

**GEORGIA DESK STUDY
REVISED DRAFT JUNE 2004
(FOR INPUT INTO SYNTHESIS REPORT)**

TABLE OF CONTENTS

- 1. BRIEF OVERVIEW OF THE PRSP PROCESS IN THE COUNTRY**
 - 1.1 Brief country background
 - 1.2 The national development planning framework
 - 1.3 The aid regime
 - 2. THE INITIAL PRSP PROCESS AND THE PRSP DOCUMENT**
 - 2.1 Start of the process
 - 2.2 Poverty Analysis
 - 2.3 Participation in the process
 - 2.4 Ownership of the process
 - 2.5 Donor support for the process
 - 2.6 The PRSP Document
 - 2.7 Assessment of the PRSP Document
 - 3. IMPLEMENTATION OF THE PRSP**
 - 3.1 Overall Implementation Strategy
 - 3.2 Institutional Set-Up and Responsibilities
 - 3.3 Intra-Government Coordination
 - 3.4 Capacity
 - 3.5 Political Commitment
 - 3.6 Consultation with Other Stakeholders
 - 3.7 Donor Support for Implementation
 - 4. CHALLENGES TO IMPLEMENTATION**
 - 4.1 Key Implementation Challenges
 - 4.2 Other Challenges
 - 4.3 Potential future challenges
 - 4.4 Assistance needs to address key challenges
 - 5. CONCLUSIONS: RECOMMENDATIONS AND LESSONS LEARNED**
 - 5.1 Lessons Learned
 - 5.2 Recommendations for improved implementation – national
 - 5.3 Recommendations for Improved Implementation – donor/lender
- ANNEXES**
1. Documents Consulted
 2. Overview of EU Assistance to Georgia
 3. Analytical Framework
 4. Map
 5. Donor/Lender Matrix
 6. Georgia's Socio-economic Data

ACRONYMS AND ABBREVIATIONS

DFID	Department for International Development, U.K.
EBRD	European Bank for Reconstruction and Development
EDPRP	Economic Development and Poverty Reduction Program
EU	European Union
GCFI	Georgian Community Mobilization Initiative
GDP	Gross Domestic Product
GEL	Georgian Lari
GNP	Gross National Product
GSIF	Georgian Social Investment Fund
IDA	International Development Association
IDP	Internally Displaced Persons
IFC	International Finance Corporation
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
LSMS	Living Standard Measurement Study
MDG	Millennium Development Goals
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NBG	National Bank of Georgia
NGO	Non-Governmental Organization
NIS	Newly Independent States
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SDS	State Department of Statistics
TACIS	Technical Assistance to the CIS (EU)
UN	United Nations
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
USA	United States of America
USAID	United States Agency for International Development

TIME LINE OF THE PRSP PROCESS IN GEORGIA

Stage in PRSP Process	Date
Start of the PRSP Process	March 2000
Interim-PREGP	November 2000
JSA of I-PREGP	December 2000
Full EDPRP launched	June 2003
EDPRP Approved by the Boards of the IMF/World Bank	June 2003
JSA of EDPRP	November 2003

PREFACE

EC-PREP is a programme of research to enhance collaboration between the European Commission and the UK Department for International Development (DfID). Its objective is to enhance the poverty impact of the European Community's development assistance and contribute to achieving the International Development Target of halving the number of people living in extreme poverty by 2015. DfID has assigned £1,750,000 to EC-PREP for research projects which will be funded on a competitive basis. A further £250,000 has been set aside to fund Commissioned Studies. The Studies are designed by DfID or the European Commission and aim to respond to specific and topical issues.

This document has been prepared as an input into the EC-PREP commissioned study "Implementation of Poverty Reduction Strategies in the NIS". PRSPs are being prepared by seven Newly Independent States (NIS) of the former Soviet Union and, of these, five countries have completed full PRSPs and have started implementation. This overall study will identify the key challenges facing NIS governments in implementing full PRSPs and set out recommendations for addressing them. The purpose of the study is to provide useful insights to be used by the EC in the policy dialogue with partner governments in the NIS on PRSPs, and as input for the preparation of the next generation of Indicative Programmes (2007-12) and for the development of Action Programmes from 2004 onwards.

The consulting process involves the preparation of (a) five desk studies (Azerbaijan, Georgia, Moldova, Tajikistan and Uzbekistan); (b) two in-depth case studies (Armenia and the Kyrgyz Republic); (c) a comparative study examining global experience with implementation of PRSPs (d) a synthesis report bringing together the findings, lessons and recommendations from the other reports.

1. INTRODUCTION AND CONTEXT

1.1 Brief country background

Georgia covers an area 69,700 sq km east of the Black Sea in the south Caucasus and shares borders with Russia in the north and Turkey, Armenia, Azerbaijan in the south. The country has a population of 5,224,000 (WDI,2002), divided into six major ethnic groups including Georgian (70.1%), Armenian (8.1%), Russian (6.3%), Azeri (5.7%), Ossetian (3%) and Abkhaz (1.8%). Other groups make up the remaining 5 % of the population.

A former republic of the Soviet Union, the country became independent on April 9, 1991 with Zviad Gamsakhurdia as president. After seven months in office, he was removed and following administration by a Provisional Government, replaced by Eduard Shevardnadze in October 1992. The establishment of an independent democratic state has continued to be a challenge as several areas, including Abkhazia and South Ossetia are engaged in separatist movements that have led to civil war and ethnic violence resulting in the displacement of over 300,000 people. Following allegations of ballot fraud, Eduard Shevardnadze resigned in November 2003 and was replaced by Nino Burjanadze, the speaker of the national assembly, as interim president. In January 2004, Mikhail Saakashvili of the National Movement Democrats (NMD) became president.¹

The president is both the chief of state and head of government. The legislature consists of Parliament with 235 seats and members are elected by popular vote to serve four-year terms. The Supreme Court judges are elected by the Supreme Council on the president's recommendation. Administratively, the country is divided into following regions, (mkhareebi): - Kakheti, Tbilisi, Shida Kartli, Gare Kartli, Samtskhe-Javakheti, Guria, Samegrelo and Imereti, and 2 autonomous republics: Abkhazia and Ajara.

Georgia is classified as a low income country with per capita income of \$ 650 (WDI, 2002). The country's economy is based on agricultural products such as citrus fruits, tea, hazelnuts, and grapes; mining of manganese and copper; and a small industrial sector producing alcoholic and non-alcoholic beverages, metals, machinery, and chemicals. Agriculture continues to be the most important sector as it employs a significant part of the population. In terms of contribution to GDP, agriculture contributes 20%, industry 23% and services 57% (CIDA, 2004).

Immediately following independence, Georgia was faced with challenge of rebuilding the country along market-oriented principles. The break-up of the Soviet Union and the ethnic conflicts created a socio-economic situation that made progress difficult. With the support of international financial institutions, an anti-crisis programme was instituted for the period (1994-1997). The main

¹ The process of change was prompted by the 'rose revolution' that led to the ousting of President Shevardnadze. The 'revolution' started in the beginning of November following elections considered as rigged by the opposition and ended on 22 November with taking over of the Parliament by the opposition and Shevardnadze's resignation.

objective of the programme was to transform the monetary and fiscal systems of the country. Institutions required for the management of the economy such as a central bank, tax and customs administration, national currency and monetary system were virtually non-existent. Georgia experienced severe shock after separation from the highly centralized Soviet economy and the challenge of building the economy has been exacerbated by inadequate energy resources and infrastructure. These problems, combined with civil conflict, political crisis and economic mismanagement has pushed the majority of the population into poverty. The share of the Georgian population whose consumption was below the poverty line (less than \$2 a day) increased from 44.4% in 1997 to 60% in 1999.²

By June 2000, slightly more than half of the Georgian population (53%) lived below the national official poverty line (around US\$50 per month) and 63% lived on less than the local purchasing power equivalent of US\$4.30 per day. Living standards have not increased and poverty has become more severe since the economic rebound of 1996. The World Bank Poverty Update of January 2000 noted that among the poorest, inequality had increased, as measured by the depth, incidence and severity of poverty. Households have become more vulnerable with 60% of the population facing a risk of poverty over the 2003-05 horizon.³ At the global level, Georgia's Human Development Indicator in 2001 was 0.746, putting the country at 88th position out of the 175 countries.

1.2 National Planning Framework Prior to the PRSP

Under the Soviet Union, the economy was controlled by the State Planning Commission (Gosplan) and the State Bank (Gosbank). This was the system inherited by the newly independent Georgian government. The government of Georgia was determined to overhaul the economic management system in order to establish a market-based economy. To provide the necessary framework for development along these principles, the Ministry of Economy prepared the Indicative Plans for Social and Economic Development which covered a five –year period that was to be updated every year and this represented the medium development plan of the country. The Ministry of Finance was responsible for the preparation and execution of the budget. Additionally, the government, in collaboration with the IMF and the World Bank, prepared Policy Framework Papers for the Enhanced Structural Adjustment Facility for the periods 1997-1999, 1998/2000 etc. outlining government's economic development policies in the medium term in the context of financial support from the International Financial Institutions. This was followed by the introduction of poverty reduction strategies by the international financial institutions.

