

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

October 20, 2015  
Report No.: 100937

<b>Operation Name</b>	Second Programmatic Inclusive Growth DPO (DPO2)
<b>Region</b>	Europe and Central Asia
<b>Country</b>	Georgia
<b>Sector</b>	Public administration- Education (27%); Public administration- Health (18%); General public administration sector (37%); Public administration- Other social services (18%)
<b>Operation ID</b>	P156444
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	Ministry of Finance, Georgia
<b>Implementing Agency</b>	Ministry of Finance, Georgia
<b>Date PID Prepared</b>	October 20, 2015
<b>Estimated Date of Appraisal</b>	March 10, 2016
<b>Estimated Date of Board Approval</b>	April 28, 2016
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key Development Issues and Rationale for Bank Involvement**

The Georgian growth run over the past decade was fueled by large foreign capital inflows and significant policy reforms during the pre-crisis years and by high public capital spending during the post-crisis recovery period. Overall, growth during 2004-14 was largely powered by services, construction and non-tradables in general. However, a decade of strong economic growth in Georgia has not succeeded in making a significant dent on the unemployment rate. The government has been successful in attracting foreign investors to the country and the economy has experienced sustained growth with the exception of 2008-09. Net job creation, however, remained weak and by 2014 the overall unemployment rate was 12.4 percent. The majority of the work force is employed in agriculture (mostly self-employed in family subsistence farming), but the sector contributes to only 8 percent of GDP. Low productivity levels in agriculture have contributed significantly to high rural poverty. Limited employment opportunities have left various sections of the population vulnerable.

There has been a significant progress in poverty reduction and shared prosperity in recent years. The poverty rate, estimated using the \$2.5/day PPP poverty line, fell from 46.7 percent in 2010 to 32.3 percent in 2014 and the mean consumption of the bottom 40 grew by 8.3 percent annually in the same period, exceeding the growth enjoyed by the population overall.<sup>1</sup> Inequality in Georgia is higher than in the ECA region on average with a Gini coefficient of 40.1 in

---

<sup>1</sup> Consumption growth among the bottom 40 percent was 8.3 percent during 2010-14 compared with 6.4 percent for the population as a whole.

2014. In contrast with previous periods, Georgia has been able to translate economic growth in recent years into poverty reduction. The main channels of transmission has been redistributive social policies, among which the means-tested Targeted Social Assistance and old-age pensions are the most important components, and increased earnings, observed across all sectors of activity in the country (wages increased on average by 10 percent annually during this period, with rates over 6 percent observed in all industries). Net employment creation has been low until recently, explaining the limited role it has played in poverty reduction. Despite the continuous downtrend in poverty in recent years, large urban-rural disparities persist. Rural poverty was nearly double the poverty in urban areas in 2014 (43 percent against 21 percent). High youth unemployment in urban areas and limited income opportunities beyond subsistence farming in rural areas are the main challenges for sustainable poverty reduction in the future.

The objectives of this operation are consistent with the new development strategy of the government and the CPS which focuses on areas in which the Bank has a comparative advantage. These include convening power, rigorous analytical work, and the ability to leverage assistance from development partners. The policy actions supported by this DPO targets the government's most urgent development challenges and builds on previous development policy operations. The previous series of DPOs concentrated on structural reforms to build competitiveness for sustained growth.

The reforms supported by the previous DPO series were anchored in public finances (modified cash basis IPSAS and coverage of LEPLs in the e-budget), social sectors (universal health coverage, upgraded standards for hospitals and primary health care, increased efficiency of pensions), and improvements in competitiveness (adoption and implementation of framework laws on competition, food safety and free movement of products, improved customs efficiency, power sector reliability, and general education). The current DPO series lays the foundation for inclusive growth by furthering reforms in the areas of public financial management and the social sectors. Specific actions already taken by the government in these areas include the following: the government has included the general government, legal entities of public law and non-profit legal entities in the Public Financial Management Information System, universal health care has been introduced, the new methodology for targeted social assistance has been adopted, steps have been taken to improve maternal and neo-natal care and Georgians now need prescriptions to buy certain medicines. In addition, the new law on civil services has been adopted.

## **II. Proposed Objective(s)**

The program development objectives are to (i) Strengthen fiscal oversight of public institutions and improve budgeting and the framework for civil service reform; and (ii) Improve coverage and quality of social services and strengthen monitoring of outcomes.

Pillar I supports greater fiscal oversight of public institutions (state-owned enterprises), and improvements in budgeting and the framework for civil services. This will help better monitor fiscal risks emanating from SOEs, improve capital budgeting and strengthen the framework within which civil servants operate. Pillar II supports improvements in the coverage and targeting of social expenditures, quality of education and healthcare services, and monitoring of outcomes. This will provide support to the twin goals of poverty reduction and higher

consumption growth, strengthen human capital and enable evidence based policy making. Reforms supported by this operation will help both in inclusion and inclusive growth.

