GEORGIA

THE GOVERNMENT’S STRATEGIC VISION AND URGENT FINANCING PRIORITIES IN 2004-2006

DONORS’ CONFERENCE
Brussels, June 16-17, 2004
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I. Executive Summary

The Government of Georgia is pleased to submit this document to the Donors’ Conference to be held in Brussels, 16-17 June, 2004, sharing with the international donor community a comprehensive statement of our strategic vision and submitting a request for urgent financing priorities in the amount of US$ 485 million \(^1\) for 2004-2006.

**Political Developments**

To understand fully Georgia’s present daunting challenges, one needs to look at developments since independence in 1991. Georgia has struggled for well over a decade with two separatist wars (South Ossetia and Abkhazia) that created about 300,000 internally displaced persons and led to a loss of 30 percent of the country’s territory. Governance deteriorated, corruption became rampant and the institutions of the state have been debilitated. As the capacity to govern declined, the general downturn in public sector management that had been aggravated by corruption, led to dramatically shrinking state revenues. Under a worsening fiscal situation and lagging foreign investments, the country’s poverty indicators showed that social conditions in the country deteriorated even further. In November 2003, the people of Georgia rose up to protest massive electoral fraud and continued economic decline, leading to the resignation of former President Eduard Shevernadze, now known as the Rose Revolution. Subsequent presidential elections gave a broad mandate to the new President, Mikheil Saakashvili, who received 97 percent of the popular vote.

**Principles of National Recovery**

To respond to the historic opportunity created by these events, the Government has established a national recovery program to root out corruption and mismanagement, restore stability, reduce poverty, and secure sustained economic growth. Our guiding principles are creation of strong democratic institutions, good governance, development of human resources, protection of our cultural heritage, and preservation of Georgia’s territorial integrity and national security. Moreover, the new Government has declared its intention to pursue closer integration with the European Union.

The vision of our national recovery program is to build prosperity, based on social justice and to reduce poverty and protect the vulnerable. We are committed to make our contributions to achieving the Millennium Development Goals.

**Strategic Reform Priorities and Macroeconomic Framework**

To achieve the goals of national recovery, we need sustainable economic growth that can be generated through investment and comprehensive economic reforms. To create a suitable economic environment for reforms and growth, we have reached an agreement with the International Monetary Fund (IMF) on a program that will put in place a supportive macroeconomic framework over 2004-2007.

\(^1\) The current exchange rate is GEL1.92 to the US Dollar, and GEL2.36 to the EURO.
We have endorsed the Economic Development and Poverty Reduction Program (EDPRP) framework and we are focusing on new circumstances after the Rose Revolution. Our main strategic priorities (presented in greater detail in Section IV) are:

For Corruption and Governance

- Root out corruption in public life and create an independent, competent judiciary;
- Meet EU standards through legislative harmonization;
- Create a competent, modern public administration, including procedures, institutions and a qualified and well compensated civil service in the executive, judiciary and legislature;
- Involve civil society in anti-corruption efforts and governance reforms;
- Build an efficient public finance and fiscal system;

For Energy

- Rehabilitate the energy sector to avoid the risk of systemic collapse in the short-run and to secure electricity in the winter of 2004;
- Regulate energy sector operations to reduce non-billing, losses, and non-payment, to improve service levels and financial condition of enterprises, and generate funds for investments;
- Secure self-sufficiency of energy enterprises over longer term, attract private capital, exploit untapped hydro-electric potential, and reduce energy imports;

For Poverty Reduction and Social Services

- Protect the vulnerable and reduce poverty through the efficient provision of basic health care, focusing resources on primary and secondary education, targeted social protection benefits and state/private pension system;
- Invest in children, focusing on children needing parental care, talented institutionalized children, safe maternity and adequate maternal care and immunization coverage;

For Private Sector Development

- Improve the climate for private business by removing administrative barriers, improving the tax code, adopting modern standards and controls that raise export competitiveness; and promote tourism;
- Improve supervision of financial institutions, promote bank consolidation, to make resource intermediation more efficient;
For Agriculture

- Promote investments in high value agricultural produce, complete establishment of a competitive grain-handling, milling and baking industry;
- Develop food security system, especially to assist poor, depressed areas;

For Infrastructure

- Further liberalize transit rules to reduce transportation costs, and consolidate regulatory functions for all modes of transport in one agency;
- Strengthen roads administration, develop institutional framework for water/sewage systems and financing investments;
- Adopt social housing policies, create conditions for public/private partnership for housing development and introduce new financing schemes (mortgage);
- Rehabilitate infrastructure to promote private investment, improve export competitiveness, and foster rural development and integration; and
- Focus on environmental issues in forestry, protected areas, coastal zone and oil transport (marine and land spills), and implement law requiring impact statements for new investment projects.

**Urgent Financing Priorities 2004-2006**

Considerable progress already has been made in adopting reforms in the priority areas summarized above, including the implementation of projects and programs with donor funding. But, we also require urgent financial assistance over the 2004-2006 period, to avoid a collapse in the energy sector, to give momentum to our anti-corruption initiatives and governance reforms, to protect the vulnerable and lift people, especially children, out of poverty, to rehabilitate selected bottlenecks in the country’s infrastructure, and support food security. After a long-awaited resolution to problems associated with the territory of Adjara, we are also requesting a special financial assistance package to re-integrate the region.

Commitment of US$ 485 million for the above critical areas, including budget support, will at this juncture allow the Government to establish critical short-term stability, and provide room for our Government to address longer-term structural reform issues, without which the goals of our vision will remain elusive.

At the Donors’ Conference our Government looks forward to a fruitful exchange of ideas with the international donor community on our strategic priorities and a commitment of support for our urgent financing priorities.
II. Principles of National Recovery and Overall Reform Priorities

Following Georgia’s independence in 1991, the country was forced to cope with two separatist wars (South Ossetia and Abkhazia), that created some 300,000 internally displaced persons (IDPs). Due to weak state institutions and entrenched corruption, Georgia struggled with deteriorating governance, and a fragmentation of power between competing groups in society and government and between central and local authorities. The state became increasingly weak and lost the capacity to govern effectively. A general downturn in public sector management led to dramatically shrinking state revenues, out of control public expenditures, and a continually worsening fiscal situation. Under these circumstances, poverty indicators showed continuously deteriorating social conditions in the country.

In November 2003, the population rose up in support of a political movement that challenged the previous Government’s pervasive mismanagement and corruption and held it responsible for fraudulent abuses in both politics and economic management. The ‘Rose Revolution’ of 2003 set the goals for a national recovery program, aimed at restoring stability, reducing poverty, and securing sustained economic growth in Georgia. Presidential elections in January 2004, in which the new President, Mikheil Saakashvili, received 97 percent of the votes, and subsequent parliamentary elections in March 2004, when the governing coalition obtained two thirds of the seats in Parliament, reflect the broad national consensus that is supporting our new Government in its task of national recovery.

To respond to this strong popular mandate and to achieve the goals of national recovery, our Government has set the following principles that will guide our political and economic programs:

- Promotion of democratic values (human rights, equality before law);
- Establishment of good governance practices (elimination of corruption, increased accountability, creation of a professional civil service, more effective government, public oversight/citizen participation, and reduced state interference);
- Investment in human resources and development (education, health and public services);
- Protection of Georgia’s unique cultural heritage; and
- Protection of national security and establishment of territorial integrity.

The rationale and broad objectives of Georgia’s poverty reduction efforts (including achievement of Millennium Development Goals, to which the Government is fully committed), and economic reforms for establishing a well functioning market economy are embedded in the Economic Development and
Poverty Reduction Program (EDPRP). Our Government has endorsed the EDPRP’s reform framework and is focusing on issues arising out of the new circumstances after the Rose revolution. Reform priorities are as follows:

- Governance, anti-corruption, civil service and fiscal/public finance;
- Rehabilitating the energy sector;
- Protecting the vulnerable, health services, education, and social protection;
- Promoting private sector development, including tourism;
- Promoting sustainable and regional development in agriculture and rural development, trade and transport, through enhanced infrastructure rehabilitation and development and environmental protection.

The Donors’ Conference provides an opportunity not only to review our Government’s strategic priorities, but also to confirm funding commitments and new pledge in support of urgent priority programs selected for donors’ consideration (details in section V). The present document was prepared to assist donors with these tasks.

Since preparations were started for the Donors’ Conference, the Millennium Challenge Corporation (MCC), set up recently by the US Government, has chosen 16 countries worldwide, including Georgia, based on competitive selection, to be eligible for grant financing designed to generate rapid economic growth and reduce poverty. An MCC mission is scheduled to visit Georgia prior to the Donors’ Conference and we will report to the participants about the possibilities and timing of likely financing assistance that may be available from this new source. In reviewing potential MCC funding opportunities, the Government is committed to developing projects that will complement on-going and future donor supported activities.

III. Medium Term Economic Framework

To create conditions for sustained and equitable economic growth and poverty reduction, the Government is embarking on a wide-ranging economic adjustment and reform program. Adjustment would be supported, among others, by an IMF program under the Poverty Reduction and Growth Facility (PRGF), and a Reform Support Credit from the World Bank. 

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2 The date for consideration in the Board of Directors of the IMF was June 4th.
3 The scheduled date of meeting in the Board of Directors of the World Bank is June 24th.
III.1. Recent Economic Conditions

The Georgian economy grew by over 8 percent in 2003, and due to prudent monetary policies the annual rate of inflation has been relatively low (around 5 percent per year) in recent years. The foreign exchange regime is fully liberalized, and the real exchange rate has been roughly stable since 1999.

