



Report and Recommendation of the President to the Board of Directors

Project Number: 43496
August 2010

Proposed Loan Georgia: Social Services Delivery Program

CURRENCY EQUIVALENTS

(as of 12 August 2010)

Currency Unit	–	lari (GEL)
GEL1.00	=	\$0.5434
\$1.00	=	GEL1.8403

ABBREVIATIONS

ADB	–	Asian Development Bank
FDI	–	foreign direct investment
GDP	–	gross domestic product
IMF	–	International Monetary Fund
LEPL	–	legal entity of public law
LIBOR	–	London interbank offered rate
MOF	–	Ministry of Finance
MOES	–	Ministry of Education and Science
MOLHSA	–	Ministry of Labor, Health, and Social Affairs
UNICEF	–	United Nations Children's Fund

NOTES

- (i) The fiscal year (FY) of the government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Georgia for the Social Services Delivery Program. The program will help sustain essential public expenditures on social services delivery and social protection in Georgia as the economy recovers from the global financial crisis, while promoting greater effectiveness in delivering these benefits and efficiency in financing them.

II. THE PROGRAM

A. Rationale

2. Economic recovery is underway in Georgia, but short-term fiscal support is required to maintain critical social expenditures. Georgia has in 2010 continued to recover from the economic impacts of the August 2008 war and the global financial crisis. However, recovery has been slower than anticipated. While the real gross domestic product (GDP) growth rate for 2010 is projected at 4.5%, an increase from 2.3% in 2008 and -3.9% in 2009, revenue shortfalls continue to exert pressure on public expenditures, particularly on social services spending. Foreign direct investment has also been slow to rebound. With support from the Asian Development Bank (ADB), the International Monetary Fund (IMF), the World Bank, and other development partners, the government is responding to post-conflict economic challenges. At the time of the 2009 emergency loan, the expectation was that recovery would be faster and that further support would not be needed, but it is evident that revenue recovery takes time and, thus, further fiscal support is needed to maintain critical social services and protection at a level that preserves the broader safety net for the poor and socially vulnerable.

3. Government expenditures on social services delivery and social protection have consistently increased. The government has a fairly comprehensive program for health, education, and social security coverage. It has a set of programs and measures to simplify and improve their targeting and efficiency. They target the 21% of the population categorized as generally poor¹ and the 8.8% categorized as extreme poor.² Public expenditures on social services and social protection significantly mitigate the incidence of poverty in Georgia. The share and levels of social sector and social assistance expenditures in the budget have increased substantially since 2004 and are expected to be maintained at adequate levels.³ In 2004–2009, education expenditures increased by six fold, health by 131%, and social protection by 262%. The largest increases were in 2005–2006. In addition, the basic pension rose substantially from GEL18 per month in 2004 to GEL80 in January 2010.

4. Yet, the government wishes to address a range of quality and quantity concerns in the delivery of social services. While the increasing resource allocation for social sector and social assistance programs signals the importance the government attaches to delivering adequate services of high quality, a few key challenges remain: (i) access to primary health care services, (ii) training of teachers based on professional standards adopted by the government, (iii) investment in health and education infrastructure, (iv) increasing health care costs and insufficient health insurance coverage, (v) low savings rates for income replacement in retirement, and (vi) unemployment. The current situation highlights the need for long-term

¹ The generally poor are defined as those consuming 60% or less of the consumption median, and the extreme poor as consuming 40% or less. Source: National Statistics Office of Georgia (accessed 1 June 2010).

² National Statistics Office of Georgia (accessed 1 June 2010).

³ Education expenditures increased from GEL65.3 million in 2004 to GEL459.1 million in 2009, health from GEL147.3 million to GEL339.8 million, and social protection from GEL364.3 million to GEL1,319.8 million. As a share of total state budget expenditures, education was 3.4% in 2004 and 7.4% in 2010, health was 7.6% in 2004 and 6.1% in 2010, and social protection was 18.9% in 2004 and 18.5% in 2010. Low inflation means increases have been substantial in real terms.

strategic planning, coordinated solutions, and capacity strengthening. ADB's post-conflict and crisis-related assistance in 2008 and 2009 provided much-needed fiscal support, while not burdening the government with a reform agenda as it worked toward a swift recovery. ADB staff have been engaged in background analysis and policy discussions in most areas covered in this program since late 2008 to ensure that ADB assistance is aligned with a well-defined policy and institutional framework. The proposed program will supplement ADB's ongoing and planned projects to promote municipal services and water supply and sanitation for the population at large, including the vulnerable.

5. Education outputs and outcomes can be improved. Since 2003, the government has undertaken wide-ranging educational reforms that have contributed to a more efficient utilization of resources by enhancing schools' financial management capacity, improving the monitoring and reporting of academic attainment, increasing the autonomy of schools through decentralization, improving curricula and teachers' salaries, and improving basic school infrastructure throughout Georgia. School net enrollment rates were, in 2008, 98.7%, with near gender parity.⁴ At the same time, learning outcomes, benchmarked through international comparative achievement tests including the Progress in International Reading Literacy Study⁵ and the Trends in International Mathematics and Science Study are below the scale average,⁶ and teacher proficiency varies across schools and regions.

6. The government aims to increase access to health services and their quality. The health care system in Georgia is in transition from large state-owned hospitals predominantly focused on providing specialist-based curative care to in-patients to a health care system in which the private sector is the primary provider of services, with financing coming from a combination of state-financed and private health insurance. The long-term sustainability of the system has come under pressure as medical services are unable to meet demand from a population increasingly beset by non-communicable diseases⁷ and with lengthening life expectancy at birth.⁸ Child, infant, and neonatal mortality rates have fallen in recent years but are still high, reflecting shortcomings in the maternal health care system. State health programs⁹ do not provide the population with full health care coverage, which leads to relatively high out-of-pocket expenses for health care.¹⁰ Only citizens below the poverty line are covered by state medical insurance programs, which provide a comprehensive health care package with in-patient and ambulatory services and 50% reimbursement of essential pharmaceuticals up to a ceiling of GEL50 per year. The 16 state programs covered 18% of the population in 2009, or more than 806,000 people. In addition, the state-subsidized health care insurance, which provides a basic package for emergency health care and full coverage of ambulatory services for 124,000

⁴ According to World Bank net enrollment data in 2008. Net enrollment ratio is the ratio of children of official school age based on the International Standard Classification of Education 1997 who are enrolled in school to the population of the corresponding official school age. <http://data.worldbank.org/indicator/SE.PRM.NENR> (accessed 10 May 2010).

