Report Number: ICRR0023873

1. Project Data

Project ID	Project Name
P152441	GENIE Project
Country	**Practice Area(Lead)**
Georgia	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-85950	30-Apr-2021	22,270,493.05
Bank Approval Date	**Closing Date (Actual)**	
18-Mar-2016	31-Mar-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	40,000,000.00	0.00
Revised Commitment	23,500,000.00	0.00
Actual	22,833,557.98	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO) as stated in the Loan Agreement (Schedule 1, page 6) and in the Project Appraisal Document (PAD, page 7) is:

" To increase innovative activities of firms and individuals in the Borrower's territory and their participation in the digital economy".

For the purpose of this Implementation Completion and Results Report Review (ICRR), the PDOs are taken to be:

PDO 1: To increase innovative activities of firms and individuals in Georgia.

PDO 2: To increase the participation of firms and individuals in the digital economy in Georgia.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

04-Apr-2019

c. Will a split evaluation be undertaken?

Yes

d. Components

There were four components (PAD, pages 15 - 16).

1. Innovation Infrastructure. The estimated cost at appraisal was US$14.70 million. The estimate for this component (and all other components) was revised with the project restructurings (discussed below). The revised estimate was US$1.86 million. The actual cost was US$1.82 million. This component planned to finance the following activities:

(i) develop a network of 50 Community Innovation Centers (CICs) consisting of basic infrastructure (a classroom, a multi-purpose conference/training room and technology equipment) for providing services such as digital literacy, entrepreneurship and e-commerce training, identifying latent innovators and connecting them to the infrastructure, services and financing opportunities within the innovation ecosystem. The target for this activity was reduced from 50 CICs to four CICs.

(ii) develop a network of eight Regional Innovation Hubs (RIHs) comprising of larger classrooms, conference/training facilities, fabrication laboratory prototyping equipment and other specialized laboratory equipment for providing business development support services to innovators/startups. The target for this activity was reduced from eight RIHs to three RIHs.

(iii) designing and implementing a Broadband-for-Development (BfD) program to facilitate demand for broadband internet access, especially in rural areas. Activities in this sub-component aimed to support households and micro, small and medium-size enterprises (MSMEs) access broadband internet services through; (a) offering them vouchers to cover internet installation costs; and (iii) basic digital literacy training for households and MSMEs in e-services. The target for this program was reduced from 33,000 to 6,500 internet subscribers through the first project restructuring, and from 6,500 to 1,200 through the second project restructuring.

2. Innovation Services. The estimated cost at appraisal was US$13.40 million. The revised estimate was US$4.9 million. The actual cost was US$4.75 million. This component aimed to provide customized innovation services tailored to the specific needs of beneficiaries. Activities in this sub-component included: (i) building the innovation community through awareness training, promotion, and competitions; (ii) strengthening digital and business skills and addressing specific skill gaps in computer programming, software development, networking and entrepreneurship; (iii) developing MSME's innovation capacity through specialized technical training, coaching innovators and mentoring firms.

The following activities were either cancelled or modified in scope. The activity of building innovation capacity was cancelled. The activity of building digital skills was modified to focus on training only on digital economy skills. The activity of supporting business innovation was reduced to focus only providing innovation infrastructure. The target for the number of start-ups financed was increased from 100 to 140 through the second project restructuring on November 2020.

3. Innovation Financing. The estimated cost at appraisal was US$9.00 million. The revised estimate was US$14.55 million. The actual cost was US$13.41 million. This component aimed to implement two pilot matching grant programs to support innovative start-ups and research teams. Activities in this sub-component; (i) A start-up matching grant (SMG) program to stimulate development of innovative early-stage enterprises; (ii) An innovation matching grant (IMG) program to support larger small and medium-sized enterprises (SMEs) develop projects with market potential; (iii) technical assistance (TA) to the Government to stimulate the development of alternative forms of innovation financing; and (iv) TA for implementing matching grant programs.

