

Georgia: Poverty Reduction Strategy Paper

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**Economic Development and
Poverty Reduction
Programme of Georgia**

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The Speech of the President of Georgia at the Government Meeting June 25, 2003

The Economic Development and Poverty Reduction Programme (EDPRP) has been prepared with the active participation and support of society, executive authorities, NGOs, academia, businessmen and our foreign friends and donors.

Approval of this programme concludes a long process distinguished by the high quality of participation. The EDPRP represents a logical continuation of a decade of economic reform in Georgia.

You are well aware of the path the country followed during recent years. Without traversing this path, including its most difficult parts it would have been hard to admit that Georgia needed to exercise completely new approaches to address the most acute issue of poverty. Georgia is not the only country where poverty reduction is on the agenda. In the world, 2.8 billion people live below the poverty line. One of the basic objectives of developed countries and international organizations is to eradicate the most dangerous phenomenon of today and tomorrow – poverty.

Georgia has a realistic capability to be one of the exemplary countries in the world that can combat this disease that jeopardizes democracy, and undermines statehood and independence. Therefore, from today we start the actual implementation of the EDPRP. This will ensure stability, which in turn, will condition the present and future of Georgia. It is very important that we successfully implement the programme and primarily by using our own resources, including our intellectual potential.

If we take realistic and coherent steps during the next two to three years, we will have the basis to restore the territorial integrity of Georgia.

Continuing the foreign policy course is a necessary condition in terms of poverty reduction and the resolution of social problems. Moreover, our foreign policy should become more intensive and productive. In this respect we must deepen cooperation not only with other countries, but also with international financial institutions, the EU, NATO and other members of the international community.

The EDPRP is in full compliance with general principles of state building laid down in the parliamentary appeal made by the President of Georgia “the new project for a new Georgia”. This includes the final establishment of democracy, ensure safety, stability and territorial integrity, strengthen defence capacity and integration into European and Euro-Atlantic structures.

Our country has found its place in the world community and assumed functions of international significance. The fact that Georgia is acknowledged as the junction between Europe and Asia is directly connected with our development perspective. The path towards integration with European and Euro-Atlantic structures is a safety guarantee for Georgia.

The EDPRP is a multi-dimensional and complex strategy. However, there is a single thesis that runs through the whole strategy. This is the liberal transformation in our country. Over the last ten years, with joint efforts, we established a market economy and secured a solid basis for economic development. The most important task in future is to speed up economic development and equitably distribute those resources that will derive from in-depth governance reform and retaining a sensible fiscal policy. This will ultimately lead to a reduction in poverty.

We can speak a lot about priorities and the proposed measures. However, the most important virtue of the EDPRP is that it is targeted at each citizen in the country.

The EDPRP aims to establish a middle class and create conditions for business that will provide a realistic stimulus to transfer from the shadow economy to the legal sector. To this end, it is especially important that we refine and update tax legislation. It goes without saying that the share of the shadow economy should decrease and smuggling should be eradicated. Both currently inflict untold damage upon the economy.

The EDPRP emphasizes the need to improve employment policy and introduce flexibility in the labour market. The programme also focuses on the need for improvements in education. Substantial economic change cannot be made without educational reform. The EDPRP also provides for institutional and structural improvement in the pension system and growing investment in the health sector. Attention will also be given to increase safety for socially vulnerable groups.

The EDPRP calls us to sustain macroeconomic stability and improve the investment climate. Economic priorities are well identified in the programme. These are energy, transport and communications, tourism and agriculture. These sectors are developing at the fastest rate and budget revenue from these sectors is usually at the quickest rate. The EDPRP also underscores the issue of environment protection. We should take care of our children and should not leave them a country in which the environment is degraded.

One of the merits of the EDPRP is that it squarely calls for Georgia to embrace technology and the digital revolution. We need this revolution because we are seriously lagging behind. It is important that Georgia occupies its place in the comprehensive process of globalization so that we do not lose own accomplishments, traditions and national achievements painstakingly acquired over the centuries.

The EDPRP has decisive anti-corruption measures. Without these measures no programme can be carried out and the normal functioning of the country cannot be ensured. There are plans for administrative, structural and systemic reform in governance, justice and law enforcement. Governance reform will be based on sensible reorganization to ensure increased efficiency. Our citizens often hear about the downsizing of ministries, departments and agencies. Over staffing decreases management efficiency and often results in dual functions. It is also essential to improve coordination between government agencies.

Anti-corruption and anti-smuggling measures should produce results quickly. It is necessary to transform fiscal structures. The Special Legion must become a fully-fledged controlling body and have investigative rights and proper logistical support. This should enable us to remove other controlling bodies from the economic sphere. It is necessary to set up a uniform information network and common-state interagency data bank that will be used by the tax, customs, border protection and other relevant bodies. Crosschecked and reconciled information will improve accounting reporting and reduce smuggling and corruption. These measures will produce realistic outcomes in the medium term. However, considering the complexity of the existing situation, parallel efforts should be made to fully tax main commodity groups and excisable goods to ensure increased budget revenue.

The EDPRP pays special attention to enhance further the role of the financial sector. Currently, the country's banking system is prepared to attract more deposits, create credit resources and finance our economy. Further development and increased reliability should lead to the generation of local credit resources and help to develop domestic business.

The EDPRP contains realistic and optimistic scenarios for economic development. The government will strive towards the optimistic scenario. Employment, increased revenue and poverty reduction cannot be attained without stable GDP growth. The parameters envisaged by both scenarios can be increased in the course of their actual implementation. Over the next few years Georgia anticipates significant investment in connection with the construction of the Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum gas pipeline.

Information provision in the course of EDPRP implementation and every phase of reform is crucial to success. The programme must be conducted with absolute transparency. The government will implement a communication strategy to provide each family and citizen with information on what is being done for their benefit. Government responsibility should be tightened and the people should assume control in this respect.

Representatives of civil society, NGOs, academia, international organizations and donor countries together with the government were actively involved in the EDPRP preparation process. Their efforts are most beneficial and valued. However, we should not forget that the most difficult work is still ahead.

The government assumes responsibility to conduct vigorous and goal-oriented policies to improve considerably the socio-economic standing of each citizen of the country. I am well aware, that our goal is very ambitious and time-consuming but I am certain that our joint and coordinated efforts, together with support from civil society and the international community will lay a solid foundation for the successful implementation of the EDPRP.

I am very hopeful that the international community will continue to help Georgia. You are well aware that available domestic financial resources are not sufficient for fast and effective reform. Therefore, I would like once again to address the international community with a sense of deep gratitude and hope that your support will continue and intensify further in the course of the EDPRP implementation.

It goes without saying that programme implementation and monitoring of activities envisaged by it will be conducted within a participatory framework. Academia, entrepreneurs, and NGOs as well as other representatives of our society will take an active part in this process. The process should be transparent and public. We should all remember that the EDPRP is a hope for the population of Georgia. Concrete and viable steps in this regard need to be taken immediately.

I hope that after publication of the full EDPRP, society will participate in its implementation, as it will lead to the welfare of each family and each citizen as well as to the strengthening, enriching and further democratisation of our country.

Introduction

The first years of independence were very difficult. Traditional economic ties were disrupted and markets lost. Institutions such as a central bank, tax and customs administrations did not exist. Equally there was no legislative framework for a market economy or monetary and fiscal mechanisms. Domestic political controversy, separatism, civil wars and a high number of refugees made it impossible to manage economic and political processes on a consistent and systemic basis. This aggravated the situation further.

In consultation with international financial institutions, the Government of Georgia devised an anti-crisis programme to overcome the difficult socio-economic situation. This programme started in February 1994 and had a positive outcome. Between 1996 and 1997, GDP growth rates rose and reached 10-12% per annum by 1997. Hyperinflation was curtailed dropping to an annualised 7.2% in 1997 as compared to 13,000% in 1993.

The Russian financial crisis of 1998 as well as the droughts in 1998 and 2000, however, adversely affected the economy. Nevertheless, GDP continued to rise each year and inflation was under control. The national currency the Lari was stable.

Global processes had a positive impact on the stabilization process in the country. Such processes demonstrate the international significance of the Caucasus region and Georgia, in particular. The increased interest of western countries in the development of trade relations with the countries of Central Asia and the Caucasus and specifically in seeking alternative routes for energy supplies has resulted in the acknowledgment of Georgia as a pivotal country that connects Europe with Asia.

After the terrorist attacks of September 11, 2001 in the USA, global issues have changed. In this respect, Georgia's policy that seeks to intensify the fight against international terrorism and political and ethnic extremism that jeopardize peace and stability in Europe-Caucasus-Asia corridor is increasingly important. Georgia's stance towards the war in Iraq is a demonstration of its strong commitment to peace and stability.

The current situation in Georgia combined with the new realities in the world suggest that the country needs a long-term action strategy to spur its development with added impetus. Therefore, the government, supported by the international community and in close cooperation with non-government organizations, has prepared this document. The document provides the long-term socio-economic development strategy for the country. The programmes contained within this strategy document lay out the path for sustainable economic development and a substantial reduction of poverty. In doing so, the programmes aim to create the conditions for the population to enjoy dignified and worthy lives. The specific objectives and measures have been identified in line with the strategy goal.

The government is fully conscious that the multilateral phenomenon of poverty cannot be surmounted unless sustainable economic development is ensured. This will be based on deepening economic and institutional reform and a substantial reduction in corruption. This document describes and analyzes the macroeconomic environment the status of economic reforms, the social condition of the population, especially the poor, as well as intersectoral and systemic issues facing the population and the state. As such, therefore, this document provides an overall vision for the future and through an understanding of the prevailing situation identifies those measures that will be taken to attain genuine and sustainable economic development and poverty reduction.

The Programme defines the long-term development goals up until 2015. It includes a detailed description of the measures to be taken over the next three years. This is a strategic statement by the government to overcome the current crisis and ensure future development. The document is also Georgia's overall development concept. As such it provides the basis within which agency and inter-agency strategies and working plans are devised. In future, this document will be the foundation underlying budgetary processes and sector-specific reforms.

The document additionally provides coordinated mechanisms for bilateral and multilateral international economic relations. Georgia will liaise with international organizations and plan its international financial and technical assistance on this basis. The document is in conformity with the strategic priorities of the country that are the enhancement of the principles of democracy, ensuring the security and territorial integrity of the country and integration in Euro Atlantic structures.

The programme is not a one-off document. It will be reviewed on a permanent basis taking into account changing economic and political circumstances and developments. The document is viewed as being dynamic that will be improved over time. The programme includes mechanisms whereby the document will be updated and supplemented annually in a transparent and participatory environment.

The preparation of the document was conducted within the spirit of democratic participation. Not only has there been extensive consultation across government departments, but also the active engagement of civil society within the process. Non-government organizations and community organizations participated in the discussion of early

drafts of the document in a spirit of complete transparency. The editorial group made up of government and non-government experts received a number of critical and constructive comments that have been incorporated into the final document. A government commission chaired by the President of Georgia has discussed the document.

In preparing this strategy the government was ably assisted by the international donor community, including the IMF and World Bank, UNDP, The European Union and the governments of the United States, Great Britain, the Netherlands and Germany, as well as other organizations and governments. Their support enabled the government to gain a high level of discourse on the document. Contributions from the donor community were immense and deeply appreciated.

This the first document of its type produced in Georgia since independence. The intensive public involvement in putting together the strategy as well as the fact that public consultation will continue as the programmes contained within it are implemented, bears testimony to the fact that this strategy represents the will of the majority of the population in the country. This aspect alone gives cause for optimism that the programme will be effective and produce the desired changes and improvements that the country seeks.