However, a precarious fiscal situation poses a difficult challenge to the new Government. The 2003 target for tax revenue collection was missed by some 0.7 percent of GDP, especially because of weaknesses in tax and customs administration. As a result, the stock of domestic expenditure arrears increased to 4.8 percent of GDP by the end of last year. The government deficit on cash basis amounted to 3.1 percent of GDP in 2003 while the deficit on a commitment basis was 2.5 percent. Gross international reserves fell slightly to 1.5 months of imports of goods and services, net of foreign exchange movements for ongoing construction of the oil/gas pipeline.

III.2. The 2004 Budget and Related Goals

The 2004 budget, approved by Parliament on May 11, aims at increasing tax revenues by at least 1.6 percent of GDP and a 1 percent per year growth is projected thereafter. Our first quarter tax collections increased 21 percent over the same period last year, which is encouraging. Our objective is to reduce the fiscal deficit to 1.6 percent of GDP on a commitment basis and 2.6 percent on a cash basis in 2004, which should reduce arrears to 3.3 percent of GDP by the end of the year. We have remained current on all expenditure commitments in 2004, and we also cleared 31 percent of outstanding stock of expenditure arrears, which is significantly ahead of the arrears clearance schedule agreed with the IMF.

The target of increased revenue collection is ambitious but we are fully confident we will achieve it. Planned increases in tax revenues will depend on improvements in tax and customs administration, especially for excise taxes, value added taxes and customs duties. Measures to fight fraud are also underway in these areas. Our Government is pursuing a strong anti-smuggling effort, intensified surveillance over small-scale oil refineries and introduction of far-reaching improvements in personnel and management of the Tax and Customs Departments. A broader anti-smuggling strategy is being designed for prompt implementation, which would combat corruption and contribute to revenue increases. We are also committed to curb the widespread evasion of taxes on fuel and cigarettes in recognition of the need to broaden the tax base.

Our Government is reviewing tax policies this year, with a view to dismantling exemptions and simplifying the tax regime. The new tax regime – which will be finalized after consultations with Georgia’s business community – is expected to be introduced with the 2005 budget. As revenues increase, the Government plans to increase budgetary expenditures and net lending gradually from 20.5% of GDP in 2004 to about 25% of GDP in 2008. This increase will be
directed towards increases in high priority economic and social expenditures that are consistent with the EDPRP objectives, including increased allocation of counterpart funds to donor financed programs, so as to mobilize larger inflows of external resources to the country. The Government will continue to stay current on wages and pensions payments. These goals are important for public sector efficiency and, particularly in the case of pensions, for poverty reduction.

We are strongly committed to attaining debt sustainability. Georgia is faced with a difficult situation in this respect, and the country will require strong support from the international community. The Paris Club debt consolidation period for Georgia ended in 2002, and further debt rescheduling was envisaged in 2003. However, because of the difficulties then experienced with the IMF’s PRGF program, it could not materialize and further external arrears were accumulated. To clear these arrears and achieve medium term external viability, the Government has requested rescheduling of 2003 arrears and eligible 2004-06 maturities, and comparable treatment by non-Paris Club bilateral creditors. The latest Debt Sustainability Analysis for Georgia suggests that without concessional restructuring, the country’s relatively heavy debt burden would be extremely difficult to manage. This reinforces our view, that support from the international community is indispensable to resolve the country’s debt problem. Substantive agreement has been reached at the Paris Club and a meeting has been scheduled for July to allow all creditors to submit the required technical data on time.

III.3. Measures to be Taken over the Medium-Term

To be able to attain fiscal sustainability, achieve a decisive turnaround in governance, tax enforcement, and capacity building, and to achieve a reasonable sequencing of reforms, our Government has already started taking a number of measures under the 2004 budget, and the IMF program, which is complemented by additional measures that the Reform Support Credit is supporting. Our objectives under these two operations are to take immediate measures, and advance the unfinished structural reform agenda by giving priority to the following:

- Maintaining a stable macro-economic environment, supported by prudent monetary policy and further fiscal consolidation;
- Raising tax revenue by accelerating administrative reforms in tax and customs management and by policy measures;
- Improving budgetary expenditure management and linking the budget process more closely with the EDPRP;
- Improving governance and reducing the scope for corrupt practices, focusing initially on civil service and state property management;
- Strengthening the performance of state owned enterprises (SOEs), especially to rehabilitate the energy sector and to improve the business climate;
- Strengthening the financial system by advancing bank consolidation and financial sector deepening, while improving bank supervision and enhancing anti-money laundering legislation;
- Improving the provision of public services, particularly electricity, through better management and actions for enterprise sustainability;
- Strengthening links with the private sector to create a favorable business environment;
- Continuing civil service reforms by adopting reform guidelines, and designating an agency responsible for implementation;
- Reducing poverty by a highly participatory implementation of the EDPRP, especially through measures in health, education and social assistance.

The Government will implement policies that will enable the country to reduce and ultimately phase out reliance on external assistance. With good progress on actions agreed in the above areas, Georgia is expected to achieve satisfactory macroeconomic conditions over the medium-term, as shown in Table 1 below.

**Table 1. Georgia: Macroeconomic Framework, 2001-2008**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<td>(percentage change)</td>
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<td></td>
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<tr>
<td>Real GDP</td>
<td>4.7</td>
<td>5.5</td>
<td>8.6</td>
<td>6.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Consumer price index (average)</td>
<td>4.7</td>
<td>5.6</td>
<td>4.8</td>
<td>5.8</td>
<td>5.0</td>
<td>5.0</td>
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</table>

| (in percent of GDP)        |       |       |       |       |       |       |       |       |
| General Government         |       |       |       |       |       |       |       |       |
| Total revenue and grants   | 16.3  | 15.8  | 15.7  | 19.0  | 19.7  | 20.8  | 22.0  | 23.3  |
| Expenditures and net lending | 18.3  | 17.8  | 18.2  | 20.5  | 20.3  | 21.3  | 23.4  | 25.1  |
| Overall balance (commitment basis) | -2.0  | -2.0  | -2.5  | -1.6  | -0.6  | -0.5  | -1.4  | -1.8  |
| Overall balance (cash basis) | -1.6  | -1.9  | -1.3  | -2.6  | -2.0  | -1.4  | -1.8  |       |

| (in millions of US$)       |       |       |       |       |       |       |       |       |
| Savings and investment     |       |       |       |       |       |       |       |       |
| Investment                 | 18.5  | 18.4  | 22.3  | 26.6  | 27.6  | 26.0  | 22.6  | 23.2  |
| Gross domestic savings     | 11.9  | 12.4  | 14.4  | 17.0  | 18    | 17.9  | 17.6  | 18.4  |
| Current account deficit    | 6.5   | 6.0   | 7.9   | 9.5   | 9.6   | 8.2   | 5.0   | 4.7   |

| (in millions of US$)       |       |       |       |       |       |       |       |       |
| External debt stock        | 1,655 | 1,776 | 1,840 | 1,902 | 1,997 | 2,072 | 2,223 | 2,339 |
| External debt service, total | …    | 228   | 195   | 218   | 222   | 212   | 195   | 160   |
| Nominal GDP                | 3,201 | 3,392 | 3,937 | 4,382 | 4,556 | 4,868 | 5,206 | 5,568 |
IV. Strategic Reform Priorities, Policies and Capacity Building

With a stable macroeconomic environment in place, our Government is pursuing its stated development objectives and strategic reform priorities. We have already taken a series of urgent steps since January 2004. The present Section of the document summarizes both actions already taken, and our vision of priorities.

IV.1. Governance

Before the Rose Revolution, corrupt practices were a major constraint to public sector effectiveness and private sector development. Entrepreneurial activities were subject to harassment by various law enforcement agencies. Laws were not enforced in a transparent and uniform manner over the spectrum of enterprises, while the shadow economy was growing, thus eroding the tax base. Corrupt bargaining strategies between law enforcement and entrepreneurs were prevailing practice in the country. Georgia, compared with other CIS countries, scored lower on political stability, regulatory quality, rule of law and control of corruption dimensions during the period. According to the Transparency International, out of 133 countries surveyed, only six had a worse Corruption Perception Index than Georgia in 2003.

The previous government had both an anti-corruption program and an appropriate institutional framework to implement it, however it lacked the political will and commitment to enforce the strategy. The private rent-seeking interests of many officials of the previous government undermined implementation of public and socially desirable policies.

The cornerstone of our development program is the eradication of this pervasive corruption and governance reform. Our strategic objective is to create an efficient, professional, honest and transparent civil service that follows democratic principles and implements social goals and provides competent services. We aim to achieve this objective through anti-corruption measures oriented toward law enforcement and judicial system reforms, fiscal and public finance reforms and administrative and civil service reforms.

IV.1.1. Anti-Corruption

We are strongly committed to fight corruption. We are actively implementing anti-corruption measures that already include changes in legislation against corrupt officials, and a number of prominent arrests. Since January 2004 criminal proceedings were instituted and charges were leveled against 19 high ranking officials, and up to date an amount of about US$ 23.4 million have been recovered. According to the opinion polls, of all the achievements of the new government the population approves the fight against corruption more than anything else. This is why the population’s trust in government is three times as high as it was before the revolution.
We are developing a legislative framework that ensures effective enforcement of anti-corruption policies. The new anti-corruption legislation incorporates the principle of plea bargaining in criminal proceedings and possibility of confiscation of unlawfully acquired property of corrupt officials. Also the Criminal Code was amended to simplify criminal proceedings against corrupt officials. We are also developing a new system for monitoring the assets of high-level officials.