The scope of this component was expanded with the project restructuring: (i) A third type of grants "Applied Research Grants" was added, to award teams of young scientists pursuing commercially relevant research in universities and Research and Development (R&D) institutes; (ii) The activity of "Financing for Matching Grants Administration and TA" was expanded; and (iii) The activity of "Innovation Financing Policy" was cancelled due to the lack of progress.

4. Project Implementation Support. The estimated cost at appraisal was US$2.80 million. The revised estimate was US$3.05 million. The actual cost was US$2.07 million. Activities in this component aimed to provide implementation support in the areas of fiduciary and safeguards management and monitoring and evaluation. Given the management capacity limitations and high staff turnover experienced by the implementing agency, this component was expanded in scope with the first project restructuring.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost. The estimated cost at appraisal was US$42.00 million. The revised estimate with project restructurings was US$23.40 million. The actual cost was US$22.05 million.

Financing. The project was financed by an International Bank for Reconstruction and Development (IBRD) loan of US$40.00 million. US$16.50 million of the loan was cancelled with the project restructuring, due to the limited progress in the first three years. With this, the Bank financing was reduced to US$23.40 million. The amount disbursed was US$22.83 million.

Recipient/Borrower contribution. Local beneficiaries were expected to contribute US$2.00 million. There was no contribution from beneficiaries during implementation.

Dates. The project was approved on March 18, 2016, became effective on July 21, 2016, and was scheduled to close on April 30, 2021. However, the project closed about two years behind schedule on March 31, 2023.

Changes. The project was restructured four times (two level 1 and two level 2 restructurings).

The project which became effective in 2016, was in problem status in the initial years, with only 8% of the loan disbursed till 2019. Except for the activity associated with the matching grant window, there were delays in implementing other component activities, due to the implementing agency's - the Georgia Innovation and Technology Agency's (GITA) - poor organizational capacity. The Bank supported the following changes **through the first level 1 restructuring on April 4, 2019.**

- Although the PDO and the project components remained a number of targets for components one and two activities were drastically reduced (discussed above in section 2d). Alongside reduction in project scope, US$16.5 million of the Bank financing (US$40.00 million) was cancelled, leaving US$20.2 million for future spending.
- The Bank financing and the targets for the matching grant activity were increased. A third type of matching grant activity was added to award scientists pursuing commercially relevant research results in universities and research and development institutes.

Since the first project restructuring, GITA made strong gains in its organizational capacity, and disbursements reached US$11.40 by 2020. The Bank supported the following changes **through the second level 1 project restructuring on November 18, 2020.**

- Adjustments were made across the results framework to better reflect the Project's progress. As many of the revised targets were low relative to the actual progress achieved (seven out of seventeen indicators had already met or exceeded the end targets). Therefore, the Bank and the government agreed to make the targets more ambitious.
- The closing date was extended by about two years for completing the ongoing activities.

Budget allocations across components were modified **through the third and fourth level 2 restructurings on December 2, 2020 and May 27, 2021** respectively.

Split rating. This review is based on a split rating of objectives for the following reasons. Although the PDO and the components were unchanged, targets were reduced drastically with the first project restructuring. The project scope was reduced when US$5.10 million (or about a quarter of the loan was disbursed). This warrants an application of the split rating methodology.

3. Relevance of Objectives

Rationale

Country context. Since 2000, Georgia has enacted reforms aimed at removing administrative barriers to private-sector investment. Although these reforms helped attract foreign direct investment (FDI), sustainable growth remained a concern, given the limited direct impact of FDI on productivity growth and technology transfer. Many rural residents did not participate in innovation activities, as these activities were mainly in major cities like Tbilisi.

Sector context. Although MSMEs accounted for over 47% of formal jobs in Georgia, they only accounted for just under 20% of the Gross Domestic Product (GDP), as compared to the global average of 40 to 50%. This was partly due to their low productivity and low innovation, which directly affected their chances of survival. The capacity of MSMEs to innovate was hampered by factors by failures such as, lack of entrepreneurial education, limited facilities for incubators, inadequate services for start-ups and low technology adoption in the Information and Communication Technology (ICT) sector. The PDO of promoting innovative activities of firms and individuals was important to the Government's strategy for sustaining inclusive growth.