1. Socio-Economic Situation

1.1. Background

1.1.1. Macroeconomic Environment

- 1) The first years of independence were very difficult. Traditional economic ties were disrupted and markets lost. There was no national currency, the monetary system and the legislative framework for a market economy. That made it impossible to manage economic and political processes on a consistent and systemic basis. Domestic political controversy, separatism, civil wars and a subsequent strong criminal activity had a ruinous effect on the country's economy. As a result of the conflicts in Abkhazia and Tskhinvali region, 300 thousand people became internally displaced persons. This brought a particularly heavy burden on the budget. The economic downturn reached a critical point in 1993-1994. Industrial activity dropped five times from its level in 1990. The social situation worsened drastically and many faced the danger of starvation.
- 2) In the beginning of 1994, the government launched a macroeconomic stabilisation programme, supported by international financial organizations. The main purpose was to stabilise the monetary and fiscal systems, start a process of privatization, reform the education, health care and social systems, and liberalise prices and trade.
- 3) To regulate the money supply, the amount of government credit was strictly defined. This included the imposition of ceilings for domestic and international assets of the National Bank of Georgia (NBG). The asset structure of the NBG improved significantly. To control money supply, budget and international reserves control was transferred from the Ministry of Finance (MoF) to the NBG. These measures allowed the NBG to regulate the money supply in circulation.
- 4) The privatization of state banks was launched to strengthen the banking system and secure the interests of creditors. Licensing procedures became tighter. Banks were subject to liquidation or mergers, etc. Commercial banks had to have a minimum authorized capital. These measures helped to bring liquidity into the banking system, strengthened the financial situation of a number of banks, and brought about a significant improvement in monetary and foreign exchange regulation.
- 5) Through the adoption of new laws, the normative acts regulating budget and tax issues improved. Budget revenue increased and there was enhanced control over public expenditure with improved accounting procedures. From 1995, with the degree of macroeconomic stability achieved it became possible to adopt an annual state Budget.
- 6) As a result of changes in the structure of public expenditure, direct subsidies to state enterprises were minimised. At the same time there were increases in social expenditure items and the government started the process of price liberalisation.
- 7) Structural reform was also carried out. Prices became free from state regulation. Citizens and enterprises were granted unimpeded rights to engage in trade or intermediary activities. This promoted the establishment of a competitive market, revived trade and created new employment possibilities. Business registration procedures were simplified. Monopolistic enterprises inherited from the Soviet system were dismantled. Mass-privatisation and the first stage of land reform were launched.
- 8) All these measures produced macroeconomic stability. In 1995 the government introduced a new national currency, the Lari (GEL). Hyperinflation was defeated. In 1993 the annual inflation rate was above 13,000%. By 1997 annual inflation had come down to 7.3%. Macroeconomic stability was accompanied with economic growth. Average annual GDP growth between 1996 and 1997 was 11-12%. Budget revenue mobilized also increased. In 1995, the share of the budget deficit towards GDP decreased by three times compared to figures from previous years.
- 9) Despite these trends, the budgetary process still lacks efficiency, transparency and fairness in the distribution of resources. At the same time, no significant progress has been achieved in strengthening government finances. The share of state revenues¹ in relation to GDP is still very low. Total revenue in relation to GDP constituted 10.6% in 1996. In 2001 it had risen to 14.6%.
- 10) The budget deficit was reduced from 7.1% of GDP in 1996 to 1.7% in 2001.

¹ State revenues includes consolidated revenue from central budget, state funds and local budgets

- 11) Despite positive export growth during previous years (US\$309 million in 1996 and US\$496.2 million in 2001), imports for the same period (US\$897.5 million in 1996 and US\$ 1045.6 million in 2001) exceeded exports.
- 12) The financial crisis in Russia of 1998 adversely affected Georgia's economy. A worsening of balance of payments condition caused a devaluation of the Lari. The NBG stopped interventions in the exchange market and allowed the currency to float freely. As a result of the crisis the macroeconomic situation deteriorated drastically. GDP growth rate stalled and constituted 2.9% in 1998 as compared to 10.7% in 1997. The annual inflation rate in 1998 was 10.7%, compared to 7.3% in 1997.
- 13) In 2002, the volume of foreign debt equalled US\$1,592.64 million. This constituted 47.42% of the GDP. US\$ 771.445 million was payable to international financial organizations and US\$ 757.122 million to bi-lateral creditors. The largest creditors are the IMF and World Bank. Almost 64% of bi-lateral debt is with Turkmenistan and Russia. In 2001, Georgia needed to repay a significant portion of its foreign debt. This would have undermined credit sustainability. Agreements reached with bi-lateral creditors in Paris Club significantly assisted debt sustainability. However, foreign debt servicing remains a major issue and there will need to be continued cooperation with the Paris Club to restructure debt on concessional terms.
- 14) Total domestic debt was GEL 1,484.3 million in 2002. More than half of this debt, GEL 767 million represented government arrears to the NBG.
- 15) During 1999-2002, the Government of Georgia was trying to overcome the outcomes of the crisis and preserve macroeconomic stability. In 1999 the GDP growth rate was 3% and in 2000 it was only 1.9%. The GDP growth rate was better in 2001 – at 4.5% and in 2002 it was at 5.4%. In 2001, the inflation rate of 3.4% was the lowest indicator in the history of the independent Georgia and 5.4% in 2002.
- 16) Macroeconomic analysis demonstrates that the government successfully discharged one of its most important economic functions. It ensured price stability and moderate inflation rates. Comparative stability of the macroeconomic environment is a significant achievement. However, fast and sustainable economic growth and a substantial improvement in social conditions and the fiscal system should be attained.

1.1.2. Structural and Institutional Reform

- 17) Macroeconomic stability is one of the most important pre-conditions for economic development. However, its sustainability and growth depend on the implementation of appropriate structural reforms.
- 18) Privatization is an essential component of structural reform. Privatization started in 1992 preceded by the preparation and adoption of relevant legislation and turning existing industrial enterprises into joint stock companies (JSCs). Controlling blocks of shares of more than 1000 JSCs were transferred to private owners. The privatization of trade and services has been completed. Overall, more than 15,000 enterprises were privatized between 1993 and 2002. This has had a major impact on restructuring the economy. However, the mere fact of privatisation has not produced the desired outcome. A number of large-scale enterprises continue to be state owned. Management in these companies often fail to run them efficiently or make profits in terms of their industrial potential.
- 19) Mechanisms are underway to assign ownership rights on natural resources such as land and forest cadastre. Without proper accounting the value of the resources decreases. Due to unreliable information and insufficient safeguarding of property rights, assets are not capitalized. This results in their inefficient use.
- 20) As a result of structural reorganization, state regulation of the economy and management of state owned enterprises has been separated. The process of transforming monopolistic entities and establishing regulatory institutions is ongoing. The importance of the State Anti-Monopoly Service is increasing.
- 21) Another important component of structural reform is to create a sound tax environment. Despite numerous attempts, the tax system still fails to act, as a stimulating instrument for business and economic development. There is no sense of partnership between the taxpayer and the government.
- 22) Exports are zero-rated. As goods leave Georgian territory, the VAT paid on production is supposed to be refunded. One of the biggest shortcomings of the existing tax administration is the non-refund of VAT to exporters. This reduces net exports and GDP growth.
- 23) There are many problems in imports. To evade customs duties, the value of imported goods is reduced artificially or they are smuggled. Official information about exports and imports is not a realistic picture of foreign trade. The country's borders remain vulnerable and porous. Customs administration was set up from scratch. Despite numerous reform efforts, customs administration does not function properly. Corruption is high. The need for further institutional reform is evident.

- 24) Certification and standardization of the goods and services is given important to combat counterfeit products and strengthen export potential. Reform in this area has started. Simplifying the certification process and reducing the number of goods and services subject to mandatory certification are significant anti-corruption measures.
- 25) Ongoing reform in the licensing system seeks to improve the structural environment. Surveys revealed defects in the existing system. A law “On Licensing and Issuance of Permissions for Entrepreneurial Activity” has been adopted that seeks to improve and codify those areas subject to licensing.
- 26) Much attention has been placed on improving legislation. There has been significant reform in the judiciary. However, illegal activity is still high. There is some sense in the fact that some laws do not fit with the existing situation and there remains a lack of competency within law-enforcement agencies and in the legal system. Corruption hampers the efficient operation of government institutions, business development and generates an unfavourable social and economic climate.

1.1.3. Economic Sectors

1.1.3.1. Financial Sector

- 27) The financial system has significantly developed since independence. However, judged by international standards it is still very small. The banking system is one of the main components of the economic system. However, assets in the banking sector represent only 15.1% of GDP.
- 28) The number of commercial banks has reduced from 228 in 1994 to 27 in 2002. At the end of 2002, the charter capital of commercial banks was GEL200 million. In 1995 it was only GEL 44.2 million. At the end of 2002, the total assets in the banking system was GEL1,116.5 million (15.3% of GDP), while in 1995, the figures were GEL233 million (6.3% of GDP).
- 29) The interest rate charged on loans by commercial banks is very high (19 – 35% in 2002). Nevertheless interest rates have dropped from 24-40% in 2000. There is a lack of credit worthy borrowers, partly because there are a small number of financially supported projects that are able to pay high interest rates and also because banks require the value of collateral to be much higher than the amount of the loan.
- 30) The low level of deposits in banks is mainly due to the continued lack of confidence in the banking system. In turn this is probably caused by memories of the hyperinflation of the early nineteen nineties, when most of the population’s savings were wiped out. In addition, there is no deposit insurance system. Introducing such a system at present would entail significant public expenditure. Currently there is a cash settlement mechanism. However, the number of non-cash settlements is gradually increasing. The NBG has introduced an inter-bank settlement system that is sustainable and secure.
- 31) The insurance market has developed in recent years, although, it is still small. In 2002, the total insurance premium attracted by 24 insurance companies operating in the country in sixteen types of insurance was GEL25.3 million. In 2002 Losses have increased by GEL1 Million and constituted GEL9.2 Million.
- 32) In order to enhance solvency of the insurance companies and share assumed financial risks, re-insurance was conducted by 17 insurance companies. GEL 11.5 million in all was directed towards re-insurance, i.e. 45.3% of the total premium. Re-insurance ratio is lower as compared to the same period of 2001, which demonstrates that transfer of low risk insurance liabilities to re-insuring partners has been streamlined. Out of the total amount of reimbursed loss in 2002 amounting at GEL 9.2 million, GEL 5.8 million, i.e. 63% was repaid by the insurance companies directly and the re-insurers paid GEL 3.4 million, i.e. 37%.
- 33) The securities market still fails to play a significant role in the economy. It is small and lacks liquidity. However, the ‘first generation’ legal framework and infrastructure necessary for a securities market is in place. The guarantees for openness, government supervision and control in this sector are in place. The latter functions are carried out by an independent regulator – the National Securities Commission (set up in 1999).
- 34) The Stock Exchange was set up in 1999, based upon best international practice. Since March 2000, it has carried out regular electronic trading. Ownership rights on publicly held securities are registered with eight independent Securities Registrars and the Georgian Securities Central Depository. Key participants of the securities market –brokerage companies – were set up.
- 35) Of 1,759 Joint Stock Companies (JSCs), the shares of 278 issuers were allowed to take part in trade at the Stock Exchange. Since the start of trading, 3,226 transactions have taken place with a total volume of about 21 million shares. The total value was GEL26 million. Market capitalization is increasing. In 2000, it was around GEL50 million and since August 2001, has exceeded GEL130 million. State regulation of the securities market has considerably decreased non-stock exchange transactions – the so-called “grey market”. In 2000, the transfer of securities outside the stock exchange was 94%. In 2001, this figure reduced to 57%.

36) The development of the capital market has been hampered by the low level of corporate culture, poor public awareness of the securities market, insufficient protection of shareholder rights (especially for small shareholders'), the poor investment climate, the low level of institutional investors, shortcomings in privatization and in the regulation of government securities and insufficient implementation of international accounting standards.

37) There are no leasing companies, investment, equity and private pension funds operating in the financial market. The operation of private pension funds in this market is still quite modest. Factoring operations are not carried out. There are up to 200 credit unions functioning, mostly in rural areas.

38) A comprehensive system of housing finance does not function. Bank mortgages are still on a small scale. Only a limited number of the population can use the credit facilities due to high interest rates and short repayment periods.

39) There is hence an inefficient use of income and savings. Mostly citizens on medium and low income suffer from the underdevelopment of the system. Furthermore, resource mobilization for socially vulnerable layers of society cannot be ensured. This was shown after the Tbilisi earthquake of 2002. As a result of the underdeveloped housing finance system, there are significant problems in providing assistance to those damaged by the earthquake. This resulted in a failure to assist all those affected.

1.1.3.2. Industry

40) Many factors contributed to the sharp decline in industrial output. During the Soviet period, industry was part of a united industrial complex. The loss of traditional economic links meant that both sources of raw materials and markets were lost. Contributing factors to industrial decline were civil war and the conflicts in Abkhazia and Tskhinvali region. Industrial decline reached a critical point in 1993 and 1994, when production dropped to unprecedented levels.

41) More recently the situation has improved. However, management, inherited from soviet times is not market-oriented. It fails to ensure efficient financial management, strategic planning and production control.

42) In establishing an effective industrial system the role of investment is crucial. Most enterprises retain outdated soviet equipment and practices. Goods produced are less competitive because of high energy costs due to price liberalisation and equipment that is power hungry and inefficient.

43) Most enterprises satisfied the demands of the Soviet market. Now they are more oriented on local markets that are much smaller. It is impossible to operate these enterprises at full capacity. They have surplus property, which, in most cases, lacks liquidity.

