for signing, ratification and effectivity	MOF prepares and approves a Debt Strategy for medium term debt management covering loan portfolio, goals and principles of incurring new debt and issues of debt sustainability	MOF submits to parliament any required amendments to the public debt legislation underpinning the Debt Strategy	The amendment to the Public Debt Law of Georgia was approved by Parliament on 22 June 2016. It will help develop the market for treasury securities, a main objective of the public debt management strategy of Georgia.
	MOF approves procedure manuals for the processing of public debt service, debt data recording and validation for efficient debt management and monitoring process	MOF prepares an action plan to strengthen the Middle Office (analytical) function of the PDEFD for advising on terms of funding for government projects and evaluating public debt portfolio	MOF strengthens Middle Office with an upgraded debt management and risk analysis system integrated with the e-budget and e-treasury systems	The Middle Office is staffed with 2 full-time positions. A debt management system was developed in-house to integrate the e-budget and e-treasury systems.
	MOF publishes on its web site: (a) information on projects and programs financed by external sources covering total loan amounts, disbursed amounts and reflected in the State Budget, and (b) a statistical bulletin on public debt presenting overall performance, treasury securities issuances and transactions on primary markets	MOF develops a systematic process for debt and loan guarantees recordkeeping, reporting and validation	MOF reports on guarantees in government's financial statements covering face value	The reporting system on guarantees is in place. As of today, only one guaranteed debt was issued, which is covered in all public debt statistics and published on the MOF web page.
		MOF sets up a dedicated analytical function for cash		The Macroeconomic Analysis and Forecasting

Policy Actions	Subprogram 1 2014	Subprogram 2 2015	Subprogram 3 2016	Status at Program Completion
		flow forecasting with adequate budget and personnel		Department covers the analytical function for cash-flow forecasting.
Strengthened management of fiscal risk	MOF conducts an inventory indicating fiscal position of large SOEs and their audited financial situation	MOF establishes a dedicated staffed and budgeted function to manage fiscal risks including contingent liabilities of SOEs and PPP projects	MOF provides information on the debt of SOEs and contingent liabilities of SOEs and PPPs as a supplement to the state budget documents	In 2016, the state budget includes a fiscal risk analysis covering 95% of SOEs, based on 2 years of data. The 2017 analysis will be based on 5 years of fiscal data.
	MOF develops a strategic template for monitoring and dealing with all types of fiscal risk confronting the country	MOF establishes procedures, assigns institutional responsibilities, and sets aside adequate human and financial resources to monitor and advise on the management of the different types of fiscal risk confronting the government	MOF carries out a first complete assessment of: (i) financial sector risks; and (ii) assessment of fiscal risks SOEs represent	The SOE fiscal risk assessment discusses the factors driving the fiscal position of SOEs, their profitability, the dynamics of their financial indicators (profitability, liquidity, and solvency), and consolidated financial ratios.
		MOF carries out a first complete assessment of: (i) macro risk assessment; (ii) external debt sustainability analysis; and (iii) review of risk associated with loan guarantees and other similar contingent liabilities		Macro risk assessment has improved over the program period. More improvements are scheduled, such as sensitivity analysis and stress-testing on macro variables to assess fiscal risk.
Output 2: Strengthened Revenue and Public Expenditure Management				
Increased effectiveness and efficiency of revenue collection	GRS implements strengthened tax collection procedures by establishing a new dedicated and budgeted Administrative Department	GRS recovers arrears from active tax payers amounting to at least GEL80 million for the current tax year	GRS starts the process of writing off tax arrears of defunct businesses on the basis of legally approved categories	The new department uses risk profiling for more effective tax collection. Over the program period, it recovered GEL640 million. More than GEL2.5 billion