Government strategy. The PDOs were aligned with the Government's 2020 *Socioeconomic Development Strategy* (SDS) of 2020. The overarching vision of this strategy was to *"maximize Georgia's growth potential by creating an entrepreneurial, knowledge-based economy, where innovation-led growth will foster increased economic productivity and growth."* The Government established the Georgia Innovation and Technology Agency (GITA) in February 2014 under the Ministry of Economy and Sustainable Development (MoESD) tasked with developing Georgia's innovation ecosystem through policy reforms. In 2021, GITA launched a program called "Innovative Georgia," which provided funding and support to startups and potential entrepreneurs.

The PDO is well-aligned with the priorities articulated in the Government program for 2021-2024 "*Towards Building a European State*". This program prioritized supported the following activities: (i) creating an innovative ecosystem based on international experiences; (ii) training and employing trained personnel; (iii) supporting the growth of companies in the ICT sector; (iv) developing broadband infrastructure in targeted geographic areas; (v) continuing investment projects for supporting technology startups with the participation of regional technoparks and universities.

Bank strategy. The PDO is well-aligned with the Bank's strategy. At appraisal, the Project was consistent with the Focus area Two of the Country Partnership Strategy (CPS) of "*enabling private sector job creation through improved competitiveness*". The PDO remains highly relevant to the most recent Country Partnership Framework (CPF) for 2019 -2022. The Focus Area one of this CPF highlighted the need "*for enhancing inclusive growth and competitiveness"* . and Objective 1.3 of the focus area specifically articulated the need *"for diversifying sources of finance and strengthening innovation capacity".*

Bank experience. This project was the first Bank-financed project on innovation activities in Georgia and the first project with the ICT sector in over a decade. This project built on the Bank's 2014- 2015 analytical works on *"Information and Communication Technology (ICT) sector and Employment"* and *"ICT to Innovation and Employment",* and the TA of 2014-2017 aimed at supporting Georgia's efforts to develop a competitiveness strategy for innovation-led growth. This Project complemented a previous Bank-financed Programmatic Private Sector Development Policy Operation (DPO) aimed at developing a competitiveness strategy and supporting measures to deepen the financial sector.

The PDO was directly relevant to the Government and Bank strategies. Given that this was the first Bank-financed project on innovation in Georgia and the first ICT project in over a decade, the overall reach of the project was appropriate. Although there were difficulties in the initial years, which led to the reduction in project scope with the first project restructuring, the scope was scaled up once the difficulties were overcome with the second project restructuring. Therefore, the relevance of the PDO is rated as High.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

PDO 1: To increase innovative activities of firms and individuals.

Rationale

Theory of change. The outputs of activities such as matching grants for supporting innovations by start-ups and MSMEs and establishing innovation infrastructure like Community Innovation Centers and Regional Innovation Hubs for training individuals and firms on digital literacy and e-commerce were aimed at addressing some of the constraints faced by potential entrepreneurs in general and MSMEs in particular. Collectively, these activities were likely to help realize the desired outcomes of increasing the innovative activities of firms and enterprises. The outcomes were likely to aid in the long-term development objectives of increasing shared prosperity and generating higher value-added jobs. The causal links between project activities, outputs, and outcomes were logical. The intended outcomes were monitorable.

Outputs (ICR, pages 54 and 48 - 49).

- The following matching grant programs were introduced for aiding firms and individuals: (a) The Start-Up Matching Grants (SMG) program for start-ups; (b) The Innovation Matching Grant (IMG) Program for helping more mature technology and science-based projects; (c) The business accelerator Program aimed at directly attracting private financing, primarily from international investors: (d) The Applied Research Grants (ARG) program to young scientists pursuing commercially relevant research in universities and research institutes.
- 52,028 directly benefitted from project activities, less than the original target of 64,000 (50% of the beneficiaries were women).