44) Payment default is an acute issue. Due to deficiencies in the bankruptcy mechanism, one non-paying enterprise negatively influences others. The non-payment for state procurements due to the insufficient execution of the state budget is also a factor. There are large arrears to the budget. This particularly concerns large state-owned companies that have huge arrears towards the budget.

45) Due to the soviet industrial heritage, most enterprises are monopolies. However, Georgia is considered to be a country with an open economy that imposes certain limitations on unfair competition. The antimonopoly service and corresponding legal framework were established in 1997. Corruption is one of the main reasons for unfair competition, and creates unequal conditions, especially in small and medium-sized business.

46) Another critical issue is the extent of the shadow economy. The share of unregistered products in total production is 40-42%. This indicates the low efficiency of measures to reduce this ratio.

47) Foreign economic policy has had a positive influence over economic growth. The government has actively sought integration into international markets and the country is a member of the World Trade Organization. Given the limited local market, this should considerably facilitate investment in the export producing sectors. Georgia has signed agreements on mutual support and protection of the investment with more than 23 countries, and agreements on the elimination of double taxation with 11 countries.

1.1.3.3. Energy

48) There are various reasons for the existing problems in the fuel and energy sector. Major issues are the lack of local resources and disorder in the collection of payments. This has acquired a chronic character during the ongoing structural reform process and has resulted in a continual financial crisis in the sector.

49) Overall consumption has decreased 4.3 times compared to 1989. The use of natural gas, petroleum products and electric energy has decreased, respectively by 6, 3.5 and 2.4 times over the same period.

50) Reforming energy is an integral part of the reform process. The restructuring process has separated regulation from commercial activity. Limits are placed on monopolistic activity and there is a competitive environment. Independent regulators are the Electricity Wholesale Market and the National Energy Regulatory Commission.

51) The privatization of some distribution networks was successfully accomplished. As a result, significant foreign investment was attracted and revenue from electricity consumption went up.

52) However, there has been little financial improvement. There are enormous debts (approximately US\$550 million) as a result of low collection levels, poor management and corruption.

1.1.3.4. Transport and Communications

53) The country's geographic location has placed it within the scope of global interests. The role of the South Caucasus and Central Asia as energy rich regions has been defined clearly. Hence, increasing importance is attached to the transport corridor connecting Europe and Asia.

54) The viability of a Eurasia transportation corridor crossing Georgia is conditioned by the overall level of development. The transport corridor covers road, rail, sea, air, pipeline network and communications.

55) In 2002, the total volume of cargo was 37.4 million tons. The number of passengers was 251.7 million. The volume of cargo transported by railway transport and cargo turnover has increased as compared to 2001 and was 14.9 million tons of cargo and 5057.5 million ton/kilometre. The total cargo transported by vehicle was 22.5 million tons and cargo turnover – 543 million ton/kilometre. The volume of air cargo and the number of passengers decreased by 8.3% and 19.3% respectively in 2002.

56) Highways are in a poor condition. This adversely affects capacity. Another issue is the obsolescence of much of the transport stock.

57) The Baku-Supsa pipeline gave the country the status of a transit country. Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum pipelines are underway.

58) The quality of telephone lines and television programmes has improved. A competitive environment is expanding. The number of subscribers to telephone networks was 230,000 in 2002. Cellular networks have expanded rapidly. The volume of international and domestic postal deliveries increased by 50% in 2002.

1.1.3.5. Safety in energy, transport, communication and construction units

59) The specificities of the country's geographic makeup means there are special safety requirements for energy, transport, communication and construction units. To ensure unimpeded operation of these units, there should be technical monitoring of the infrastructure and well-equipped engineering units. The need to set up these units is due to the condition of the infrastructure and the need to study of the physical status of sites damaged by recent earthquakes.

1.1.3.6. Agriculture

60) The agricultural sector, due to its volume and the number of people it employs, plays a significant role in the economy. Agriculture and agro-business appear to be a major source of income. This fact itself plays a major role in poverty levels in the rural areas.

61) Efficient measures were undertaken in the privatization of agricultural land and agro-processing enterprises. Land reform started in 1992 and was followed by a land leasing programme. Georgia was one of the first former Soviet republics to establish the private ownership of land. As a result, 57% of arable land is now private and 27% is leased to private individuals by the state. The reform created realistic employment for farmers. However, there are several problems including an underdeveloped infrastructure (the lack of food-processing enterprises in rural areas), poor irrigation and drainage systems, accessible credits, expensive fuel, pesticides, fertilizers, tools and machinery, high transportation costs and vulnerability to environmental conditions.

62) The privatization of agricultural enterprises is still underway. While many enterprises are in private hands, this has not led to significant growth in production. Business cannot attract capital to develop modern management systems and find new markets. Exports are thus not as great as they could be.

1.1.3.7. Tourism

63) Tourist facilities and sights include, 102 health resorts, 182 health resorts, 15,000 historical monuments, 4 of which are UNESCO world heritage sites, 2 functioning and 7 proposed national parks, 2,400 mineral water springs with 24 hour output of 130 million litres, healing mud, karst caves, the Black Sea coast, and the Great and Small Caucasus Mountains.

64) According to 1988 data, Georgia was visited by up to 4 million tourists and holidaymakers annually. Decline set into the industry in 1990. This was caused by the fact that hundreds of thousands internally displaced persons had to be accommodated in hotels and boarding houses. This paralyzed an essential part of the infrastructure. The situation aggravated further due to the deteriorated tourism potential of Tbilisi and other historical cities. Poor planning substantially changed and worsened image of these old districts.

65) The “National Concept of Tourism Development”, highlights numerous issues that impinge upon development. The following five issues are the most urgent:

- The country has an unfavourable image. This is the largest impediment to attract tourists. The state does not project a positive image of the country and no market research of tourism markets has taken place;
- There is a limited spectrum and poor quality in production;
- Security problems resulting from the dangerous criminal situation and instability in the region stop potential tourists;
- There is a lack of qualified personnel;
- There is insufficient capacity to accommodate tourists and there are transportation problems. (Insufficient number of air flights connecting existing and potential tourism markets, non-flexible timetable of flights, insufficient regional air connections, conflicts between airway companies and poor road infrastructure.

66) The tourism industry started to grow gradually from 1995. In 2002, 298.5 thousand tourists and visitors arrived in Georgia. This was four times the number for 1995. The number departing was 317.2 thousand in 2002. (1.4 times the number for 1995).

67) In 2002, 17 thousand were employed in tourist related work. Approximately 95% are engaged in small and medium business. The majority live in large cities and resort centres (Borjomi-Bakuriani, Ureki-Shekviteli, Kobuleti-Makhinjauri). The level of employment is low in mountainous regions. It is important to develop agro-tourism.

1.1.4. Households

68) The household is a socio-economic unit. Its members share common rules of living and eating in a single lodging, are interconnected by a common budget (part of the budget), as well as by kin or non-kin relations. The household represents the basic institutional unit in the country and is the main producer and consumer of resources.

69) Household income levels define the socio-economic standing of households and the country’s overall development level. Nominal income has grown in recent years. In 2002 it was 30.6% more than the figure for 1996. However, this growth is not sufficient to substantially reduce poverty. The main, albeit not exclusive, sources of household incomes are, hired labour, non-agricultural self-employment, land usage (agricultural self-employment) and government and private transfers (pensions and benefits). Household income is generated from simultaneous sources that appear to be a response to the fragile economic environment. Only 20% of household income is generated from a single source. Roughly a half of households have three or more sources of income.

70) The average monthly salary in terms of spending is GEL104.1 (85.6% of the official minimum subsistence level). The average salary per month constitutes GEL113.5 (93.3% of the official minimum subsistence level). The minimum salary is low and is 40% of the extreme minimum subsistence level. The majority of the population is self-employed, mainly in the agricultural sector. Employment is increasing in the private sector and in agriculture but is decreasing in non-agricultural areas.

71) Land is an important source of income. Agricultural production constitutes a third of household incomes. However, the share of agricultural products sold at the market is low. Production is mainly for local consumption. A large number of households receive a certain portion of income in food.

72) State transfers do not constitute a substantial share of household income. However, many families receive some benefits, mostly the pension, from the state. In 2001, 60% of households received some type of state benefit. The volume of private transfers is equal to state transfers, but is less common. One third of households receive private assistance in this form. As a result of economic emigration, remittances back home constitute a considerable source of income.

73) About 40% of households took loans during 2002 and 80% have not yet repaid the debt in full. Low credit sustainability is another factor in the acute problem of poverty.

74) Household expenditure is increasing. In 2002, total average monthly expenditure per household was GEL325.9 (consumption costs – GEL 276). It is approximately GEL87.4 per month per capita. The main part of household resources is spent on food. The share of pecuniary and non-pecuniary food expenses constitutes 50% of

he total expenditure. The share of so-called non-pecuniary costs is about 18% of the total expenditure. The socio-economic standing of households depends considerably on the harvest from their own land.

75) Average monthly income of households (I quintile) with lowest income level is GEL30.8. Average monthly income of richest households (V quintile) is GEL526.5. This is, seventeen times more (the so-called S/80/20 indicator). Distribution of expenditure is rather polarized among quintile groups. Total expenditure (both pecuniary and non-pecuniary) of a household from the fifth quintile group is 9.6 times more than similar expenditure of the fourth quintile group. Food expenses constitute the largest portion of household costs. The share is much higher in households with the lowest level of expenditure – 50%, while the same indicator is 33% in the fifth quintile group. The share of food expenses in rural areas is 25.4% and 37.8% in urban places. The share of the expenditure on fuel and electricity is 5.6% and varies from 6.9% in the first quintile group to 4.9% in the fifth group.

76) The figures indicate inequality of socio-economic standing of household. Income distribution is more polarized than consumption. In 2002, the Gini index according to total revenues is 0.47 and has a downward tendency. Inequality is comparatively low in consumption. According to consumption, the Gini index is 0.35, a more equal distribution. The Gini index according to consumption has become somewhat stable recently.

77) Household expenses on human capital investment (development) are about 6.2%. Educational expenditure of the fifth quintile group is 45 times more than in the first quintile group. The portion of the poor who have had a medical examination is 2.4 times lower compared to the non-poor. Urban households spend 3 times more on education than rural households. Human capital investment by poor households is low.

78) Personal consumption depends on income and is difficult to account for in present conditions. Pecuniary income constitutes a large part of total income. Average monthly pecuniary income was GEL163.7 million in 2002, (GEL41 per capita). Total average expenditure per month was GEL276.6 (GEL 69.3 per capita). Total average expenditure per month was GEL 346.7 million, i.e. registered income cover only one third of expenditure – pecuniary consumption costs were GEL216.7 million per month.

79) Non-pecuniary income constitutes 33% of pecuniary income and 23% of total pecuniary and non-pecuniary funds. Of incomes the largest are from hired labour (41% of pecuniary income), self-employment (19%), income from the sale of agricultural products (16%) and pensions and benefits (9%). The share of income of property is low (0.8% of total income). Transfers from abroad (4.4% of the total) and money received from family members and friends (5.0%) remain large in pecuniary terms. The share of sold property and borrowed money or savings is high in pecuniary expenditure (12.5% of pecuniary funds).

80) A substantial source of income in poor households (30% of total income) derives from so called inactive income such as from property sales and transfers. For those above the poverty line this type of income was 20% less than for those below. The share in income of state assistance in the form of pensions and other benefits was 28% in poor households an indication that such households depend considerably upon state assistance.

81) Unemployment is a very important factor of extreme poverty. No member of a family is employed in 40% of households below the poverty line. In 45% of poor households, one member of the family has to support two or more family members.

1.1.5. Poverty and Vulnerability

82) Poverty is defined as the standing of a human being or family when it has no capability to satisfy basic needs (food, shelter, physical safety, basic education, personal growth, health, communication) due to low income or the non-availability of money.

83) In Georgia poverty indicators are calculated according to household costs. To calculate poverty lines the method of food energy is applied. Two poverty lines are used for evaluation:

- Official minimum subsistence– this is GEL124-128 per month for an adult of working age;
- Extreme poverty line –GEL 58-63 per month for an adult of working age.

84) In 2002, the level of poverty in respect to the official minimum subsistence was approximately 52%. In 1994 this level was 80% and in 1995 – 60%. The lowest level of poverty was in 1997 – about 46%. In recent years, the level of poverty has stabilised at around 51%-52%.

85) In 2002, 15% of the population lived in extreme poverty. This figure decreased between 1999 and 2001.

86) The depth of poverty was calculated for the first time in 1996. Between 1996 and 2002 the poverty depth indicator in respect to the official minimum subsistence was lowest in 1997 constituting 17.3%. Subsequently the figure has fluctuated between 19% and 20%. With respect to extreme poverty the figure was highest in 1996 at 14.5%. Subsequently it was 8.5%-9.5%.