Along with legislative changes, we already have taken steps towards reorganization of law enforcing agencies such as Ministries of Internal Affairs, State Security and Defense. Introduction of civilian control in the Ministries of Defense and Interior, a complete change of management and downsizing, and a strong commitment to upholding the rule of law for all citizens equally, boosts the confidence of the population. Fundamental structural reforms in the Ministry of Interior make a clear distinction between daily patrol and civilian protection functions and the resolution of crimes. The number of daily police posts have been dramatically reduced on streets and highways of Georgia. Before the reforms, these police posts were used to harass the population and undermine trade and other entrepreneurial activities.

Our vision is that laws and legal establishment must function in a transparent, predictable and unbiased fashion for all parties. An equitably enforced and transparent legal system ensures sustainable eradication of festering corruption. By the end of the year, the government will develop and submit to Parliament a legislative package, providing for the reform of the court, prosecutor’s office and the justice system. Jury will be introduced, as well as the right to swift justice. The corrupt practices will be criminalized in accordance with international agreements, conventions and the recommendations of international organizations. The system of disciplining the judges will be reformed and as a result of introducing European standards, independence of the judges and their accountability to the law will be guaranteed. The government intends to reform, upgrade and modernize the penitentiary system to ensure protection of prisoner rights.

Along with reforming the executive branch, the Government intends to strengthen the capacity of Parliament. Adoption of the modern information technology and management systems and training programs for Parliament members and staff will improve operational capacity of the Parliament.

Electronic governance services will increase transparency of government operations, help eradicate corruption, ensure better service delivery to citizens and businesses. A unified electronic public and civil register will be created within the Ministry of Justice. Web pages for ministries and other agencies will also be created, where information about the procedure of decision-making will be posted, as well as information on decision makers and rules for appeal. Over time, we will increase the scope of services conducted through electronic governance networks.
To support this process, our Government’s reform program includes:

- Preparation of a report on actions so far taken regarding anti-corruption measures and development of comprehensive anti-corruption strategy in consultation with civil society;
- Separation of roles and strategies of different law enforcement agencies that implement anti-corruption measures;
- Introduction of a new criminal procedure code which ensures equal rights for all defendants and prosecutors;
- Simplification of investigative procedures;
- Reduction of pre-trial detention period;
- Modernization of prison and penitentiary facilities;
- Development of Civil Registry program;
- Strengthened capacity of the Parliament;
- Introduction of E-governance
- Legislative harmonization to meet EU standards;
- Periodic surveys to measure progress in fight against corruption;
- Introduction of jury system, optimization and reduction in the number of courts;
- Modernization and institutional development of law enforcement agencies;

IV.1.2. Administrative and Civil Service Reforms

We are implementing long-term civil service reforms and a systemic program oriented toward increasing efficiency and eliminating sources of corruption. Special emphasis is placed on creating a smaller, more compact, less bureaucratic and better paid government. The Parliament of Georgia already passed legislation that reduced the number of Ministries and consolidated a wide range of departments within specific Ministries.

We are in the process of optimizing the staff size in line with the new functions assigned to each ministry. In the medium-term, we will develop a comprehensive salary reform strategy which is consistent with the medium-term expenditure framework and public sector reform plans. Meanwhile, we are providing some transitional salary increases for selected staff through two funds, the UNDP- administered Governance Reform Program and the government administered Development and Reform Fund. Both of them are managed with full transparency and are supported by the Open Society Institute, UNDP and major private donors. We intend to reduce dependence on these transitory mechanisms, as the Government progresses with public sector reforms and develops fiscal space to provide adequate salaries to a smaller and more effective civil service.

We do understand that the Government’s restructuring and downsizing are associated with social costs, such as increased sectoral unemployment in the civil service. We are looking at resource implications of providing adequate compensation, conducting training programs and creating new employment opportunities for former civil servants.
Administrative reform aimed at strengthening Georgia’s territorial integrity also features prominently in the national recovery program. We are developing a comprehensive framework for elected local self-governance at all levels. This will include decentralization, and the initiation of legislation defining territorial arrangement of the country, including establishment of a new legal regime setting out guidelines for financial and property management at local and central levels.

We are committed to:

- Elaborate and submit to Parliament additional legal and structural reforms outlining the functions of the executive branch and a program/regulations for creating a merit-based professional civil service, including competitive recruitment;
- Establish a code of ethics for public servants;
- Develop a comprehensive salary reform strategy, which will raise the minimum wage and salary levels of civil servants and will be consistent with the medium-term expenditure framework and public sector reform plans;
- Finalize and implement a downsizing plan in public administration, including education, law enforcement and security;
- Provide adequate compensation, seek to conduct training programs and create new employment for former civil servants to minimize unemployment; and
- Observe commitments on governance to the Council of Europe and EU.

IV.1.3. Fiscal and Public Finance Reform

We are revising tax legislation aiming to simplify the tax system and refine administrative procedures. The new draft Tax Code will significantly reduce the total number of administered taxes. Nuisance taxes such as resort tax, hotel tax, and the tax on local symbols will be eliminated, while policy and administrative efforts will be concentrated on seven major taxes: VAT, personal income tax, corporate income tax, excise, property tax, social taxes and land tax.

We initiated reforms in tax and customs administration to ensure operational efficiency of tax enforcement mechanisms. Structural and functional reorganization of Tax and Customs administrations is supported by improved recruitment and management of human resources. Our objective is to eradicate corrupt bargaining practices between taxpayers and rent-seeking tax inspectors. The Financial Police have been created under the Ministry of Finance for detection and investigation of economic and fiscal crimes. We are already prohibiting advance tax payment and are developing a framework for effective control and administration mechanisms for VAT refunds. The new tax refund framework envisages creation of a Special Reserve Fund in the Treasury that allows tax refund payments on a regular basis and in a transparent manner.

We are strongly committed to improving public expenditure management. Budget preparation reforms have been introduced in line with the Budget System Laws. Budget
requests by spending units are based on an activity and economic classification and hard ceilings are set for preparing ministry budgets and personnel allocation. Commitment controls and the requirement for quarterly reporting to the Parliament on budget execution also helps to reduce the divergence between budget and actual expenditures.

Operational optimization of the treasury system ensures effective budget execution. The Treasury introduced a commitment management system to prevent accumulation of arrears. For this reason pre-registration of contracts by the spending units with the Treasury has been introduced. The Treasury transit revenue accounts were eliminated and replaced with the single revenue account aimed to improve management and transparency of public finances.

The Government is committed to:

- Improve/simplify tax legislation;
- Continue tax reforms and refine administrative procedures;
- Continue customs reforms and improve administration;
- Create common information network of tax and customs administration shared with border protection entities and other relevant bodies that will establish unified tax system throughout the country;
- Improve the program of the taxpayer random selection and auditing practices through random selection of taxpayers;
- Support Financial Police;
- Improve further the budgetary process and closely link it to EDPRP;
- Clear expenditure arrears fully;
- Continue reforms in the Treasury system, and implement International Accounting Standards throughout the country; and
- Put in place technical facilities that can ensure continuous communication with treasuries and commercial banks in the region.

IV.2. Rehabilitating the Energy Sector

A letter from the World Bank to the Government recently confirmed that “Georgia’s energy infrastructure has deteriorated to the point where, without additional investment, the risk of systemic failure has become unacceptably high within the next two to three years”. This statement – as most donors know - captures very accurately the conditions in the country’s energy sector. To grasp the severity of the problems in the energy sector, one needs only to look at current performance and service levels, which remain – despite initiatives taken since January 2004 and subsequent improvements – unsatisfactory. What is particularly striking is that these conditions are observed in a country with enormous untapped hydro-electric potential for generation of power.

Critical Sector Conditions

Low collection rates since independence, were in great part caused by rapidly rising power tariffs that began to reflect the true cost of electricity, inducing a culture of
non-payment and theft. In the absence of adequate metering, and with high incentives for fraud, demand for electric power rose to excessive levels. Growing debt financing by energy enterprises offered only temporary relief, and destroyed their financial viability.

Both the electricity and gas sub-sectors continue to struggle with low collection rates. While in Tbilisi collection of electricity bills has improved to 60-70 percent – mainly because of installation of meters over the last couple of years, in the rest of the country, even after spending all currently committed donor resources, only 40 percent of customers will be metered. Even then collection rates are not expected to be above 50 percent by 2005. Collection rates of gas has not produced better results, as in Tbilisi alone about 75 percent of gas distributed is lost. Losses, which include technical losses and theft, in addition to uncollected bills, are high in both power and gas sub-sectors. As a result, the financial condition of enterprises has greatly deteriorated since 1991, and the state of repair of electric power transmission and distribution network and the gas distribution system have become precarious.

Payments to domestic, state-owned power plants and to the power transmission company are channeled through the Georgian Wholesale Electricity Market (GWEM), which issues invoices to distribution companies and large industrial customers on behalf of the service providers. Currently, average payments to GWEM are less than 30 percent of invoice value. The shortfall in payments constitutes about US$ 70 million per year. About US$ 20 million of this amount is unpaid services provided by the transmission company. The gas transmission system incurs annual losses in the order of US$ 20 million, mainly for a lack of rehabilitation and maintenance. While a US$ 40 million investment could reduce these losses by more than 90 percent, thus securing a pay-back period of little over two years on the required investment, the resources have not been available because of the very poor financial condition of the enterprises involved.