Policy Actions	Subprogram 1 2014	Subprogram 2 2015	Subprogram 3 2016	Status at Program Completion
				was written off during 2015–2016.
	GRS approves a strategy to reduce the statutory time limitation of tax notices and taxpayer notices incrementally from 6 to 3 years to shorten tax liability imposition period providing relief to taxpayers	GRS reduces the statutory time limitation of tax notices and taxpayer notices from 6 to 5 years, shortening tax liability imposition period providing relief to taxpayers	GRS reduces the statutory time limitation of tax notices and taxpayer notices from 5 to 4 years, shortening tax liability imposition period providing relief to taxpayers	The tax liability imposition period was reduced from 6 to 3 years, providing relief to taxpayers.
	GRS approves an action plan to phase out the Alternative Audit Program and to increase capacity of in-house audit, including in specialized sectors	GRS increases the number of in-house tax auditors to 286 (out of which 147 are women), correspondingly decreasing the number of alternative auditors **Indicative: 275 (out of which 110 are women)**	GRS completes the phasing out of alternative auditors by increasing the number of in-house tax auditors to 325, out of which 173 are women **Indicative: 330 (out of which 150 are women)**	Over the program period, 397 in-house tax auditors were appointed, of which 186 are women (47%). External audits were discontinued as of 1 January 2015.
Improved public expenditure management	MOF prepares amendments to the budget code to allow for LSG and LEPL finances to be managed through the electronic PFMS and their payments and receipts through the TSA	All cash operations of LSGs and LEPLs (except schools and kindergartens) are channeled through the TSA and the budgeting, budget execution and accounting processes through the PFMS		In 2015, all cash operations of LSGs and LEPLs (except schools and kindergartens) were channeled through Treasury FMIS. In 2016, cash operations of kindergartens were added. By 2018, all schools will be included.
	MOF provides supplementary information on types and funding of capital projects in the state budget documents	The relevant government agencies identify gaps in the legal and regulatory framework for preparation, appraisal and implementation of public private partnership projects	The relevant government agencies prepare drafts of regulations to address any identified gaps in the legal and regulatory framework of public-private partnership projects and any required legal amendments	A draft PPP law has been prepared and secondary legislation is under preparation. A fiscal risk management unit in MOF is being established.
Strengthening of local government finances	Parliament approves the Local Self Governance Code in February 2014	Government submits to parliament proposals for amendments to the	Government ensures that intergovernmental transfers increase in line with GDP	The intergovernmental transfer increased in line with GDP growth. In budget

Policy Actions	Subprogram 1 2014	Subprogram 2 2015	Subprogram 3 2016	Status at Program Completion
	paving the way for reforms in intergovernmental finances including capital transfers and special transfers	Budgetary Code defining the separation of revenues among the budgets of state, autonomous regions and municipalities	growth or at least by GEL40 million in the current budget year **Indicative: at least by GEL30-40 million**	year 2016, GEL675 million was transferred.
Output 3: Enhanced Generation of Domestic Savings				
Streamlining Universal Pension–Zero Pillar		MOESD, MOF, and MOLHSA complete forecast of present and future cost of Universal Pensions under various scenarios using Prost Modeling and other approaches	Cabinet approves the pension system revisions, including the indexation mechanism for the universal pension, and ensures continuity of equitable treatment of men and women **Indicative: MOLHSA and MOF submits to Cabinet for approval the overall Zero Pillar** **Indicative: Government approves the pension system revisions which ensure continuity of equitable treatment of men and women**	In 2016, the cabinet approved in principle a shift from ad hoc adjustments of the pension amount to a rules-based indexation mechanism. The last ad hoc increase was approved in 2015.
		MOESD, MOF, and MOLHSA submit to government pension system revisions which ensure continuity of equitable treatment for men and women		Gender balance is maintained across the pension system. While the universal pension is more favorable for women, the private pension will be more favorable for men (main text, para. 29).
Establishing sustainable private pension savings system with quasi-mandatory elements – Hybrid	MOESD establishes a pension reform unit with adequate budget and staffing and an interagency working group to devise a time- bound action plan on	MOESD completes analysis of the key areas of pension system design and structure, including continued equitable treatment of men and	MOESD develops a structural and implementation framework for the Supplementary Pension Savings Scheme (pillar 2), and further staffs	The structural and implementation framework was developed. The pension unit in MOESD and the forecasting unit in MOF are jointly working on the