Outcomes.

The outcomes from the outputs described above were as follows: (i) an increase in the number of new or improved products by the beneficiaries receiving matching grants; (ii) the number of new start-ups financed by the beneficiaries.

- 91 new products were introduced by small and medium-sized enterprises (SMEs), far short of the original target of 200.
- 2,127 full-time employees were hired by the start-ups that received financing, exceeding the original target of 190.
- The number of startups financed by beneficiaries increased to 138, far less than the original target of 340.
- The amount of private financing raised by the Project beneficiaries of the matching grant programs and the accelerator program was US$105.21 million, exceeding the original and revised targets of US$1.50 million and US$7.00 million.

Since half of the outcomes were short of the originally specified targets, efficacy is rated as modest before restructuring.

Rating
Modest

OBJECTIVE 1 REVISION 1

Revised Objective
PDO did not change. However, the targets were revised with the first project restructuring.

Revised Rationale
Outputs.

- 24 patent applications were filed as a direct result of project activities (no targets were specified for this indicator).
- The revenue of the start-ups that received financing increased to US$ 32,891, 297 significantly exceeding the revised target of US$4,000,000.
- 52,028 people directly benefitted from project activities, far exceeding the revised target of 35,000 (50% of the beneficiaries were women).

Outcomes.

- 91 new products were introduced by SMEs exceeding the revised target of 70. These enterprises hired 2,127 full-time employees, exceeding the target of 600.
- The number of startups financed by beneficiaries increased to 138, as compared to the revised target of 140.
- The amount of private financing raised by the Project beneficiaries of the matching grant programs and the accelerator program was US$105.21 million, far exceeding the revised target of US$7.00 million. According to the beneficiary survey conducted when the project closed, 89 start-up firms stated that their participation in the program helped them to raising additional financing. Of the beneficiaries who attracted private financing, twelve start-ups attracted over one million each (including five companies that raised over five million).

Given that the revised targets were either met or significantly exceeded, efficacy of this PDO is rated as high after project restructuring.

Revised Rating
High

OBJECTIVE 2

Objective
PDO 2: To increase the participation of firms and individuals in the digital economy.

Rationale
Theory of change. The project aimed at increasing participation of firms and individuals in the digital economy in Georgia. The outputs of activities such as including establishment of innovation infrastructure such as Community Innovation Centers and Regional Innovation Hubs in selected cities, towns and villages to deliver outreach and training program, implementing a digital economy sills development program to address the skills gap and Broadband for Development Program to increase adoption and use of broadband Internet services by households and MSMEs, were likely to help realizing in the desired outcome of participation of firms and individuals in the digital economy. The causal links between project activities, outputs and outcomes were logical and the intended outcomes were monitorable.

Outputs.

- Four equipped Community Innovation Centers (CICs) as compared to the original and revised targets of 50 and four respectively.
- Three Regional Innovation Hubs (RIHs) were operational when the project closed, as per the revised target and as compared to the original target. Visitors to CICs and RIHs increased to 45,392, exceeding the target of 25,000.
- 3,161 participated in the online programs led by RIHs and CICs, exceeding the target of 1,500 (52% of the participants were females, exceeding the target of 50%).
- 3,101 participated in structured digital skills training programs, exceeding the target of 3,000.
- 2,115 people benefitted from business coaching or e-commerce training, exceeding the target of 2,000 (50% of the beneficiaries were females as targeted).
- 1,408 individuals obtained international certification through project training programs, exceeding the target of 900.

Outcomes.

The outputs described above were expected to increase the participation of firms and individuals in the digital economy.

- The number of beneficiaries with access to Internet services increased to 1,380, less than the original target of 6,500.

The ICR (page 26) acknowledges that although access to broadband internet had expanded (though far less than the original target), this had limited effect on increasing the participation of firms and individuals in the digital economy.