Given the poor conditions of existing hydro-plants, generation of electricity is at 40-45 percent of full potential and aggregate domestic supply cannot cover consumption – given especially the high demand under non-payment conditions referred to above. Enterprises have been under pressure to finance imported electricity to cover demand, putting even greater pressures on their already weak financial conditions.

Under these circumstances, energy supplies to household and business consumers have been unreliable, with frequent and unpredictable interruptions of service. Consumers, especially outside Tbilisi, endure particularly low service levels, and outages affect economic activity, delivery of public and social services and the quality of life. Because of a lack of control systems for consumption (limited metering, inefficient distribution controls, etc.) it is not possible to balance consumption without also curtailing the consumption of paying customers.

Burdened with such problems, Georgia’s energy sector has not made progress in privatization. The distribution company for Tbilisi was sold to AES in 1999, together with a thermal power plant. These assets are now owned by the Russian firm RAO/AES. The state-owned transmission company (Georgian State Electrosystem, GSE), the state-
owned distribution company outside Tbilisi (UDC, Unified Distribution System – the largest in the country), as well as the wholesale market GWEM are under management contracts with competent, international firms, financed by donors, including international financial institutions. In the gas sub-sector, enterprises remain predominantly state-owned, with fragmented arrangements for purchasing imported gas.

The Winter of 2004-2005

The sector is going to face a very tough test in the winter of 2004-2005. Preliminary estimates suggest that necessary electricity imports to meet minimum consumption needs during the period of September 2004-April 2005 may cost US$ 19.5 million equivalent. Urgent investments for rehabilitating hydro generation and cutting losses, if successfully completed before the winter, may reduce that amount, but resources will need to be found to finance imports, in order to avert critical shortages.

Rehabilitation Strategy

The new Government recognizes the long-term potential of the country’s electricity and gas sectors to attract foreign investors and the need for substantial amounts of financing. A comprehensive strategy has been adopted to tackle the severe problems mentioned above, to stem further deterioration of the system, achieve energy security and to create a profitable sector, so that the sector would, in the longer run, not depend on budget support and concessionary financing. Only self-sustainability in the sector can secure these goals.

Measures Already Taken

As a part of the above strategy, immediate steps are being taken and are financed from available donor sources and the state budget. They are directed to the most urgent needs to improve metering and collections, and to undertake minimal rehabilitation of hydropower generation facilities, the electricity network, including both transmission lines and the distribution system, and some gas pipelines. Our budget contributions also include funds for vulnerable consumers to alleviate poverty. While the resources currently available from the donors and the budget are an important start, they are insufficient to reduce significantly the risk of systemic collapse and to finance much needed investments in controlling the system (including metering) so that the financial flows in the sector can be improved. Over and above the “Quick Hit” program for low cost/high impact investments in the power sector, and urgent small investments in gas, substantial investments have been identified to advance rehabilitation.

Actions already taken by the Government have focused on the unserviceable debt overhang of energy enterprises, for which a Debt Resolution Agency (DRA) is in the process of being set up with donor support. In order to assist power sector enterprises that even after debt alleviation measures will have inadequate cash flows, our Government is reviewing a fund redistribution scheme for possible adoption in 2004.
**Structural Reforms**

We consider of great importance the Strategic Action Plan for the energy sector that we have developed with donor support recently, which will help the Government to take initial steps on structural issues.

The Government intends to focus additional policy and institutional measures on regulatory issues, service standards and energy security, as well as longer-term strategic goals. The measures listed below will help achieve self-sustainability over time, assure the efficient use of both domestic and external resources, including lucrative transit and export/import arrangements, attract investors and assure optimal resource use.

The Government is committed to policy measures covering electric power and gas:

- Assure full authority and independence to the Energy Regulatory Commission (GNERC), and amend legislation as necessary;
- Pass the necessary legislation to ensure that energy theft can be prosecuted as a crime, in order to create conditions for improved collection performance by enterprises;
- Review current tariff methodology, including treatment of the vulnerable segments of society;
- Establish and put in operation the Debt Resolution Agency;
- Move to international accounting standards (IAS) for all energy utilities, and have a time-bound program for implementation in the electric power sector by April 2005;
- Separate institutional responsibility for high pressure gas pipeline operation and sub-sector policy making, without which it may be unfeasible to recover efficiency in transmission and distribution;
- Evaluate the feasibility and advantages of a “single buyer” model for gas, and continue to implement a strategy of diversifying import sources, thus reducing dependence on a single source for gas imports;

Specific measures and programs:

- Publish monthly performance data for the power sector, and ensure that predictable power outages are published in local newspapers;
- Undertake a public awareness campaign in an effort to raise awareness about the unsustainable non-payment and theft situation in the country and to secure transparency;
- Continue UDC metering program, and introduce a new collection system to increase collection rates from 20 to 40 percent;
- Restructure and streamline operations of GSE, fund redundancy package for about 35 percent of the workforce, and improve control system to reduce transmission losses by one percentage point by 2005;
• Have in place a package for winter import requirements by September 2004;
• Develop long-term investment program for electric power by April 2005, including planned levels of contributions for investment from the state budget, and an action plan to tap into Georgia’s attractive hydro power reserves, including investments for transmission, exports and imports of electricity – such plans will need important regional coordination;
• Monitor the financial performance of energy enterprises, and as needed, introduce corrective measures, including legislation, to ensure adequate progress towards financial sustainability, without which private sector participation and investments required for improved service levels would not materialize.

Future Investment Requirements

To achieve the above policy objectives and goals in as short a period as possible, investments have been or will be identified to ensure that: (i) a systemic collapse can be avoided in the short-term, and minimum service levels can be assured; (ii) the financial viability of enterprises is improved over time to attract private investors, and (iii) Georgia can play an important role, including full exploitation of its hydro-electric potential, in the balanced and efficient provision of energy to energy-deficient countries in the region.

From a financing point of view, energy investments include: (a) investments for which donor funding is available and are either in progress or ready to be implemented; (b) urgent priority investments which are submitted for donor consideration in this document; and (c) remaining priority investments, all of which have already been identified, and some of which are already fully prepared for investment review. In the latter two groups, investments of all energy sector enterprises are to achieve our stated strategic objectives, the most urgent of which is a strong impact on economic growth4.

IV.3. Protecting the Vulnerable

Georgia has experienced a severe decline in welfare since independence. Annual income per capita is about 56 percent below the pre-independence level, unemployment is high, and many Georgians are underemployed. As a result, poverty, vulnerability and inequality have all sharply increased. Economic growth and a pursuit of reforms that will increase employment and raise productivity and incomes remain key to sustainable reductions in poverty. Equally important is reliable delivery of quality services, such as education and health, and an adequate and affordable social protection system that would provide meaningful protection to the poorest and most vulnerable Georgians.

4 A large block of the remaining priority investment referred to in (iii) above, comprising projects that are ready for financing review is being now compiled for discussions with the Millennium Challenge Corporation. As already noted, these projects have not been included in the urgent priority needs submitted in the present document.
Health and education status indicators, including the MDGs, have deteriorated significantly since early 1990s. Although they still compare favorably to other countries at similar income level, Georgia is facing a challenge of arresting the negative trends and regaining the ground lost. Social protection has provided little poverty alleviation, because of severely constrained resources.

Supported by the international community and in close cooperation with civil society, non-governmental organizations and donors, the country prepared an Economic Development and Poverty Reduction Program (EDPRP) in 2003. Our Government is fully committed to the EDPRP and intends to update, revise, and improve it in light of new developments. The Government also will establish a close linkage between EDPRP and the budget, to improve resource allocation and support sector reforms. First, the Ministry of Finance will provide technical instructions to establish the linkages between the EDPRP and the annual budget. Second, the joint working group of the Ministries of Finance and Economy will make these linkages operational. Budget links with EDPRP will be first established in the education, health and social protection sectors under the 2005 budget. Also, EDPRP monitoring mechanisms will be promoted, so the authorities and population can evaluate how well priority programs are executed and planned.

Health, education and social protection suffer from structural distortions, inadequate funding, deteriorating quality, inequitable access, particularly for the poor, poor governance and weak administration and institutional capacity. As a result, scarce resources are inefficiently and ineffectively used. Over the years, the Government has undertaken reforms in all the three sectors. The results have yet to materialize, mostly because of resource constraints. We now have an opportunity to re-think the reform strategies and actions supported so far.

IV.3.1. Health Sector

Georgia spends under US$ 20 per person per year on health (equivalent to 3.9 percent of GDP in 2000), 73 percent of which is private and 27 percent public. Public expenditures on health in Georgia are one of the lowest in the region. Continuous under-funding of the health sector for the last number of years is exacerbated by the gap between budgeted and actual expenditures, as well as by misallocation of scarce resources. As a result, the poor in Georgia suffer disproportionately.

Although the public share of health care expenditures remains poor, per capita allocation has increased from US$ 1 to US$ 7 since introduction of reforms several years ago. Our Government is securing timely provision of public resources, and the health sector budget execution has improved significantly. The Government is evaluating and repaying the stock of expenditure arrears accumulated in the health sector.

Past funding constraints lead to deterioration in public health infrastructure, and limited availability of drugs and consumables. The health sector has failed to provide adequate services, especially to the poor, leading to a deterioration of the health status of the population. Apart from financing, the system is characterized by poor governance,
lack of accountability, non-existent human resource planning policies, unregulated provider market, highly privatized pharmaceutical sector, with the Government not having well-defined regulatory and financing role. Perceived quality of care is low, particularly at the primary level. No credible licensing method is operational for providers.