Policy Actions	Subprogram 1 2014	Subprogram 2 2015	Subprogram 3 2016	Status at Program Completion
or Joint Pillar (combination of pillars 2 and 3)	designing a new pension system	women, and hybrid nature incorporating mandatory and voluntary dimensions	the pension reforms unit for the preparatory work **Indicative: MOESD develops and implements personified reporting, recordkeeping and individual account system to make the new scheme operational**	preparations for the introduction of the private pension.
	MOESD issues a public notification on the broad concept and direction of pension reforms including mandatory and voluntary systems	MOESD issues consensual paper on the nature of hybrid pillar including issues like membership, contributions, tax considerations, benefits, gender, and relationships with zero pillar	MOESD drafts and submits to the Economic Council single legislation for both the Supplementary Pension Savings Scheme (pillar 2) and the voluntary Supplementary Pension Savings Scheme (pillar 3), as approved under the Pension Policy Reform, allowing for subsidiary legislation to be introduced later **Indicative: MOESD drafts legislation either as amendments to Basic Law on Pensions for Hybrid or Joint pillar or through introducing independent legislation, allowing for subsidiary legislation to be introduced later**	The draft law covers both mandatory private pension (pillar 2) and voluntary private pension (pillar 3). After endorsement by the Economic Council, consultations continued. MOESD has prepared the 9th version of the draft law. Submission to Parliament for approval of the law is targeted for autumn 2017.
		MOESD submits to Cabinet for approval a strategy and time-bound action plan for pension reforms, including legal and regulatory gaps, data privacy and tax legislation		

Policy Actions	Subprogram 1 2014	Subprogram 2 2015	Subprogram 3 2016	Status at Program Completion
		MOESD and MOF develop approach for public awareness programs for zero and hybrid/joint pillars, outlining specific measures for continuity of equitable treatment of men and women	MOESD launches communication campaign with nation-wide public awareness drives on benefits of the supplementary private pension savings scheme, including gender aspects	A nationwide public awareness campaign was launched in 2016. In the meantime, the government has prepared a public awareness strategy in support of future campaigns.
		MOESD completes the review of existing structure of private pensions to incorporate any required changes in the related legislation	**Indicative: MOESD draft amendments to the Law of Voluntary savings covering private pensions and submits to Parliament for approval**	See above
Output 4: Increased Mobilization of Private Resources for Investment				
Developing capital markets for mobilizing long-term finance	Government approves Socio-Economic Development Strategy of Georgia 2020 in June 2014 committing to policies to mobilize investments and develop financial intermedia	MOESD issues a public notification on the concept and direction of capital market reforms, including corporate securities, expanding bond market and money market instruments for secured interbank trading	MOESD launches a public awareness campaign on benefits of capital market reform plan including investor protection, financial instruments for investment, long- term savings, gender aspects and close link with pensions reforms	See above
	Government together with NBG establishes an interagency working group to devise a time bound action plan on capital market reform and development	MOESD submits to the Economic Council, as precursor to Cabinet, for approval a strategy and time-bound action plan for capital market reforms, including addressing legal and regulatory gaps and improving the structure and efficiency of the market infrastructure **Indicative: submits to Cabinet for approval**	MOESD completes the review of laws, bylaws, regulations on investment, governance, risk management and fund managers essential for managing investments, including private pension savings captured in a policy brief	The review of legislation affecting capital markets has been completed. The capital markets working group is implementing the road map for capital market development. The working group is being supported by a legal specialist.