The DPO objectives under the two pillars are anchored in the government's development strategy. Pillar I maps to the pre-condition of macroeconomic stability and effective public administration while Pillar II maps to the priority of human capital development. The first generation reforms which started a decade back have helped Georgia improve its business environment, achieve sustained growth rates and maintain low inflation. However, socio-economic vulnerabilities persist. Further improvements in the living standards of Georgians will therefore need to come from other areas. These include investment in human capital, enhanced private sector competitiveness, and fiscal, social and environmental sustainability. A supportive macro-fiscal environment will remain a necessary condition. This operation supports government reforms in some of these areas. Private sector competitiveness is being supported by another development policy operation which focuses on improvements in the business environment, deeper access to finance, and enhanced capacity to export and innovate.

### **III. Preliminary Description**

The program is designed around 2 pillars. The prior actions under the first pillar include adoption of capital budgeting guidelines, establishment of a financial database for SOEs and the adoption of the new Law on Civil Services. The prior actions under the second pillar include revisions to the newly adopted TSA methodology, expansion in the list of outpatient medicines covered under the TSA, piloting of the enhanced obstetric and neonatal care, categorization of general education teachers, adoption of a credit accumulation manual for teachers, adoption of pre-school standards and curriculum, a resolution to hold the census every 10 years and to conduct a separate labor force survey.

### **IV. Poverty and Social Impacts and Environment Aspects**

#### ***Poverty and Social Impacts***

The overall poverty, social, and gender impact of the actions supported by this operation are expected to be positive. Under the first pillar, the adoption of the civil services reform is noted for its attention to gender equality as it will provide equal opportunities to men and women in the civil service cadre. Under the second pillar, the expansion of the list of outpatient medicines for TSA beneficiaries under the UHC package will have a positive distributional impact by reducing out-of-pocket health expenditures for the vulnerable. Piloting enhanced obstetric and neonatal care will have a positive distributional and gender impact by reducing the incidence of maternal and infant mortality. It will also have a positive gender impact through improved health outcomes for women. Improved management of human resources in education will have a positive gender effect as women comprise 85 percent of school teachers.<sup>2</sup> Periodic census every 10 years and availability of more frequent data on the labor market and living conditions will also have a positive distributional impact, although not directly. The effect will come through a

---

<sup>2</sup> 2014/2015 data. GeoStat based on Ministry of Education and Science of Georgia. Retrieved on 10/19/2015 from: [http://geostat.ge/cms/site\\_images/files/english/education/Number%20of%20General%20Education%20School%20Teachers.xls](http://geostat.ge/cms/site_images/files/english/education/Number%20of%20General%20Education%20School%20Teachers.xls)

better government monitoring and evaluation system which should lead to better targeted and more effective social policies. In addition, both the household and labor force surveys could consider survey instruments that strengthen the monitoring of labor market outcomes and poverty patterns for important sub-groups such as TSA recipients or those living in sparsely populated regions.

### ***Environment Aspects***

The proposed prior actions for the second operation will have an indirect positive impact on the environment and will carry no environmental risks. The prior actions under the first pillar include adoption of capital budgeting guidelines, establishment of a financial database for SOEs and the adoption of the new Law on Civil Services. The inclusion of environmental and social assessment criteria in the capital budgeting framework will have a positive impact on the environment. The prior actions under the second pillar include revisions to the newly adopted TSA methodology, expansion in the list of outpatient medicines covered under the TSA, piloting of the enhanced obstetric and neonatal care, categorization of general education teachers, adoption of a credit accumulation manual for teachers, adoption of pre-school standards and curriculum, a resolution to hold the census every 10 years and to conduct a separate labor force survey. Improved learning outcomes in natural sciences, in response to improved teacher quality, will lead to greater environmental awareness among the younger generation. In addition, a timely census will lead to improved planning and management of natural resources like fuelwood and water.

### **V. Tentative Financing**

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development	50
Total	50

### **VI. Contact Point**

#### ***World Bank***

Contact: Mona Prasad  
Title: Sr Country Economist  
Tel: (202) 458-8757  
Fax: (202) 522-2753  
Email: mprasad@worldbank.org

#### ***Borrower***

Contact: Mr. David Lezhava  
Title: Dy Minister of Finance  
Tel: (995 32) 2261455  
Email: d.lezhava@mof.ge



**VII. For more information contact:**

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Web: <http://www.worldbank.org/infoshop>