² Intermediary Poverty Reduction and Economic Growth Programme.

1.3 The Aid Regime in Georgia

Georgia has received substantial support for development assistance from multilateral, bilateral and international financial institutions since independence. The themes of most donors working in Georgia revolve around concerns of building good governance, democracy, security, poverty reduction and environmental management as we see below. Capacity building in economic policymaking and management is also regarded as a priority area for support.⁴ In 2001, total official development assistance (ODA) received by Georgia through all channels was US\$290 million (equivalent to 9.2% of Georgia's gross national income), of which 52% (US\$151 million) was the bilateral share.⁵

The major multilateral donors are the IMF, the World Bank and the European Union. The IMF and the World Bank played an instrumental role in the country's efforts to rebuild its economy by undertaking an ambitious programme of stabilization and structural reform. Support is also provided over a wide range of activities including Structural Reform Support, Basic and Social Infrastructure, Transport, Agriculture and Environmental Protection, Energy, Health and Social Insurance, Judiciary Reform and Private Sector support programmes. The main instrument through which the EU supports Georgia is the implementation of the Partnership and Cooperation Agreement is the Technical Assistance to the Commonwealth of Independent States (Tacis). In addition, the EU has provided support through humanitarian assistance, a food security programme, good governance programmes, poverty reduction and post-conflict rehabilitation.

The UNDP and other UN agencies have also provided substantial resources for development. Initially, United Nations support to Georgia took the form of humanitarian assistance but has now taken more of a development focus with support to three main areas including democratic governance, poverty reduction and environmental conservation and management.

In the area of bilateral assistance, USAID is the biggest donor and provides assistance in economic policy, banking, microfinance, agribusiness, enterprise competitiveness, energy and environment, democracy and governance⁶. Other important bilateral donors include Germany, Japan, Sweden, The Netherlands, the United Kingdom, China and Turkey.

³ CIDA, 2004.

⁴ The aid programme is indicated by the EDPRP.

⁵ <http://www.acdi-cida.gc.ca/>

⁶ <http://www.usaid.org/ge/activities.shtml>

2. THE INITIAL PROCESS AND THE PRSP DOCUMENT

2.1 START OF THE PROCESS

The PRSP process began in February 2000, when representatives from the World Bank, the IMF, UNDP and the Government of Georgia met to discuss the idea of developing a PRSP. Presidential Decree No.678 of July 1, 2000, was then issued to establish a Special Governmental Commission to ensure effective coordination of the PRSP process. The Commission was divided into 5 Sub-commissions, namely: Social Issues; Governance and Public Administration Reforms; Fiscal and Monetary Policy; Agriculture and Environmental Protection; and Infrastructural Issues.

The Government of Georgia prepared a Communication Strategy to outline the details of a public awareness campaign through mass media and educational activity. This document which laid out the structure of the participation process was prepared by the Information Center for Economic Reforms with the support of the World Bank. To ensure effective participation, Government representatives, non-governmental organizations, representatives of civil society including mass media, professional associations, the private sector; international organizations and donor countries were to provide input into the preparation of both the Intermediate and Final Poverty Reduction document.

The secretariat to the Commission was to be the Service for Economic Reforms and Cooperation with International Organizations in the State Chancellery of Georgia. At a later stage, by a separate Presidential decree, an Anti-corruption working group was also established. It was decided that in order to elaborate the comprehensive document to be called the Poverty Reduction and Economic Growth Program of Georgia (PREGP)⁷, the Sub-Commissions, as well as various Ministries and agencies, would define the costs of each reforms and measures to be undertaken in the framework of the PREGP, and would agree these costs with the Ministry of Finance.

2.2 Poverty Analysis

The main sources of data for the analysis of poverty to be used in the preparation of the PREGP were the Surveys of Georgian households conducted by the State Department of Statistics of Georgia (SDS) with the support of the World Bank. These were conducted from June 1996 to December 1997 and in 1999 on a household sample that were representative at the regional level. These provided detailed information on living standards (expenditures, incomes and assets), labour market status, and on private expenditures on public services.

⁷ The title of Georgia's PRSP was later changed from PREGP (Poverty Reduction and Economic Growth Programme) to EDPRP (Economic Development and Poverty Reduction Programme). In addition, during two stages it had other labels: first 'Interim PRSP', later 'Discussion Materials'.

Poverty indicators are calculated according to consumption costs of the households. In order to calculate the poverty lines the method of food energy is applied. The government uses two poverty lines for evaluation. Most recently, the official subsistence minimum was GEL 120-125 per month for an adult equivalent to the age of a man with working capacity and the extreme poverty line was GEL 50-55 per month. In 2001, the level of poverty in respect to official subsistence minimum was calculated as 52% and the level of poverty in respect to extreme poverty line was 14%.⁸ The most important factor of poverty risk for a Georgian household is employment and ownership of productive assets.

Similarly, the Georgia Poverty Update (World Bank, 2002) showed that between 1997 and 2000 poverty increased unambiguously for the full set of poverty lines and definitions of poverty measures used. There was evidence of increasing differentiation among the poor and signs that the poorest of the poor were becoming poor. The study indicated that there was rising vulnerability to poverty and households deployed strategies such as shifting to subsistence agriculture or pulling children out of school which compromised the prospects of improvement over the long term.⁹

The characteristics of urban and rural poverty are quite different. Urban poverty is mostly related to an insufficient food supply, which is viewed as an indicator of severe and deep poverty while rural household tend to produce their own food. The most important problem facing rural population is the lack of financial resources and underdevelopment of infrastructure, which consequently reduces the accessibility to major services.

2.3 Participation

At the beginning of the PRSP process, the government established the Communicative Strategy as indicated in 2.1. This was to build public awareness of the content and processes of the PREGP. Established during the preparation of the PREGP, it was anticipated that this would lay the foundation for the institutionalisation of participation of civil society and the wider population in the implementation, monitoring and evaluation stages. To begin with, the PREGP document was quite broad and therefore in order to present a more streamlined document, it was used as a basis for a series of discussions by stakeholders and referred to as 'Discussion Materials'.

The Participation Mater Plan was designed by a team led by David Gzirishvili, the National Expert on Public Participation at the Secretariat of the Governmental Commission, to outline and define the activities for the preparation of the PRSP. Apart from the work done by the government based Secretariat, much work was done by civil society. Participatory workshops were run mainly by two coalitions of civil society organizations (CSOs): the PRSP Watchers Network (supported by the OXFAM Georgia) and including 7 local NGOs, and the Alliance for Business Environment

⁸ EDPRP p11

⁹ Georgia Poverty Update, World Bank, January 2002, piii

Development (ABED) established by more than 20 non-governmental organizations such as business associations, think tanks and research institutions.

The PRSP Watchers Network used a sectoral approach – one workshop per sectoral policy. Experts from research institutions or NGOs prepared presentations on particular sections of the PREGP Discussion Materials and shared them with the audience and participation in the workshops was free. Written comments and suggestions (including the main presentation and synopsis of discussions) would be submitted to the Secretariat.

The participatory workshops organized by the ABED were based on a different approach. The main purpose of these meetings was to introduce to key stakeholders to special techniques which could be used in the preparation of the document, to demonstrate how the participation and the program can benefit from applying different tools and to bring attention of stakeholders back to the analysis of and agreement on fundamental issues such as definition and understanding of poverty in Georgian context, cause-effect relationship between different problems and objectives, etc.

In May, 2003 the PREGP Secretariat organised a second seminar for Members of Parliament to inform them of progress with the PREGP. The MPs were impressed with the work done but were critical of the prioritisation of the strategy. Although there was interest from MPs in continuing discussions through parliamentary committees, the formal role of Parliament was not clear since there was no requirement for ratification.¹⁰

Based on the above, a DFID-funded project in the ODI made an in-depth analysis of the political dimensions of the development process of Georgia's PRSP (Hamilton, 2004). The study identified three distinct phases in the process namely: Phase I where the Secretariat in the State Chancellery unilaterally developed the interim PRSP; phase II where cross-governmental input was obtained covering a wide range of policy initiatives referred to as the 'discussion materials; and phase III in which these materials were open to scrutiny by a wider set of stakeholders that contributed to the final document. This represents the evolution of the participatory process from quite narrow to wider and more representative of the rest of the population.

2.4 Ownership

Johnson and Wasty (1993), define ownership based on four dimensions: [1] locus of initiative, [2] level of intellectual conviction among key policymakers, [3] actions and speeches in support of the reforms by top leadership, and [4] visible efforts toward consensus-building among various constituencies(4-5). Given the role of the IFIs in the PRSP, there is some concern about the degree to which developing countries own the PRSP process. This has been raised particularly among NGOs critical to the fundamental principles of the establishment of the PRSP process. Additionally, a distinction needs to be made between *government* ownership and wider *national* ownership.