Rating
Modest

OBJECTIVE 2 REVISION 1

Revised Objective
The PDO did not change after the project restructuring.

Revised Rationale
Outputs.

The outputs were as described above.

Outcomes.

- The number of beneficiaries with access to Internet services increased to 1,380, exceeding the target of 1,200.

The ICR (page 26) acknowledges that although access to broadband internet had expanded meeting the revised target, this had limited effect on increasing the participation of firms and individuals in the digital economy.

Revised Rating
Modest

OVERALL EFFICACY

Rationale
The efficacy rating for PDO 1 was rated as modest before restructuring. PDO 2 was also rated as modest before restructuring.

Therefore, overall efficacy is rated as modest before restructuring.

Overall Efficacy Rating	Primary Reason
Modest	Low achievement

OVERALL EFFICACY REVISION 1

Overall Efficacy Revision 1 Rationale

The efficacy rating for PDO 1 was rated as high after restructuring. PDO 2 was still rated as modest after restructuring.

Therefore, overall efficacy is rated Substantial after restructuring.

Overall Efficacy Revision 1 Rating

Substantial

5. Efficiency

Economic rationale. Market failures existed in both promoting innovation and participation in the digital economy in Georgia. The underlying notion of the project interventions was that the social returns from innovation promotion and digital inclusion activities tend to be much higher than the private returns. Consequently, private investments will not flow into those activities, and that some public investment or coordination is needed to initiate or sustain them.

Economic analysis at appraisal. A cost-benefit analysis was conducted for innovation activities (establishing Community Innovation Centers (CIC) and Regional Innovation Centers (RIHs) and Broadband-for-Development (BFD) activities (component one) and for matching grant activities (component three). These accounted for 59% of the appraisal estimate. The methodology entailed estimating the incremental benefits (relative to a no-Project counterfactual approach). The net present value (NPV) at seven percent discount rate was at US$53.10 million and the Economic Rate of Return (EIRR) was 18.9%.

Economic analysis at closure. Of the three type of project interventions whose NPV and EIRR were calculated at appraisal, only the matching grants were fully realized during implementation. The BFD was drastically reduced to less than five percent of what was envisioned in the original design. The scope of the CICs and RIHs development was also reduced to 12% of the original vision. This, the economic analysis at closure focused only on the matching grant activity (the financing for this activity was increased during implementation). This component accounted for 60% of the actual cost of the project.

The methodology for the ex-post analysis entailed calculating the incremental net profits of firms receiving matching grants (the method used at appraisal). The ex-post analysis expanded the definition of economic value to include an estimation of the sum of beneficiaries' spending on wages. Due to issues related to the reliability of data, the estimate of economic analysis considered the results achieved by the ten most successful beneficiaries. The NPV when the project closed was US$10.8 million (almost three times the Social Discount Rate), and the ex-post EIRR was 26%.

The ICR (para 67) noted that the ex-post calculations were conservative, as they excluded several value streams that could not be quantified such as: (i) the economic value created 136 of the 146 grant recipients (as only the top ten performers were considered); (ii) the economic value created by start-ups that received non-financial support from the project through the CICs and RIHs; (iii) the economic value created by the participants from the structured digital program; and (iv) economic value created by demonstration effects on the rest of the economy through the interactions of direct Project beneficiaries.

Operational and Administrative Issues during implementation. The project closing date was extended by nearly two years due to delays in the initial years and adverse external factors such as the physical restrictions during the COVID-19 pandemic and the situation in Ukraine. The project approved in April was in problem status in the initial years, with only US$3.2 million (8% of Bank financing) disbursed by 2019, mainly due to GITA's weak organizational capacity (inadequate budget and staffing, inconsistent decision-making process by the agency's management, high staff turnover and other project management inefficiencies) and unrealistic original targets (discussed in section 8). The Ministry of Environment and Sustainable Development (MoESD) took several steps to improve GITA's performance, such as approving a staffing plan for GITA. Alongside this, the initial targets were reduced rather drastically through the first project restructuring in April 2019. These steps helped streamline the project and improve GITA's operational performance during the latter years.