- 87) The short-term strategy for poverty reduction should preferably focus on the lower poverty line. At least a third of the households were below the poverty line during 2002. Almost one third of households are close to extreme poverty.
- 88) All types of households are not captured by poverty equally. However, there are some shared characteristics of those in poverty. These characteristics are:
- Households with unemployed members –one third of households in extreme poverty have no employed member;
 - Households with comparatively low levels of education – the one third of households in extreme poverty have average or lower education levels.
 - Households without working capacity – around 20% of households in extreme poverty are comprised of members without working capacity.
- 89) Unemployment is one of the most important factors that defines the poverty level. The risk of households to fall below the poverty line increases according to the number of unemployed members. The poverty level is almost three times more than the average in those households where all members are unemployed.
- 90) Urban and rural poverty differs. Urban poverty is related to insufficient food supply, which is viewed as an indicator of severe and deep poverty. Rural households consume the food they produce. In rural areas the major issues are a lack of financial resources and undeveloped infrastructure. The latter reduces accessibility to major services.
- 91) While urban poverty is deeper and more severe, accessibility to education and health care services is better. This enhances employment prospects and improves economic standing.
- 92) The rural poverty level is always lower urban levels but is no less acute. Living above the poverty line in rural areas is assisted by the availability of one's own harvest, live-stock and poultry products. This depends considerably on climatic conditions. For instance, droughts in 1998 and 2000 increased rural poverty. The major resource that keeps rural populations above the poverty line is land.
- 93) There is little prospect to reduce rural poverty unless existing conditions are changed. Even if poverty is reduced with a good harvest, this will not be stable and will continue only until the next drought, hail or other natural calamity.
- 94) Several factors affecting poverty can be identified. These factors include:
- Employment;
 - Unemployment;
 - Age;
 - Shock;
 - Infrastructure.
- 95) If one person in a household finds employment household consumption increases by about 20%. Similarly if a household member becomes unemployed consumption decreases by 20%. The age structure of a household has a close relation to poverty. This factor is particularly significant in urban areas where the existence of pensioners living alone decreases the consumption volume calculated according to equivalent adults by almost 30%. The effect of this factor is also significant in rural areas but less than urban areas. The households composed of members of non-working age encounter severe problems in urban areas and this fact reduces consumption by about 25%. Households find it very difficult to withstand external crisis. The Russian financial crisis of 1998 and droughts in 2000 are evidence of this. The poor condition of infrastructure is also an important problem. This is more severe in rural areas. Rural households have less access to education and healthcare. The energy crisis and information vacuum aggravates the problem further especially in remote villages. The Low quality of roads is also a large problem.
- 96) There are two types of poverty in time terms:
- Chronic
 - Transient
- 97) Poverty-affected households can be classified into two groups:
- Those unable to overcome poverty due to a lack of necessary human and material resources, mainly lonely pensioners and families comprised of members of non-working age. Their only method of moving out of poverty is through state assistance.
 - Those able to overcome poverty due to the availability of necessary human resources, mainly households with unemployed members or those comprised of members on low incomes. In this case the most effective way is to create new jobs.
- 98) The factors affecting poverty are of two types:

- Short-term factors – these are transient and affect only for a certain period of time (e.g. shocks, short-term unemployment).
- Long-term factors – of a continuous character, with the possibility to be revealed in the future. One of the most important of these is access to education. Prolonged unemployment, associated with losing skills, can also be considered as a factor.

99) The correlation between vulnerability, poverty and other social characteristics helps to identify vulnerable groups and high-risk groups. Single pensioners are at the highest risk. The level of extreme poverty in this group is high – up to 25%. The poverty level is persistently high in one member families, almost 70% of which are of pension age. Pensions or benefits constitute only 13.5% of income for single pensioners and private transfers constitute 11.9%. The poverty level in this group is twice high in urban to rural areas.

100) The role of dependence is crucial. Poverty risk rapidly increases in households that have three or more children. Poverty in families with many children is more distinctive when there is only one breadwinner in the household. This can be partly explained by a can reduction of actual income and also by the lack of state benefits for children. At present children of school age head the list of the poorest age groups.

101) In terms of integration into the labour market internally displaced persons (IDPs) face particular difficulties. The unemployment level of individually accommodated IDPs is twice as high as the local population. Collectively accommodated IDPs unemployment is three times higher than the local population. About 20% of internally displaced persons declare that they are isolated from the local population. They do not have information about vacancies and connections to get jobs. Employment prospects are low paid and unreliable.

102) Regional poverty indicators are heterogeneous. The tendency is more homogeneous in Tbilisi, Shida Kartli and Adjara, Samegrelo and Imereti. The poverty level is higher in Imereti than Samegrelo. The poverty level is more or less the same in Samtskhe-Javakheti and Kakheti, Kvemo Kartli and Guria. The poverty line indicator shows different tendencies in different regions. Poverty levels are increasing in Kakheti and Samtskhe-Javakheti declining in Tbilisi and Imereti.

103) As central government capacity is limited, policy aimed at making the regions more equal is difficult.

1.1.6. Social Security

104) Social problems, including poverty, are a consequence of the degree of social services that exist. The biggest problem lies in lack of funds. Public expenditure on education and social protection (pensions and social allowances) constitute one third of the budget, which is about GEL90 per capita per annum.

105) The social protection system fails to manage social risk adequately. This is one side of the problem. The imbalance between social taxes and proceeds suppresses motivation and force people to move into the informal sector of the economy. This adversely affects economic development and removes the foundation to set up a reliable social safety system.

106) Three main problems can be distinguished: a) Insufficient the tax base, resulting from low wages and the numbers of people in the formal sector; b) demographic change – ageing population; c) Poorly targeted benefits.

107) The low effect of social protection is a very important problem. State pensions, stipends, and benefits constituted 3.8% of total household income in 2002. The share of private money transfers (from relatives and friends) was 10% in 2002. About 10% of food inflow into poor households is free from private sources. The role of the informal non-government social safety network is very significant. 60% of the poor do not receive private assistance, while the non-poor receive 85%. It can be assumed that families that receive private assistance become ‘non-poor’ due to this help.

108) In 2002 the social tax base constituted up to 7% of GDP. State assistance is not on the basis of assessment of their material standing – need but on the basis of attribution to certain categories (blind people, internally displaced persons, others). The level of targeting is poor. In 2002, state allowances reduced the poverty depth by only 3.6% .

109) Social taxes were 2.7% of GDP by 2003. There is a serious crisis in the pension system. Pension arrears have gone up. They amounted to GEL116 million by 2003. This is pensions not paid for over six months. There were 854,000 pensioners (recipients of social and insurance pensions). On top of this there are 12,000 law enforcement pensioners and 1,200 regressive pensioners. There are total of 879,200 pensioners that is 19.5% Of the total population. The minimum pension is very low – GEL14. In 1996, the average pension in respect to income was 12% per capita. This indicator decreased further and now equals 8%-9%. Paying pensions on the principle of “solidarity” is complicated due to the demographic structure of the population as a whole. Georgia has a relatively large number of people of pensionable age compared to countries with similar income levels. The number of contributors to the pension system has halved in the last decade. The dependency ratio (proportion of employed people to pensioners) has dropped down from 2.8 in 1990 to 0.8 in 2002.

1.1.7. Human Capital

110) One of the most important components of human capital is health. This is affected by life style and access to and the quality of medical services. The current health condition in Georgia is alarming.

111) In 2002, the average life expectancy was 76.1 years at birth, 73.7 years – for male, 78.7 – for female². The mortality rate of infants up to one year per 1000 live births during 1996-2002 varied from 27.8 to 20. Between 1993 and 2002, maternal mortality varied from 32 (in 1993) to 70 (in 1997) and 58.7 (in 2002). From 1990 the mortality rate caused by cardiovascular diseases has increased by 35%. The mortality rate from ischemic diseases has increased considerably. Tuberculosis still represents a big danger. Its main source is the penitential system; 5%-10% of prisoners suffer from this disease. The frequency of tuberculosis is increasing among children and adults. In 2001, the number of registered HIV/AIDS was 232³. The actual number of HIV infected persons is about 2,000. Cases of diseases that were considered eradicated as malaria and hydrophobia have increased.

112) The reason for the increased number of diseases lies in unhealthy life styles, lack of basic knowledge, diagnostic capacity and preventive medicine. Tobacco consumption has reached catastrophic levels with 65.5% of males and 15.7% of females smoking. Among children aged 12-17, 55% of boys and 45% of girls smoke. The number of pregnant smokers in the age group of 17-25 is 28%.

113) The consumption structure of food products is poor. Only 7-20% of food energy consumed on average comes from meat, fish and dairy products. The share of bread products is 65%-85%, which is a high figure⁴. The situation is even more difficult for those in extreme poverty, where only 10% of food energy consumption is from meat, fish and dairy products. 61% is from bread.

114) Poverty and scarce resources are the main reasons for unhealthy life styles, malnutrition and delayed and insufficient treatment. The poor have few means to access medical treatment in costly and high quality private medical institutions. Chronic diseases are characteristic of poverty. Health risks are higher in poor families. Additionally they tend to deploy less preventative measures. Illness and disease requiring hospitalisation as well as long rehabilitation endangers the majority of non-poor households. Expenses incurred on health results in short and long-term negative impacts – the probability of a serious deterioration in health and the need to spend a large one of sum of money. Worsening health conditions from malnutrition, stress, and a lack of preventative medicine lowers labour productivity and ultimately the stamina to surmount poverty.

115) The share of government expenditure on health is one fifth of total expenditure. The main portion is for treatment rather than prevention. State expenditure on preventative medicine is 14% of total government spending on health. Levels of immunization vary from 72.2% to 94.8%⁵.

116) The number of doctors is 28,000, i.e. approximately 440.4 doctors per 100,000. In 2001, 19,530 hospital beds were occupied by patients in 278 hospitals, i.e. nearly 440 beds per 100,000. This approximates with average European levels (593.5 hospital beds per 100000 in 1999)⁶. Despite the increased frequency of disease, hospital beds are not occupied to capacity, because patients prefer self-treatment or in extreme cases, use specialized, dispensary and diagnostics services outside the primary healthcare system. The average extent of hospital bed occupation is 28%, and the duration is about 9.7 days. This suggests that the healthcare system is inefficient.

117) Education is another fundamental component of human capital. Georgia has traditionally been associated with universal education opportunities. The school enrolment ratio is nearly 98%. However, 2% do not get basic education. Not more than 5% of the population has received only elementary or pre-elementary education. 40% of the population of more than 15 years has secondary education, 20% vocational education and 24% tertiary education. The quality and suitability of education for present day requirements lags behind the quantitative picture. Inequality of opportunities has increased and the young poor are progressively deprived of the opportunity to study at quality tertiary education institutes. There are no mechanisms to assist the poor in education.

118) In many cases the school environment is unsatisfactory. Text books and other study materials are outdated or insufficient in number. The community and parents are less involved in school life. Education is conducted on the basis of outdated methodology and there are no systems to improve teacher qualifications. Modern assessment and examination systems are non-existent.

119) Education considerably defines households in respect to the poverty line. If one household member has tertiary education the risk of falling below poverty line is twice reduced. Insufficient attention to education will, result in irreversible damage and may become the biggest impediment for development. Education can help overcome poverty. Education as a capital resource or in terms of individual welfare has not been assessed. There is

² Annual Demographic Publication 2001. Tbilisi, State Department of Statistics, 2002

³ Healthcare – Georgia 2001, Statistical Guide, Tbilisi, 2002

⁴ Healthcare – Georgia 2001, Statistical Guide, Tbilisi, 2002

⁵ National Report on Health Condition of Population of Georgia 2000, Tbilisi, 2001

⁶ WHO/EURO, Data Base “Health for All”, www.who.dk

a picture of the tertiary education. At the same time the direct correlation between average educational levels and poverty is obvious – 61% of families with secondary or primary education are poor according to the official minimum subsistence while for those with tertiary education, this indicator is 37%. The difference is greater with respect to extreme poverty. About 22% of families with low education levels live in extreme poverty, while only 8% of families with tertiary education live in the same condition.

120) Reform of the education system is underway supported mainly by international donors. Secondary education reform with World Bank assistance seeks to improve quality, and ensure compliance with the requirements of a market economy and democratic practice. Government spending in education is only 2.5% of GDP. Insufficient financing is the most important difficulty of the sector. Existing standards do not correspond to modern requirements, especially in terms of staff/student ratios, school space, curricula and teacher qualifications.

1.1.8. Poverty and International Community

121) The social, economic and political developments in the country closely relate to large-scale processes taking place worldwide. The most fundamental process in the world is globalization. This is the implementation of universal values and the establishment of a uniform information space, the opening of domestic markets and global migration, commodity and information flows, as a result of revolutionary development of information (digital) technologies and economic relations. Globalization has a huge potential in terms of democratic and economic development. However, similar to all powerful processes, globalization is associated with certain risks. Georgia should have a clearly defined strategy to participate in globalization and integration processes directed towards the development and preservation of national values and originality.