¹⁰ ODI, PRSP Monitoring and Synthesis Project, PRSP connections , Issue 8, May 2003, p2

There has been suggestion that the PRSP process in Georgia was considerably politicised since the responsibility for the interim process (IPRSP) and subsequently for the PRSP itself lay in the State Chancellery (Office of the President). The secretariat was managed by Temur Basilia, the President’s Economic Advisor and so located the PRSP both close to the ‘heart of power and outside those ministries that in practical terms would be most affected by it ‘(Hamilton, 2004, 19). Although, line ministries and departments were later given an opportunity to provide input into the document, the Secretariat retained considerable control and therefore ownership of the documents. For this reason, the limited role played by the Ministry has implications for the EDPRP’s connection with the budget.

As civil society became more involved in the latter stages, the locus of ownership changed with the secretariat playing more of a coordinating role. This was, to some extent, because the Editorial Board that was responsible for drafting was dominated by non-government actors. In spite of the efforts to promote the participation of parliament, its level of participation remained low. This could be partially because of the prevailing political environment vis-à-vis the government and parliament. The PREGP was seen as the President’s personal project. There has also been a suggestion that the dominant role given to civil society may in effect undermine the role of legitimately elected bodies.

2.5 Donor Support of the preparation process

In order to support the Georgian government in the preparation of the PREGP, the donors formed the Donor Framework Group comprising of initially five major donors the UNDP, World Bank, IMF, EU and USAID. The Department for International Development (DfID), the Netherlands and Germany joined the Framework Group. UNDP was designated as the coordinator of the group.

The Donor Technical Assistance for the PREGP process during 2001-2003:

World Bank	USD 60,000
European Commission	EURO 250,000
UNDP	USD 161,500
The Netherlands	USD 25,000
USAID	USD 69,616
DFID	USD 183,060
Poverty Reduction Strategies Trust Fund	USD 123,200

In addition to providing financial and technical support, the donors, together with other stakeholders, participated in workshops and discussions during the preparation process. They also provided comments on the various drafts of the document.

Support to the PREGP should be understood in the wider context of institutional support that donors have been providing to the Georgian government. In order to bring build capacity for economic and development management, a number of donors have provided financial and technical support. An example of this is the UNDP project whose objective is to assist the Government of Georgia in management of financial resources and reversing of the budgetary crisis through better coordination between and within agencies of financial system. This would enhance policy formulation and increase the effectiveness of the Ministry of Finance by introducing modern approaches to management. The project covers the period September 2001 to December 2004.

2.6 THE PRSP DOCUMENT

The full PRSP document, renamed the Economic Development and Poverty Reduction Programme (EDPRP) of Georgia, was completed in June 2003. The aim of the Program was to raise the welfare of the population of Georgia, establish fast and sustainable economic development with an average growth rate of real GDP at 5-8% per annum, which should ensure two to threefold growth of real GDP by 2015 in comparison to 2001; Reduction of poverty particularly extreme poverty (in relation to alternative poverty lines) from 14% to 4-5%, and reduction of poverty level in relation to official subsistence minimum from 52% to 20-25% by 2015.

In order to achieve these aims, the government and stakeholders identified nine Strategic Objectives as follows:

1. Improvement of governance
2. Macroeconomic stability
3. Improvement of structural and institutional environment.
4. Development of human capital
5. Social risks management and improvement of social security
6. Development of priority sectors of the economy (energy, transport and communications, industry, tourism, agriculture and food industry).
7. Improvement of the natural environmental condition
8. Socio-economic rehabilitation of post-conflict zones
9. Development of science intensive and information technologies

The total cost of implementing the EDPRP was estimated at GEL 3, 846.41 million for the period (2003-2005) and in order to implement and manage these strategic objectives, the Georgian government presented an outline of the institutional framework that would ensure that the EDPRP was effective in achieving the objectives of economic growth and poverty reduction. The Bureau for Coordination and Monitoring of the Economic Development and Poverty Reduction Program of Georgia was established in the State Chancellery for purposes of coordinating the implementation

process. After the change of government, the responsibility for the management and coordination of the EDPRP was transferred to the recently established Ministry of Economy which we discuss in more detail in 3.2.

2.7 ASSESSMENT OF THE PRSP DOCUMENT

The staffs of the IMF and the World Bank expressed satisfaction with the overall document presented by the Georgian government and the level of participation by civil society and other stakeholders. Nevertheless, there was concern that some of the key sectoral ministries, such as the Ministry of Finance were engaged fairly late in the process affecting coherence of the Programme particularly with regard to the expenditure planning process.

While the poverty diagnosis was sound, more focus was required in establishing links between economic policy choices outlined in the EDPRP and the structure and magnitude of poverty given the available resources available. Georgia has established an effective data source based on the Household/Labour Surveys. However, the government needs to show its commitment by providing additional resources through the budget.

In order to create harmonisation between the MDGs and the EDPRP, the document presents a table outlining the 8 Millennium Goals on one side and the EDPRP goals and objectives that relate to these goals on the other. This creates an explicit link between the MDGs and the EDPRP. However, given the different timeframes, it will be difficult to see how this works in practice for purposes of coordination. Nevertheless, preliminary information shows that, given the present economic environment, Georgia may not be in a position to meet its MDG targets particularly in education and health (under five mortality rates).

3. IMPLEMENTATION OF THE PRSP

3.1 OVERALL IMPLEMENTATION STRATEGY

The government of Georgia outlined a plan of activities to be undertaken for the implementation of the nine Strategic Objectives of the EDPRP. The Strategic Objectives are broken down into 105 activities with the implementation date(s) and the responsible agency indicated. For example, under the strategic objective of achieving macroeconomic stability is the completion of tax and customs administrative reforms. The implementation period is 2003-2004 and the implementing agencies are the Ministry of Finance and the State Tax and Customs Department. This follows for all of the government's strategic objectives with the respective government ministries and departments taking a leading role in their specialised areas.

3.2 INSTITUTIONAL SET-UP AND RESPONSIBILITIES

The establishment of institutional arrangements for the EDPRP are still in process. During the preparation of the EDPRP, the Bureau of Coordination and Monitoring of the Economic Development and Poverty Reduction Program of Georgia was established in the State Chancellery of Georgia¹¹. These functions have now been transferred to a newly established Department of EDPRP in the Ministry of Economy created on the basis of the former Department of Macroeconomic Analysis and Forecasting of the Former Ministry of Economy, Industry and Trade.

The functions of the Department will be:

- ❑ To ensure monitoring and evaluation of the Program implementation;
- ❑ To ensure public participation in the implementation of the Program;
- ❑ To ensure revising and updating of the Program.

In order to undertake these functions, the Department will perform the following duties:

- ❑ Assist Minister of Economy in coordinating the work of various Government Agencies, especially those dealing directly with the socio-economic development of the country and present suggestions to the Prime Minister.

¹¹ Before 2004 the Office of President, called the Chancellery was led by a State Minister and there was no the post of Prime Minister. Governmental ministries were directly subject to the President. According to the Constitution of Georgia the Chancellery had no executive power. This structure changed after the abdication of the Shevardnadze presidency on 22nd November 2003. Constitutional changes in February 2004 recommended the introduction of the Cabinet of the Prime Minister and the end of the Chancellery.

- ❑ Prepare recommendations on EDPRP implementation and monitoring, which would be used as the basis for the Budgetary Policy. To undertake this task effectively, Department needs to coordination both the highest and the working levels in line ministries.
- ❑ Coordinate an effective public awareness campaign - the Communication Strategy – with the objective of educating the Georgian society on the main outcomes of EDPRP and of successes/failures attained during the Program implementation. In order to ensure adequate coverage the Department will seek active cooperation with mass media.
- ❑ Prepare quarterly and annual progress reports of the EDPRP implementation for the Government of Georgia;
- ❑ Ensure participation of the civil society in the EDPRP monitoring through promoting efficient links with NGO's and highly-qualified think-tanks, which deal with policy advice to the Government of Georgia in 3 major spheres covered by the EDPRP (economy, social issues and governance);
- ❑ Organize various seminars, workshops, presentations, debates, discussions with participation of the Civil Society Representatives
- ❑ Elaborate the system of economic and social indicators (in cooperation with TACIS)
- ❑ Establish efficient links with the line ministries and other relevant governmental bodies to ensuring data collection for the monitoring.¹²

3.4 INTRA-GOVERNMENTAL COORDINATION

A key issue for intra-governmental coordination is the power of the agency that formulates and carries forward the implementation of the strategy. Although intra-government coordination is the responsibility of the Department of EDPRP, each of the EDPRP activities is assigned to the government agency best suited for the role. However, there is still some concern that the roles and responsibilities between Cabinet Ministers, the Ministry of Finance and the Ministry of Economy in the process of economic policy making, planning and budgeting are not clearly divided and this will pose a challenge.¹³

The Ministry of Finance is the main institution responsible for the annual budgetary plans. The budget in Georgia is executed at two levels: the republican budget and the local budgets which include those for the two autonomous republics, the nine administrative regions and the 53 districts. The consolidation of the republican and local government budgets is referred to as the state government budget and it includes tax and non-tax revenues and expenditures broadly classified according to their respective spending authorities. In order to facilitate economic analysis, adjustments

¹² Government of Georgia, 'Project Proposal for the support to the implementation of the EDPRP,' p4.

