



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 25-Jun-2019 | Report No: PIDC26962



BASIC INFORMATION

A. Basic Project Data

Country Georgia	Project ID P169913	Project Name Georgia Economic Management and Competitiveness Development Policy Operation (P169913)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Board Date Mar 17, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Government of Georgia	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

To support the Government’s program of reforms for faster, inclusive and sustainable growth by: i) improving economic management through better monitoring fiscal risks, introducing evidence-based policy making and improving the efficiency of public resource use and ii) strengthening competitiveness through promoting more competitive markets, deepening of the financial sector, improved teacher qualifications, and strengthened investment promotion.

Financing (in US\$, Millions)

SUMMARY

Total Financing	50.00
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DETAILS

Total World Bank Group Financing	50.00
World Bank Lending	50.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Georgia has established a strong record in reforming its economy; however, poverty remains widespread. Today,



Georgia has a sound macroeconomic framework, a good business environment and robust public financial management arrangements. The economy is responding positively; growth has been robust, entrepreneurship is flourishing and living conditions are improving. Between 2007 and 2018, GDP per capita grew at an average annual rate of 5.4 percent. Coupled with a system of targeted social transfers, this helped to nearly halve the poverty rate from 37.4 percent in 2007 to 20.1 percent in 2018. Still, roughly one in every five Georgians is still poor, and almost half the population is vulnerable to falling into poverty while inequality remains high. While income-earning opportunities are the most effective way out of poverty, unemployment remains high with job creation constrained by weak productivity as well as economic dualism between vibrant urban areas and the rest of the country.

Productivity growth is held back by limited global integration and suboptimal deployment of the country's human and natural assets, while macroeconomic and environmental challenges to sustainability remain. The contribution of productivity to growth has been declining, while the share of exports of goods and services in GDO lags the average for the EU-11. Further improving hard infrastructure and matching these improvements with reforms that create more competitive and open network industries can help better integrate Georgian firms and develop Georgia's transit potential. In addition, firm growth and job creation is held back by a shallow financial and capital markets, fragmented business support arrangements and significant informality. And even when jobs are created, firms report that finding the adequate skills is a major constraint. Also, while Georgia's business environment is characterized by a low administrative burden, businesses consider markets concentration to be high. Furthermore, while fiscal management has been, in general, prudent, fiscal space remains constrained as the authorities try to balance the commitment to low taxation with boosting spending on priorities. Vulnerabilities also stem from growing contingent liabilities. On the environmental side, recent data suggest that extreme wet and dry episodes have increased in both frequency and amplitude. This could result in more frequent occurrence of floods and landslides with immediate risks to growth and livelihoods.

Relationship to CPF

The proposed DPO is an important part of the World Bank Group's engagement in Georgia. The proposed DPO is closely linked to the pathways towards reducing poverty and boosting shared prosperity identified in the Georgia Systematic Country Diagnostic (SCD). The competitiveness pillar contributes to the SCD top priority of unlocking productivity growth, among other things by improving internet connectivity, supporting development of globally-integrated businesses and increasing the qualifications of teachers. At the same time, the economic management pillar will support the SCD high priority of ensuring sustainable growth by strengthening fiscal and financial sector resilience. Drawing on the SCD, the Bank's FY19-FY22 Country Partnership Framework (CPF) focuses on: i) enhancing inclusive growth and competitiveness; ii) investing in human capital and iii) building resilience, with the proposed DPO directly supporting the achievement of objectives along all three focus areas, including improving connectivity and integration, diversifying sources of finance, improve quality in education system, improving macro-fiscal management and so on. The proposed DPO builds on the policy dialogue initiated under previous DPO series on competitiveness, but also technical assistance (TA) and advisory activities, such as the PEFA and TA to the preparation of the PFM strategy, the National Broadband Strategy and the investment promotion strategy.

C. Proposed Development Objective(s)

The DPO would support GOG program of reforms to achieve faster, inclusive and sustainable growth, by: i) improving economic management through better monitoring fiscal risks, introducing evidence-based policy making and improving the efficiency of public resource use and ii) improving private sector competitiveness through promoting more competitive markets, deepening of the financial sector, improved teacher qualifications, and strengthened investment promotion.



Key Results

The economic management pillar of the proposed operation is expected to contribute to improved disclosure of fiscal risks, greater transparency of the public sector and improved service delivery. The competitiveness pillar will reduce the anticompetitive practices of firms, improve internet availability and affordability, introduce evidence-based tools in decision making, deepen the financial sector and introduce more effective targeting of investment promotion efforts.

D. Concept Description

The first pillar, with a focus on economic management, would support government efforts to strengthen the budgetary framework through more accountable local governments, ability to better quantify fiscal risks, introduce regulatory impact assessment in policy making, stronger public investment management arrangements, and more effective public procurement. The second pillar, with its emphasis on enhancing competitiveness, would support reforms to strengthen the framework for more competitive markets, overall and in telecoms specifically, deepen the financial sector, improve teacher qualifications, and strengthen investment promotion. Given Georgia's environmental vulnerability, addressing environmental challenges will strengthen the basis for economic growth and build climate resilience, by embedding environment considerations in decision making and promoting environmentally friendly sectors.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

The actions included in this DPO are expected to yield neutral to small positive poverty and social impacts in the medium to long-term. The actions supported under the “economic management” pillar will likely result in improved fiscal risk management, more transparent public procurement and investment systems, and increased collaboration between local and national governments in budget and financial issues. The actions included under the “Promoting Competitiveness” pillar are expected to have a positive effect on poverty by reducing the costs of ITC services for households and firms; by improving the quality of education and the matching of skills to the requirements of the labor market (with a positive medium to long-term effect on individuals' earnings potential and participation in the labor force); by boosting job creation through enhanced access to capital markets for the private sector; and by improving the efficiency of insurance markets.

Environmental Impacts

The proposed prior actions for the operation do not carry environmental risks with some of the actions expected to have positive impact on the environment. The prior action on the PIM framework is expected to result with more effective implementation of the PIM Guideline, which would also include its requirement for environmental and social assessments to be undertaken for proposed public investment projects. The prior action on introduction of RIA will have a positive impact on the environment, given that in line with the June 2019 amendments to the Law on Normative Acts, the RIA is required to also include an assessment of the impact of proposed policies over the environment. In addition, the prior action on investment promotion could indirectly have positive impact as one of the criteria used in the selection of priority sectors has been the environmental sustainability of the technology.



CONTACT POINT

World Bank

Evgenij Najdov, Mariam Dolidze
Senior Economist

Borrower/Client/Recipient

Government of Georgia

Implementing Agencies

Ministry of Finance
Nikoloz Gagua
Deputy Minister
n.gagua@mof.ge

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Evgenij Najdov, Mariam Dolidze
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Approved By

Country Director:	Mercy Miyang Tembon	26-Jun-2019
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