Based on the positive economic rate of return results as well as improvement in operational efficiency over the course of project implementation, overall efficiency is rated as substantial.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	18.90	53.00 ☐ Not Applicable
ICR Estimate	✓	26.00	60.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of the PDO to the Government strategy and the recent Bank strategy for Georgia is rated as High. Based on the positive economic rate of return results and improvement in operational efficiency over the course of implementation, overall efficiency of the project is rated as substantial. Applying split rating, efficacy of the first objective was rated as modest before the project restructuring and high after project restructuring. Efficacy of the second of the second objective was rated as modest before and after project restructuring. Taking the amount disbursed before restructuring (when 22.33% was disbursed) and the balance after restructuring, the overall outcome is rated as satisfactory (0.22*3 + 0.77*5 = 4.55).

Table. Split Rating.

Rating Dimension	Original Objectives	Objectives after Restructuring
Relevance of Objectives	High	
Efficacy		
Objective 1 -To increase innovative activities of firms and individuals in Georgia.	Modest	High
Objective 2 - To increase the participation of firms and individuals in the digital economy in Georgia.	Modest	Modest
Overall Efficacy	Modest	Substantial
Efficiency	Substantial	
Outcome Rating	Moderately Unsatisfactory	Satisfactory
Outcome Rating Value	3	5
Disbursement, percent	22.33	77.67
Weight Value	0.67	3.88
Total Weights	4.55	
Overall Outcome Rating	**Satisfactory**	

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

Government commitment/ownership. There is low/medium risk to the sustainability of development outcome. The ICR (para 104) observes that Government's 2023 budget law approved by Parliament stipulated a 38% growth in the overall budget allocation for GITA compared to the budget spent by the agency during the previous year. While there is risk to sustainability given the volatile geopolitics of the region, the ICR notes that the risk of major risk to GITA's budget given the broad consensus regarding the importance of business innovation in the country.

The ICR also notes that the Regional Innovation Hubs (RIHs) and Community Innovation Centers (CICs) - now rebranded as "tech parks" are fully funded by GITA under the Ministry of Economy and Sustainable Development (MoESD). Further, GITA is continuing the Small Matching Grants program and has further expanded its innovation financing programs under the state budget and through partnerships with the donor community.

8. Assessment of Bank Performance

a. Quality-at-Entry

Since this was the first Bank-financed project on innovation in Georgia, the Bank prepared this project based on the experiences from previous Bank-financed innovation projects in Serbia, Croatia, Armenia, Poland, Mexico and Colombia. Key lessons incorporated at design included: (i) financing pilots to test new ideas prior to large-scale implementation; (ii) focus on capacity building; and (iii) investing in mobilization, communication and awareness building to ensure a pool of beneficiaries (PAD, para 33). The project had solid analytical underpinnings (section three). The preparation team appropriately incorporated several elements in project design, such as including a provision that all final decisions on grant allocation be made by an independent "investment Committee' composed entirely of leaders from the business and scientific committee.

The implementation arrangements made at the appraisal were appropriate. The Georgian Innovation and Technology Agency (GITA), under the administrative oversight of the Ministry of Economy and Sustainable Development (MoESD) was the main implementing agency (PAD, page 63). The Research and Innovation Council under the Prime Minister was in charge of the innovation agenda. A dedicated Project Implementation Unit (PIU) that was established within GITA was in charge of day-to-day project implementation. Although there were problems with GITA's initial organizational setup in the initial years, these were rectified and GITA's performance improved in the latter years.

The Bank identified several risks at appraisal such as the weak implementation capacity and risks associated with technical design. Several mitigation measures were incorporated at design. Even with mitigation measures, the overall risk was rated as Substantial at appraisal (PDA. para 49). The arrangements made at appraisal for safeguards and fiduciary compliance were appropriate (discussed in section 10).