Our Government’s objective is to improve the coverage and utilization of quality basic health services to the population with an emphasis on reaching the poor and disadvantaged.

To achieve that objective, we will:

- Strengthen the Government’s stewardship role through enhancement of policy analysis, development of a legal and normative framework for the sector;
- Improve regulation of health service providers, and strengthen supervision and accountability;
- Restructure hospital and primary health care sectors;
- Undertake better human resource planning and development;
- In parallel with continuous efforts to mobilize additional resources, ration scarce health resources by re-defining the Basic Benefit Package, prioritizing basic health services, and improving targeting of the services to the poorest and rural areas.

IV.3.2 Education Sector

Gross enrollment is almost universal for primary school, and is still high for secondary school but falling. The quality of education facilities and services has declined due to under-funding over the last decade, and increasing poverty. Some services have almost disappeared.

The quality of education is suffering from the country’s economic crisis and from the allocation of only about 2 percent of GDP to education. School facilities cannot provide a healthy and student-friendly environment. Seventy percent of schools in rural areas and 86 percent in urban settings need reconstruction or repair. Provision of adequate primary education in remote areas and in settlements with low populations is becoming increasingly difficult.

Preschool enrollment, which has never been high in Georgia, has declined in recent years to less than one-third. At the household level, family decisions not to send their children to preschool typically stem from insufficient financial resources to cover hidden and informal preschool payments. At present, 69 percent of children aged 3-5 do not attend pre-school services. With an increasing rate of poverty, this crucial age group is suffering neglect which can lead to poor education performance in later years. Also, there are indications of growing inequities in access to quality education between the poor
and the wealthy and between regions. Access to the pre-school services is a particular problem for children with disabilities who are generally excluded from pre-schools.

The Government’s objective is to improve the quality, accessibility and relevance of education. Important steps have already been taken. These include introducing national assessments and reforming examination systems at basic levels, increasing quality of teacher training, improving the curriculum, and decentralizing authority to school level. The new government is anxious to press forward with these changes and to ensure accountability of the education system to stakeholders.

The outstanding issue of teacher pay and conditions is key to any long term change. At present the highest teacher salary is below the official poverty line, leading to informal privatization of education services and large numbers of over-age teachers who cannot retire because of the absence of any pensions. The poorest suffer because of these informal fees. Outstanding arrears in teacher pay mean that no serious discussion on retrenchment can take place until these debts are cleared.

School infrastructure is in very poor condition in most areas and often without heating and electricity. Significant resources will be needed to address this issue, but rehabilitation should not be undertaken without thought to re-design of school buildings and closure where appropriate to minimize costs. The reallocation of resources to elementary and secondary education will be based on decentralized decision making, involving local schools and the communities served, and will take into account the need for targeting to the poorest groups, including those in rural areas. Beginning at the kindergarten level, the state will focus and direct its financial support to vulnerable groups and orphanages.

The Government is committed to:

- Reallocate resources to primary and secondary education;
- Reform examination systems at basic levels, improve teacher training, improve the curriculum and decentralize authority to school level;
- Greater decentralization of decision making to local schools and communities;
- Reorganize education system, decentralize management, optimize physical and financial resources
- Consolidate some schools and introduce multi-grade teaching;
- Optimize teachers pay system;
- Improve targeting of the poorest and vulnerable groups.

IV.3.3. Social Protection

In view of declining social welfare, high unemployment and underemployment, vulnerabilities have increased. The Government’s goal is to alleviate poverty by targeting programs and services at the poorest and unemployed. Our first action has been timely payment of pensions and other entitlements. In the medium term, within the overall
availability of resources we will increase pensions and social assistance, and significantly strengthen the targeting of social assistance benefits to the poor. Benefits for Internally Displaced Persons (IDPs) will be consolidated with resources for general social assistance programs and actions taken to promote IDP self-reliance. At the same time, we intend to take measures to improve significantly the capacity of local welfare offices to deliver targeted social assistance in a transparent manner. In addition, we plan to initiate actions in the areas of employment and labor markets to increase employment opportunities. For pensions, the Government intends to analyze reform options, in order to introduce an optimal system that provides protection against poverty in old age, as well as offers opportunities for private voluntary contractual savings.

Our Government has undertaken several steps to reform the social protection: a targeted poverty benefit has been introduced, employment offices established, new public pensions law adopted and modernization of pensions administration initiated. Reform efforts have not come to fruition, mostly because of the lack of resources which has compromised the changes. Under the EDPRP framework, the Government is in the process of designing and adopting a monitoring mechanism for living standards and poverty indicators. The Government regularly conducts household surveys to monitor the poverty indicators and will continue to do so.

We are committed to:

- Fulfill the goals of our poverty reduction program;
- Timely payment of pensions and gradually increasing their value;
- Rationalize the state pension system and social insurance fund, including development of private sector capacity;
- Targeting IDPs through general social assistance programs and promoting IDP self-reliance;
- Develop local welfare offices’ capacity in delivering targeted assistance; and
- Develop and monitor poverty indicators.

IV.3.4. Investing in Children: Best Investment for the Future of Georgia

Protecting the right of the child and the mother to survival, development and health requires access to quality health services and adequate care and nutrition. In Georgia, progress is apparent over the past few years in some areas, such as immunization and prevention of micronutrient deficiencies, while in other areas, such as breastfeeding, complementary feeding and neonatal care, progress has stalled or conditions have worsened.

*Maternal and Child Health*

Inadequate parental service quality and low utilization of existing health benefit packages are the main causes of the high infant mortality rate (23.8 per 1,000 live births in 2002). Although maternal mortality ratio has slightly decreased since 1995 (from 55.1
per 100,000 live births to 46.6 per 100,000 live births), it still remains one of the highest levels among the post-Soviet states.

While the prevalence of child malnutrition is low, the socio-economic crisis has increased the susceptibility of the population to micronutrient deficiencies. The negative impact of micronutrient deficiencies on development of children compromises human resource development for the future of the country. The rate of Iodine Deficiency Disorders has decreased since 1997, but 40 percent of children still remain under risk of impaired physical and mental development. A survey in 1999-2001 found Iron Deficiency Anaemia (IDA) in 20 percent of Georgia’s children of ages 0-15 years, with the highest rate among infants of ages 6-12 months, reflecting poor nutritional status of mothers, low rate of exclusive breastfeeding in the first six months and inappropriate infant feeding practices.

Vaccine Preventable Disease incidence has been reduced (zero reporting for Polio and maternal and neonatal tetanus was maintained, diphtheria incidence was reduced from 5.5/100,000 children in 1997 to 0.6 in 2002). Immunization coverage shows high results (around 90 percent nationally for all basic antigens) and the country received polio free certification in 2002. Yet, immunization coverage of remote areas, timely immunization as well as the monitoring and reporting system need still improvement.

Child Protection

In Georgia, the years of conflict, economic collapse, and traditions of isolating children with disabilities have resulted in large numbers of children without parental care and protective child-friendly environment. There are around 4,736 children located in different type of institutions throughout the country although more than 95 percent of them have at least one parent. An estimated 2,500 children are in the street, involved in begging, petit-crime and suffering exploitation in work or prostitution. The reasons that children are not protected by their parents and environment are related to parents’ low income, single mother household and alcoholic and/or drug abuse.

Strategic Approach and Progress Already Achieved

Two policy instruments adopted by the Government of Georgia offer the strategic framework for improving the conditions of children and women: the National Plan of Action for Children (NPA) and the Economic Development and Poverty Reduction Program (EDPRP). The goals of the NPA are consistent with the Convention on the Rights of the Child.

Georgia, as one of the signatories of the Millennium Declaration, made a commitment to integrate the Millennium Development Goals within its national development strategies, and reports periodically on the status of their attainment. Six of the eight Millennium Development Goals (MDGs) can be met only if the rights of children to health, education, protection and equality are secured.
The country has put into place state medical insurance program for safe motherhood, outpatient and hospital care for children aged 0-3. A referral system has been established for the provision of medical assistance to high-risk newborns and women with life-threatening obstetric complications. A new Parental Care Center with modern standards has been established in Tbilisi that serves as the referral hospital for the regions as well.

One of the most cost-effective measures to prevent iodine deficiency among children and the population in general is the availability of the iodized salt. The Government of Georgia in collaboration with donors elaborated the draft law, which implies to ban the importation of the non-iodized salt into country. The proportion of households with iodised salt rose from about 8 percent in 1996 to 67 per cent in 2003.

As a step towards sustainability, in 2003 the Government for the first time has ensured procurement of a 20 percent share of routine EPI (Expanded Program of Immunization) vaccines for under-2 children as well as 100 percent of the vaccine requirements for 5 and 14-years age groups.

A Baby Friendly Hospital Initiative, aiming at promotion of breastfeeding practices, has been expanded to 18 Maternity Houses and 80 percent of maternity hospitals are trained in breastfeeding techniques and practices as well as in baby friendly hospital initiative.

Law on foster care was adopted by the Parliament in 1999 and modified in 2001. Changes were made in the adoption law in 2003, prohibiting direct inter-country adoption. Comprehensive review was carried out and amendments were made to national legislation on child sexual exploitation and juvenile justice system reform. During the period of 2001–2004 an inter-sectoral working group of government and NGO representatives was established for developing a de-institutionalization strategy for preventing infant abandonment. Special education lessons for re-integration of street children in formal schools are developed and delivered at the street children shelter. Psychosocial treatment is provided to parents with street-children. A pilot project for inclusion of disabled children in formal schools has been initiated.