¹³ Strategic Research Centre, 1996,p24

were made to the state budget data to incorporate external grants and their counterpart expenditures, implicit subsidies financed by external loans and extra budgetary expenditures.¹⁴

The budget cycle begins in January when the government provides guidelines for preparation of the annual budget and the three year indicative plans indicating its budgetary priorities. According to the law on the budget system, in the first quarter of the year, sectoral ministries present their estimated expenditures for the next year. The Ministry of Finance, in collaboration with the Ministry of Economy, makes projections for social and economic development and the main objective of the budget and tax policy and then presents them to the Prime Minister (by October 1), who in turn, with the consent of the President, submits them to Parliament for approval. Parliament debates a bill on the state budget and gives its approval by 1st January.

On the other hand, the Ministry Economy is responsible for strategic planning and economic policy designing. The preparation of 5 year plans has been discontinued and instead, the Ministry of Economy has the responsibility of preparing 3-year indicative plans in compliance with EDPRP. These projections provide the macroeconomic overview and include the indicators about real, fiscal, monetary-financial and external sectors. Within the framework of mid-term fiscal projections, which represent the projections of the revenues, expenditures and basic elements of financing of the consolidated budget of Georgia, the maximum threshold projected amounts of financing in the light of functional classification of planned government expenditures are defined. The ministry considers the programs of the sectoral ministries and assists them to prepare them for submission to the Ministry of Finance. At present, the relationship between the Ministry of Finance and Ministry of Economy is developing around the EDPRP, however, there is still much work to be done in order to streamlining their respective functions. It is essential to change legislation and law on indicative planning to bring it into accord with law on budget system. At present Ministry of Finance and Ministry of Economy are working separately which hampers integration of strategic plans and annual budget plans. The importance of establishing a link between the state budget and the EDPRP cannot be underestimated.

The Ministry of Economy is also responsible for the coordination of sectoral ministries. The government has sectoral development plans covering the 3- year period (2004-2007). Unfortunately, based on the current budgetary processes, the final version of the annual budget may be quite different from the EDPRP. The amendment of law on the budgetary processes will ensure that these documents are corresponding with each other. In order to ensure effective implementation of the EDPRP, it has been suggested that an Interdepartmental Government Commission be established with the participation of the Ministries of Economy and Finance. The commission will be composed of those representatives from both ministries responsible for preparation, implementation and monitoring of EDPRP and budgeting within relevant fields.

¹⁴ IMF Economic Reviews, 1994.

For the purposes of monitoring, a number of indicators are defined in the EDPRP as follows: economic indicators; social indicators; sustainability indicators; human capital indicators; and indicators of environmental protection. The key agency responsible for the collection and processing for data for this purpose is the State Department of Statistics. The line ministries are expected to support this role depending on their area of expertise e.g. Data for social sector indicators are collection with the support of the Ministry of Labour, Healthcare and Social Security.

It is important to note that while there have been steps to improve management and coordination at *central government* level in the capital, the local government links for implementation of the EDPRP remain weak. Although there were consultations in the regions during the preparation of the document, these were superficial. Policy making is still highly centralised and there is no decentralisation policy (Piron and Evans 2004).

3.4 CAPACITY FOR IMPLEMENTATION

Within Government

The capacity to implement the EDPRP should be seen in the context of the many challenges faced by Georgia in public management. The EDPRP is a relatively new development strategy and all parties are essentially in a learning process. Within government, state agencies are responsible for the execution of the EDPRP in the different areas and sectors. Yet it has been recognised that the capacity for policy analysis, formulation and management- including the capacity for strategic and systemic policy oversight and coordination- needs fundamental strengthening.¹⁵ This is particularly true for the key bodies such as the Ministry of Finance, the Ministry of Economy and the State Department of Statistics.

Given that the government is relatively new and that there has been a fundamental change from a socialist central planning system, the placement, training and development of civil servants in these specialised areas needs substantial technical and financial investment. This recognised by donors who continue to provide support in this area. However, it should be accepted that establishing these competencies will take time.

Civil Society

In order for the EDPRP to be effective, civil society has to be engaged in the full cycle of activities including implementation, monitoring and evaluation. However, in order for their participation to be constructive, they have to have the capacity¹⁶ to engage with government. Some of the constraints include the fact that civil society in Georgia is relatively young and dependent on

¹⁵ The Strategic Research Centre, 1996

external aid. However, there is evidence to suggest that there has been substantial growth in this sector and with it a network of independent experts. Additionally, Civil Society constitutes a wide range of organisations including professional associations, trade unions, charitable organisations, women's organisations, youth groups etc. with this variety comes different degrees of capacity and knowledge of economic policy making. The selection of representatives for capacity building may favour elite groups. Capacity building requires financial resources and questions of returns to this investment in civil society have to be considered. In spite of these constraints there has been substantial effort to build the capacity of civil society with the support of international NGOs such as Oxfam as we have seen.

3.5 POLITICAL COMMITMENT

The level of political commitment to the EDPRP is difficult to ascertain and could be a matter of opinion. Some of the ways of establishing this may be government statements referring to the PRSP, the coverage by press/media, the opinion of 'outsiders' including civil society. In spite of the problems with governance (administrative weakness, regional insecurity, corruption etc), there is strong political motivation for the successful implementation of the EDPRP. There is determination to embrace the principles of a market-based economy and throw off the shackles of the past. Georgia should be seen as a vibrant new country with opportunities for foreign investment and a potential tourist destination. The EDPRP offers the opportunity to demonstrate this to the international community. Regardless of its wider benefits, it should be acknowledged that the EDPRP is essential for the receipt of support not only from the international financial institutions but also from other multilateral and bilateral donors as they use this framework for their support. In a country such as Georgia which is heavily dependent on donor support, this may create incentives that would otherwise remain absent. After some initial reservations, the new government has endorsed the EDPRP and has made a commitment to ensure its implementation.

3.6 CONSULTATION WITH OTHER STAKEHOLDERS

Following the completion of the EDPRP document, the stakeholders continued to meet for discussions and workshops on the implementation of the EDPRP. For instance, in November 2003, the UNDP sponsored a National Seminar to prepare a strategy for NGO and CBO engagement in the monitoring of the EDPRP. There were 32 participants representing several NGOs and CBOs and the seminar was attended by the EDPRP Monitoring and Coordination Bureau. This process was, to some

¹⁶ Capacity defined as: complex of a social system's intellectual readiness and material, organisational and informational resources, which secure sustainable existence and effective functioning of this system in its environment, Ibid, p45.

extent, interrupted by the political events taking place in Georgia at the time. It is expected that the government will initiate a new programme for consultation. The institutionalisation of civil society participation in implementation is still in process. Although, plans had been laid out in the initial EDPRP to establish a council for civil society, these are being reviewed by the newly established EDPRP department.

The engagement of parliament in the EDPRP preparation process was poor and this was exacerbated by the political environment prevailing at the time that may impact on implementation. Parliament was divided into faction rather parties and acted in opposition to President Shevernadze and so the EDPRP was seen as largely the initiative of the executive (Piron and Evans, 2004). Nonetheless, in the parliamentary elections in March, 2004, the governing coalition obtained two thirds of the seats in parliament. This is a reflection of the broad national consensus in support of the government. This may have the effect of putting the role of parliament at the centre of the policy making process rather than in the margins, as was the case previously.

Donors have been determined to take a hands-off approach to the EDPRP, while at the same time providing technical and financial support through the Donor Framework Group established in 2001. The intension was to ensure that the Georgian government takes responsibility but there has been some suggestion that the donors should have been more pro-active because while the document was technically sound, it was still not fully acceptable to the donors (Piron and Evans, 2004). The aid relationship has improved tremendously since the change of government and this will have a positive effect on dialogue.

3.7 DONOR SUPPORT FOR IMPLEMENTATION

Most of the donor support for the implementation of the EDPRP will fall within their existing programmes that focus on poverty reduction and the provision of services for poor and vulnerable groups. The newly elected government of Georgia has presented a new strategic vision that requires financing which is entitled, 'Georgia: The Government's Strategic Vision and Urgent Financing Priorities in 2004-2006'. The objectives of this programme are: the 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.