There were moderate shortcomings. One, the initial assumptions regarding setting Community Innovation Centers (CIC) and Regional Innovation Hubs (RIHs) were unrealistic. On the supply side, the PIU was unable to secure office space for setting CICs and RIHs. Most of the pre-identified existing building sites could not be selected either due to structural safety issues or the municipalities' reluctance to transfer high value sites. The demand-side estimates for CIC and RIH services were unrealistic. The existing demand for innovation services outside the key cities was for specialized services and equipment and not for general innovation services. As a result of these factors, the original targets had to be drastically reduced through the first project restructuring. Two, while the Bank identified the weak implementation capacity of GITA as a risk, the mitigation measures for addressing this risk were inadequate. The relatively poor disbursements in the initial years were due to GITA's weak organization setups. These issues were resolved through pro-active measures by the Bank in later years (discussed below); and three. there were shortcomings in M&E (discussed in section 9).

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision

Fourteen Implementation Status Results (ISR) Reports were filed over a project lifetime of about seven years, implying twice a year supervision missions. Given that GITA's poor implementation capacity in the initial years. the Bank supervision team bolstered support for capacity building in GITA through intensive technical assistance (TA) and also by securing an European Union (EU) funded TA project designed to be closely coordinated with the objectives and needs of this project. These factors helped in improving GITA's implementation capacity and eventually the dramatic turnaround in project implementation resulted in achievement of satisfactory outcomes . According to the Borrower comments provided in Annex five, the strong support provided by the World Bank Office, contributed to the acceleration of project implementation and addressing resolving work-related activities on the ground. The support provided by the supervision team aided in safeguards and fiduciary compliance (discussed in section 10). The supervision team aided in correcting the shortcomings in M&E design (discussed in section 9). The Quality of Supervision is rated as Satisfactory.

Overall Bank performance is rated as Moderately Satisfactory due to the moderate shortcomings at Quality-at-Entry.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The Project's theory of change was clear, and the indicators identified in the results framework were appropriate for monitoring project performance. GITA was in charge of all Project M&E (PAD, para 43). The M&E arrangements were well-embedded institutionally as the project grant recipients were legally required to provide monthly reports to the Project Implementation Unit (PIU) on key aspects of their business performance. The M&E indicators were gender sensitive.

There were some shortcomings in the M&E design. Some of the original PDO targets were overly ambitious (such as the number of CICs and RIHs) and had to be reduced rather drastically through the first project restructuring (discussed in section 2). The original targets relating to the growth of sales and employment of the SMEs and the value of private financing mobilized by the beneficiaries were low, suggesting an underestimation of the Project's impact on beneficiary firms.

b. M&E Implementation

The ICR (para 87) notes that although M&E implementation was slow in the initial years, due to institutional capacity constraints, M&E improved after the first project restructuring when GITA appointed a project manager. Weakness in the original M&E design were partially addressed, with the targets reduced during the first project restructuring. Further, the targets were revised upwards during the second restructuring to reflect the improvements in project performance since then. GITA also made extra efforts to ensure that the reported data was reliable and of good quality through randomized checks on beneficiaries (including site visits, which in one instance revealed a case of non-performance and fraud by a vendor).

c. M&E Utilization

The ICR (para 90) observed that the M&E data on performance and results were by the Bank team for project management and decision-making. The M&E data was used by the Bank team for project restructuring. The ICR also noted that the M&E arrangements and processes developed under this project were institutionalized within GITA in 2020 and continued beyond project closure.

In sum, overall M&E is rated as substantial. Although there were shortcomings in design, many of them were addressed during implementation.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The Project was classified as a Category B (partial assessment) project under the World Bank safeguard policies. Two safeguard policies were triggered at appraisal: Environmental Assessment (OP/BP 4.01); and Physical Cultural Resources (OP/BP 4.11). (PAD, page iv).