122) After declaring independence, Georgia received substantial international aid (see Annex 3). However, it is necessary to use aid more effectively through improved coordination among donors, as well as between the government and donors. In future, it will be essential to use better the capabilities of local experts and consider their opinions.

123) International experience in poverty reduction is a large resource. It is easily accessible for civil servants as well as for non-government organizations (NGOs) and citizens. It is important that the materials on both successes and shortcomings and mistakes in socio-economic measures are accessible. It is impossible to prepare and implement a successful programme of economic development and poverty reduction unless all international experience is taken into consideration.

124) It is to be noted that there are problematic issues such as international terrorism, trafficking drugs, arms and human beings, and smuggling. The poor are double victims of criminal globalization as they are more likely to be the victims of trafficking. It is especially hard for them to overcome drug addiction, because they are financially needy. Moreover, the poor represent potential associates of criminal networks. They are the ones who are detained as a result of operations by law enforcement bodies. The poor and unemployed face a constant dilemma – to stay in dull economic reality or get involved in criminal activity with the hope for rapid enrichment. This merely exchanges poverty for another type of vulnerability.

1.2. Analysis and Main Issues

125) The welfare of the country and its citizens is dependent upon the prevailing economic situation and poverty. Most of the issues are inter-sectoral in an economic and social sense. The issues are in functional interrelation to each other and their classification is conditional upon a cause and effect relationship. The charts in the annexes to this document highlight this further. (See Annex 5: Impact of Poverty on Development and Annex 6: Impact of Development on Poverty).

1.2.1. Governance

126) Governance related issues are inter-sectoral and cover all areas economic and social levels both public and private. Tackling these issues is fundamental for economic development and poverty reduction.

127) The current structure of governance systems is overloaded and inefficient. Frequently, responsibilities are not clearly defined and separated. Initial steps have been taken in decentralization and transparency. Budget and state property management are especially problematic.

128) Officials lack professional managerial experience, strategic vision and planning skills. They are not prepared to operate in emergencies. Competence and responsibility standards have not been established.

129) The absence of professional ethics is a major issue. There are frequent cases of conflict of interests, corruption and the domination of a particular group or private interest. Frequently, administrative structures are merged with the interests of financial and political groups. Thus far conditions have not been created to establish market values, protection of property and personal rights, competitiveness, civic duty and transparency among public officials. The level of tax culture is low.

130) The relationship between central and local government needs to be settled. Their functions and responsibilities have not been clearly separated, and financial arrangements have not been worked through. The legal interrelation between region and district needs to be clarified. Despite the policy of decentralization, the rights of local self-governance are restricted.

131) Principles of democratic participation should be introduced. Governing structures should pay more attention to public opinion and independent experts. Actions and policies are not explained, clarified or justified.

1.2.2. Macroeconomic Policy

132) Economic development depends on efficient macroeconomic policy. Current economic growth rates can be considered as a positive. However, this is not sufficient to approximate with the standards attained by the developed countries, particularly those countries within the European Union. In the event of low growth, poverty reduction will be postponed to the remote future.

133) One of the most significant problems of fiscal policy is the scale of shadow economy. This has the concomitant effect of low tax collection levels and corruption. The existing tax legislation requires improvement on top of improvements in tax administration and enhanced tax collection mechanisms.

134) Another important issue is the servicing of foreign debt. Paris Club restructuring is on the agenda. Foreign debt that is not directly subject to Paris Club decisions is especially difficult.

1.2.3. Shadow Economy

135) The extent of the shadow economy jeopardizes macroeconomic stability. The shadow economy represents an impediment for real sector growth. The shadow economy is an issue that touches all economic sectors.

136) The shadow economy is a major reason for the prolonged budget crisis. Research suggests that tax revenue from gasoline, diesel and propane should be in the range of US\$140-200 million. In 2002, tax revenue from these products totalled US\$46 million only. Legalising petroleum products only would increase tax revenues by about 30%⁷. A similar situation exists with tobacco products, where the indicator of illegal turnover is 60-70%.

137) The Ministry of Economy, Industry and Trade has calculated that the shadow represents 34% of the overall economy. Independent experts suggest different assessments.

138) Legalising the shadow economy is connected with certain issues. Regulations are poor and sometimes obscure. A majority of business prefers to collude with administrative and tax bodies.

139) Corruption is a major impediment to enforcing laws and regulations. Reducing corruption will increase the formal economy. An Anti-Corruption Programme has been devised and an Anti-Corruption Bureau set up. No visible accomplishments have been seen so far.

1.2.4. Structural and Institutional Development

140) Structural development implies the establishment of appropriate economic and social systems and development of a logistical and public infrastructure. Institutional development is a basic component of structural reform, covering the development of political, social and economic institutions. The majority of factors hindering economic development and, correspondingly, poverty reduction are structural and institutional.

141) A financial infrastructure, investment and insurance institutions and other elements required a modern free market are in place. However, a lot more needs to be done to create a favourable business and investment climate.

142) Private property as a necessary pre-condition for a market economy is protected by legislation. However, in practice, property rights are not properly ensured and protected. Arbitrariness in court decisions or interference with the judicial process in this area and in contract law is quite rare.

⁷ The American Chamber of Commerce Project for Improvements in Revenues from the Petroleum Products Sector, USAID

143) Initial measures have been taken to enforce efficient market mechanisms for the registration and transfer of property rights. This will increase capitalization and liquidity of available resources and assets. Important measures should be carried out, especially with respect to registration and inventory of resources.

144) Georgia's enhanced transit role has increased attention on the existing transport infrastructure. The underdeveloped state of the road system, terminals and other components is impeding transit and domestic market potential.

145) Both the economy and society require mechanisms and institutions for labour protection and the introduction of professional standards. Labour market mechanisms should be improved. Existing professional unions and associations only partially perform their functions. The notion of a social contract is unknown.

1.2.5. Investment and Export

146) Production can be increased only through investment. To this end, it is required to create a favourable business climate, and efficient financial and investment institutions. Investments should enhance export potential and help to reduce the trade deficit.

147) Political and social instability, corruption, security concerns and the existing professional culture hamper the growth of direct foreign investment.

148) The low levels of domestic investment are the result of poverty, limited investment resources and the restrictive nature of local instruments. The corporate securities market is underdeveloped. The process of incorporation (turning state enterprises into joint stock companies) in most cases was formal. There are no investment or unit funds, and as a result, it is difficult for small-scale proprietors to start up in business. Most financial resources circulate in the shadow economy.

149) The advantages granted by the membership in the World Trade Organization are not applied in full. Transitional mechanisms for domestic market protection and export are insufficient. Smuggling and falsification inflict considerable losses.

150) The fight against monopolies, smuggling and falsification should be intensified. There is currently little incentive to produce legally.

1.2.6. Production, Employment and Labour Productivity

151) A quantitative increase in production is important. However, it is equally important to make better use of available resources. This requires introducing new technologies and technological processes, enhancing labour discipline, organization, qualifications and responsibility, especially of managers.

152) The introduction of modern technologies is proceeding slowly. The share of modern equipment and technology in the total volume of industrial equipment as well as the added value generated is very low. Science is in a difficult condition due to scarce financial resources and organizational difficulties. This is very harmful in the long-term.

153) A poor bankruptcy system inflicts serious damage on business efficiency.

154) Labour organization is far from best international practice. This is, due to a lack of qualification within managerial staff and cheap labour. There is little motivation to enhance labour productivity and labour relations are poorly regulated.

155) The efficiency of state owned resources and assets cannot be raised due to the low level of their capitalization. It is necessary to account for these assets comprehensively and effectively and establish a clear system of ownership and property rights and enforce efficient mechanisms to transfer property rights.

156) It is necessary to enhance corporate and business structures, develop medium and large-scale businesses in the form of JSCs and to allow co-ownership for even small investors.

157) The majority of people employed in the state sector receive low salaries. Thus, they seek additional income sources to overcome extreme poverty. This impedes productive performance. The status and income of the majority of people employed in the private sector or who are self-employed is not properly registered. This makes them unofficially employed according to the tax system and prevents them from registering for social security or enjoying the rights granted under labour legislation.

158) The development of labour resources, effective employment services, improving professional qualifications, increasing business skills and setting professional standards all require attention.

159) The underdevelopment of a market-oriented public mentality and of certain professional skills (management, finance, marketing, corporate governance) is a critical problem.

1.2.7. Communication Infrastructure

160) The fulfilment of the basic objectives of this programme is directly linked to the formation of a transparent information infrastructure. There is currently no appropriate information infrastructure in place to promote sustainable economic development, improve governance, fight corruption, fairly distribute resources, improve the investment climate, protect business, and develop agriculture, education, healthcare and pension systems and tourism.

161) Currently, there is no communication infrastructure oriented on information technologies and knowledge. The level of computer facilities among the population is low. Communication and digital inequality is high not only among the poor and rich, but also among the town and village, mountain and valley.

162) Information infrastructure elements, such as state information banks are underdeveloped. There is a need for significant improvements in the gathering and maintenance of data with respect to natural and legal persons; tax and customs systems; pension, healthcare and social systems; land cadastre, natural resources, premises and legal (including forensic) information.

163) It is necessary to create a communication infrastructure for economic development oriented on information technologies and knowledge. The wide use of computer facilities by the population should be promoted to rectify existing communication and digital inequality. In addition to the development of communication facilities, there should be the creation of Georgian language versions of computer systems that should be widely used.

1.2.8. Human Capital and Social Services

164) Low social service efficiency and the inadequate development of human capital is a nodal problem for poverty reduction. It is especially difficult for vulnerable and poor strata of society to preserve and develop human capital. A depreciation in human capital within these strata leads to deepening poverty that has the danger of becoming chronic.

165) The current formal and informal education system fails to offer levels of knowledge relevant to development. This is shown in the lack of a qualified work force (the issue of low liquidity of education). The social adaptation and civic integration for a large amount of the population is complicated.

166) Developments in the education system have the poor in an unfavourable condition. Accessibility to quality education is expensive. Systems that would help talented young people get free education and realize their potential are not in place.

167) The health condition of the population is conditioned by:

- The low efficiency of public healthcare activities, especially in terms of the introduction of healthy life styles and disease prevention;
- The majority of the population does not live in a safe and healthy environment. This increases vulnerability and deteriorates the health condition of the poor;
- Inefficiencies in primary healthcare system result in reduced accessibility to basic medical services.

168) The low quality and efficiency of medical services is a major problem. It is conditioned by poor regulation, weakness in management in state services, and poor public resources mobilization and adequate spending mechanisms.

169) There is inertia in the social security sector. There are insufficient financial resources for universal social assistance. It is necessary to establish an adequate organizational infrastructure and alternative mechanisms. Pension arrears are not repaid on time. The pension and other social allowances are less than the minimum subsistence and produce little effect on poverty reduction even if paid on time.

170) Marginal groups are in an especially difficult condition. Existing social assistance mechanisms fail to produce a substantial impact on living standards for orphans and problem children, those in asylums; lonely aged and disabled people residing in special houses; sick people suffering from mental, chronic and incurable diseases; population groups living in extreme poverty and/or special groups of vulnerable people (homeless, beggars, prostitutes, drug addicts, prisoners).

1.2.9. Emergencies, Food and Energy Safety

171) Georgia is vulnerable to natural calamities such as earthquakes, landslides, floods and avalanches due to its mountainous relief and the seismic situation. There are few resources and mechanisms to mitigate the effects of such phenomenon. There is no comprehensive approach developed to manage catastrophe risk. The system of monitoring and forecasting of natural calamities is underdeveloped. Furthermore, the population is not prepared for emergencies. There are no special education and organizational programmes.

172) Neither the government agencies nor the public is prepared for humanitarian catastrophes, resulting from military conflict and massive forced migration. Civil defence systems and centralized and community rescue services are underdeveloped.

173) A key element of food security is food safety in addition to accessibility. Despite a government decision to set up the “Food Safety and Quality System” in line with EU standards and to prepare a “Food Security Code”, proper control measures have not been implemented properly.

174) More attention needs to be given to the risks associated with animal disease.

175) There is inadequate legislation and administrative mechanisms for the introduction of genetically modified food. As such there is a risk to food and environmental safety.

176) Reliance upon imported energy means that Georgia cannot be called ‘energy safe’. Political interference in sourcing energy continues to cause instability in supply.

177) Energy imports bear heavily on the economy. Ineffective spending of energy resources still takes place, resulting from the improper use of energy saving technologies.