The Government is committed to:

- Create a policy making/coordinating unit at the Prime Ministerial level to review and make decisions on child welfare issues aiming to reduce the number of children in institutions;
- Review of current legislation and develop a single law on child welfare;
- Introduce a Family Support and Child Protection Panel in the regions composed of local professionals to supervise child welfare management;
- Re-integrate children deprived of parental care and living in institutions in a protective and caring family environment;
- Provide financial support to talented institutionalized children;
• Pilot initiatives in the field of child protection such as re-integration of street children in formal schools, inclusion of disabled children, and prevention of abandonment of children;
• Promote safe maternity and medical care for 0-3 year-old children, as well as primary care and public health programs;
• Engage women's consultation clinics, maternity hospitals, children's outpatient clinics, children's hospitals and specialized research institutions;
• Capacity building and awareness on maternal and child care at community and family level is important for reducing morbidity and mortality;
• Prevent micronutrients deficiencies and to ensure better physical and mental development of the children; and
• Identify and prioritize sub-national localities with the low immunization coverage and to provide outreach services.

IV.4. Promoting Private Sector Development

The Government recognizes that investors and business operators incur high costs in doing business in Georgia, and therefore it is committed to improving the business environment through reducing the cost for establishing and operating business, enhancing private sector participation in policy making, and facilitating transport and trade.

Main Issues

Institutional changes and regulatory improvements have been attempted in the past, but implementation and follow-up were inadequate because of a lack of strong political will and weak institutions. These problems have been often aggravated by the absence of clear communication with the business community, the public and officials about changes in rules and regulations that had been introduced by the authorities.

The Foreign Investment Advisory Services (FIAS), in collaboration with the Government and the International Finance Corporation (IFC), prepared an Assessment of Administrative Procedures of Doing Business in Georgia and identified obstacles to establishing and operating businesses in Georgia. Recommendations for removing barriers to a favorable business environment focused on normative control of entrepreneurial activities, licensing and permits, quality control mechanisms, a stable and predictable legal environment, movement of goods and services, and fiscal issues, including VAT refund to exporters – which in the past often have been affected by inefficiency or corruption. Moreover, the report suggested improvements in communications between the business community and Government.

Although financing costs have decreased in recent years, they remain high in real terms and constitute a major impediment to business activities. Given macroeconomic conditions in the country, lending interest rates have been high, and the required collateral often exceeds the loan amount by a factor of two. Moreover, partly because of the risk-averse approach taken by banks, and the absence of long-term domestic savings,
lending maturities are short, mostly less than a year. This favors working capital finance, and virtually excludes borrowing for investment.

Recent Measures

In response to these issues, we have set up an Inter-Ministerial Commission involving senior government decision makers and private business leaders, who hold periodic meetings to develop a new action plan for removing administrative barriers. To aid the work of the Commission, a Secretariat has been created. We also suspended VAT reimbursements temporarily, to allow for changes in the system’s administration to ensure that it is efficient, transparent, and corruption-free. Given its importance to export competitiveness, the new VAT rebate scheme has already been introduced, and we are committed to implementing and monitoring it effectively. New licensing requirements are not being introduced until a whole new package of reforms is adopted. Issues of intermediation costs are being addressed through further consolidation of banks and increasing minimum capital requirements for commercial banks. In the Government’s view, these are important first steps, which will be followed by a series of measures designed to create the desired business environment in Georgia.

Further Reform Measures Envisaged

- Adopt an action plan for improving/simplifying business registration, building permits, tax administration, customs, standardization and certification, and control of entrepreneurial activity, ensuring that responsibilities are assigned clearly to each public entity involved and inspections are regulated;
- Reduce the cost of doing business in the future, and require an analysis of the impact on business of any proposed regulation and its justification prior to approval;
- Conduct annual surveys in the business community to assess perceptions about progress in implementing reforms and any new issue that may arise;
- Monitor implementation of the new VAT rebate scheme and adopt new customs code based on the anti-smuggling strategy currently being developed;
- Recognizing that inadequate standards are an impediment to access of non-CIS markets (especially for food and processed agro-products), adopt an internationally recognized system of product certification, and accelerate transition to the dual (voluntary/mandatory) system of standards in accordance with WTO requirements; and
- Introduce measures for strong banking supervision, including non-bank financial institutions, and develop a unified national registry of movable assets.

The Government recognizes that rules and regulations for entrepreneurial activities need to be anchored in a comprehensive legal framework that includes company, collateral, security, bankruptcy and anti-monopoly laws, and protects creditors, property and contractual rights. Judicial enforcement has to be professional and transparent. We are fully committed to work with these issues and develop the necessary
legal and institutional instruments and build up an adequately trained human resource base to operate them over the medium term.

**IV.5. Promoting Sustainable and Regional Development**

**IV.5.1. Agriculture and Rural Development**

At present, the agriculture and food processing sector of the economy accounts for approximately 20 percent of GDP and more than 50 percent of employment. Georgia has a comparative advantage in producing a range of food products, including viniculture, fruits and nuts, vegetables, some livestock products such as wool, and tea. Georgia is not self-sufficient in basic foodstuffs – especially wheat, which it produces less than a quarter of its annual consumption.

The country’s economic development strategy, therefore, emphasizes expansion of high value-added agricultural and food exports where it has a comparative advantage. Simultaneously, the grain sector needs reform to open it up to competition, to reduce transaction costs, and to introduce a system of targeted assistance to those least able to afford sufficient, nutritious food.

More than two million titles of agricultural land plots have been issued to the population. These plots are, for most of the population, their effective social safety net, producing enough to allow families to subsist even with very limited cash incomes. The country’s poverty reduction strategy, therefore, includes an emphasis on improving the economic possibilities of these smallholders.

The Government is reinforcing efforts to modernize and make more effective its regulatory agencies, including veterinary activities, to promote open, competitive markets in inputs and services, and to assist farmers in producing and marketing their products, in order to increase rural incomes. The Ministry’s Department of Amelioration Systems Management is responsible for a number of large flood-control and water-management systems. Some of these facilities, although only tangentially related to agriculture, are of vital importance for the security of Georgia and are in urgent need of major renovation.

We are also placing emphasis on rural development in alpine regions, and on development of particularly disadvantaged districts and areas of non-ethnic Georgian minorities, such as parts of Kvemo Kartli and Samtskhe-Javakheti.

*The Ongoing Transformation*

Reform of the agricultural sector has already been under way for some time. Land reform, including titling and registration is well advanced, although more needs to be done to complete the process and to make land markets work in Georgia. In the interim, the new smallholders have increased the demand for credit, as well as extension services and the creation of cooperatives and other ways to share services and equipment, and market their produce. Producers, with the help of the Ministry of Agriculture, have
had some success in regaining Russian markets lost during the 1990s, as well as increasing exports to European and other markets. The Ministry of Agriculture, with the Ministry of Health, is also moving to introduce international food standards and certification based on the UN FAO/WHO Codex Alimentarius. Adoption of internationally recognized standards will assist importers and exporters as well as improving consumer safety in the domestic market.

In recent years, the Ministry of Agriculture has reduced both its staff and the total number of its agencies almost by one-half. Better budget controls and internal auditing capacity have been put in operation, and the Ministry’s ability to serve producers and consumers has begun to increase.

We are committed to:

- Complete the reform of the grain-handling, milling and baking industry to allow greater competition and better targeted assistance to the poor;
- Introduce internationally accepted certification procedures;
- Focus efforts on developing internationally recognized quality standards;
- Establish public-private partnerships for effective system of quality control;
- Increase access of farmers and entrepreneurs to inputs and services;
- Renovate rural infrastructure that badly decayed after years of neglect and conflict;
- Increase the rural community mobilization and income generation activities with participation of NGOs;
- Facilitate access of farmers and producers to credit and insurance;
- Secure agro-biodiversity.

IV.5.2. Trade and Transport

The government is strongly committed to facilitating legitimate trade, transport and transit in Georgia, which is regarded as a key to the development of the private sector. The transport corridor through Georgia has not yet succeeded in capturing much of the potential non-oil transit traffic from Central Asia and Caucasus. While official transport fees are comparable with international benchmarks, the actual cost of transportation is not competitive yet. This is due to major physical and procedural impediments including porous borders, a non-commercial railway system, corruption, and weak, cumbersome, and uncoordinated control by public sector bodies involved in trade.

Many impediments, both physical and procedural, contribute either directly or indirectly to increased transport costs. They include high unofficial payment to border agencies and the road police and excessive and often unnecessary documentation, particularly for transit goods. The improved political climate has reduced these problems. Our Government has recently upgraded the customs information systems, through full implementation of the ASYCUDA system nationwide, which harmonizes procedures and
reduces the scope of personal interface between customs officials and traders which sometimes results in illegal practices. But, we need to focus more on how to benefit from our WTO membership.

In the short term, we will take measures to reduce procedural obstacles by eliminating the internal transit document requirement (VVT) and the need for non-excise consignment to travel in convoy which had resulted in significant and costly delays to transit cargo. The short-term benefit of these measures is considerable; however, there is a need to implement additional medium-term measures to fully eliminate these problems.

We have secured institutional support to the Investment and Trade Development Center under the Ministry of Economy that will analyze and facilitate investment climate and trade related issues in the country.