⁵ Georgia ranked 37th among 45 countries in the distribution of average reading achievement, scoring 471 points, which is below the scale average of 500 (Progress in International Reading Literacy Study. 2006. 2006 *International Report*. Massachusetts).

⁶ According to TIMSS results for 2007, Georgia ranked 33rd among 48 countries in the distribution of 8th grade average mathematics scores, scoring 410 points, which is below the scale average of 500, and ranked 27th among 36 countries in the distribution of 4th grade average mathematics scores, scoring 438 points, which is below the scale average of 500 (US Department of Education, http://nces.ed.gov/timss/table07_1.asp) (accessed 10 May 2010).

⁷ The number one cause of death is cardiovascular disease (National Statistics Office of Georgia).

⁸ For women, from 74.2 years in 1990 to 79.0 years in 2008; and for men from 66.5 years in 1990 to 69.3 years in 2008 (National Statistics Office of Georgia).

⁹ Georgia has 16 state-financed medical service programs.

¹⁰ Out-of-pocket payments cover 70% of health care expenses.

voluntary enrollees, or 2.8% of the population.¹¹ However, continuing lack of sufficient resources and capacity in health service delivery adversely affect public well-being and productivity.

7. Inadequate public pensions need to be augmented by private pensions. The public pension system in Georgia provides Georgian male citizens over the age of 65 and female citizens over the age of 60 with an old-age pension and a bonus based on length of service. The public sector also provides a disability pension and payments to surviving family members, as well as a range of specialized but limited pension payments.¹² Monthly universal pensions are low at GEL80 per person, which is below the official individual subsistence level of GEL114 per month¹³. Monthly utility bills and uninsured medical care can readily exceed this amount. As such, the elderly depend on other social assistance and intergenerational family support. Private sector pension savings plans are limited in coverage, as no more than 16,328 people save this way. There were 838,493 pensioners in 2009, or 19% of the population. Population projections suggest a growing number of elderly, exacerbated by a low fertility rate currently at 1.7, which raises the elderly dependency ratio. The rising number of possible pensioners and limited alternative opportunities to save will have implications for pension costs and place a growing burden on the rest of society as it supports the elderly.

8. The need to achieve gender equality is gaining greater attention. Lower incomes, less capacity for accumulating life savings, and longer life expectancy¹⁴ increase the dependence of women on national social services and protection. The number of households headed by women is substantial, at 36.4%.¹⁵ These households face a greater risk of falling into extreme poverty.¹⁶ In rural areas, where poverty is more prevalent, women are the most vulnerable.¹⁷ Vulnerability results in gender inequality that explains gender gaps in incomes and access to health, education, and social protection services. Gender stereotyping is evident in technical, professional, and postgraduate students' selection of courses. Women are disinclined to venture into male-dominated fields in science and technology, which yield higher-paid jobs, and remain in traditionally female occupations that have lower income potential.

9. **Proposed program.** The government has requested ADB support to maintain essential expenditures on social services delivery and social protection as the economy recovers, while promoting greater effectiveness in service delivery and efficiency in financing benefits. The proposed lending modality is a single-tranche program loan of \$100 million from ADB's ordinary capital resources. The proposed loan complements ADB's earlier emergency loan of \$70 million for post-conflict recovery in 2008 and \$80 million in quick-disbursing financial support to mitigate the adverse impact of the global economic crisis in 2009.¹⁸ The program will cover September 2009–September 2010, include short-term sector reforms, and lay the groundwork for medium-term reforms. The proposed program is consistent with ADB's Strategy 2020, which is anchored

¹¹ The state covered 75% of the cost of this private emergency care health insurance. The remaining 25%, equal to GEL5 per capita per month, has to be shouldered by the beneficiary.

¹² Social Service Agency, www.ssa.gov.ge (accessed 1 June 2010).

¹³ GEL114 is minimum subsistence level for an individual consumer as of July 2010. National Statistics Office of Georgia (accessed 28 August 2010)

¹⁴ ADB. 2009. *Key Indicators for Asia and the Pacific 2009*. Manila. The average life expectancy of Georgian women is 80.64 years, or 7 years longer than the 73.61 years for Georgian men.

¹⁵ Ministry of Economic Development of Georgia. 2008. *Women and Men in Georgia*. Tbilisi (p. 30).

¹⁶ World Bank. 2009. *Poverty Assessment, 2009*. Washington, DC. A quarter of Georgian households headed by women and 23.1% of households headed by men are poor, with incomes of GEL71.6 or less per month; and 11.3% households headed by women and 8.6% households headed by men are extremely poor, with incomes of GEL47.1 or less.

¹⁷ World Bank. 2009. *Poverty Assessment, 2009*. Washington, DC. Among those classified as poor, 58.9% resided in rural areas.

¹⁸ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for the Growth Recovery Support Program*. Manila. ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for the Emergency Assistance for Post-Conflict Recovery*. Manila.

on inclusive growth and focuses on the core areas of finance sector development and education.¹⁹ It is also consistent with ADB's Operational Plan for Improving Health Access and Outcomes under Strategy 2020.

10. There is strong continuity in ADB's assistance. The program builds on post-conflict and post-crisis recovery loans disbursed in 2008 and 2009 whose objective was to maintain public expenditures. The program focuses on service delivery reforms to (i) ensure the maintenance of social service and social protection expenditures; (ii) support reform momentum in these sectors, which reflects strong government commitment; and (iii) implement Strategy 2020 on inclusive growth with a focus on finance sector development and education.²⁰ ADB assessed social service delivery programs and expenditure requirements as part of 2008–2009 budgetary support. A regional pension assessment that included Georgia was also undertaken.

11. The program takes into account the linkage between the loan and macroeconomic conditions in Georgia. It (i) provides a revenue cushion by compensating for the slower-than-anticipated rise in revenues and thereby helping maintain expenditures, particularly in social sectors, and (ii) helps leverage reforms. To ascertain an appropriate size for the program, consideration is given to Georgia's overall financing requirements as well as those for social sectors over the period of planned operation, in addition to the importance of these sectors. The overall macro picture is one ingredient, but a financing gap also needs to be filled and there are financing requirements for these sectors. Health, education, and social protection occupy 32% of the total state budget for FY2010.

12. The program complements support provided by other development partners as verified through close cooperation and shared information. The World Bank has provided budgetary support through a series of development policy loans that cover multiple sectors. The European Union supports social assistance but in areas complementary to this program. The IMF has a standby arrangement to ensure macroeconomic, fiscal, and external sector stability.

B. Impact and Outcome

13. The long-term impact of the program is sustainable and inclusive social sector financing. The outcome is more effective, efficient, and gender-responsive delivery of social services and social protection.