178) Floods, avalanches and other natural calamities, as well as an absence of engineering control jeopardize the safety of the energy, communication, transport and construction infrastructure. There are dangers of colossal damage in the event of a large-scale calamity.

1.2.10. Rural Issues

179) According to the Household Survey more than half of the workforce is engaged in agriculture. Less than half the population reside in rural areas (the 2002 census found the population split between, 52.4% urban and 46.7% rural). Currently, agriculture provides a large portion of domestic consumption and export. The economic and social importance of agriculture and role of the village cannot be exaggerated.

180) Most agricultural households have insufficient land, technical equipment, knowledge, credit and other resources. As a result, labour productivity in rural areas is low. Competitiveness in agriculture will increase productivity. This is likely to occur through land consolidation and the introduction of modern agricultural technology. However, such changes will inevitably lead to a decline in employment opportunities and will cause significant social and demographic change. The country is not prepared for such change.

181) It is extremely difficult to sell most agricultural products because market accessibility is poor and there are no forecasting systems of market trends for the population. As a result, much of agricultural transactions are in-kind rather than monetized. Therefore, incomes are low especially in money terms. This situation is caused by lack of processing potential of agricultural products and comparatively lower tax rates on agricultural products in neighbouring countries.

182) Insufficient attention is given to soil fertility of arable lands in both the private and public sectors (especially pastures). There is alarming degrees of degradation, erosion, desalinization and desertification of soil.

183) Agriculture is mainly concerned with perennial crops (vine, tea, tobacco, fruits and nuts including hazelnuts and citrus). This is a cause of stagnation in the agrarian system. Taking account of changing market demand, it will take several years to cultivate plantations. There is no mechanism to consider this factor and protect producers from rapid change.

184) The social infrastructure is undeveloped and good health and education services are inaccessible in rural places. This hampers human capital development and the rural population is less prepared for the labour market.

1.2.11. Natural Environment and Resources

185) The natural environment requires special attention. It is necessary to mitigate the adverse effects of man-made pressures and given the scarcity of resources to exercise effective monitoring and control system.

186) There is a conflict of interests in granting licences and the exploitation in terms of management of natural environment. The processes are often in the same hands. This is particularly prevalent in the management of forests and other resources. In some cases control and protection functions are distributed between various agencies.

187) In recent years, revenue from environmental tax has increased considerably. However, management inefficiency in tax administration is a major problem. Environmental tax revenue is not reinvested to tackle environment protection issues.

188) The environment has suffered from increased human pressure to satisfy basic needs. As an example indiscriminate logging to meet basic heating requirements has had a devastating effect on forests. The state of the environment has worsened due to the prevalence of obsolete industrial equipment and technologies and the deteriorating condition of infrastructure in areas such as the supply of potable water, sewage systems, waste water and coast-protection structures, and highways. An effective system of penalties and loss indemnification is non-existent.

189) Providing the population with alternative resources and employment in lieu of introducing a restricted operation regime on protected territories is pressing. This is a source of tension between the centre and the local population.

190) The system for collection and processing of domestic waste is in a very poor state. Domestic waste is disposed of in residential districts or poorly organized dumps. The facilities to properly process domestic and industrial waste are not in place. Businesses and the general public cannot afford and, in many cases, are not motivated to pay enough money to improve these issues.

191) Natural resources are frequently used without proper permission. This results in a deteriorated environmental condition, ruining grazing land and reducing bio diversity. These tendencies are particularly dangerous when proprietary structures are not in place. This is a particular concern in areas of common use whether pastures, forest and water. The resources of national importance – fertile soil (humus) and in part underwater - are not protected.

192) Global climate change and the unsystematic utilization of plants have resulted in a reduction of hydro resources. There is contamination of hydro resources (so called “filtered water”) including those of trans-frontier rivers, e.g.: the Mtkvari, Rioni and Alazani (in reservoirs of the Black and Caspian Seas) resulting from poor functioning of filtering buildings and utilities.

193) While considerable economic and political profit is expected, the construction of pipelines and terminals carry environmental risks, particularly in sensitive eco systems like the Borjomi-Kharagauli National Park, the Black Sea and its coastline.

194) The Black Sea coastline is affected by pollution and coastal erosion. This reduces its recreational value. Poor zoning and planning has contributed to its uneven development..

1.2.12. Territorial Integrity

195) As a result of ethno-territorial conflicts, the government is still unable to control the regions of Abkhazia and Tskhinvali. Hundreds of thousands of internally displaced persons cannot return to their homes. The post-conflict situation inflicts immense political and economic loss – assistance to displaced persons bears a heavy burden on the state, endangers political stability, transport routes are blocked and the economy of the regions is destroyed. Moreover, the conflict zones represent a source of smuggling. The impact of the conflicts has not been fully calculated in economic terms. It is necessary to be able to forecast development levels in the event of these conflicts being resolved.

196) The social adaptation and integration of internally displaced persons is a major issue. The condition of the compactly accommodated groups with little capacity to improve their living is especially difficult.

197) Due to the non-constructive position of the separatist regimes in resolving political issues, the restoration of the economic system in the post-conflict zones has not happened and economic leverages of territorial integration cannot be applied. The people (lonely aged and disabled people) who are dependent on international humanitarian aid are in especially difficult positions.

198) Gali district requires special attention. Instability there stops repatriated people from engaging in economic activities and using basic social services. The discriminatory policy of the local authorities there aggravates the situation. For example it is difficult to receive secondary education in Georgian despite the fact that the entire population is Georgian. The situation is also difficult in Kodori Gorge where the population lives in constant danger.

1.2.13. Migration

199) The high level of emigration is alarming. It has caused demographic imbalances with respect to age and gender and a loss of the most able-bodied groups of people.

200) Despite of the fact that economic migration plays an increasingly role in the economy and represents a way to overcome poverty:

- The direction of migration flows, socio-demographic, ethno-confessional and professional structures, motivations and perspectives have not been studied;
- The government has little capacity to assist labour migrants, by easing their return home.

201) The impact of the market economy, especially in rural areas where slightly less than half of the population lives has led to growing migration into large towns and an unclear future for internally displaced persons. A strategic approach needs to be worked out to consider how migration impacts small towns and large cities.

1.2.14. Legal Environment, Rule of Law, Safety and Human Rights

202) The lack of application of the rule of law hinders the functioning of government agencies to ensure economic development. Little attention is paid to education in the area of legal and human rights and individual physical safety.

203) Despite adopting many progressive laws that on paper are comparable with developed country standards, the lack of enforcement, in certain cases, has created a sense of nihilism and dual standards. This has led to erosion in the legal sector.

204) Reform of the justice and law enforcement system is not completed.

- There should civil supervision of law enforcement bodies. Also officers in law enforcement agencies that engage in crime should be brought to justice. The level of international experience and legal education is insufficient;
- The existing system of investigation and punishment is inefficient and creates a favourable environment for corruption. Reorganization of this system is proceeding slowly;
- Penitential system reform requires special attention;
- More attention should be given to the social reasons for crime, drug peddling, smuggling, trafficking and trade in arms, and their prevention and eradication;
- The administration of juvenile justice and child protection policies and practices needs reform and further improvement.

205) The positive influence of the Ombudsman is obvious. It should be further supported.

206) The number of car accidents has increased. Mortality and disability as a result of car accidents is a serious humanitarian problem and inflicts serious economic damage.

1.2.15. Civil Society and Participation

207) The maturity of civil society is an acknowledged pre-condition for sustainable economic development. The prevalence of poverty is a phenomenon conditioned by the state of public consciousness. The degree of development within civil society is more crucial than the absence of natural resources.

208) The non-government sector is weak institutionally, financially and quantitatively. It is almost fully dependent on external financing, while local sources of financing are practically non-existent. There are no proper conditions for business in creating and financing public non-commercial organisations.

209) The role of community and self-governance is progressively increasing. However, their institutional development despite their importance remains rudimentary.

210) One of the biggest problems in economic development is the existence of cultural stereotypes. This makes society inert and impedes the establishment of a system of values oriented on civic, democratic and free market principles. Much should be done to establish a new consciousness through the unhampered provision of relevant information, as well as through the establishment of a psychological, political and economic environment wherein hard work, initiative and civic duty are valued.

1.2.16. Gender and Age

211) The socio-economic situation has worsened the status of some age groups and caused a gender imbalance. Children and old people especially are in a difficult condition.

212) While gender inequality is generally low, emigration, labour market requirements and the devastated social infrastructure have raised the extent of female labour and social discrimination. Traditional gender roles also create inequality. Opportunities for career and professional growth for women are restricted. Maintaining the family bears a heavy burden on women, while social compensation mechanisms such as free kindergartens and antenatal assistance fail to meet demand. Consequently, it is necessary to formulate a consistent and efficient gender policy.

213) Unemployment among the youth is alarming. This leads to a decline in human capital and moral decline. This becomes reflected crime, alcoholism, drug addiction and suicide. The risk of HIV/AIDS should receive equal attention. Special employment schemes for young people and attractive educational and cultural environments should be established. There is a partial compensation in the increasing number of higher education institutes and systems of vocational education. However, the poor who cannot afford to pay tuition and accommodation fees remain in a difficult condition.

214) Children and adolescents deprived of parental care are in hard condition. This includes not only the homeless, but also the majority of those living in special houses. Children deprived of parental care or from vulnerable or dysfunctional households or those with disabilities have felt more acutely the consequences of the severe reduction in social services. Around 5000 children in institutions form a segregated underclass. They are at a significant disadvantage in adapting to mainstream society when they leave such institutions. Bringing up children in institutions unquestionably limits their potential. The situation calls for child protection reform with the basic premise that alternatives that support families at risk must replace institutional care. It is alarming that a 2% of children do not receive even a basic education. Cases of child labour, violence and sexual exploitation are quite frequent.

215) Specific economic, social and migration factors have altered family structure and the delegation of roles. The moral influence of the family on children and young people has weakened. This has resulted in an increase in juvenile delinquency and problems associated with homelessness, begging, trafficking and prostitution.

2. Programme Goals, Objectives, Principles and Approaches

2.1. Relation to Country Priorities and Global Programmes

216) This programme represents a long-term strategy for the socio-economic development of the country and is in conformity with other development objectives.

217) The main political priorities include:

- Establishment of a democratic society;
- Socio-economic development;
- Ensuring security, stability and territorial integrity.

218) Issues facing the world such as international terrorism and political and ethnic extremism have resulted in two further policy objectives. These are:

- Strengthening the country's defence capacity;
- Integration into European and Euro-Atlantic structures.

219) The international significance of the Caucasus and Georgia is growing. As the West in seeks energy security through the development of links with Central Asia so Georgia's position as a transit or connecting the two regions develops. This places the objective of regional security at the top of the agenda.

220) Taking the country's political and military-strategic priorities into consideration, the government should strive to overcome poverty, achieve social consent, ensure personal, political and economic freedom and subsequently, the country should become a fully-fledged member of the international community.

221) The Human Rights Declaration provides the right for each person to live a worthy life. This implies satisfying basic social and economic needs. Fifty years after adoption of this declaration, the world still faces difficult issues. Some 2.8 billion people in the world are poor and deprived of the capability to satisfy essential needs and 1.2 billion people are starving. During recent years, the fight against the poverty has acquired a global character. The international community has agreed that the beginning of the third millennium is the period of poverty reduction.

222) The values and principles of the UN Millennium Declaration are the foundation of Economic Development and Poverty Reduction Programmes. The goal of poverty reduction is directly linked to the main goals of EDPRP. Some other goals envisaged in the programme (see Annex 1 on page 74).

223) The government with interested stakeholders will prepare the first Millennium Development Goals Report in 2003. The Report will specify which goals and targets are relevant to Georgia and link them with the implementation of the EDPRP.

224) In this regard, the new US initiative to increase the amount development assistance is very important. In 2004, this assistance will be increased by US\$ 1.7 billion, in 2005 – by US\$ 3.3 billion, in 2006 by US\$ 5 billion. This means that the total volume of assistance from western countries will increase by 50%. This assistance will be accumulated in a new, special account – the so called “millennium challenges account”. Economic development and improved standards of living for selected countries will be funded from this account. The main goal is to support reasonable and focused political decisions that facilitate economic growth and poverty reduction. The efficient fulfilment of the goals and objectives envisaged by this programme offers a great chance to have impressive outcomes in terms of development soon with the help of international community.

2.2. Fundamental Principles

225) The objectives of the programme have been formulated on the basis of cause-effect analysis of the issues and considered state priorities and global processes. To identify and implement programme priorities fundamental principles were worked out.

226) Any component of the programme should not contravene and should actively promote these principles in practice. From the fundamental principles, the scope of programme options was determined. Priorities have been applied only to those alternatives that are in line with the fundamental principles.