Environmental Assessment and Physical Cultural Resources. As the Project had a physical investment component involving rehabilitation of buildings, these safeguards were triggered. GITA prepared and publicly-disclosed an Environmental and Social Management Framework (ESMF) at appraisal to guide site-specific project works (PAD, para 62). The Project complied with the environmental safeguards. During implementation, GITA applied environmental screening to ensure that no high-risk environmental Category A activities were financed. No activities were undertaken within or in immediate proximity to cultural heritage sites (ICR, para 93). There were no occupational health and safety incidents.

b. Fiduciary Compliance

Financial management. The Bank conducted a financial management assessment to determine GITA's financial arrangements at appraisal. GITA did not have relevant experience in managing Bank projects. Hence, the Bank developed a time-bound action plan aimed to build GITA's financial management capacity (PAD, para 56). The Project's financial management was deemed to be satisfactory (ICR, page 34). The Project complied with the financial covenants. Unqualified audits were provided by GITA in a timely fashion, with no major issues raised in the reports.

Procurement. The Bank conducted a procurement assessment at appraisal. The assessment concluded that the core GITA staff did not have adequate experience for conducting procurement activities. With mitigation measures, the procurement risk was rated as substantial (PAD, para 29). Procurement management was rated as moderately satisfactory, with no major issues. The ICR (para 97) noted that there were some delays with keeping the Systematic Tracking of Exchanges in procurement system during implementation

c. Unintended impacts (Positive or Negative)

There were no unintended impacts.

d. Other

Through capacity building and close supervision, the project helped GITA expand and improve its core services for innovative small and medium-sized enterprises. This played an important role in the institutional development of GITA. Structured interviews for a World Bank's Policy Effectiveness Review Review in October 2023 showed that GITA now has a good structure, with effective resources and good quality program management. GITA introduced modern management software such as Human Resources Management and monitoring. GITA also incorporated governance and quality-control mechanisms that fostered accountability.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

The ICR draws the following main lessons from the experience of implementing this project, with some adaptation of language.

1. For newly established implementing agencies working in the innovation sphere, where substantial capacity building is required, obtaining complementary technical assistance and advisory services from development partners can be transformative in building such capacities. During project preparation, the Bank identified the Georgian Innovation and Technology Agency's limited institutional capacity as a potential implementation risk. Recognizing the Georgian Innovation and Technology Agency's (GITA) capacity constraints, the European Union (EU) agreed to fund a technical assistance project that was directly linked to the objectives of this project. This complementary intervention facilitated the delivery of an intensive and focused program of technical assistance, advisory, and training services to GITA. This boost in technical assistance contributed to the turnaround in project implementation.

2. Embedding pilots for new types of interventions in project design can help project implementation. The lesson from this project is that innovation interventions that might be new to the country could be initiated at a small scale and tested with rigorous pilots and impact evaluation. Gradual building up would allow for capacity building tailored to the needs of the country.

3. Acceleration and business development services can complement innovation financing programs. This project showed that the strong performance of firms that received grants through the project-supported program (notably mobilization of US$105.00 million in private capital) was largely due to the business development support the firms received through the grant-winner training programs.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is clear. The theory of change presented in the ICR clearly articulated the causal links between project activities, outputs, and desired outcomes. The ICR provides a candid assessment of the challenges in the initial years that were eventually resolved. The ICR is consistent with the guidelines. The evidence provided in the ICR is adequate for assessing project performance and, where necessary, provides additional information that is useful to the reader. The information in Annex five provides useful information on Bank performance.

There were minor shortcomings. One, the ICR did not conduct a split rating of objectives, stating that " following the introduction of December 2023 Guidance for ICRs for Investment Policy Financing (IPF) operations, when applying the split rating, the ICR assesses achievements across the entire project timeline to assign outcome ratings against outcome targets. As such, if a split rating were to be applied, the project ratings would not change in this case." However, a split rating is called for when there is a drastic change in targets, as in this case. Another problem with the ICR is its excessive length. The main body of the text at 30 pages, is almost twice the recommended length of 15 pages.

a. Quality of ICR Rating

Substantial