C. Outputs

14. The program has four outputs: (i) effective and gender-equitable coverage of social services, (ii) initiatives to support retirement needs, (iii) inclusive allocation of resources for education and health and establishing standards, and (iv) sound management of public resources for social services delivery and social protection.

1. Output 1: Effective and Gender-Equitable Coverage of Social Services

15. More effective coverage of beneficiaries can improve the targeting of social services. The government has undertaken two key measures in the program. First, it has implemented the administration of the medical insurance program for the poor through the Social Service Agency. Implementing program administration under a single agency such as the Social Service

¹⁹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

²⁰ Health, an additional area under the long-term strategic framework, is included because these reforms are vital to development, productivity, social inclusion, and gender equity. Gender equity, a crosscutting theme under Strategy 2020, is included in program design.

Agency will increase effectiveness in managing information about social service beneficiaries and in targeting social services delivery while also enabling more effective coverage of beneficiaries. Second, it has adopted the landmark Law of Georgia on Gender Equality, which (i) ensures full and equal access to health care and social assistance without discrimination; (ii) provides specific support for maternity care, family planning, and protecting women's reproductive rights;²¹ and (iii) supports equal conditions in general, vocational, and tertiary education.²²

2. Output 2: Initiatives to Support Retirement Needs

a. Review of Changing National Retirement Needs

16. A review of the impact of social needs can promote opportunities for income security after retirement. The Ministry of Labor, Health, and Social Affairs (MOLHSA) has initiated—partly to follow up on earlier pension assessment done by ADB, its own work—a structured dialogue in the government on the long-term impact of changing pension costs for men and women and of national demographics (i.e., an aging population) and the budgetary implications arising from these changes.

b. Broader Investment Policy for Private Pension Funds Encouraged

17. A strengthened legal and regulatory framework can support the further development of private pensions. The enactment of amendments to the Law on Non-State Pension Insurance and Provision will enable private pension funds to diversify their investment options and will promote information disclosure. Specifically, the amendments contribute to greater disclosure as pension documents are to indicate the investment direction of the pension scheme and how its financial results will be reflected in pension accumulation (i.e., whether profits or losses incurred through fund investments will be taken into account). Hence, private pension funds will not be required to make good any aggregate losses in any accounting period, as was previously required when investment profit was defined as income from investments less expenses but not losses. Moreover, the amendments support more informed decision making by promoting better disclosure of information by private pension funds. The National Bank of Georgia's approval of amendments to secondary legislation for the Law on Non-State Pension Insurance and Provision will facilitate the implementation of the law.

3. Output 3: Inclusive Allocation of Resources for Education and Health and Establishing Standards

a. Health Services Designed to Reflect Health Care Needs

18. Improved service delivery standards and better trained medical staff can improve access to health services and their quality to better meet health care needs. Building on work initiated after the conflict, the government has adopted revised minimum service standards for service providers for hospitals, outpatient care, and medical laboratory services participating in the government's medical insurance program. The government has issued a decree on standards for health care facilities that cover (i) service protocols and procedures; (ii) facilities for hygiene, disinfection, and waste material; (iii) the maintenance of adequate medical documentation; and (iv) qualification requirements for medical staff. MOLHSA has developed a special program on quality assurance for pharmaceuticals to ensure product adequacy and safety. During

²¹ Law of Georgia on Gender Equality, Chapter II, Article 9 and Chapter III, Article 13, para. 2.

²² Law of Georgia on Gender Equality, Chapter II, Article 4, para. 2.b and Chapter III, Article 7.

implementation of selective control of pharmaceutical products the State Regulation Agency for Medical Activities can provide visual inspection, verifying the status of packaging-marking, usability, right to distribution, and observance of requirements by the law.

b. Improved Quality of Teachers and Access to Education for Students from Socially Vulnerable Families

19. Teacher training and more resources for textbooks and grants can improve the quality of teachers and access to education for students from families below the poverty line. The Ministry of Education and Science (MOES) has implemented professional standards for teachers by launching the voluntary certification of teachers, disbursing vouchers to finance training for approximately 12,000 teachers to help them meet certification requirements for subjects included in certification exams in 2010. As of mid-August 2010 at least 11,000 teachers have taken the training. The MOES budget for FY2010 allows textbooks to be purchased for at least 50,000 school children from families below the poverty line. MOES set aside resources in FY2010 for tertiary education for students from socially vulnerable families where at least 470 such students will receive grants to cover the costs of their 4-year undergraduate programs.

4. Output 4: Sound Management of Public Resources for Social Services Delivery and Social Protection

a. Improved Transparency

20. Effective planning and budget processes enable the efficient management of public resources to ensure the delivery of social services and protection. The Ministry of Finance (MOF) has expanded the coverage of selected legal entities of public law (LEPLs)²³ from 28 to 111 to enhance transparency and resource management through a more comprehensive monitoring framework and completed a report on budget execution for these LEPLs. In addition, MOF has taken the important step of adopting a program to strengthen disclosure in state procurement, which includes special forms to be submitted monthly by the state procurement agency.

b. Internal Audit of General Management, Control, and Risk Management Efficiency Improved

21. Improved internal audit can help improve service delivery. The enactment of the Law on State Internal Audit and Inspection, supported under the program, will help strengthen internal audit and inspection. This is an area where ADB was engaged in policy dialogue in 2008–2009 based on work done by the World Bank and the European Union. This law provides for the establishment of internal audit units and financial management and control functions in ministries. To implement the Law on State Internal Audit and Inspection, the National Center of State Internal Control was established as an LEPL under MOF, and a pro forma charter for internal audit units, prepared based on international standards and best practices, was distributed to at least 10 ministries toward establishing their own internal audit units. MOLHSA and MOES will, in line with the Law on State Internal Audit and Inspection, establish internal audit units (with functional independence). ADB plans to follow up on the establishment of such units in ministries that execute ADB projects.

²³ LEPLs are public bodies established to implement specific programs or functions.