Our Government is committed to:

• Eliminate procedural obstacles to transit;
• Reduce costs of actual transportation through better infrastructure; transparent and fairly enforced regulations; and
• Create favorable climate for trade and investment operations.
IV.5.3 Infrastructure Rehabilitation and Development

One single ministry is now responsible in Georgia for transport infrastructure, communications, urban development and housing, construction, geodesics and cartography. The new Ministry of Infrastructure Development has been established in early 2004 by merging two former ministries and a number of dependent agencies.

The new ministry is responsible for the country’s whole basic infrastructure system that underpins governance functions, economic activity, including private sector investments, social and regional integration and affects the quality of life of the whole population.

Background

Roads, railways and ports have deteriorated significantly since independence, and the resulting poor service levels affected rural activities, investments in agriculture, small business development and constrained tourism development. Both main and rural roads need rehabilitation and intensified maintenance. Railways are not operated in a businesslike manner, employing excessive labor, losing traffic and struggling with financial difficulties. Ports could not generate sufficient resources for investing in modernization. As a result, business costs have increased, undermining Georgia’s export competitiveness. Communications infrastructure has developed mainly in mobile telephone systems, benefiting from the entrance of private operators, but connections with international networks are still not fully developed. Rural water supply is very limited, and in urban areas the provision of water has deteriorated, in part because of the precarious availability of electricity. The privatized housing stock has been deteriorating, even though all housing units were turned over to private owners after independence; some 22,000 housing units damaged in the 2002 earthquake still need to be restored.

Economic and financial criteria have been introduced in infrastructure only after independence. Design standards from the Soviet system in all infrastructure have encouraged over-design and a waste of resources by unnecessarily raising capital and maintenance costs. In the absence of competitive procurement, costs have not been optimized, though new procurement procedures are now ready to be implemented. While some progress has been made in managing the capital stock of infrastructure since the end of internal conflict in the mid-1990s, much remains to be done to improve the system, according to the requirements of a market economy.

Main Policy and Institutional Reforms

To address the issues of infrastructure management, a number of policy and institutional reforms are being prepared and will be introduced in the near future, as follows:
• Transfer the Road Fund to the Ministry of Finance, reform/incorporate Road Administration under the new ministry, and create a consultative body for government/private sector cooperation on priorities;
• Broaden membership in tender committees stipulated by the law for public works, to involve NGOs and professional groups to ensure transparency and accountability – benefit from new management of State Procurement Agency;
• Restructure railways and ports to achieve efficiency gains by downsizing and adoption of modern management systems;
• Restructure water/sewage enterprises, and develop a new institutional framework for regulations and financing arrangements at local government level, which will help attract private interest; initially management contracts, which may lead to privatization;
• Adopt social housing policies and create conditions for public/private partnership for housing development in general, including introduction of mortgage financing scheme; and
• Rationalize urban development strategy, introduce a new building code, modernize system of building permits, reform public oversight in building and construction, and adopt administrative procedures and penalties.

Investment Programs

Priority is given to investments in land transport, including development of multi-modal corridors, and water supply/sewage systems. Road improvements will support (a) rural development, (b) private investments, especially in agriculture, (c) gains in export competitiveness, and (d) Georgia’s integration into international networks. Investments will include selected trunk roads and the rural road network. Investments in water supply need to be given priority in the most critical urban areas, like Poti, Batumi, Rustavi and Tbilisi (rehabilitation of sewage collection), as well as selected rural areas. Other infrastructure investments would focus on railways, social housing, and some aspects of communications.

IV.5.4. Environmental Protection

Georgia’s environmental challenges lie in the areas of management of natural resources (water, forests, agro and biodiversity), management of coastal areas of the Black Sea, oil spills (both maritime and land based), and the potential environmental impact of new investment projects.

Recent Actions

Georgia has an established basic legal and institutional framework to guide activities on environmental protection. Our Government reorganized the Ministry of Environment and Natural Resources (the Ministry) in order to build up the Ministry’s technical capacity for policy making and enforcement to achieve sustainable management of natural resources. The Department of Forestry, the Department of Protected Areas, and the Department of Hydromet have been incorporated into the Ministry’s structure.
To minimize negative environmental and social impact of projects on exploitation of natural resources, and energy related projects that include oil transportation and exploration through enforcement and environmental permits, the Ministry is in the process of developing a new set of laws and regulations on Environmental and Social Impact Assessment as well as of an action plan for land-based oil spills. In addition, the Ministry has established an interministerial commission to supervise compliance with the provisions stipulated in environmental permits issued for construction projects.

Main Challenges, Future Measures

The Government plans to undertake relevant steps to mainstream environmental compliance issues for all spatial and regional development planning activities. A recommendation is currently under review to determine what policy and institutional measures would be most appropriate to strengthen the management of Georgia’s coastal zone. Mainstreaming will also assure that environmental impact assessments are carried out for the sea port development strategy, tourism development strategy and other sector-wide or cross-sectoral initiatives, including energy projects, such as the construction and rehabilitation of hydro-power plants.

Natural resource conservation and management will need to focus on sustainable water management practices (safe drinking water supply, irrigation and transboundary management of water resources), illegal logging, maximizing revenues from exploitation activities and ensure sustainability of forestry resources, and agro and biodiversity.

Past donor assistance contributed to developing a National Environmental Action Plan, which provides useful data on existing problems and policy solutions and specific programs that are necessary for improved management of our national resources in a sustainable manner.

V. Urgent Priority Programs in 2004-2006 for Donor Consideration

The strategic priorities discussed in the foregoing section will require, as it has already been remarked, very substantial amounts of resources.

Georgia’s public expenditure program projected under the PRGF program of the IMF cannot accommodate a very large share of the country’s urgent needs in the period 2004-2006. A very preliminary evaluation by our Government showed that ongoing projects and programs currently funded by donors in the amount of about US$ 521 million (not including budget support commitments) are making major contributions to financing the program under the PRGF. But ongoing donor programs will not be sufficient to respond to the country’s urgent challenges over the period 2004-2006. We estimated resource requirements in some sectors in early 2004, and discussed them with donor representatives in a conference in Tbilisi on March 1.
V.1. The Government’s Urgent Priority Needs

The Cabinet of the Prime Minister has confirmed subsequently that the following priorities will be presented to donors:

- Energy rehabilitation;
- Governance/anti-corruption measures;
- Protection of the vulnerable, especially the poor and children through programs in education, health and social assistance;
- Infrastructure; and
- Food security/ agriculture

After the recent resolution of festering political problems in Adjara, the Cabinet also decided to present to the donors financing needs for an Urgent Adjara Re-Integration Package.
Table 2. below summarizes linkages between strategic priorities and policy goals and the urgent programs to be financed:

**Table 2. Urgent Priorities in Support of Strategic Objectives and Policy Goals**

<table>
<thead>
<tr>
<th>Sector/Priority Area</th>
<th>Strategic Objectives/Policy Goals to be Supported</th>
<th>Types of Urgent Programs to be Financed</th>
</tr>
</thead>
</table>
| Energy Sector        | • Avoid a short-term collapse of the system, and improve service levels  
| Rehabilitation       | • Achieve energy security for 2004/2005 winter  
|                      | • Progress towards financial self-sufficiency of the sector | • Metering  
|                      | • Selective hydroelectric rehabilitation  
|                      | • Substations and transmission lines  
|                      | • Winter heating | • Criminal and transnational crime investigations  
| Governance and Anti-Corruption Measures | • Create efficient, professional and transparent civil service through: law enforcement and judicial system reforms; administrative and civil service reforms  
|                      | • Improve allocation and management of scarce public resources | • Human resource development for law enforcement agencies  
|                      | | • Modernization of public financing and budget systems  
|                      | | • Downsizing staff in selected ministries  
|                      | | • Support of Financial Police  
|                      | | • Provide compensation, seek to conduct training programs and create new employment for former civil servants  
|                      | | • Develop civil registry system  
|                      | | • Reform penitentiary system  
|                      | | • E-governance  
|                      | | • Institutional strengthening of Parliament |
| Protection of the Vulnerable, Especially Poor and Children, through education, health and social assistance | - Alleviate poverty by targeting the poorest and unemployed  
- Improve the coverage and utilization of quality basic health services to the population with an emphasis on reaching the poor and disadvantaged  
- Improve social conditions of vulnerable groups of population and children | - Social investment in rural/depressed areas through improved quality of water supply, provision of primary health care and supporting schools and infrastructure  
- Desinstitutionalization of orphans, abandoned and disabled children and placement in families and child-friendly environment  
- Maternal and child health care program  
- Resettlement of IDPs  
- Pensioner registration |
| Infrastructure Rehabilitation | - Improve service provision to rural and vulnerable population through the road upgrade and regional integration  
- Improve provision and economic efficiency of water services for households and economic activities | - Roads: Mtskheta-Kazbegi-Larsi, the main road, local and secondary roads  
- Improve water supply and sanitation service provision to cities |
| Food Security/ Agriculture | - Rural development  
- Food safety | - Develop food safety system  
- Create consultative and training network for small farmers |
| Urgent Adjara Re-Integration Package | - Consolidation of democracy building processes  
- Securing re-establishment of unimpeded communications with the rest of Georgia  
- Addressing the most urgent infrastructure deficiencies | - Improve/rebuild damaged parts of road to Batumi, Sarpi-Batumi-Poti road  
- Rehabilitate/improve Batumi water/sewer system |

The Government’s financing package below includes, in addition, a request for financing budget support consistent with the financing plan of the PRGF program, but it
does not include some priority investments in energy and infrastructure, which would be presented for financing to the Millennium Challenge Corporation of the US.