According to this document, the external financing requirements for implementing Georgia's urgent priority needs 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

In order to justify the presentation of this new strategic vision, the government has indicated its commitment to the EDPRP by saying ‘...our Government has endorsed the EDPRP’s reform framework and is focusing on issues arising out of the new circumstances after the Rose Revolution.’¹⁷ Donors have shown support by making generous pledges to this programme. Donors have also made a commitment to continue their other development work that is outlined in their individual development programmes.

The IMF

The IMF has been providing support to the Georgian government’s efforts to implement economic and structural reforms since 1994 which helped to establish the macroeconomic base required for growth. However, in the fall of 2002, as part on the IMF’s Staff Monitored Programme, the government was criticised for the slow pace of policy reform. The 2003 review of the SMP was delayed to late June 2003, coinciding with the formal publication and presentation of the EDPRP. However, the change of government saw a review of the situation. In June 2004, the IMF approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 98 million (about US\$144 million) to support the government’s economic program into June, 2007. The first disbursement of SDR 14 million (about US\$21 million) under the arrangement would become available to the Georgian government immediately.

The World Bank

The World Bank approved three credits for Georgia in June 2004: a US\$24 million Reform Support Credit, a US\$3.6 million Energy Supplemental Credit, and a US\$20 million credit for Secondary and Local Roads Project, for a total of US\$47.6 in new lending. The key objectives of these

¹⁷ Georgia: The Government’s Strategic Vision and Urgent Financing Priorities in 2004-2006, Brussels, June 16-17, 2004.

new projects include contributing to sustainable economic growth by supporting the fight against corruption and efforts for better governance; assisting in improving efficiency of the public sector to make it friendly to the principles of market economy, and linking it to Georgia's Economic Development and Poverty Reduction Program process. The projects will also help to reduce poverty particularly in rural areas by providing vital services such as road-access, telecommunications and community-based tourism, to gradually resolve outstanding energy issues, and facilitate trade by modernizing trade-related agencies and procedures.

The European Union

EU assistance will provide support to the fight against poverty by: continuing Tacis support to the implementation of the Public Health System, with the view to improving access of poor families to health services in the provinces; directly targeting Tacis assistance on vulnerable rural groups focussing on a long term community-driven approach to socio-economic development (EU Country Strategy Paper 2003-2006). Support to institutional, legal and administrative reform will also contribute to effective implementation. Most recently, European Commission (EC) announced a pledge of some Euro 125 million/\$ 150 million of European Union (EU) support to Georgia for the period 2004-2006. The assistance is designed to support the new Georgian government's urgent needs to carry through its substantial reform plans. Together with humanitarian assistance the European Community Humanitarian Office (ECHO), as well as rehabilitation in areas of Georgia affected by the conflicts in Abkhazia and South areas of Ossetia/ Tskhinvali region, total EU assistance to Georgia for 2004-2006 amounts to Euro 137 million/ \$164 million. This represents a doubling of EU assistance compared with the previous 3-year period 2001-2003.

UNDP

UNDP has been providing support directly to the poverty reduction programme since the beginning of the process. For poverty analysis, the UNDP initiated the project in 2001 for the 'Monitoring of Poverty Reduction and Economic Growth Program in Georgia'. The main development objective of the project was to assist the Government of Georgia in monitoring and evaluation of the EDPRP and to provide high-level policy advice. This would be achieved through development of the baseline poverty situation by means of quantitative and qualitative analysis of data already available and by covering data gaps through conducting a survey. A longer-term proposal was to include a partnership with a well-known research institution in order to elaborate econometric model(s) measuring the impact of EDPRP policies on poverty levels. As a result of the project, the Government of Georgia would be equipped with an array of policy options and with tools to monitor poverty reduction policies. This support followed throughout the preparation of the document and it is expected that the UNDP will continue to provide such support to implementation.

The Bilateral Donors

CIDA's focus on governance supports the main strategic priority of Georgia's poverty reduction strategy. According to CIDA's Country Development Framework for Georgia (2003-2005), the ability and capacity of federal and local structures in Georgia to (a) deliver basic services; and, (b) provide an enabling environment for enterprise to create employment, are key to poverty reduction, export growth and economic diversification.

The Netherlands Government has made a commitment to provide major support to the implementation of the EDPRP of up to USD 202,640. The goal is to increase the capacity of the Georgian Government for the efficient and timely implementation of the EDPRP and includes activities such as preparation of detailed working plan for Georgian Government for the year 2004, development of the middle term (2005-2007) priorities and action plan, elaboration of the economic and social indicators system for the EDPRP monitoring, preparation of the necessary Governmental decisions drafts to improve EDPRP coordination and implementation and elaboration of the Communication Strategy

In addition its development cooperation programme worth €70 million in the areas of democracy, energy, economic reform and development of the market system, the German government has made a commitment to provide the Georgian government with €2.0 million for a new program in support of Georgia's legal and court system to contribute to the establishment of an effective legal framework. Furthermore, an expert was provided in April 2004 to assist Georgia's Ministry of Economy and further technical assistance will be provided to the Ministry of Finance.

Collectively, the bilateral donors have indicated support for the new Georgian government to meet its development objectives particularly after a change on government and optimism that the constraints created by problems in governance are addressed.

4 CHALLENGES TO IMPLEMENTATION

4.1 KEY IMPLEMENTATION CHALLENGES

The challenges of implementation so far are difficult to determine given the fact that the Georgian government does not have a EDPRP progress report due to the changing circumstances in the country that have affected implementation. As discussed earlier, when the government implementation plan for the EDPRP was initially prepared, the State Chancellery was responsible to managing implementation. However with the change of government and the reorganisation of the government system, it was decided that in order to improve efficiency, the responsibility of managing the EDPRP should move to the Ministry of Economy. It is still too early to see how this will affect implementation.

4.1.1 Depth of Integration of the EDPRP in the budget process

The government of Georgia is still in the process of improving budgetary expenditure management and linking the budget more closely with the EDPRP. In this regard the government aims to: 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, the government intends to 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.

4.1.2 Sector Strategies

The responsibility of implementing the sectoral programmes in the EDPRP is outlined. However, the line ministries played a limited role in the development of the EDPRP thus making the link with sectoral plans quite weak. Many of the important sectors such as education and health had, in the past developed policy papers and action plans for their own activities. Coordination between the sectoral ministries and the Ministry of Economy for EDPRP implementation and program planning is still in the process of development as the latter played limited role in the initial development of the EDPRP. It is expected that the current administrative reforms will enhance role of the Ministry of Economy and intensify coordination with Ministry of Finance which will help to integrate annual budget plans and 3-year plans. Coordination between the Ministry of Economy and sectoral ministries will need to be improved for the effective implementation of the EDPRP. Sectoral ministries require technical assistance and consultation with the Ministry of Economy in order to design their plans in

compliance with EDPRP. There is need to increase the depth of sectoral analysis and make definite links with EDPRP. As they stand now, sectoral development plans are still superficial and not fully coherent with EDPRP.

4.1.3 Monitoring and Feedback Arrangements

The EDPRP outlines a very comprehensive set of actions, with target dates and outcome indicators of progress in implementing the programme. Nonetheless, the JSA (2003) indicated that the outcome indicators need to be complemented by specific measurable interim targets which will be important to guide policy makers in understanding which areas of the programme are doing well and which need to be adjusted. A degree of streamlining is therefore required. As the government redefines the roles of the different institutions in the implementation of the EDPRP, the monitoring and feedback arrangements may be defined more clearly. Institutionalisation of the participation of civil society in monitoring is also essential.

4.2 OTHER CHALLENGES TO IMPLEMENTATION

Governance

The economic and political environment in Georgia has posed a challenge in these early stages. In most cases, changes in the running of government are expected when a new administration comes in. However, given Georgia's complex political situation and the revolutionary nature of the change of government, this presents a particular challenge to implementation of policy. Apart from the concerns about civil conflicts and the levels of poverty, the new government has particular concerns about the levels of corruption in the country.

The events in November 2003 indicated that there was a lack of trust between the government in power and the people. This was based on the problems of corruption, a lack of effective rule of law and a perception that the government was not concerned about the welfare of the country and the people. The successful implementation of the EDPRP requires the legitimate support of the people. It is hoped that the change of government by popular demand will provide the endorsement that the government needs.

Initially, it was thought that the new government may revise the priorities within the EDPRP (Hamilton,2004). However, after meeting with international donor organisations, it was decided that the basic elements of the EDPRP should remain the same. Nonetheless, the government presented a newly drawn up strategic vision with financing priorities for the period (2004-2006) at a donors' conference held in Brussels from June 16-17, 2004, organised by the European Commission and the World Bank.