D. Program Costs and Financing

22. The government faces tough socioeconomic challenges and is committed to addressing them with well-designed initiatives. It has laid out its medium-term reform priorities in several documents. *United Georgia Without Poverty*²⁴ outlines the government's development program for 2008–2012, establishing policy directions regarding economic growth, job creation, focusing the budget on social programs, extending health insurance for the poor, and strengthening higher education. In addition, the government annually prepares the basic data and directions strategy document, the 2009–2012 edition of which includes (i) strengthening the social safety net by raising pensions, expanding social assistance coverage, and improving its targeting; (ii) expanding access to medical insurance with state subsidies for the poor; and (iii) improving the quality of education by enhancing teacher training and bringing public schools in line with modern standards and equipment. The government allocated in 2010 GEL1,599.2 million to MOLHSA, or 23.7% of the overall budget, reflecting a 66% increase in nominal terms over 2007. This includes GEL1,161.3 million for social programs, of which GEL895.9 million is allocated to state pensions and compensations. MOES received an allocation of GEL561.7 million, which included voucher funding for public schools and other education expenditures.²⁵

23. To effectively support these reform priorities, support socially vulnerable and weak groups, and sustain inclusive economic growth, the government has requested a loan of \$100 million from ADB's ordinary capital resources to help finance the program. The loan will have a 15-year term, including a grace period of 3 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the draft loan agreement. The government has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility, and (ii) an undertaking that these choices were its own independent decision and not made in reliance on any communication or advice from ADB. To ascertain the size of the program, ADB has considered Georgia's overall financing requirements, the financing needed for social sectors over the program period, and the importance of these sectors.

E. Implementation Arrangements

24. MOF will be the executing agency for the program. MOES, MOF, MOLHSA, and the National Bank of Georgia will be the implementing agencies. Loan proceeds will be used to pay for items procured in ADB member countries, other than the items specified in the list of ineligible items and imports financed by other bilateral and multilateral sources. The proceeds of the loan will be disbursed following the satisfaction of policy actions and upon effectiveness in accordance with ADB's simplified disbursement procedures and related requirements for program loans. Loan proceeds disbursed against imports will require a certificate from the government stipulating that the value of the total imports of Georgia, minus its imports from nonmember countries, ineligible imports, and imports financed under other official development assistance, is equal to or greater than the amount of the loan expected to be disbursed during that particular year. ADB reserves the right to audit the use of loan proceeds to verify the accuracy of the government's certification.

²⁴ Government of Georgia. 2008. *United Georgia Without Poverty 2008*. Tbilisi.

²⁵ Government of Georgia, MOF. 2010. *A Citizen's Guide to the 2010 State Budget of Georgia*. Tbilisi (January).

III. DUE DILIGENCE

A. Economic and Financial

25. According to simulations, public expenditures on social protection significantly mitigate the incidence of poverty in Georgia. Without pension payments, poverty in 2007 would have been almost 10 percentage points higher; without targeted social assistance, poverty would have been about 2 percentage points higher.²⁶ Total social spending has risen in real terms by 10% in the post-war period of 2008–2010, despite overall budget cuts in response to the crisis. The estimated budget deficit for 2010 is GEL1,241 million. The government faces a financing gap that needs to be covered with external borrowing. With the enactment of the Law of Georgia on Gender Equality, the program can help achieve the Millennium Development Goals of promoting gender equality, empowering women, and improving maternal health. This law, when operationalised, provides for legal mechanisms and conditions for its implementation in the respective areas of public life.

B. Governance

26. Georgia has made good progress in implementing public financial management reforms that address the fiduciary concerns of development partners engaged in budget support. To address the weaknesses raised in the 2008 public expenditure and financial accountability report,²⁷ annual action plans for MOF²⁸ and the National Center of State Internal Control²⁹ were developed to more efficiently use and strategically allocate public resources. These action plans support (i) program budgeting, (ii) budget preparation and approval, (iii) resource management, (iv) internal control, and (v) accounting and reporting. The government has conducted regular reviews of these systems.³⁰ The Chamber of Control, the national audit institution of Georgia, which reports directly to Parliament, undertakes annual audits of all public expenditure programs. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the Ministry of Finance of Georgia.

C. Poverty and Social

27. In 2009, the United Nations Children's Fund (UNICEF) reported on an analysis of the Georgia Welfare Monitoring Survey, 2009, and the World Bank assessed poverty in Georgia. These reports show that social transfers account for an increasing share of households' monetary income, making them important lifelines for Georgia's poor. The UNICEF report finds that pensions are an effective tool for reducing poverty.³¹ The World Bank's assessment emphasizes that the double shock of the conflict in 2008 and the financial crisis slowed the decline of poverty in 2008 and 2009. The proposed budget support program is important to assure efficient and effective financing of social services delivery and social protection for the increasing number of vulnerable and weak people in Georgia. Tentative conclusions from the June 2010 joint needs assessment progress report find that development partners' budgetary

²⁶ United Nations and the World Bank. 2010. *Georgia Joint Needs Assessment, Donor Funding in Support of Post-Conflict Recovery and Reconstruction, A Second Progress Report*. Tbilisi (15 June).

²⁷ World Bank and European Commission. 2008. *Georgia: Public Expenditure and Financial Accountability*, Tbilisi (November).

²⁸ Government of Georgia, MOF. 2010. *Public Finance Management Reform Action Plan 2010*. www.pfm.ge

²⁹ Government of Georgia, MOF. 2010. *State Internal Audit Action Plan 2010*. Tbilisi; Government of Georgia, MOF 2009. *Internal Audit Progress Report 2009*. Tbilisi; and Government of Georgia, MOF. 2009. *Strategic Concept for Reforms of Internal Financial Control within the Public Sector of Georgia*. Tbilisi (March).

³⁰ Government of Georgia, MOF. 2009. *Public Finance Management Reform, Annual Progress Report, 2009*. Tbilisi; and Government of Georgia, MOF. 2009. *Internal Audit Progress Report 2009*. Tbilisi.

³¹ UNICEF and the University of York. 2009. *How Do Georgian Children and Their Families Cope with the Impact of the Financial Crisis?* Tbilisi.

support has averted a collapse of domestic demand triggered by reduced consumer and lender confidence and has significantly supported employment. Consolidating the management of a range of social benefits using a single registry and application system—which is applied to health insurance vouchers, targeted social assistance, benefits for internally displaced persons, and electricity vouchers—has proved successful in alleviating poverty. Rapid disbursements into a budget that is macroeconomically sound and socially responsible provide, with appropriate safeguards, an efficient channel for supporting social and infrastructure spending and providing a countercyclical stimulus.

28. The Government of Georgia passed in March 2010 the Law on Gender Equality, which underpins the importance of equal participation for men and women in the development of a market economy. In line with this law, gender-equality perspectives will be included in state programs for economic development and poverty reduction, as well as in employment policies. In Georgia, gender gaps are evident in labor force participation, the representation of women in decision-making positions in the government, labor laws, remuneration, and the division of traditional household roles. In 2007, 48% of women were employed, compared with 63% of men. Most women reported as employed are self-employed. A significant portion of the female workforce works in agriculture, which is mostly subsistence and not included in the formal sector.

D. Safeguards

29. The program is categorized as C regarding impacts on the environment, involuntary resettlement, and indigenous peoples.