Policy Actions	Subprogram 1 2014	Subprogram 2 2015	Subprogram 3 2016	Status at Program Completion
			MOESD contributes to money market development by approving accounting and prudential regulations for repos and securities lending	MOESD approved the capital market development strategy, and NBG amended its regulations and rules for repos and securities lending.
			Additional: GEL denominated IFI bonds issued totaling $100 million to increase access of local currency credit for SMEs, including (i) $20 million by BSTDB in November 2015, (ii) $60 million by EBRD in June 2016, and (iii) $30 million by ADB in June 2016	The equivalent of $110 million in GEL-denominated IFI bonds was issued, as scheduled.
			Additional: Law on Registration Fees approved by Parliament waiving bond issuance fees by IFIs to support capital market devt. and securities issuance by IFIs	Law was approved on 22 June 2016.
			Additional: To prepare companies for corporate securities and align the legal acts regulating accounting and auditing with EU directives, the draft Law of Accounting, Reporting and Auditing is prepared and submitted to Economic Council for review	Law was approved on 8 June 2016.
Enhancing access to finance for small business financing	MOESD establishes the EDA with adequate staffing, work plan and budget of	MOESD allocates a budget of GEL21 million to the Entrepreneurship	MOESD allocates a budget of GEL25 million to the Entrepreneurship	EDA is increasingly involved in nurturing the SME industry, becoming the main

Policy Actions	Subprogram 1 2014	Subprogram 2 2015	Subprogram 3 2016	Status at Program Completion
and development with gender targeting	GEL110 million for 2014–2018 allocating GEL19 million for 2014	Development Agency **Indicative: budget of GEL20 million**	Development Agency	institution to support SMEs. Its budget is annually renewed. In 2017, EDA received GEL45 million. By the end of 2018, the overall budget will exceed the initially earmarked budget of GEL110 million.
	MOESD establishes the Innovation and Technology Agency with adequate staffing, work plan and allocated budget of GEL20 million for 2014–2016 allocating GEL6 million for 2014	MOESD allocates a budget of GEL6 million to the Georgia Innovation and Technology Agency	MOESD allocates a budget of GEL8 million to the Georgia Innovation and Technology Agency	GEL8.3 million was allocated to GITA in 2016, and GEL6.2 million in 2015.
	EDA (within its budget) establishes a concept for a matching grant facility and other financial products for micro, small and medium-sized enterprises with GEL3 million with 20% earmarked for women's businesses	EDA (within its budget) expands matching grant facility for micro, small and medium-sized enterprises by GEL4 million, depending on performance /fund utilization, with 30% earmarked for women businesses	EDA (within its budget) expands matching grant facility for micro, small and medium-sized enterprises by GEL5 million, depending on performance /fund utilization, with 40% financing earmarked for women businesses	The gender targets were achieved for the respective years (Appendix 4, GAP matrix). The matching grant scheme continues, with a sustained focus on promoting women entrepreneurs. Special attention is paid to business training for women that will increase access to finance for female entrepreneurs.
	GITA (within its budget) establishes financial instruments like mini grants, matching grants and innovation vouchers to support private sector innovation and technology development with GEL2 million, with 20% earmarked for women businesses	GITA (within its budget) expands financial instruments to support private sector innovation and technology development with GEL3 million, depending on performance/fund utilization, with 30% earmarked for women businesses	GITA (within its budget) expands financial instruments to support private sector innovation and technology development with GEL4.5 million, depending on performance/fund utilization, with 40% earmarked for women businesses	From 2014 onwards, GITA started implementation of various grant programs: - The mini grants program, launched in 2014, granted awards to 17 beneficiaries. - The micro grants program, launched in 2015, provided grants to 130 beneficiaries in 2015-2016.

Policy Actions	Subprogram 1 2014	Subprogram 2 2015	Subprogram 3 2016	Status at Program Completion
				- Startup Georgia, launched in 2015, financed 20 start-ups. - The matching grant program was further enhanced in 2016 and will start in September 2017.
	Government adopts Gender Action Plan, which ensures equal participation of men and women in economic and business activities, equal participation in professional and business educational programs. Special attention is paid to business training for women that will increase access to finance for female entrepreneurs	Government implements the gender action plan and publicly reports on results included in the program policy areas such as small business training and financing	Government implements the gender action plan and publicly reports on results included in the program policy areas such as small business training and financing	The gender action plan involves various ministries working on promoting equal chances for women, including the "Produce in Georgia" program under MOESD.
		Additional. EDA launches a new program "Produce in Georgia" targeting micro and small enterprises development in rural areas with an allocated budget of GEL20 million		"Produce in Georgia" is the flagship program of EDA, targeting micro, small, medium-sized, and large enterprises. The initiative also supported 5 successful film projects made in Georgia.
		Additional. GITA creates a training and knowledge-exchange platform Geolab and a R&D fablab with a budget of GEL1.1 million		GITA allocated GEL1.1 million to Geolab and R&D fablab.