Establishing Pro-Poor Growth

Another challenge has been to ensure that the benefits of growth trickle down to the poorer sections of the population. According to the IMF/World Bank review of the CIS-7 initiative in April 2004, growth in Georgia has apparently not yet led to poverty reduction and measured inequality has not declined. Previous analysis has suggested that living standards have not improved because growth had been, too weak, too concentrated in a narrow set of sectors and there were no effective mechanisms to redistribute benefits.¹⁸ This situation does not help to build confidence in the principles of pro-poor growth.

In order to establish the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, particularly the poor and vulnerable, the World Bank organised a pilot PSIA on the energy sector called 'Revisiting Reform' which was completed in September 2003. The report was prepared by a small team lead by World Bank specialists, the government and some NGOs. The focus of the PSIA was on tariffs, subsidies and cost recovery in the energy sector. It proposed the re-orientation of the subsidy program to maximize the compensation for welfare losses that would benefit both the consumers and the government budget. Considering the importance of the energy sector in the Georgian economy, a wider public debate on the impact of energy reforms would have yielded more representative report and create an opportunity to identify the most appropriate policy measures.¹⁹

Resource Mobilisation

Revenues remain especially low in Georgia and so both policy and institutional aspects of revenue mobilisation need improvement urgently as is acknowledged in the EDPRP. The cornerstone of the EDPRP is not only to promote domestic private enterprise but to attract foreign investment. However, according to the EBRD/World Bank Business Environment and Enterprise Performance surveys (BEEPs), Georgia scored the worst on corruption and registered some of the worst perceptions about the rule of law and access to infrastructure in relation to the other CIS countries. There is a high level of tax evasion and administrative corruption and bribery remain high.

For these reasons, the Georgian government requires significant amounts of donor support in order to effectively implement the programme. However, due to a number of reasons, donor funding continues to be unpredictable. Georgia's relations with the World bank were strained in the past and so during a visit in March 2002, Georgian officials were informed of the dissatisfaction with the government's failure to implement reforms. As a result, funding was decreased by more than 20 percent, from \$130 million to \$100 million per year for 2002 to 2003. It was suggested that additional

¹⁸ Georgia Poverty Update, World Bank, January 2002.

¹⁹ Oxfam, 2004,p44

funding would only be forthcoming if administrative matters such as inefficiency and corruption in the public sphere are addressed.

However, with the new government in place, many donors have decided to increase support to Georgia and so the outlook for donor support in the medium term is optimistic. Most recently, International donors from 31 countries and 12 international organisations pledged to provide around US\$ 1Billion (Euro 850 million) to meet urgent needs of the country for the period 2004 - 2006 at the recent conference in Brussels to discuss overall donor coordination and financial support to Georgia in the coming years. The amount pledged is aimed at budget support and urgent investments in energy, governance, poverty reduction, including investments in child welfare and development, key infrastructure rehabilitation and food security. These pledges are based on the donors' confidence that the new Government of Georgia is determined to root out corruption and strengthen governance. The financial and technical resources are to ensure energy supplies, promote private sector development, and secure sustained economic growth, and reduce poverty under the EDPRP. For purposes of planning and management it is hoped that the donors will come through with the pledges made.

4.3 POTENTIAL FUTURE CHALLENGES

The EDPRP indicated that internal risks in terms of implementation of the programme include: military actions and conflicts within the borders of Georgia many of which have a long history and are not easily resolved; inefficiency of the governance system, lack of competence and motivation of the government servants and high level of corruption; an insufficient level of establishment of democratic institutions and market principles and values in the society; a lack of economic initiative and civic duty; insufficient domestic resources and the potential for large-scale natural calamities.

Implementation of the EDPRP would also be affected by events taking place in the region as well as in the whole world that affect the economic and political stability of Georgia. Geopolitical realities such as the problems that relate to the fight against international terrorism will have some effect. Georgia's position in the region also makes it vulnerable to the problems that are associated with war and instability such as trafficking in drugs, humans and arms.

The economic situation in the world and prices of energy and other essential commodities may affect economic development. Georgia is dependent on the import of oil and other energy resources and a great deal is dependent upon the successful implementation of the the Baku-Tbilisi-Ceyhan Export Oil Pipeline (BTC) and Baku-Tbilisi-Erzrum Gas Pipeline that should connect Caspian Sea Coast to Turkish Mediterranean, to provide oil and gas for Georgia and the European and US Markets.

4.4 ASSISTANCE NEEDS TO ADDRESS KEY CHALLENGES

As we have seen in our discussion on aid in Georgia, donors have already gone a long way in providing assistance to address some of these challenges. A number of major areas that require assistance are already receiving substantial support in the areas which are critical to the success of the whole programme. More specifically, the challenges identified in 4.1 and 4.2 fall into two main categories (1) those that relate to institutional and organisational matters (2) those that relate to the economic and political environment prevailing in Georgia that may act as an impediment to effective implementation. In order to resolve these problems donors need to consider areas such as: administrative support and capacity building for both intra-governmental and non-government actors; fiscal management and domestic revenue mobilisation; good governance and democratic consolidation; insurance that economic growth is pro-poor and can be established through essential poverty and social impact assessment.

5. CONCLUSIONS: LESSONS LEARNED AND RECOMMENDATIONS

5.1 LESSONS LEARNED

While endorsement by the highest political authorities (such as the President) is important, the EDPRP should be seen to represent the views of all stakeholders. In this way, the implementation of the EDPRP should continue regardless of the government in power. Our case of Georgia had shown that we should be aware and acknowledge the political environment that may affect the implementation of the EDPRP. Even if it is a technically sound document, the context of its implementation must be understood.

Case studies from other countries have shown that there is no perfect place for the PRSP coordination unit to be. However, the placement of the EDPRP coordination unit will determine its ability to balance the needs of both governmental and non-government actors. The initial arrangement of having the coordination department in the State Chancellery of Georgia, close to the President, may have had implications for ownership by the other government departments and those outside government with different political affiliations. For these reasons, the decision by the Georgian government to move the responsibility to the Ministry of Economy may resolve some of these issues.

Given the limited domestic resources and the unpredictability of donor financing, prioritisation of poverty reduction strategies needs to be sharpened. Given financial resource constraint as well as absorptive capacity constraints, prioritisation becomes all the more important. Coherence between the macroeconomic framework and poverty reduction targets needs to be strengthened. Realistic estimates of financing that will become available for implementation of poverty reduction strategies are essential to the success of the programme. The capacity of those responsible for public expenditure management is therefore critical for success.

One of the achievements of PRSPs is that they have contributed towards the reorientation of development assistance practices. Linking national poverty reduction strategies to global challenges such as the Millennium Development Goals provides an opportunity to see the progress in the country's human development in relation to other parts of the world.

5.1 RECOMMENDATIONS FOR IMPROVED IMPLEMENTATION – NATIONAL

Building Institutions

Good governance and democratic consolidation remains a major challenge for Georgia as does accountability in financial and economic management. Therefore capacity building and promotion of the rule of law, building democratic institutions and promotion of human rights require particular attention.

Government and Bureaucratic Management

Intra-governmental coordination and the balance of power is quite important. The government institution responsible for the management of the EDPRP must have the power to manage other line ministries and departments, while at the same time ensuring that there is a fair amount of participation by other stakeholders. This is quite a challenge in practice and it is hoped that the changes in the coordination of the EDPRP will have a positive effect on the overall implementation of the program.

Resource Mobilisation

Apart from improvements in revenue collection and management, the government needs to find ways of bringing informal sector into the tax net by introducing some minimal form of taxation that is not prohibitive for small business (vendors fees, market fees etc). Reduction of bureaucratic requirements may also encourage formal registration of business.

5.2 RECOMMENDATIONS FOR IMPROVED IMPLEMENTATION – DONOR/LENDER

Financial and Technical Support

The success of the EDPRP depends on timely, predictable donor financing. Given the problems that the Georgian government has had in raising adequate domestic revenue, it is quite clear that the country will require significant amounts of financial support for its programmes. However, there are concerns raised about the unpredictability of donor funding. Additionally, external assistance should be largely grant-based, and consistent with the commitments made with respect to attainment of the MDGs. Georgia has limited access to international financial institutions and therefore will continue to rely on concessional official external financing.

Technical assistance will also continue to be important in the medium term. However, there should be recognition that unlike many countries undertaking PRSPs, the levels of education in Georgia are relatively high. It is estimated that Georgia has a literacy level of between 75 and 85 per cent as a result of the positive impact of Soviet education policies²⁰. It is assumed that the quality of civil servants reflects this. Therefore, the task is mainly one of retraining people in the management of a market oriented economy and the level of government involvement that goes with this. The Government of Georgia has prepared a project proposal for financing support to the implementation of the EDPRP. The emphasis of the proposal is for the provision of financing to engage experts in the various sectors that will manage the implementation process. The German government has already provided technical assistance to the Ministry of Economy for EDPRP implementation. This may provide encouragement for other donors to follow.