E. Risks and Mitigating Measures

30. Georgia faces a number of significant but manageable risks and vulnerabilities.³² The risks include the following:

- (i) **Macroeconomic risks.** Economic activity has picked up, but weak private capital inflows and sluggish credit growth point to a slow recovery in 2010. After the sharp drop in foreign direct investment (FDI)—which, prior to the crisis, was the main engine of growth—inflows returned in the fourth quarter of 2009 but appear to be weak in 2010, dropping by 42% in the first quarter compared with the same period in 2009. The slow rebound of FDI in the first quarter of 2010 has been a factor behind pressures in foreign exchange markets, with the government now counting on FDI resumption in the second half of 2010. The slow easing of credit conditions also presents risks.
- (ii) **Public financial management constraints.** Notwithstanding significant reforms in recent years, public finances can do little to mitigate the impact of the global financial crisis. Capacity constraints exist in public finance management, including formulating a public expenditure program to mitigate the impact of the global financial crisis and ensuring that available resources are efficiently utilized and strategically allocated toward government priorities.

31. Should the risks be realized, they would deepen and lengthen the economic downturn and require greater external adjustment, including greater adjustment of the exchange rate, possible further downsizing of public expenditure plans, and additional external financing.

³² The Risk Assessment and Risk Management Plan (Appendix 2).

32. The risks are mitigated by a number of factors, including recent positive trends that could gain momentum, sustained in part by the improved external economic environment. Most pledges of external assistance are on track, and the government and the IMF have intensified macroeconomic monitoring. Ongoing programs supported by several development partners provide technical assistance to strengthen financial management. The government is committed to ambitious deficit reduction. Because of contained expenditures and an expected recovery of tax revenues with a rebound in GDP growth and tax measures, the fiscal deficit is expected to improve from 9.2% of 2009 GDP to 6.3% of 2010 GDP. The program will realize immediate benefits and create positive externalities. Measures have been incorporated into program design to address risks, provided that the government's commitment to and implementation of policy and fiscal reforms continue in a reasonably stable economic and political environment. The benefits of the program are expected to outweigh its costs.

IV. ASSURANCES

33. The government has assured ADB that the implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan documents.

34. The government has agreed with ADB on certain covenants for the program, which are set forth in the loan agreement.

V. RECOMMENDATION

35. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$100,000,000 to Georgia for the Social Services Delivery Program from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Haruhiko Kuroda
President

30 August 2010

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Sustainable and inclusive social sector financing</p>	<p>Improved coverage of the poor and vulnerable resulting in lower poverty incidence from 22.1% in 2008^a to 19% in 2013^b</p> <p>Gross national private savings as a percentage of GDP increases from –3.4 in 2008 to 1.8 in 2013</p> <p>Budget expenditures for health, education, and social protection maintained at around 32% of total state budget</p>	<p>ADB's country performance assessments</p> <p>National Statistics Office of Georgia</p>	<p>Assumptions Macroeconomic stability</p> <p>Government gives priority to social services for the socially vulnerable.</p> <p>Risks FDI does not return to pre-crisis levels.</p> <p>Inability to finance measures to improve social services delivery.</p>
<p>Outcome More effective, efficient, and gender-responsive delivery of social services and protection programs</p>	<p>Socially vulnerable have equitable access to education</p> <p>Population has equitable access to improved health care services</p> <p>Public finance management strengthened with establishment of internal audit units in relevant ministries</p>	<p>Government budget (MOF)</p> <p>National Statistics Office of Georgia</p>	<p>Assumptions Good development partner coordination</p> <p>Implementing ministries remain committed to social services delivery reforms.</p> <p>Risk Institutional capacity to develop and implement reforms affected by the economic crises</p>
<p>Outputs 1. Effective and gender-equitable coverage of social services</p>	<p>Increased percentage of poor among beneficiaries of social services and protection from 68% in 2009 to 71.5% in 2010^c</p> <p>Collection of sex-disaggregated data in official statistical reports under the provisions of the Law on Gender Equality when operationalised</p>	<p>ADB's country performance assessment</p> <p>National Statistics Office of Georgia</p> <p>Copy of signed Law on Gender Equality</p>	<p>Assumption Reforms completed in a timely manner and the recommendations supported by participating ministries</p>
<p>2. Initiatives to support retirement needs</p>	<p>Structured dialogue within the government on long-term impact of changing pension costs for men and women</p> <p>Implementation of the Law on Non-State Pension Insurance</p>	<p>Minutes of MOLHSA meetings</p>	

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
3. Inclusive allocation of resources for education and health and establishing standards	<p>Minimum standards for health-care facilities adopted</p> <p>Professional standards for teachers adopted</p> <p>At least 470 grants awarded for tertiary education to students from socially vulnerable families</p> <p>Textbooks allocated to at least 50,000 schoolchildren from families below the poverty line</p> <p>Approximately 12,000 teachers received financial support for training for certification examinations (at least 50% of the beneficiaries are women)</p>	<p>Government resolutions on standards of health care facilities</p> <p>MOES records of grants awarded and teachers who received financial support</p>	
4. Sound management of public resources for social services delivery and social protection	<p>Transparency enhanced with increased coverage of report on budget execution from 28 to 111 LEPLs</p> <p>Internal audit systems and procedures established in accordance with international standards</p>	<p>MOF report on budget execution</p> <p>MOLHSA and MOES decrees establishing their internal audit units</p>	

<p>Activities to be completed by September 2010</p> <p>1.1 Government to implement the medical insurance program for the poor through the Social Service Agency and improve social services delivery</p> <p>1.2 Government to address gender equality in health care and education</p> <p>2.1 MOLHSA to initiate structured dialogue within the government on changing retirement needs for men and women, national demographics, and budgetary implications arising from these changes</p> <p>2.2 Parliament to enact amendments to the Law on Non-State Pension Insurance and Provision</p> <p>3.1 Government to adopt revised minimum service standards for service providers for hospitals, outpatient care, and medical laboratory services participating in the government's medical insurance program</p> <p>3.2 MOLHSA to develop a special program of quality assurance for pharmaceuticals</p> <p>3.3 MOES to provide voluntary certification of teachers and vouchers for training for certification examinations</p> <p>3.4 MOES to allocate budget to purchase textbooks for school children from families from below the poverty line</p> <p>4.1 MOF to complete report on budget execution for selected LEPLs</p> <p>4.2 Parliament to enact the Law on State Internal Audit and Inspection</p> <p>4.3 MOF/National Center of State Internal Control to distribute to ministries pro forma charter for internal audit units that meet international standards and best</p>	<p>ADB loan of \$100 million</p>
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<p>Activities to be completed by September 2010 practices, and ministries to establish internal audit units 4.4 MOES and MOLHSA to establish internal audit units (with functional independence) and financial management and control functions</p>	
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ADB = Asian Development Bank, FDI = foreign direct investment, GDP = gross domestic product, LEPL = legal entity of public law, MOES = Ministry of Education and Science, MOF = Ministry of Finance, MOLHSA = Ministry of Labor, Health, and Social Affairs.