BSTDB = Black Sea Trade & Development Bank, EBRD = European Bank for Reconstruction and Development, EDA = Entrepreneurship Development Agency, EU = European Union, FMIS = financial management information system, GDP = gross domestic product, GEL = lari, GITA = Georgia Innovation and Technology Agency, GRS = Georgia Revenue Service, IFI = international financial institution, LEPL = legal entity of public law, LSG = local self-government, MOESD = Ministry of Economy and Sustainable Development, MOF = Ministry of Finance, MOLHSA = Ministry of Labor, Health and Social Affairs, NBG = National Bank of Georgia, PFMS = public financial management system, PDEFD = Public Debt and External Financing Department, PPP = public–private partnership, R&D = research and development, SMEs = small and medium-sized enterprises, SOE = state-owned enterprise, TSA = treasury single account.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

L3190-91/L3282-83/L3417-18 – Improving Domestic Resource Mobilization Program

Covenants	Reference in loan agreement	Status of compliance
The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.	LA Article IV Section 4.01 (a)	Complied with.
In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to the Special Operations Loan Agreement.	LA Article IV Section 4.01 (b)	Complied with.
The Borrower shall make available, promptly as needed and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources, as required, in addition to the proceeds of the Loan, for the carrying out of the Program and for the operation and maintenance of the Program facilities.	LA Article IV Section 4.02	Complied with.
The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.	LA Article IV Section 4.03	Complied with.
The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.	LA Article IV Section 4.04 (a)	Complied with.
The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	LA Article IV Section 4.04 (b)	Complied with.
As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	LA Article IV Section 4.05	Complied with.
In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.	LA (Special Operations) Article IV Section 4.01	Complied with.
The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.	LA (SO) Article IV Section 4.02 (a)	Complied with.
The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	LA (SO) Article IV Section 4.02 (b)	Complied with.

As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	LA (SO) Article IV Section 4.03	Complied with.
<u>Implementation Arrangements</u> The MOF shall be the Program Executing Agency and shall be responsible for the overall implementation of the Programmatic Approach, including compliance with all policy actions, disbursements and maintaining records. The MOF and MOESD shall be the implementing agencies for the Programmatic Approach.	LA (SO) Schedule 4 Para 1	Complied with.
The Borrower shall form a Program Steering Committee comprising senior officials from both the MOF and MOESD and which shall be chaired by the Deputy Minister of Finance. The Program Steering Committee will meet semi-annually to review progress in achieving the agreed policy actions under the Programmatic Approach.	LA (SO) Schedule 4 Para 2	Complied with.
The Borrower shall ensure that MOF and MOESD are adequately staffed and provided with the necessary financial, technical and other resources to perform their respective functions as executing or implementing agencies under the Programmatic Approach. ADB shall closely collaborate with MOF and MOESD on the technical support for the policy actions contemplated under the second and subsequent subprograms of the Programmatic Approach.	LA (SO) Schedule 4 Para 3	Complied with.
<u>Policy Dialogue and Actions</u> The Borrower shall ensure that all policy actions adopted under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Programmatic Approach.	LA (SO) Schedule 4 Para 4	Complied with.
The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Programmatic Approach and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take into account ADB's views before finalizing and implementing any such proposal.	LA (SO) Schedule 4 Para 5	Complied with.
<u>Use of Counterpart Funds</u> The Borrower shall ensure that the Counterpart Funds are used to support financing of the implementation of certain programs and activities consistent with the objectives of the Programmatic Approach.	LA (SO) Schedule 4 Para 6	Complied with.
<u>Governance and Anticorruption</u> The Borrower, MOF and MOESD shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate	LA (SO) Schedule 4 Para 7	Complied with.

directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.		
The Borrower shall carry out a review of the Program with the participation of ADB for the design of the remaining subprograms of the Programmatic Approach. The review shall take into account experiences from Program implementation and recommendations from other ADB assistance to the Borrower in the finance sector. The Borrower acknowledges that the review described in this paragraph does not obligate ADB to make loans for any further subprogram under the Programmatic Approach and that any further subprogram for the Programmatic Approach is subject to ADB Board approval.	LA (SO) Schedule 4 Para 8	Complied with.

GENDER ACTION PLAN

Narrative analysis:

The gender action plan (GAP) was implemented as envisaged under subprogram 2 and 3 (subprogram 1 had less focus on gender and was qualified as having some gender elements, while subprograms 2 and 3 were qualified as effective gender mainstreaming). Gender activities were supported in 3 out of 4 outputs, and aimed to have an impact on the long-term objective of the program—citizens, particularly women, benefiting from higher living standards and more employment opportunities. The program design was highly relevant to the targeting of women, particularly by increasing the in-house audit capacity of the Georgia Revenue Service for pension reform, and the development of micro and small-sized enterprises (SMEs). The GAP counts 8 gender-related activities and 18 targets. All were extracted from the policy matrix. Sex-disaggregated data have been used to report on results for most targets, both quantitative and qualitative.

Under output 2 (strengthening revenue management), increasing the in-house audit capacity of the Georgia Revenue Service achieved its quantitative target. Over the program period, 397 in-house tax auditors were appointed, of which 186 (47%) are women. While the high share of women tax auditors is an achievement on its own, it will also impact the treatment that women managers and entrepreneurs will be receiving during future tax audits.

Under output 3 (pension reform), gender balance is maintained across the overall pension system. While quantitative performance indicators were used, sex-disaggregated data are being used to report on the achievements. Under the universal pension, the retirement age—65 years for men and 60 years for women—is retained. Women benefit proportionally more from the universal pension, and 70% of the pensioners in 2013 were women. The arrangement under the private pension, which is still under preparation, sets age 70, both for men and women, as the maximum age of contribution. Women can expect a lower replacement rate from the accumulations in their private pension accounts because on average they have shorter careers and lower average wages. The combined pensions will eventually lead to a higher replacement rate and higher living standards for the elderly, both men and women.

Under output 4, enhancing access to finance through small business financing and development, gender targets were set for women entrepreneurs under the matching grant programs of the Entrepreneurship Development Agency (EDA) and Georgia's Innovation and Technology Agency (GITA). Between 2014 and 2016, EDA's matching grant facility supported a total of 4,909 beneficiaries in the start-up or expansion of 3,204 SMEs, for an aggregate amount of GEL23 million; 1,933 beneficiaries (40%) were women. GITA provides grant support for innovative projects. The successful implementation of the grant programs will lead to more employment, both for men and women, but ensuring that there is a fair share of women benefiting from the programs. The matching grant programs of EDA and GITA are set to continue, at least in the near term. The focus will remain on giving equal chances to women entrepreneurs. EDA management said it would be challenging to reach the 40% target set under the program, and expects around 35% of the entrepreneurs benefiting from the matching grants to be women.

The program was *successful* in promoting gender equality, using sex-disaggregated data for reporting of results, as demonstrated above. The program was equally *successful* in achieving the GAP targets; 100% of GAP activities are implemented and completed, and 100% of gender-related targets have been achieved.

A case study of the program impact on increasing women's economic development, access to finance, skills, and incomes

Nato Phkhaladze
Dry fruit production
Grant amount: GEL5,000

Nato is a 26-year-old individual entrepreneur residing in Zemo Khandaki, a village in the Shida Kartli region, with her husband and three children. In 2014, she wanted to start her own business in dry fruit production but did not have the knowledge for starting a business or the resources for purchasing the equipment. When she learned about the EDA program through the local community where she lives, she decided to apply. She was selected, received training, including on finance and accounting, and was given start-up capital for her business. Nato purchased a machine for dry fruit production, paying 20% out of her own pocket.

