

Evaluation Summary

Mid-term evaluation of AFD policy-based loan (PBL) in the energy sector in Georgia

Country: **Georgia**

Sector: **Energy**

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Date of the evaluation: June 2023

Key data on AFD's support

Project numbers: For subsequent tranches - CGE1014, CGE1019, CGE1020, CGE1021

Amount: €415 million (over 5 phases of PBL)

Disbursement rate: 100%

Signature of financing agreement: May 2018

Completion date: 2021 (extended to 2023)

Total duration: 4 years (extended to 6 years)

Context

AFD has been providing support to Georgia since 2012, under a mandate for "green and inclusive growth". Since then, it has committed a total of EUR 645 million in support across multiple sectors in Georgia. AFD support is closely related to the EU development cooperation architecture in Georgia and the region, notably Georgia's aspiration to progress towards more integration with the EU. Georgia has progressed towards integration of the energy market with EU under the terms of the EU-Georgia Association Agreement (AA) and compliance with Energy Community commitments. The **purpose** of this public policy lending programme, (PBL) co-financed with KfW, is to support Georgia in energy transition towards a more sustainable, resilient and inclusive model.

Actors and operating method

Policy-based loans (PBLs) are budget funding interventions the purpose of which is to finance and/or support a sector-specific or multi-sector public policy. PBLs feature three components that cannot be unbundled without compromising their overall effectiveness:

- the budget loan itself (AFD & KfW co-financing);
- public policy dialogue (based on a matrix of indicators);
- technical cooperation supporting policy formulation and implementation (AFD, KfW and EU financing)

The overall PBL programme is structured around a public policy matrix comprising 36 reform indicators spanning from 2018 to 2023. A new matrix is prepared for each tranche following on from the previous matrix. Despite progress being made, the reform plan, which was initially planned for four years (2018-2021) was extended to six years in 2020 (i.e. the implementation period was revised to 2018- 2023).



Objectives

The **specific objectives** are:

- To structure the regulatory framework of the EE sector;
- To support Georgia in the regulatory and operational implementation of the 3rd Energy Package and including the development of a social support scheme for vulnerable customers to further develop a Georgian electricity mix based on renewable energies; and
- To create a stable and reliable electricity market environment.

Direct Outputs

- PBL disbursements to Government
- Opportunity frameworks for dialogue, coordination and capacity building
- Added value

Induced Outputs

- Public policies, institutions & spending process
- Public service management /delivery
- Strengthened French and EU leverage

Performance assessment

Relevance

PBL has been highly relevant to GoG priorities and AFD sector policies as well as being responsive to identified sector needs and context. The policy and regulatory reform (and roll out) delivered by PBL is fully aligned with national strategies whilst also contributing to Georgia's commitments under international agreements.

The PBL design drew upon knowledgeable sector context analysis and has also referred to relevant sector studies as acknowledged in project preparation and design documentation. The intervention logic of PBL (including the 'mix' of inputs, activities and outputs) was sound and there has been a high level of consultation and engagement with national stakeholders. Overall, the choice of PBL modality (including the 'carryover' system for undelivered 'Obligatory' PRMs combined with the conditionality for 100% disbursement) was a powerful incentive to progress of reform.

Coherence

AFD PBL support is coherent (and complementary) to other energy sector support and equally coherent with Georgian commitments under international agreements. Among PBL partners there is close coordination and common purpose such that 'internal' coherence is assured

Effectiveness

PBL has been highly effective in terms of application of inputs for delivery of expected results. Likewise, AFD support to PBL can be classed as highly effective overall based on the effectiveness of various components of AFD support [i.e. financial support and AFD-financed TA (FEXTE)].

Efficiency

PBL implementation stalled somewhat with delays accumulating during the 2018 – 2020 period and thus, in 2020 the PBL implementation period was extended from 4 to 6 years. Subsequently implementation efficiency has improved. Another efficiency issue concerned the extended negotiation procedures associated with mobilisation of the EU grant funds followed by procurement issues whereby the EU-financed consultant for drafting of secondary EE legislation and support to other EE-related activities, was seriously delayed in starting activities.

Outcomes & Impact

PBL has been instrumental in facilitating policy, regulatory and institutional changes in the Georgian energy sector that are contributing to broader effects. The contribution of AFD support to PBL cannot be convincingly 'untangled' for the whole PBL package but, considering trends (i.e. increasing/decreasing), the tentative conclusion is that most outcome indicators are 'heading in the right direction'

Sustainability

Given that the policy, regulatory and institutional changes delivered by PBL have already taken place, unless laws are repealed, sustainability prospects are good. High levels of turnover of civil service staff have been reported which could impede continuing implementation activities. Thus, sustainability prospects for the reforms are good, but sustainability of continuing application and enforcement of regulatory changes is not assured

Added value of AFD's contribution

KfW and EU brought 'added value' to PBL arising from long involvement in development support in Georgia. In contrast, AFD has 'earned' national perceptions of added value from supporting PBL. This perceived 'added value' accrues from the quantum of financial support (now about 2/3 of the total loan financing), quality of AFD-financed TA support, AFD engagement in PBL implementation and quality (and focus) of AFD policy dialogue (especially concerning social issues). However, this situation of enhanced perceptions of AFD 'added value' should be considered in the perspective of the practical structure of PBL management. KfW was the PBL 'technical lead' and, in comparison with AFD, has applied considerably greater resources in terms of in-country technical representation and own-financed TA whilst also managing the EU grant funding contribution to GESR.

Conclusions and lessons learnt

PBL as an instrument

PBL has proven relevance and effectiveness as an instrument in delivery of energy sector reform in Georgia. This success arises from a combination of factors – GoG high level motivation and sector level institutional commitment; strong DP engagement (AFD, KfW and EU); adequacy, scope, timing and quantum of support resources including high technical performance of TA and quality of dialogue – which have combined in a 'virtuous circle'

Policy reform targeted by PBL

The practical capabilities of French energy sector institutions have been clearly demonstrated during implementation of PBL and beneficiary institutions would have welcomed more of such institutional support/TA. This capability represents a major (somewhat latent) asset for AFD the use of which could be expanded considerably

Quality of dialogue

Consistent high-quality dialogue and engagement has been achieved during PBL implementation, the focus of dialogue switching from policy dialogue at the start of implementation towards strategic delivery of PBL outputs. Capacities of national sector institutions have been strengthened by involvement in PBL as regards policy dialogue and capacity for roll out and implementation of regulatory change, AFD-financed (FEXTE) having contributed to such institutional performance

Promotion of French 'know how'

AFD joined PBL at a time when AFD was seeking entry into the Georgian energy sector and the AFD strategy of involvement in PBL would raise AFD's profile and thus facilitate greater sector involvement. This strategy has been successful as regards perceptions of AFD partnership and highly successful as regards reputations of French energy sector institutions for practical support but less successful as regards infrastructure investment and there does not appear to have been any real plan to leverage PBL success into promotion of AFD in terms of the original strategy

PBL preparation and approach

AFD was approached by KfW in 2017 for potential co-financing and AFD was involved in the subsequent modification of the road map in 2018. It was clear from the outset that TA support was necessary but that whilst EU grant support was to be sought, PBL preparation could not afford to wait and that KfW and AFD would have to have access to their own grant-funding for essential TA.