^a Poverty data from National Statistics Office of Georgia.

^b Based on government growth projections.

^c Data from Social Service Agency.

^d There are 70,000 teachers in Georgia in 2,200 public schools and 200 private schools.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=43496-01-3>

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Project Classification Summary
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Country Economic Indicators
7. International Monetary Fund Assessment Letter
8. Summary Poverty Reduction and Social Strategy
9. Gender Action Plan
10. Risk Assessment and Risk Management Plan
11. List of Ineligible Items

DEVELOPMENT POLICY LETTER

საქართველოს უმინისტრო
პირველი



MINISTER OF FINANCE
OF GEORGIA

№ 07-01/12668

23 08 2010

Mr. Haruhiko Kuroda
President of the Asian Development Bank
Manila, Philippines

Subject: Request for ADB's support to maintain critical social services and social protection in Georgia at a level that does not weaken the broader safety net cover for the poor and vulnerable.

Dear President Kuroda,

A. Introduction. Georgia's recent performance and the impact of the Russian intervention in Georgia and the global financial and economic crisis.

I am writing to you to request ADB assistance in our efforts to deal with the impact that the Russian intervention in Georgia and the global financial and economic crisis have had on the Georgian economy. This letter explains Georgia's recent economic performance and highlights measures taken to address the consequences of the exogenous shocks that our economy currently faces.

Pre-crisis economic performance. The Government has since 2004 implemented broad economic and governance reforms to maintain macroeconomic stability; create a more business friendly environment—Georgia's rank in the World Bank's Doing Business Report improved from 112th place in 2005 to 11th place in 2010; strengthen public finances; upgrade infrastructure including enhanced energy sustainability; and improve education, health and social services delivery and social protection. These reforms served to attract FDI flows which in net terms more than tripled during the period 2005 - 2007. Together, reforms and FDI flows contributed to real GDP growth of 9.6% in 2005, 9.4% in 2006, and 12.3% in 2007.

Structural and institutional reform. Governance and institutions necessary for the business environment to flourish have been reformed, in particular in regards to anticorruption measures. Accountability and transparency mechanisms have been established within the government; the competitive private sector has been promoted as the main engine of growth, and the state has played a supportive role by providing basic public goods and services including education and health services delivery as well as introduction of a well targeted social safety net to protect the extreme poor. In regards to public financial management, reforms have enabled substantial improvements in tax collection and compliance, all this in the context of reduced number of taxes and of tax rates. Consolidated budget revenues have increased from GEL2,267 million in 2004 to GEL5,264 million in 2009. The improved fiscal policy and administration has enabled the Government to increase public expenditures in education and health services, to increase pensions, start addressing infrastructure development needs, and to provide targeted social assistance for the poor and the most vulnerable.

The Georgian economy was on a strong growth track up to until mid-2008.

The impact of the Russian intervention in Georgia and of the global financial and economic crisis. The August 2008 Russian intervention in Georgia compounded by the effects of the global financial and economic crisis dealt a shock to economic growth. The cumulative impact of these two developments triggered negative economic and social repercussions for Georgia. Investor, lender and consumer confidence weakened, liquidity in the banking system contracted, public finances came under stress, physical infrastructure was damaged, and numbers of internally displaced persons increased. The major impact of the intervention was a fall in investment, domestic and foreign, a steep decline in economic growth and rising unemployment. The economy grew at 2.3% in 2008 and contracted by 3.9% in 2009. The economic downturn led to a fall in fiscal revenues, thereby jeopardizing critical programs and fiscal stability. The social burden arose chiefly from the high number of the internally displaced persons, which led to the need for shelter, food and social services programs.

The fiscal deficit. The overall fiscal deficit widened from 6.3% in 2008 to the equivalent of 9.2% of GDP in 2009. Yet the overall nominal level of expenditures (general government, including capital expenditures) in 2009 was 1.4% lower than in 2008. This means that the increase in the overall fiscal deficit (as a share of GDP) can be attributed primarily to the fall in GDP and in tax revenues (down by 7.7% in 2009). The higher fiscal deficit has been financed primarily through external borrowing (including direct budget support financing from donors), thus leading to an external public debt increasing from 21% of GDP in 2008 to 32% in 2009.

B. The Government's response to the crisis.

Responding to the crisis. The Government responded with a swift and effective post-war recovery program. The fiscal stance was relaxed as a countercyclical response to the investment and output shocks, and immediate liquidity and regulatory support was provided to banks. The countercyclical stimulus has been accompanied by measures to further optimize the budget and to prioritize expenditures, including increased emphasis on health, education and social protection (especially for the poor and socially vulnerable) and cuts in other areas such as defense. The effectiveness and size of the countercyclical support effort benefited from rapidly arranged external assistance from key development partners like ADB but also the IMF, the World Bank, and other development partners. This is particularly evident in the case of budget support operations which made it possible for public expenditures to respond flexibly, swiftly, and effectively to economic circumstances.

Economic recovery. As a result of the Government's countercyclical response to the economic downturn, improving investor confidence and the improving external environment, Georgia is showing signs of recovery with real GDP growth rate for 2010 projected at 4.5%. In the first six months of 2010, exports were up 40.4% (year-over-year); first quarter tax revenues were up 13% (excluding one off payments), and in April S&P raised its long-term foreign and local currency sovereign credit ratings of Government of Georgia to 'B+' from 'B' with short-term ratings affirmed at 'B' with stable outlook. However, despite a rebound in foreign direct investment inflows of 13.4% in the second half of 2009, inflows were weak in 2009 as compared to 2008.

As economic activity continues to take hold, the Government is committed to phasing out the countercyclical stimulus and implementing quality fiscal adjustment. We are committed to preserving and reinforcing Georgia's sustainable macroeconomic framework. Our medium-term macro-fiscal framework projects a reduction of the overall fiscal deficit from 9.2% of GDP in 2009 to 6.3% in 2010 and further to below 3% by 2013. In implementing fiscal adjustment, we are committed to further enhancing expenditure efficiency by safeguarding key social and infrastructure expenditures and by moving forward with our program and capital budgeting, as required by our new budget code (adopted December 2009).