Nato is pleased with her new business because it provides extra income for the family and allows her to be home often to look after her small children. Nato is also pleased with her new network. The entrepreneurs receiving EDA support were invited during the training to discuss their needs. Nato kept in contact with a few women in various regions of Georgia who were successful as well; in fact, some of them have bigger production volumes. Nato is happy and content with the opportunity given by EDA. In future, she would like to apply for other business-funding opportunities.

Source: Asian Development Bank, regional gender specialist.

Activities	Performance Indicators / Targets	Responsibility	Subprogram 1	Subprogram 2	Subprogram 3
Output 1. Improved Management of Debt, Cash and Fiscal Risk					
Output 2. Strengthened Revenue and Public Expenditure Management					
MOF increases effectiveness and efficiency of revenue collection by increasing in-house audit capacity	By September 2014, GRS approves an action plan to phase out the Alternative Audit Program and to increase capacity of in-house audit, including in specialized sectors	MOF	GRS approved the action plan to phase out the Alternative Audit Program and to launch recruitment of in-house auditors including women.		
	By September 2015, GRS increases the number of in-house tax auditors to at least 275 (from the current 230 of which 110 are women), correspondingly decreasing the number of alternative auditors	MOF		GRS recruited 286 in--house auditors, of whom 147 are women, which is more than 50% of all recruits.	
	By September 2016, GRS completes the phasing-out of alternative auditors by increasing the number of in-house tax auditors to at least 330, of which 150 are women	MOF			GRS increased the recruitment of in-house auditors to 397, of which 186 are women (47%). A further 80 interns are expected to graduate to auditor positions by mid-2016.
Output 3. Enhanced Generation of Domestic Savings					
MOESD and MOLHSA streamline the universal pension (zero pillar)	By September 2015, relevant government agencies prepare the pension system revisions, which ensure continuity of equitable treatment for men and women	MOF, MOESD, MOLHSA		Revisions to the universal pension system retained the retirement age for men at 65 and for women at 60, with continued equitable treatment of men and women.	
	By September 2016, Government approves the pension system revisions, including the indexation mechanism for the universal pension, and ensures continuity of equitable treatment for men and women	MOF, MOESD, MOLHSA			Cabinet approved the pension reform document on 18 March 2016, including the indexation mechanism for the universal pension, ensuring the continuity of equal treatment for men and women.

Activities	Performance Indicators / Targets	Responsibility	Subprogram 1	Subprogram 2	Subprogram 3
MOESD establishes a sustainable private pension savings system with quasi-mandatory elements (pillar 2)	By September 2015, MOESD completes analysis of key areas of pension system design and structure for continued equitable treatment of men and women under pillar 2	MOESD		Pension system reform options were prepared under pillar 2, including options to provide equitable treatment for men and women.	
MOESD launches a communication campaign on benefits of voluntary and mandatory occupational savings	By September 2015, an approach is developed for public awareness programs for pillars zero and 2, outlining specific measures for continuity of equitable treatment of men and women	MOESD		Public awareness campaign developed, including specific measures to ensure that women are properly informed and engaged in the process, and for continuity of equitable treatment of men and women.	
	By September 2016, MOESD launches a communication campaign with nationwide public awareness drives on benefits of the hybrid pillar, including gender aspects, and staffs the pension reform unit to prepare a public outreach strategy	MOESD			Some of the links are: http://www.palitravideo.ge/gadacemebi/saqme/66176-qsaqmeq-stumari-othar-dzidzikashvili.html http://www.for.ge/view.php?for_id=42018&bloger_id=22&cat=12 http://politcommersant.ge/detalpage.php?newsid=4319 http://radio1.ge/ge/videos/view/159685.html
Output 4. Increased Mobilization of Private Resources for Investment					
MOESD spearheads development of capital markets for mobilizing long term finance	By September 2016, a public awareness campaign on benefits of capital market reform is launched including gender aspects, investor protection, financial instruments for investment, long term savings, and close links with pension reforms	MOESD			Some of the links are: http://1tv.ge/ge/videos/view/154371.html http://www.for.ge/view.php?for_id=42018&bloger_id=22&cat=12
EDA enhances access to finance through small business financing and development with gender targeting	By September 2014, at least GEL3 million is provided to micro, small and medium-sized enterprises as a matching grant facility to spur investments, of which at least 20% is allocated to women entrepreneurs	EDA	20% of matching grants have been allocated to women entrepreneurs.		
	By September 2015, at least GEL4 million is provided to micro, small and medium-sized enterprises as a matching grant facility to spur	EDA		30% of matching grants have been allocated to women entrepreneurs.	