²⁰ Oxfam (2004), *From Donorship to Ownership* ?, p45

Donor Coordination

The establishment of the Donor Framework Group for the preparation of the EDPRP should form the basis of coordination for implementation as well. Apart from ensuring that the donors' individual programmes are in tune with the EDPRP, it also provides a contact point for the Georgian government and reduces pressure on government officials that are responsible for aid coordination and management.

Building National Ownership

While there is much rhetoric about building partnerships and ownership, donors are sometimes reluctant to give full responsibility for implementation to recipient governments particularly in cases, such as Georgia, where there have been problems of corruption and lack of accountability in some areas. Nonetheless, it is important to emphasise that the country is ultimately responsible for its own progress and development.

CONCLUSION

Georgia presents a particular challenge in the implementation of the EDPRP given its turbulent political environment. The EDPRP was created by the previous Government with broad participation of society, but after the "rose revolution" and there was some concern about the continuation of the EDPRP. Fortunately, the EDPRP has been acknowledged as development framework for the country. Nonetheless, there is much cause for optimism. The determination of the new government to fight corruption and establish a stable government is commendable. The country is moving towards building a market based economy and the strategic position of the country in the region places it in a favourable position for investment.

Georgia successfully completed the first stage of the creating the EDPRP document and will slowly begin implementation. It is expected that institutional change in the structure of the ministries and the legal framework, will enhance effectiveness and implementation of the EDPRP. The government of Georgia understands that governance reforms and improving the economic environment is one of the ways of achieving the objectives of economic growth and poverty reduction. The government is now focusing on the institutional changes and reforms that will build the civil society and donor confidence in the state.

At present Georgia is in the stage of institutional reform but there is a need to develop accountability, transparency, collaboration and effective involvement of the civil society. A mutual appreciation of the challenges of poverty and clear understanding of the government policy will create an institutional environment that will help the new government to implement the EDPRP.

ANNEX I

DOCUMENTS CONSULTED

1. CIDA Georgia Website: <http://www.acdicida.gc.ca>
2. DFID Georgia <http://www.dfid.gov.uk/DFIDAroundWorld/europe/Georgia.htm>
3. EC Country Strategy Paper (2003-2006)/Tacis National Indicative Programme (2004-2006) for Georgia, September, 2003.
4. Government of Georgia, 'Project Proposal for Financing Support to Implementation of the Economic Development and Poverty Reduction Program of Georgia,' Tbilisi, April, 2004.
5. Government of Georgia, 'The Government's Strategic Vision and Urgent Financing Priorities in 2004-2006,' Donors' Conference, Brussels, June 16-17, 2004.
6. Government of Georgia, Poverty Reduction and Economic Growth of Georgia Intermediary Document, Government Statement, Tbilisi, November, 2003.
7. Hamilton, Kate (2004) 'Politics and the PRSP Approach: Georgia Case Study', Overseas Development Institute, Working Paper 239, London.
8. Huber, Martina (2004) 'State Building in Georgia: Unfinished and at Risk? Netherlands Institute of International Relations, Clingendael, Conflict Research Unit, The Hague.
9. IMF Georgia Page <http://www.imf.org/external/country/GEO/>
10. IMF/IDA, Joint Staff Assessment of the PRSP Preparation Status Report, June 2002.
11. IMF/IDA, Joint Staff Assessment of the Interim Poverty Reduction Strategy Paper, December, 2000.
12. IMF/IDA, Recent Policies and Performance of the Low-Income CIS Countries :An Update of the CIS-7 Initiative, April, 2004.

13. International Monetary Fund, Georgia Economic Review, various years, Washington D.C.
14. International Policy Fellowship Programme, 'Poverty Reduction Strategy Paper (PRSP) Experience in Central-Eastern Europe Region, Draft Policy Paper, July 2003.
<http://www.policy.hu/shakarishvili/2003CEEPRSP.doc>
15. Losaberidze David, 'Donor Policies in Georgia',
<http://www.cipdd.org/gdiscuss/room01/disc1/0000000e.htm>, 28.12.2001
16. Oxfam(2004), From Donorship to Ownership? Moving Towards PRSP Round Two, Oxfam Briefing Paper 51, Oxfam International.
17. Piron L with Alison Evans (2004) 'Politics and the PRSP Approach: Synthesis Paper,' Overseas Development Institute, Working Paper 237, London.
18. PRSP Watchers Network of Georgia, Issue Paper on PRGF Discussion Document,
<http://psigeorgia.org/pregp/files/Issuepaper.pdf>
19. United Nations Development Programme/Republic of Georgia(1995), Human Development Report for Georgia, Lyceum Publishing House, Tbilisi.
20. United Nations Executive Board of the United Nations Development Programme and of the United Nations Population Fund: Second Country Cooperative Framework for Georgia (2001-2003), New York.
21. USAID Georgia http://www.usaid.gov/locations/europe_eurasia/countries/ge/
22. World Bank (1999), Georgia Poverty and Income Distribution, Volume II: Technical Papers, Poverty Reduction and Economic Management Unit, Europe and Central Asian Region, Washington D.C.
23. World Bank (2002) Georgia Poverty Update, Washington DC.

ANNEX 2: OVERVIEW OF THE EU ASSISTANCE TO GEORGIA²¹

The new Country Strategy Paper 2004-2006

In the light of the serious problems of governance in Georgia, highlighted in 2002 by kidnapping cases, the Commission decided to review the Country Strategy Paper (CSP) for Georgia, outside the regular cycle of CSP adaptations. A new CSP for Georgia was therefore prepared, together with a new Indicative Programme for 2004-2006. These were adopted by the Commission on 23 September 2003. The main lines of the CSP revision are that EU assistance should reach its objectives, including through:

- Significantly strengthening "conditionality" of assistance
- More strongly focusing assistance on the most promising reform programmes
- Providing much stronger support to civil society

Thematic priorities for EU assistance 2004-2006 (all instruments):

- Rule of law, good governance, human rights and democratic institutions
- Fight against poverty
- Conflict prevention, conflict settlement and post-conflict rehabilitation

The Commission has responded to the "rose revolution" by providing some immediate assistance and by examining how its instruments can best be mobilised in the new situation including the possible allocation of additional resources. In December 2003 the Commission decided to provide €2 million from the Rapid Reaction Fund for support, via the UNDP, for the Presidential and Parliamentary elections (4 January and 28 March respectively) and to rapidly disburse €5 million from Georgia's Food Security Programme as budgetary support during the winter months.

Georgia will also benefit from the continuing assistance provided under the Tacis Regional Cooperation Programme (Interstate programme).

Past assistance

Since 1992, the EU has supported Georgia through a range of instruments. The main instruments have been: ECHO humanitarian assistance: (€2 million 1992-2002); Food Security Programme (€9 million 1992-2002); Tacis National Programme (€4 million 1992-2002). Total EU assistance has amounted to €370m (not including Tacis Regional or member states' assistance).

²¹ The contents of this section are based on information obtained from the EU's external relations web site available at http://europa.eu.int/comm/external_relations/georgia/intro/

Tacis Programme

The 2000-2001 Tacis National Action Programme (AP, total € 15 million) concentrated on three priority areas, namely: (1) support for institutional, legal and administrative reforms; (2) support to the private sector development and assistance for economic development and (3) development of infrastructure networks.

In 2002-2003 Tacis, with an indicative budget of € 14 million, was focusing on support for institutional, legal and administrative reform, as well as on support in addressing the social consequences of transition. This included continued support to the approximation of legislation for the implementation of the PCA. Support in addressing the social consequences of transition was targeting the health sector, including investments to support the primary healthcare restructuring programme.

Georgia also participates in Tacis regional programmes like Traceca, Inogate and the Regional Environmental Centre for Southern Caucasus, based in Tbilisi.

Exceptional financial assistance

In July 1998, Georgia settled the remaining amount of its arrears towards the Community (€ 131 million). The country subsequently benefited from a new assistance package consisting of a loan of € 110 million and a total grant amount of € 65 million that was to be disbursed over the 1998-2004 period.

Food Security Programme (FSP)

Over the period 1996 to 1999 the FSP disbursed € 24 million to Georgia. Since 2000, the FSP has partially reoriented the support in favour of a complementary poverty alleviation component through the social safety net in the form of: (a) allocation of resources and further targeting of the family poverty benefit; (b) institutional care. € 13 million has been disbursed in the period 2002-2003.

Rehabilitation

EU assistance to Georgia under the rehabilitation programme concerned both the Tskhinvali region (South Ossetia, SO) and Abkhazia (Enguri hydropower plant and dam).

SO. In 1997, the EC proposed to grant € 5 million for the rehabilitation of infrastructure in the post conflict area of SO, and in order to stimulate the peace-process between SO and Georgia proper. In 1999 the EC proposed a new grant of € 2.5 million, upon the approval and fulfilment of conditionalities. Given the dynamics created by its programme, the EC has provided financial

assistance for and participated in the Joint Control Commission (JCC) on SO since April 2001. This quadripartite body (with Georgia, SO, North Ossetia and Russia) is conducted with the OSCE.