We are also committed to persevering with the ambitious medium-term structural reform as articulated in the annual Basic Data and Directions document which includes health care, education and social protection. Throughout, we remain committed to outcome-maximizing actions which are economically sound, technically feasible, and are designed to trigger positive long-term impact. Budget support can make an important contribution to the economic and social recovery and to further reinforcing the Government's capacity to effectively deliver on its commitments while at the same time

sustaining the momentum of far-reaching institutional and systemic reforms that are underway in Georgia.

C. Sector challenges

To increase effectiveness of social services delivery and of social protection, the Government has made substantive progress in ensuring that public finances are well managed and effectively allocated to areas of greatest needs. To this end, we have in the recent years made significant progress in implementing public finance management reforms which reduce fiduciary concerns for donor organizations engaged in budget support operations. In regard to social services delivery and social protection, we have continued to implement an innovative model of integrated social benefits administration with a key challenge being to continue to improve the coverage rate of the poor and extreme poor. Universal pensions have been increased from GEL18 per month in 2004 to GEL80 in 2010 but we need to continue to address the changing retirement needs of a population with an increasing elderly dependency ratio. In health services a key challenge is how to leverage or restart private investment in health facility infrastructure and to develop new mechanisms to facilitate the transparent and effective operation of the health insurance, health service and pharmaceutical markets. In education, while infrastructure, materials and emergency needs remain high on the list, reforms (training, teacher certification) at all levels of schooling remain important as well as increasing access to education for students from socially vulnerable families.

Despite budget constraints, we continue to place great importance on social services delivery and social protection and have budgeted for increase in total social expenditures in 2010.

D. Donor assistance

The Multi-Donor-Partner Joint-Needs Assessment

We have been working closely with all development partners, including ADB, to mobilize resources allowing us to plan and execute the public expenditure projects in the multi-year, multi-donor platform aligned with the Joint Needs Assessment (JNA) for Georgia, first prepared in October 2008 by the United Nations and the World Bank with participation of ADB. Progress reports have found that the recovery and reconstruction program continues to be impressive with donors having followed through their pledges with commitments and with the amounts for budget support having been adequate. Tentative conclusions as to the results of the large-scale donor interventions over this period indicate that budget support has helped to avert a collapse of domestic demand triggered by reduced consumer and lender confidence and has supported employment. The major priority is related to the need for fresh budget support in light of the still-weak and uncertain global recovery and the need to support social and investment activities through the budget.

Support from the International Monetary Fund

Our macroeconomic framework remains strong, adequate and backed the IMF Stand-by-Arrangement (SBA) approved in September 2008 and further augmented in August 2009. Our macroeconomic policies are guided by our commitment to gearing our exchange-rate, monetary and fiscal policies towards supporting macroeconomic stability, protecting our economy from shock associated with the global financial and economic crisis, and facilitating the process of macroeconomic adjustment. We have met the relevant quantitative performance criteria and structural benchmarks under the SBA and we remain committed to meeting all performance milestones.

E. Social Services Delivery Program

In the recent weeks and months, we have been working closely and productively with ADB colleagues who we believe share our views on the challenges that Georgia's economy is facing and on the ways forward.

The Government and the ADB team subscribe to the framework that is anchored on our macroeconomic stability approach defined above: the IMF SBA centered on the balance of payment support and on financial stability, the JNA framework centered on well-targeted multi-faceted support and on financial stability.

Bearing in mind our current circumstances, revenue shortfalls continue to exert pressure on public expenditures, particularly on social spending. As revenue recovery will take time, further fiscal support is thus needed to maintain critical social services and social protection at a level that does not weaken the broader safety net cover for the poor and vulnerable. We request that ADB provides budget support for Georgia for at least US\$100 million. This budget support shall be fully aligned with the multi year, multi donor assistance platform for Georgia, which in turn, is fully and comprehensively integrated in the Government's budget cycle framework. This budget support will allow for an almost immediate pass-through, allowing to build up liquidity and safety cushion which is essential for ensuring an uninterrupted implementation of the ongoing reform efforts.

By supporting Georgia's 2010 budget through the 'Social Services Delivery Program' ('Program'), ADB will stand shoulder to shoulder with our other major development partners, including the World Bank and the European Union. The Program-related objectives, policies and actions which we have agreed with the ADB Colleagues at the time of the Loan Negotiations on August 20, 2010 and which are outlined in the Policy Matrix of the Program are in line with the reforms and policies being implemented by the Georgian Government in the Program-related areas and they shall foster social services delivery and social protection in Georgia.

Effective and gender equitable coverage of social services. With the aim to increase effectiveness in managing information about social service beneficiaries and in targeting social services delivery while also enabling more effective coverage of beneficiaries, we have implemented the medical insurance program for the poor through the Social Service Agency. The Law of Georgia on Gender Equality has also been enacted, which ensures full and equal access to health care for the population; provides specific activities aimed at supporting maternity care, family planning and protection of women's reproductive rights, and supports equal conditions in general, vocational and tertiary education.¹

Initiatives to support retirement needs. To address changing retirement needs we have initiated a structured dialogue within the Government on the long-term impact of changing pension costs for men and women and aging population, and budgetary implications arising from these changes. A pension and social benefits review group will also be established within the year. In addition, in a move to further the development of private pension funds — which currently have limited coverage — amendments have been enacted that will enable the diversification of investment options for private pension funds and promote disclosure of information.

Inclusive allocation of resources for education and health and establishing standards. Building on work initiated in the last years, revised minimum service standards have been adopted for service providers for hospitals, outpatient care and medical laboratory services participating in the Government's medical insurance program. A special program on quality assurance of pharmaceuticals has also been developed to ensure product adequacy and safety. To strengthen proficiency levels among teachers professional standards for teachers have been implemented by launching certification of teachers on a voluntary basis and by disbursing vouchers to finance training for subjects included in certification exams. To increase access to education, budget has been allocated to purchase textbooks for at least 50,000 school children from families below the poverty line.

Sound management of public resources for social services delivery and social protection. To enhance transparency and resource management, we have expanded the coverage of selected Legal Entities of Public Law (LEPLs) from 28 to 111 and completed a report on budget execution for these LEPLs. We have also taken measures to strengthen internal audit and control by establishing

¹ Law of Georgia on Gender Equality, Chapter II, Article 4, paragraph 2; Chapter III, Article 7.

internal audit units and financial management and control functions in certain ministries. The National Center of State Internal Control has also been established.

Finally, allow me to assure you of our strong commitment to the principles of fullest accountability and transparency in the context of the public finance management and donor coordination. In the recent years, with support from our external partners, we have successfully implemented far reaching reforms aimed at improving public finance management as well as social service delivery and social protection. We welcome further cooperation with ADB aimed at sharing cross-border experience in social services delivery and social protection.