Activities	Performance Indicators / Targets	Responsibility	Subprogram 1	Subprogram 2	Subprogram 3
	investments, of which at least 30% is allocated to women entrepreneurs				
	By September 2016, at least GEL5 million is provided to micro, small and medium-sized enterprises as a matching grant facility to spur investments, of which at least 40% is allocated to women entrepreneurs	EDA			From 2014 to 2016, EDA's matching grant facility supported a total of 4,909 beneficiaries in the start-up or expansion of 3,204 SMEs for a total amount of GEL23 million; 1,933 of the beneficiaries (40%) were women.
GITA enhances access to finance through small business financing and development with gender targeting	By September 2014, at least GEL2 million is provided to small and medium-sized enterprises as financial instruments to support private sector innovation and technology development, of which at least 20% is allocated to women entrepreneurs	GITA	20% of financing was provided to women entrepreneurs to support innovation.		
	By September 2015, at least GEL3 million is provided to small and medium-sized enterprises as financial instruments to support private sector innovation and technology development, of which at least 30% is allocated to women entrepreneurs	GITA		30% of financing was provided to women entrepreneurs to support innovation.	
	By September 2016, at least GEL4.5 million is provided to small and medium-sized enterprises as financial instruments to support private sector innovation and technology development, of which at least 40% is allocated to women entrepreneurs	GITA			40% of financing was provided to women entrepreneurs to support innovation.
Government implements the gender action plan	By September 2014, the government adopts the gender action plan, which ensures equal participation of men and women in economic and business activities, and equal participation in professional and business educational programs. Special attention is paid to business training	MOF, MOESD	The GAP was adopted with the goal to increase women's participation in economic sectors. The provisions include capacity building support for engaging women		

Activities	Performance Indicators / Targets	Responsibility	Subprogram 1	Subprogram 2	Subprogram 3
	for women that will increase access to finance for female entrepreneurs		from various vulnerable groups as well as promotion of women in agribusiness, and access to finance and business training for female entrepreneurs.		
	By September 2015, the government implements the gender action plan and publicly reports on results included in the program policy areas such as small business training and financing	MOF, MOESD		The government has implemented the GAP with the provision of 33.6% of matching grants to women entrepreneurs and 40% of financing provided to women entrepreneurs to support innovation. MOESD and MOA cooperated by establishing the "Produce in Georgia" program, which also includes promotion of women's entrepreneurship in agriculture.	
	By September 2016, the government implements the gender action plan and publicly reports on results included in the program policy areas such as small business training and financing	MOF, MOESD			The government has implemented the GAP, achieving the performance targets, and publicly reported on the results.

ADB = Asian Development Bank, EDA = Entrepreneurship Development Agency, GAP = gender action plan under the program, GITA = Georgia Innovation and Technology Agency, GRS = Georgia Revenue Service, MOA = Ministry of Agriculture, MOESD = Ministry of Economy and Sustainable Development, MOLHSA = Ministry of Labor, Health and Social Affairs, SMEs = micro and small-sized enterprises.

Note: impact = citizens, particularly women, benefit from higher living standards and more employment opportunities; outcome = effective mobilization of domestic resources for more public and private investment.

[a] Technical assistance supports this activity.