Enguri. In 1997, the EC proposed to grant €10 million for urgent repairs at the Enguri hydropower plant and dam (repair of generator Nr. 3 and provision of stop log at the dam), in two tranches of €5 million and under its rehabilitation budget. This assistance was complementary to the rehabilitation program of Enguri financed from an EBRDR loan of some €44.5 million.

Humanitarian Assistance (ECHO)

ECHO has been present in the NIS region since the early 1990s, in accordance with its core mandate (humanitarian assistance in response to natural or man-made disasters). From 1993 to 1999, ECHO's operational funding in the southern Caucasus has been considerable, with € 64.255 million of humanitarian aid going to Armenia, €83.34 million to Georgia and €82.96 million to Azerbaijan.

ECHO's withdrawal from post-emergency programmes in southern Caucasus started in 1996 and was completed in 2000 with a last allocation of €3.855 million for the three countries.

In 2000, 2001 and ECHO provided a total € 2.35 million as a contribution to alleviating the consequences of the drought in Georgia.

Support to the Georgian Border Guards

Through a Joint Action in the framework of Common Foreign and Security Policy, the EU provided equipment worth €1.045 million to the Georgian Border Guards (GBG) in 2000 and 2001, aimed at protecting the unarmed OSCE monitors at the border between Georgia and the Chechen Republic of the Russian Federation.

European Initiative for Democracy and Human Rights (EIDHR)

With an allocation of €1.9 million Georgia was a focus country for the EIDHR in 2002.

ANNEX 3: ANALYTICAL FRAMEWORK

Domains → Issues ↓	Institutional set-up	Political commitment / ownership	Intra-government coordination	Capacity	Consultation with other stakeholders	Situation
Depth of integration into the budget	EDPRP Secretariat in Ministry of Economy to streamline institutional set and improve integration into budget linking policy making and budget preparation.	Political commitment and ownership may be affected by the change of government. This will affect budgetary allocation for priority sectors So far it has been strong at central government level but less so in other government departments and local government	Move of EDPRP Secretariat to Ministry of Economy may improve intra-governmental coordination. However, roles in the budgeting process need to be streamlined given these administrative changes.	Capacity for policy analysis, budget formulation and management is limited and this needs to be addressed.	Officially, the budget is approved by parliament but consultation with parliament was limited during the process of preparing EDPRP. Consultation with civil society through the PWN and ABED groups provided valuable input. Institutionalisation of participation not yet established.	Secretariat for the EDPRP was formerly based in the State Chancellery and the Ministry of Finance played a limited role in the formulation of the EDPRP and this affected integration into the budget. Move of EDPRP Secretariat to Ministry of Economy may resolve this. MTEF yet to be developed. Legislative change also in process.

<p>Sector strategies/work plans with clear priorities</p>	<p>Responsibilities of implementing sectoral programmes clearly outlined in the EDPRP. Limited role played by sectoral ministries in preparation of EDPRP may affect implementation</p>	<p>Commitment by sectoral ministries may be weak due to dominance of State Chancellery in the early stages of EDPRP preparation.</p>	<p>Government is in the process of administrative reform and intends to redefine the sectoral priorities for the 2005-2007 period.</p>	<p>Core government ministries (Finance, Economy, Statistics) have been receiving capacity building support but much less so in the line ministries and regions.</p>	<p>Consultation with stateholders undertaken though sectoral workshops. This is yet to institutionalised for implementation.</p>	<p>Administrative reforms and introduction of new Strategic Vision will redefine the role of sectoral ministries, their workplans and priorities</p>
<p>Indicators, monitoring and feedback arrangements</p>	<p>The main responsibilities are with the Ministries of Economy and Finance and the SDS. The roles of non-government actors not defined.</p>	<p>Commitment is required to establish guidelines for monitoring and evaluation of EDPRP.</p>	<p>Need for clarity in sectoral and project reporting and monitoring requirements. SDS responsible for data collection and evaluation now under supervision of Ministry of Economy.</p>	<p>There is need for a further definition of indicators and the capacity to analyse data received in the process of monitoring and evaluation.</p>	<p>Institutionalisation of participation of other stakeholders will establish guidelines for outlining monitoring and feedback arrangements.</p>	<p>EDPRP is to be reviewed in view of the change of government and the change of relationship and role stakeholders in monitoring the EDPRP.</p>

ANNEX 4: MAP OF GEORGIA



Map No. 3786 Rev. 4 UNITED NATIONS
January 2004

Department of Peacekeeping Operations
Cartographic Section

ANNEX 5: DONOR MATRIX

The following table identifies the relationship between international development partners (donors and lenders) and the EDPRP.

Donor/Lender	Name of Programme	Time Frame	Explicit Integration with EDPRP as principal Aid Coordination instrument
IMF	Poverty Reduction Growth Facility (PRGF)	2004-2007	PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty.
World Bank	Country Assistance Strategy (CAS)	1998-2000	Recently provided Credits for energy, roads and reform. Contributing to sustainable economic growth by supporting the fight against corruption and efforts for better governance; assisting in improving efficiency of the public sector to make it friendly to the principles of market economy, and linking it to the EDPRP.
EU/EC	Country Strategy Paper (CSP) Tacis Programme	2003-2006 2004-2006	Both programmes indicate support to EDPRP priority areas with the Tacis Programme focusing on support to the health sector while the CSP focuses on institutional, legal and administrative reform
USAID	Strategic Plan	2004-2009	Not explicitly stated but provides technical assistance to the Ministry of Finance and the Ministry of Revenue in support of the Government's new three-year program with the IMF under the IMF's Poverty Reduction and Growth Facility. USAID support focuses on areas of security, democracy and the strengthening of the private sector.
CIDA	Country Development Programming	2003 (draft)	The CDPF for December 2003 was developed with the aim of aligning CIDA support with the EDPRP. CIDA's focus on governance meets with one Georgia's strategic objectives.

	Framework (CDPF)		
UNDP	Country Cooperation Framework (CCF)	2001-2003	The CCF had two priority areas: (a) improved economic, political and social governance; and (b) poverty reduction through advocacy and support to equitable economic growth. UNDP is actively engaged in technical assistance for economic and financial management of the EDPRP.
DFID	Central Asia, South Caucasus and Moldova (CASCAM) Regional Assistance Plan	2004-2007	DFID programmes in Georgia linked to the EDPRP across a range of sectors including: governance (improved public expenditure management); health; rural livelihoods; water and sanitation; social protection; infrastructure; civil society support; conflict assessment and resolution; and building capacity for the collection and analysis of poverty statistics.

ANNEX 6: GEORGIA'S SOCIO-ECONOMIC DATA

Georgia Socio-Economic Indicators

POVERTY and SOCIAL INDICATORS

2001

Population, mid-year (<i>millions</i>)	5.2
GNI per capita (<i>Atlas method, US\$</i>)	590
GNI (<i>Atlas method, US\$ billions</i>)	3.1

Average annual growth, 1995-01

Population (%)	-0.4
Labor force (%)	0.5

Most recent estimate (latest year available, 1995-01)

Poverty (% of population below national poverty line)	11
Urban population (% of total population)	57
Life expectancy at birth (<i>years</i>)	73
Infant mortality (<i>per 1,000 live births</i>)	24
Child malnutrition (% of children under 5)	3
Access to an improved water source (% of population)	79
Illiteracy (% of population age 15+)	..
Gross primary enrollment (% of school-age population)	95
Male	95
Female	96

KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1981	1991	2000	2001
GDP (<i>US\$ billions</i>)	..	8.8	3.0	3.1
Gross capital formation/GDP	25.4	28.2	17.1	18.8
Exports of goods and services/GDP	..	27.8	23.3	22.1
Gross domestic savings/GDP	32.8	24.9	0.2	2.7
Gross national savings/GDP	5.1	..
Current account balance/GDP	-8.9	..
Interest payments/GDP	1.4	0.9
Total debt/GDP	54.2	54.6
Total debt service/exports	12.5	9.0
Present value of debt/GNI	33.8
Present value of debt/exports	123.9

	1981-91	1991-01	2000	2001
<i>(average annual growth)</i>				
GDP	-1.9	-2.5	1.8	4.5
GDP per capita	-2.6	-2.1	2.3	5.3
Exports of goods and services	..	12.0	41.6	-1.2

STRUCTURE of the ECONOMY

	1981	1991	2000	2001
<i>(% of GDP)</i>				
Agriculture	25.2	28.7	21.4	20.6
Industry	35.9	37.2	22.6	22.7
Manufacturing	28.7	28.7
Services	38.9	34.1	56.0	56.8
Household consumption expenditure	55.0	65.6	91.3	88.7
General government consumption expenditure	12.3	9.5	8.5	8.6
Imports of goods and services	..	31.1	40.1	38.1

Source : World Development Indicators 2003 CD-ROM