227) The principles do not require measurable outcomes within a certain period. The programme, while focused on fulfilling the objectives at the same time promotes fundamental principles in the country. These Principles are:

- Rule of law;
- Effective governance;
- Public participation;
- Human development;
- Incorporation of the interests of future generations;
- Creation of a favourable entrepreneurial climate;
- Expansion of legality in all spheres;
- Formation of an information society;
- Equality of opportunities.

228) The principle of rule of law seeks to ensure the equality of all individuals before the law and replace unlawful arrangements by lawful ones.

229) The principle of effective governance provides for the uniform, systemic and consistent reform of the governance system. It is in conformity with the strategy of the National Anti-Corruption Programme.

230) Public participation principle implies the active involvement of civil society in important decision-making processes, and the establishment of civic control over the execution of these decisions.

231) Human development principle implies both human capital development and the creation of favourable conditions for spiritual and cultural development.

232) The principle of incorporation of interests of future generations: economic and social development is sustainable only if it encompasses not only today's requirements, but also the interests of future generations and long-term development perspectives. Sustainable development involves a caring and prudent approach to the natural environment and resources, utilization of resource saving technologies and the protection of biodiversity, traditional landscapes, ecological systems and cultural heritage.

233) The principle of creation of favourable entrepreneurial climate: the basis for economic development is entrepreneurship. In addition to its economic aspect, entrepreneurship can produce direct social and political effects. Entrepreneurship is important to establish stability and democratic values in society.

234) Expansion of legality in all spheres of public life needs to take place, including within those areas currently outside the jurisdiction of the central government. Economic development is also directly connected with the growth of a legal economy and the legalization of employment (i.e. reducing the extent of the shadow economy).

235) Principle of formation of an information society implies the development of an open and transparent information environment through the wide-scale introduction of digital technologies. Access to public information ensures governance improvement macroeconomic stability and furnishes society with powerful mechanisms to assess and control government, promote the rule of law, and concretise the public participation principle.

236) Equal opportunity principle implies the establishment of equal opportunities for economic activity and professional development based on the talent and skills of an individual. Equality of opportunities represents an essential pre-condition for economic development.

2.3. Goals and Objectives

237) The goal of this programme is **to raise the welfare of the population of Georgia**. This means improving the quality of life of each person along with the sustainable socio-economic development of the country.

238) Along with common wealth accumulation, each member of society should have an equal opportunity to ensure his/her worthy life. If a person is incapacitated, society is morally obliged to create those conditions for a worthy life for this person.

239) To achieve this goal, two strategic objectives have been defined:

- **Fast and sustainable economic development**: average growth rate of real GDP at 5-8% per annum, resulting in a two to threefold growth of real GDP by 2015 in comparison to 2001 (see in detail in chapter 4);
- **Reduction of poverty**: reduction of extreme (in relation to alternative poverty line) poverty from 15% to 4-5%, and reduction of poverty level in relation to the official minimum subsistence from 52% to 20-25% by 2015.

240) Fast and sustainable economic development has many components. Reducing poverty facilitates sustainable economic development, and economic development represents a necessary prerequisite for poverty reduction.

241) To achieve these strategic objectives, the following priorities have been identified:

- **Improvement in governance;**
- **Macroeconomic stability;**
- **Improvement in the structural and institutional environment;**
- **Development of human capital;**
- **Social risk management and social security improvement;**
- **Development of economic priority sectors;**
- **Improvement of natural environment condition;**
- **Socio-economic rehabilitation of post-conflict zones;**
- **Development of science and information technologies.**

242) Improvement in governance is an important pre-condition for socio-economic development. Not a single programme objective or appropriate action can be successful without significant improvements in the governance system. This is a priority and includes the following components:

- Improvement in public administration;
- Establishment of the rule of law;
- Reduction of corruption;
- Reforms in the judiciary and law-enforcement bodies.

243) Macroeconomic stability is a necessary pre-condition for economic development. It ensures favourable conditions for economic initiatives, entrepreneurship and investment. To achieve this objective:

- Consistent and prudent monetary policy will be continued;
- In-depth reform will take place in the fiscal sphere.

244) Macroeconomic stability alone cannot create a favourable business climate unless it is preceded by improvement in the structural and institutional environment. This includes both an effective market infrastructure, and economic and social mechanisms and institutions. The important components of this objective are:

- Improvement in the business and investment climate;
- Development of small and medium businesses;
- Reinforcement of proprietary rights and promotion of resource capitalization;
- Improvement of state property management and acceleration of privatization;
- Development of a financial infrastructure;
- Improvement in industrial, energy and communication infrastructures;
- Development of the labour market;
- Institutional and structural improvement in the pension system.

245) The development of human capital plays an important role in terms of sustainable economic development and overcoming chronic poverty. This objective can be attained through:

- Improving health condition;
- Improving education levels.

246) Social risk management and improvement of social security immediately serves the strategic objective of poverty reduction and provides:

- Improved living standards for those below the poverty line, who are unable to ensure their own welfare even with economic growth in place (so called “marginal groups”);
- Reduction of vulnerability levels through the improved management of social risk. This also serves the strategic objective of “fast and sustainable economic development”, because it enhances labour force mobility, and reinforces labour related social security.

247) To achieve economic growth, it is important to development of economic priority sectors. This will increase energy, food and ecological security, ensure the sustainability of balance of payments, and produce powerful inter-sectoral effects where Georgia has relative advantages. Moreover, a large number of the population can be employed in these sectors. They are:

- Energy
- Transport and communications
- Industry
- Tourism
- Agriculture and food.

248) Economic development has a huge impact on the natural environment, thus increasing the danger of ecological catastrophes. Sustainable development requires exercising a caring approach to the environment and

natural resources in order to secure access for future generations. Despite limited financial resources, a priority of the programme is to improve the natural environment.

249) The issue of post-conflict zones and internally displaced persons (IDPs) is particularly problematic. As a result of unresolved conflicts, the country has more than three hundred thousand refugees and a devastated infrastructure. After resolution of the conflicts, the country will face the issues of repatriation of IDPs, as well as the rehabilitation of post-conflict regions. To this end, preparatory work is to be undertaken. Therefore, one of the priority objectives is the socio-economic rehabilitation of post-conflict zones and improving living standards of IDPs. This objective includes:

- Measures for the social adaptation and integration of IDPs;
- Elaboration of a rehabilitation strategy;
- Spreading the scope of the projects implemented by the Georgian Social Investment Fund (GSIF), Municipal Development Fund (MDF) and other programmes to cover the post-conflict zones.

250) Science and especially information technology represent significant factors for development. Their significance goes beyond economic and social spheres –technology represents a powerful instrument for public participation in democratic institutions and provides a comprehensive link between society and the state. Digital disparity is a new form of social differentiation, representing not only the result of economic, social and other inequalities, but also a reason for it. To develop science and information technology it is necessary:

- To educate society in technological and especially computer studies;
- To develop a modern communication and digital network to cover the whole country;
- To introduce modern technologies and promote an information society.

2.4. General Approaches

251) Chapter one described the general socio-economic issues facing society. It is important to discuss a realistic context in which the programme will be implemented. This means an analysis of the favourable and unfavourable factors, available resources and the institutional framework. The actions scheduled within the programme will also be discussed.

2.4.1. Resources and Opportunities

252) The governance system is the main resource of actions described in the document. As other resources are quite scarce and their efficient use depends on good governance, special importance is given to how to improve this system with respect to transparency and accountability.

253) The people, i.e. society at large, whose condition is planned to be improved by this programme, represent the second important resource. The most significant role of the governance is to activate the social and economic life of the population and involve society in a participatory process. This gives people a chance to determine their own destiny. The participatory process described in this programme is based on this approach.

254) The third important resource is the international community's support to the ongoing democratic and market reforms. Efficient and coordinated use of international assistance, transparency and enhancement of public control in this process, are especially important.

255) Finally, development depends, to a great extent, on the efficient use of natural and geo-political resources. The country is quite rich in different minerals, especially in hydro resources. The hydro-energy potential of the country is high. Furthermore, Georgia possesses unique recreational capacities that create favourable conditions for specialized tourism (medical, cultural, agro and others). Another important resource is geographical location and transit potential both east-west and north-south.

2.4.2. Role of the Government in Economic Development

256) The role of the government is especially important during the transitional period, because it assumed responsibility to implement large-scale economic reforms. Economic policy is based on several principles:

- Minimization of direct government intervention in the economy;
- Ensuring macroeconomic stability;
- A favourable business and investment climate through appropriate legislation, a balanced taxation policy and institutional development;
- Reinforcement and protection of proprietary rights;

- Clear definition of economic priorities and agreement with various layers of society on these priorities;
- Protection consumer interests society at large;
- Transparency and accountability.

257) The government will pay attention to realize prospective economic projects that stimulate economic and technological development country owing to their volume and technological specificity (e.g. pipelines, TRACECA, informational technology).

258) When a choice has to be made between short-term growth and long-term sustainable growth, the priority will be assigned to sustainable development objectives with minimal economic risk and the stability.

2.4.3. Actions in Social Sphere

259) Actions in the social sphere are divided into two groups, each based on specific approaches, servicing concrete strategic objectives, and simultaneously considering the general principles of the programme. These are:

- Actions towards human capital development, enhancement of labour mobility and its reproduction level;
- Actions towards improving living standards of marginal groups;
- Actions towards preventing a drastic deterioration in living conditions.

260) Underdeveloped human capital is acknowledged as one of the factors of chronic poverty. Subsequently, a major guarantee for sustainable and long-term development is ensuring a proper level of human capital. At the same time, low human capital levels jeopardize the sustainability of economic development.

261) Poor health and education indicators clearly demonstrate the problems in human capital development. Both state and household investment in human capital are low. Unless appropriate measures are taken, a further reduction of the human capital level is anticipated. Hence, human capital development is an essential condition for the sustainability of economic development and poverty reduction and occupies a special place in the programme.

262) Improving labour force mobility is one of the programme's short-term objectives. Labour force mobility represents is a prerequisite for economic development through the increased availability of the resources and reductions of transaction costs. Without the supply of qualified resources in the labour market and recovery of losses, the provision of labour resources required for sustainable economic development will be impeded. The same relates to the growth of household incomes at the expense of increased labour productivity and labour income.

263) The second priority of the social sector is to improve the standard of living of marginal groups. Currently, there is a segment of households below the poverty line that has no potential for economic activity. Thus, their welfare will not be improved even with the country's economic development, unless the Government and society takes special measures to assist them (without effective redistribution mechanism).

264) The third priority objective is to reduce vulnerability. To this end, the government will promote the enforcement of all possible adequate mechanisms of social risk management through such institutions as market, community based organizations (local, professional or business) and families.

265) The national employment policy will be based on the following main actions:

- Conduction of agreed employment policy in economic and social spheres;
- Stimulation of economic activity and the creation of new jobs;
- Stimulation of human potential development;
- Establishment of social dialogue;
- Enhancement of labour market efficiency;
- Development of labour market institutes.

266) The basic approach of labour market policy includes:

- Conduction of an active policy at the labour market;
- Extension of professional training based on the requirements of the labour market;
- Stimulation of self-employment;
- Intensification of employment policy with respect to young and low-competitive labour resources.

2.4.4. Harmonization of Legislation with European Union (EU) Legislation

267) A necessary prerequisite for sustainable economic development is the creation of stable, predictable and coherent laws. This is a precondition for the establishment of the rule of law. While much has been accomplished a number of laws require further improvement.

268) In accordance with the Partnership and Cooperation Agreement between Georgia and European Communities (EC), Georgia assumed the responsibility to approximate its legislation with that of the European Union. This

approximation is conducted in conformity with the Presidential Enactment No. 613, dated June 14, 2001 "On A Strategy of Harmonization of Georgian Legislation with EU Legislation" and "The National Programme of Harmonization of Georgian Legislation with that of EU" being elaborated on the basis of the former document. This National Programme is being elaborated by a "Government Commission for Partnership and Cooperation between Georgia and the EU set up in compliance with the Presidential Decree No. 317 of July 24, 2000.

2.4.5. Internal Risks and External Factors Influencing Implementation

269) Internal risks in terms of implementing the programme are as follows:

- Inefficiency of the governance system, lack of competence and motivation of the civil servants, high level of corruption;
- Insufficient level of democratic and market principles and values in society, lack of economic initiative and civic duty;
- Domestic resources crunch; available domestic resources are insufficient to fulfil the goals set by the programme. In this regard, the support from the International Community in the short term is of high importance;
- Large-scale natural calamities and exacerbation of territorial conflicts.