To determine the amount of resources required in each area, we set up a team of experts under the State Minister for European Integration and the Ministry of Finance in April and, jointly with all line ministries, carried out a comprehensive review of urgent priority projects/programs.

The external financing requirements for implementing Georgia’s urgent priority needs in the above areas for 2004-2006 are:

- Energy: US$ 82 million
- Governance: US$ 78 million
- Poverty Reduction/Health/Education: US$ 73 million
- Infrastructure: US$ 77 million
- Food Security/Agriculture: US$ 28 million
- Adjara Re-Integration: US$ 22 million

Total: US$ 360 million

Budget Support: US$ 125 million

Grand Total: US$ 485 million

VI. Measures to Improve Implementation Capacity

Georgia has benefited from very substantial external assistance since independence in 1991 and made solid progress in building a market economy, which would have eluded the country without the substantial inflow of resources from donors and without the technical and institutional support made available by the country’s main bilateral and international partners. At this time, we have ongoing donor programs with external funding in the neighborhood of US$ 521 million. While success have been uneven, we recognize that behind good results lie not only a well conceived concept and a good project design, but also diligent efforts and adequate mechanisms for implementing agreed programs and mobilizing committed resources.

The Government has taken stock of what has functioned well, what has been a success, and identified a number of areas, where further progress needs to be made, in order to enhance the efficiency with which both donor supported programs and Government activities fully funded from the state budget are being carried out. To achieve stated Government objectives, spending programs need to have appropriate design and suitable institutional and implementation arrangements. In view of this, to improve the Government’s capacity to implement programs, we have focused on the following main areas: (a) improvements in donor coordination; (b) streamlining budget management, including implementation; (c) strengthening procurement regulations and enforcement.; and (d) monitoring public expenditures.
VI.1 Improve Donor Coordination

A new State Ministry for European Integration was set up in late 2003, with responsibility for (i) EU Integration Affairs, (ii) EU National Coordination, and (iii) Aid Coordination. The Government also established a State Commission for Cooperation with International Donors (SCCID), comprising all Deputy Ministers. Given the priority importance of aid coordination, the Government has sought assistance from UNDP to develop recommendations for strengthening the institutional framework and building up the required human resources. Preliminary findings of the UNDP consultants have already been discussed in Government and with donors in Tbilisi, which suggest the following main actions:

- The Aid Coordination Unit would become a Multilateral/Bilateral Assistance Coordination Unit (MBACU), providing an entry point for donors, assisting in program design to assure achievement of main Government objectives, liaising with donors and coordinating with ministries and managing a data base;
- Ministry of Economy will develop the EDPRP action matrix that will provide basic inputs for the annual budget, and the Ministry of Finance will assure the necessary budget linkages with donor supported programs and play a primary role in working with the IMF and World Bank;
- Line ministries will closely cooperate with the MBACU through their representative on the SCCID and other designated persons – the Government has already benefited from cooperation with line ministries while drafting the EDPRP and preparing this document for the Brussels Donors’ Conference;
- To make donor coordination and the related data management more effective on the Government side, donors will find it in their own interest to keep close contacts with the State Ministry and MBACU will find it in their mutual interest to keep in close contact at all times – such daily coordination will be a precondition of success.

Informally, the above outlined setup already functioned reasonably well since March this year, during the Government’s preparations for the Brussels Donors’ Conference, taking responsibility for internal coordination, frequent consultations and meetings with donor representatives in Tbilisi, and coordinating with donors internationally. Rotating chairmanship of donor meetings in Tbilisi has assured broader ownership of the process among donor representatives and Government. We have benefited considerably from the process, so that periodic meetings in Tbilisi will be part of consultative arrangements we intend keep in place.

The Government will, from time to time, turn to donors for advice and financial assistance to strengthen donor coordination further, as necessary.
VI.2. Streamline Budget Management

The statement in Section IV on fiscal and public finance reforms presented the specific steps the Government intends to take, in order to create and operate a transparent and systematic budget expenditure management scheme. The process should be seen as the thorough implementation of the 2003 Budget Systems Law. Improving expenditure management is essential for monitoring outcomes in financial terms and assessing achievement of the intended project/program objectives. Since many donor programs require the mobilization of counterpart funds from the state or local budget, the reforms outlined in Section IV will have a direct impact on those programs, as well. The most important measures include:

- Re-design the budgetary process and link it closely with the EDPRP and complete the Action Matrix that is currently being developed by the Ministry of Economy;
- Introduce a medium-term expenditure framework;
- Refine administrative procedures, involving all budgetary expenditures;
- Deepen reforms of the single treasury account system, adopting International Accounting Standards and a Charter of Accounts for public sector agencies and enterprises.

Over time, we will also develop a Public Investment Program (PIP), as a part of the budget management system, to ensure sound resource allocation based on economic and financial viability of all public investments. The PIP will further strengthen the linkages between the budget and the EDPRP. Poverty reduction and regional development will also greatly benefit from these initiatives.

The Government is resolved to strengthen the budget management responsibility of line ministries, so as to assure that end users are as efficient in program/project implementation as their continually improving institutional capacity permits.

For more complex and larger donor financed projects, the Government has had good experience with Project Implementation Units (PIU) that were established with, and partly funded by, donors in ministries/agencies responsible for project implementation. After consultations with donors, we intend to create PIUs in the future, too, as necessary. These arrangements, which we consider an instrument of transition to improved public administration, assure efficient program implementation and provide excellent on-the-job training opportunity for Georgian specialists.

VI.3. Public Procurement Regulations and Enforcement

Advancing reforms in public procurement is crucial to improved governance, eliminating corruption, and strengthening transparency and efficiency of the public sector. It is also an important prerequisite for pursuing the new Government’s EU integration agenda, and, of course, it has an important impact on the implementation of donor funded programs.
Background

A Country Procurement Assessment Review (CPAR) by the World Bank in 2001 suggested that the scope of existing Georgian legal instruments (the Law on State Procurements (LSP, 1998 and amended in 2001), the Implementing Regulations (1999)) would be adequate to oversee public procurement in Georgia, provided that those were properly enforced, including, in particular procurement by State Owned Enterprises (SOE) and for state security purposes, which have remained outside the LSP.

Following the recommendations of the CPAR, the State Procurement Agency (SPA) has operated as an independent body, and developed normative regulations and standard bidding documents, promoted training and dissemination of procurement methods, and carried out monitoring and supervision as well as administrative reviews. But SPA does not have the required capacity to monitor the work of some 8,000 procuring public entities across the country.

Recent Actions

The Government has thus far acted as follows: (i) introduced permanent procurement units within each procuring entity; (ii) added procurement to National Roster of Professions and initiated accreditation scheme for procurement officers; (iii) launched the SPA web site, (iv) developed a national training strategy to build capacity within the procuring entities; (v) amended Administrative Code and Code on Administrative Violations to make procurement fraud a punishable crime; (vi) proposed draft addenda in preparation for becoming a signatory to the GPA and thus completing accession to the World Trade Organization.

Further Measures to Improve Enforcement

To address remaining shortcomings and to improve enforcement of the LSP, a number of measures are under review for short-term implementation:

- Finalize establishment of operational procurement units within each procuring unit, including adequate staffing;
- Launch the national training strategy for procurement staff;
- Publish on the SPA web site complete information about bidding opportunities, announcements about contract awards and dispute resolution, the SPA annual report, standard procurement documents, guidelines and best practice as well as updated registry of providers of goods, works and services for State needs;
- Amend the LSP to extend its coverage to SOEs and to provide for harmonization with the Government Procurement Agreement of WTO.
Additional steps are planned to be taken by March 2005, as follows:

- Revising the list of goods identified as relating to national security, and adopting a legal act regulating the procurement of secret items (by the National Security Council);
- Amending the Criminal Code to make procurement fraud a punishable crime;
- Introducing control and incentive measures to broaden compliance with the LSP through: (i) establishment of procedures for blacklisting companies/individuals found before the law to have engaged in procurement fraud and corruption; (ii) publishing procurement blacklists and procurement audit findings; (iii) introducing a Code of Ethics for government agencies/civil servants; (iv) establishing a functionally independent unit in SPA for conducting administrative reviews; (v) consolidation of 8000 procuring entities across the country and their budget allocations to enable SPA to carry out a more effective oversight.

To allow for proper procurement planning, further measures will be considered by March 2006:

- Develop a rolling multi-year budget allocation plan and ensure that this is compatible with the new draft Budget Law and procurement requirements;
- Discontinue current practice of insufficient and unpredictable budget allocations for expenditure line items, which compromises proper procurement planning and often results in splitting of large contracts into small packages.

The Government is confident that the above outlined action plan will improve the capacity in the public sector to implement public spending with greater efficiency, and to prevent fraudulent transactions through increased transparency and accountability, as well as capacity building in procurement units.

VI.4. Monitoring of Public Expenditures

The Government is committed to improving internal and external audits. Audits provide the basis for financial controls, which are part of our instruments to combat corruption, but also to monitor the use of public resources for the intended purposes.

Monitoring is being strengthened within ministries/agencies, partly by the introduction of quarterly budget reports. Moreover, the Chamber of Control will provide essential oversight for the Government’s system of internal controls, and strengthen its accountability to Parliament. Initiatives to revise the Law on State Audit will be taken in accordance with international standards for State Audit Organizations (INTOSAI), so that the Chamber of Control can play an adequate role in Georgia’s modernized public administration.