As we mentioned at the Annual Meeting of ADB in Tashkent in May of this year, the Government of Georgia deeply appreciated the Bank's timely support provided in 2008 and 2009. We look forward to working together in the context of mitigating the impact of the exogenous shocks on the well-managed Georgian economy.

F. Conclusion

On behalf of the Government of Georgia, I thank ADB for the strong partnership that is starting to influence Georgia's development prospects, especially in the midst the challenges we now face. We look forward to continuing this fruitful cooperation.

With sincere regards,



Kakha Baindurashvili

**POLICY MATRIX
FOR THE SOCIAL SERVICES DELIVERY PROGRAM**

Key Program Dimensions		Selected Indicators
Impact: Sustainable and inclusive social sector financing		<ul style="list-style-type: none"> Improved coverage of the poor and vulnerable resulting in lower poverty incidence from 22.1%¹ in 2008 to 19% in 2013² Gross national private savings in percent of GDP increases from -3.4 in 2008 to 1.8 in 2013. Budget expenditures for health, education and social protection maintained at around 32% of total state budget
Outcome: Improved effectiveness and efficiency of gender responsive social services delivery and social protection programs		<ul style="list-style-type: none"> Public finance management strengthened with establishment of internal audit units in relevant Ministries Socially vulnerable have equitable access to education Population has equitable access to improved health care services
Outputs	Actions for the Proposed Program	Follow-up Actions
1. Effective and gender-equitable coverage of social services		
1.1 Improved outreach to potential beneficiaries	<p>1.1.1 Government to improve social services delivery through implementation of the medical insurance program for the poor by the Social Service Agency.</p> <p>1.1.2 Government to improve gender equality in education and health care by:</p> <p>(a) ensuring that full and equal access to health care is provided to the population without discrimination,</p> <p>(b) providing specific activities aimed at supporting maternity care, family planning and protection of women's reproductive rights,³ and</p> <p>(c) supporting equal conditions in general, vocational and tertiary education.</p>	<ul style="list-style-type: none"> Medical assistance data used effectively in determining social assistance. Increase the percentage of "extremely poor"⁴ beneficiaries of social services and protection from 73% in 2010 to 76% in 2011; and of "poor" beneficiaries of social services and protection from 68% in 2009 to 71.5% in 2010. Implementation of the Law of Georgia on Gender Equality.

¹ Source for poverty data: National Statistics Office of Georgia

² Based on Government growth projections.

³ Law of Georgia on Gender Equality, Chapter II, Article 9; Chapter III, Article 13, paragraph 2.

⁴ Poor are calculated with respect to 60% of the median consumption (%) and extremely poor with respect to 40% of the median consumption (%). Source: National Statistics Office of Georgia

Outputs	Actions for the Proposed Program	Follow-up Actions
2. Initiatives to support retirement needs		
2.1 Changing national retirement needs reviewed	2.1.1 MOLHSA to initiate a structured dialogue within the Government on the long-term impact of changing pension costs for men and women and national demographics (i.e., aging population), and budgetary implications arising from these changes.	<ul style="list-style-type: none"> • Establish pension and social benefits review group Chaired by Minister of MOLHSA by June 2011.
2.2 Broader investment policy for private pension funds encouraged	2.2.1 Parliament to enact amendments to the Law on Non-State Pension Insurance and Provision to enable diversification of investment options for private pension funds and promote disclosure of information with respect to these funds.	<ul style="list-style-type: none"> • National Bank of Georgia, as regulator, monitors market reaction and interest among product providers in developing investment products.
3. Inclusive allocation of resources for education and health and establishing standards		
3.1 Health services provided reflect health care needs	3.1.1 MOLHSA to adopt revised minimum service standards for service providers for hospitals, outpatient care and medical laboratory services participating in the Government's medical insurance program.	<ul style="list-style-type: none"> • MOLHSA develops health care system reform for 2010–2013.
	3.1.2. MOLHSA to develop a program to improve the quality of pharmaceutical products through protecting consumers from unlicensed products or products that do not meet the quality requirements in Georgia. Such measures include: (a) implementation of administrative control over the distribution chain and acquisition of pharmaceutical product samples from the sellers, and (b) laboratory examination of the acquired samples.	<ul style="list-style-type: none"> • MOLHSA develops strategy to transfer national programs into insurance system.
3.2. Improved quality of teachers and access to education for students from socially vulnerable families	3.2.1 MOES to implement professional standards for teachers which were adopted by the MOES in 2009 by: (a) launching certification of teachers on a voluntary basis, and (b) ensuring that approximately 12,000 teachers have received financial support (through the issue of vouchers by the MOES) in 2010 for the training to help them meet certification requirements for subjects under the certification examinations of 2010 (of which at least 50% of such teachers are women).	<ul style="list-style-type: none"> • MOES conducts certification of teachers, including provision of related teacher trainings.

Outputs	Actions for the Proposed Program	Follow-up Actions
	3.2.2 MOES to allocate in the MOES budget for FY2010 GEL8.1 million for the purchase of textbooks for at least 50,000 school children from families below the poverty line.	<ul style="list-style-type: none"> • Distribution of books provided by the beginning of the academic year 2010-2011.
4. Sound management of public resources for social services delivery and social protection		
4.1 Improved transparency	4.1.1 MOF to complete report on budget execution for 111 selected LEPLs for the period between January and June 2010.	<ul style="list-style-type: none"> • MOF appraises results, provides comments and recommendations for future improvement of budget execution by June 2011.
4.2 Internal audit for general management, control and risk management efficiency improved	<p>4.2.1 Parliament to enact the Law on State Internal Audit and Inspection which provides for:</p> <p>(a) the establishment of internal audit units in ministries and for such units to be functionally independent (i.e., for such units to report directly to the respective ministers), and</p> <p>(b) the establishment of the financial management and control function in the ministries.</p> <p>4.2.2 MOF to implement the Law on State Internal Audit and Inspection through</p> <p>(a) the establishment of the National Center of State Internal Control; and</p> <p>(b) the distribution of the proforma charter for internal audit units (prepared based on international standards and best practices) to at least 10 ministries for the establishment of their respective internal audit units.</p> <p>4.2.3 MOLHSA and MOES to establish their internal audit units.</p>	<ul style="list-style-type: none"> • MOF determines and reports on staffing and training needs. • MOF develops detailed guidelines and methodology for internal audit departments. • MOLHSA and MOES to staff internal audit units by June 2011.

FY = fiscal year, GDP = gross domestic product, LEPL = legal entity of public law, MOES = Ministry of Education and Science, MOF = Ministry of Finance, MOLHSA = Ministry of Labor, Health, and Social Affairs.

Source: Asian Development Bank