270) Implementation of the programme is connected with processes taking place in the region as well as in the world that directly Georgia's economic and political stability. These are in particular:

- Geopolitical realities and the fight against international terrorism;
- East-side development of Euro Atlantic structures;
- Economic situation in the world and energy prices;
- Military action and conflict in the vicinity of the country's borders.

2.4.6. Broad-Spectrum and Sector-Specific Actions

271) The majority of important issues facing Georgia and the objectives to be achieved are broad in nature, i.e. they are closely connected with multiple aspects of economic and social life. Naturally, subsequent measures are of a broad spectrum and affect numerous events and factors.

272) In the course of implementing broad-spectrum measures, it is necessary to ensure effective intersectoral coordination and supervision. The efficient management of broad-spectrum policy necessitates the functioning of a unified coordination structure, securing synergies of separate measures and a strict delegation of responsibility. Informational provision, transparency and public monitoring of the measures are especially important.

273) Numerous actions envisaged by the programme are sector-specific, even though their effects go beyond the scope of a concrete sector. Hence, such actions will be carried out by relevant government agencies. There is a danger that policy will be applied primarily to benefit a specific government agency, or will be based on a narrow strategic vision. Correspondingly, the programme discusses individual sectors and relevant actions in line with state interests in both the short and long term. The development strategy of each individual agency should be based on this unified programme and priorities should be identified on this basis. While planning each sector action, there should be an evaluation of its consistency with the overall system of priorities, how its synergy correlates with other sectors and intersectoral actions and what indirect effects this particular action may produce.

2.4.7. Informational Provision

274) To implement the measures envisaged by the programme, it is necessary to ensure information provision and establish feedback links. Along with dynamic information flows, it is also necessary to create corresponding information databases, where complete information on objects to be influenced by strategic actions, as well as available resources can be consolidated and processed. It will be of great importance to have reliable information at local level, where information collection and organization currently do not function.

275) The availability and use of reliable and complete information is an essential element for successful management. Public access to this information is equally important. Openness and accessibility are necessary prerequisites to secure legitimacy of action, ensure public participation, and to foster support.

2.4.8. Regional Specificity

276) A specificity of Georgia is its geographical and cultural diversity that, on the one hand, is a fortune, but on the other, complicates the application of a unified approach to the implementation of actions. Thus, in the course of

implementation, special attention will be given to the correspondence of this or that action with the concrete geographical and cultural environment.

277) Special attention will be paid to such geographical diversities as: city-village, mountain-valley, climate and natural environment, administrative status, demographic and cultural factors.

278) Regions of the country differ in terms of economic and resource potential. Therefore, this difference determines the efficiency of this or that economic activity, the level of poverty, and the need for specific social actions.

279) Based on these specificities special regional action plans will be elaborated based on this programme. It is necessary to monitor the regional level and ensure efficient feedback.

2.4.9. Rural and Mountainous Regions

280) As part of the population resides in a difficult geographic environment, and more than half of the population is engaged in agricultural activity, this sector of the economy has acquired a special social function and significance. It is especially difficult to improve living standards in mountainous regions. Therefore, special attention will be given to the elaboration of efficient programmes targeted at the development of mountainous regions.

281) In rural and especially mountainous areas social infrastructure should be developed, qualified healthcare and education should become accessible (especially for the poor), development of human capital should be fostered, and professional education expedited, so that the rural population is prepared to enter the general labour market in the light of expected social changes.

282) Increasing competitiveness in agriculture will result in enhanced labour productivity. Developing the land market will lead to the merging of land plots and the introduction of capital-intensive agricultural technologies. Consequently, certain social and demographic changes will take place. The government will facilitate the introduction of intensive agricultural technologies, while taking steps to foresee and mitigate the negative impact of these processes.

2.4.10. Youth and Development

283) Youth related social and economic matters at the centre of the programme. Sustainability and a proper future cannot be secured without the involvement of youth in the development of the country.

284) It is necessary to carry out complex employment policies and special employment schemes. Prolonged youth unemployment should be eliminated to avoid a degradation of human capital and its moral erosion, which causes crime, alcoholism, drug addiction, prostitution and suicide.

285) Young people will be offered equal opportunities for personal and professional development and access to the labour market notwithstanding their financial capacity. State targeted programmes in the educational, social and cultural spheres will be implemented. Assistance will be provided to especially talented young people, who cannot afford to pay tuition or accommodation fees to receive education.

286) Special attention will be paid to specific programmes for orphans and for the homeless to fully integrate them with the rest of society.

287) A Nation Action Plan for Children is its final phase of finalization. It has specific activities to resolve existing problems. This Action Plan covers the period 2003 to 2007.

2.4.11. Gender Factors

288) During implementation attention will be paid to gender issues. This will involve the formulation and implementation of a consistent and effective gender policy, actions aimed at reinforcing the economic and social status of women and the proper consideration of gender in planning socially important measures.

289) Gender factors should be taken into account in economic policy. This includes:

- Gender aspects in the process of planning and allocation of budgetary funds, regulation of the labour market and social policy;
- Improvement of labour legislation considering gender factors;
- Ensuring social safety in economic activity;
- Enhancement of female economic activity, implementation of various programmes promoting professional training.

290) The Programme will facilitate:

- Implementation of educational and preventive measures to alter traditional gender roles which put women in unequal, subordinate positions;
- Reduction of labour and social discrimination of women;
- Reduction of offensive practices to women, reduction of family violence.

291) Specific economic, social and migration factors have changed the structure, sustainability and delegation of the roles in families. An analysis will be made of these processes and considering gender and age factors.

2.4.12. Culture and Science

292) Improving living standards in addition to material welfare implies the satisfaction of cultural and spiritual needs and an attractive and satisfactory cultural environment. An essential element to enhance the quality of life is to create conditions for an individual to realise his or her potential, primarily through educational and creative needs.

293) The difficult situation facing Georgia's culture, despite the existence of many creative personalities, a rich cultural heritage, should be surmounted. The state should introduce cost-effective (for example digital) technologies to save cultural heritage and promote a lively cultural life. In the environment of cultural pluralism and globalization, the mechanisms applied by the government to facilitate culture need to be revised. It is necessary to adopt programme budgeting for the cultural sector. This should apply to the arts, the protection of cultural heritage, clubs, books, libraries, educational institutions, regional, municipal and district cultural offices. The number of such institutions is four thousand and each has more than twenty employees.

294) The condition of science and the introduction of new technology and know-how are closely connected with the development of education, and in particular higher education. The development of education and science is the only way for the country to become modern and developed. It is very important to target funds for science and reorganize the management system in parallel to increased spending.

295) With limited resources for scientific endeavour it is necessary:

- To establish close links between scientific research and the higher education system, to improve coordination between these spheres through integrated actions and programme-grant budgeting for the scientific research;
- To support applied research so that it gradually becomes one of the functions of business together with the development of high technology;
- To stimulate private charitable donations to finance fundamental research by programme grants.

2.4.13. Civil Society and Human Rights

296) Introducing the principles of democracy and the freedom of the individual is one of the top political and strategic priorities of the country.

297) The level of a population's awareness conditions the development of civil society. In order to alter outdated cultural priorities of public consciousness:

- The government will strive to establish a system of values oriented on civil, democratic and free market principles as well as a new consciousness through unhampered provision of relevant information and creation of such psychological, political and economic environment wherein honesty, hard work, initiative and civic duty will be highly valued;
- Attention will be paid to the protection of human rights, and especially the rights of those who lack adequate education, resources and social capital to safeguard their own rights;
- Special programmes will be implemented to educate the population in legal, especially human rights matters.

298) While carrying out reform in the judiciary and law-enforcement bodies, the focus will be made on the following issues:

- The judiciary will become the major guarantor for protecting personal and economic interests;
- Public supervision mechanisms will be elaborated to eliminate human rights abuses in the process of preliminary investigation and imprisonment. The principle of the presumption of innocence and safeguarding the rights of a suspect will be reinforced;
- International experience will be introduced and the level of legal education improved;
- The executive punishment system will be reformed to international standards;

- The Institute of the Ombudsman will be enhanced. Efforts will be made to improve the legal and organisational arrangements of this Institute and strengthen the authority of the Ombudsman.

299) To ensure improvements in the institutional and financial capacity of the non-governmental sector, it is necessary:

- To generate local sources of funding;
- To further enhance the role of community and self-governance in society and institutionalise its development. To promote community structures and interest groups based on territorial principles;
- To facilitate unimpeded circulation and accessibility to information in both electronic and printed media throughout the country.

3. Strategic Priorities

3.1. Governance

3.1.1. Governance System Reform and Resources

300) The programme for economic development has been conditioned by dire social need. Economic development should be directly connected with a substantial reduction in poverty. There is a decisive role to be played by the government in the programme. The government will be required to exert great political efforts to ensure the establishment and effective functioning of institutions to implement the programme within the existing environment of political and economic freedom. This will necessitate not only “small governance” but also “good governance”. This will ensure compatibility between liberal economic development and social needs.

301) Despite current economic weakness, the government mainly has the political resources to implement the programme. However, the public administration system should be reformed in such a way to ensure its capability in resolving fundamental issues facing the country. The purpose of reform is **to establish social, economic and political mechanisms that will secure an effective environment to mobilize all the forces in society to ensure universal well-being based on economic development and social equality.**

302) **Objective difficulties related to the reform process should be fairly distributed among all groups and layers of society.** The concept of the fairness should be formulated at the initiative and guidance of the government. All the changes envisaged by the programme are directed towards a drastic **decline in the difference between the demands of the population upon the government and the government’s realistic resources to meet these demands.**

303) Currently, the government is working on basic public administration systems reform programme. This document does not provide full details of reform. Rather it defines the main directions and issues of governance reform. The measures already identified by the government are described in an attachment to this document.

3.1.2. Reform Elements

304) To establish “good” governance system, it is necessary that social goals acquire a main reference-point for development. The institutional arrangement of the political system should ensure that:

- Public policy goals are defined through a political process sensitive to social demands;
- Basic public values are reflected in policy goals and mechanisms;
- Government is responsible for the compatibility of set goals and coordinated implementation of corresponding policies.
- The social effects of political decisions become the main criteria for assessment.

305) Government policy should ensure that the country’s resources are used primarily for those who need them most. Public administration should ensure the establishment of a minimal guarantee system of equal material and personal security of all citizens.

306) The public administration process should start with understanding social ailments and finish with a public assessment of the effects of the action programme. Programme structuring of the state budget is vital so that the distribution of public resources corresponds to policy goals. Institutional reform is necessary to secure political control over the budgetary process, the compatibility of the different hierarchic budget levels and responsibility between them, and the monitoring of budget execution and public control systems over the budgetary process.

307) Executive government reform will be based on a clear definition of the role and functions of the government in the economy and social sphere. The government should play the role not only as a supplier of public goods but of a stimulator, organizer and regulator of corresponding processes. The enhanced effectiveness of the executive should be achieved by strengthening administration and through the formation of a governance policy and raising the overall professional culture.

308) It is necessary to differentiate political, regulatory and logistical functions of the public administration system in the economy, to eliminate their administrative impact on each other.

309) The development of the private sector requires government to conduct a policy favourable for business. There needs to be a regular dialogue between government and business so that primarily representatives of small and

medium businesses are given an opportunity to participate in the formation of public economic policy. Economic development considerably depends upon the effective institutionalization of such a dialogue.

310) Democratic development in local government requires it to be freed from the current ineffective control of central government. **This is a fundamental and defining condition of the principle that the government should be as close to people as possible.** Decentralization of public administration should satisfy the subsidiarity principle. Managerial decisions should be transferred to the lowest level of the governance hierarchy that has the competence to make the relevant decision. The level of autonomy and implementation of policy should be supported by adequate economic conditions.

311) It is necessary to replace traditional forms of administration by ones that are oriented on the formation and implementation of management policy. It is required to overhaul the vertical organization of the governance hierarchy into the flexible horizontal arrangements. It is also necessary to reform the system of public service in which there will be new skills of policy formulation.

312) The design for the **reform of central government and the public sector** should be guided by the principle of devolved government and recognition of the twin realities of a constrained budget, and the current state of government weakness. In these circumstances, the main pre-condition for improved efficiency and effectiveness of government is by downsizing public administration to a level commensurate with budget affordability. Only in this way can adequate incentives be provided to attract and retain the skilled personnel needed. The reform strategy should consist of three main components:

- The restructuring of functions and the downsizing of the administrative system through devolution, reviewing the mandates and structure of government, and the roles and responsibilities of individual ministries and state departments;
- The implementation of intra-ministry self-reorganization to strengthen systems, capacities and culture, based on a uniform strategic planning methodology, supported by technical assistance and monitoring;
- The improvement of systems, capacities and culture through human resource development based on training, capacity building and developing civil service legislation, and dealing with overstaffing.

313) This stage of the administrative reform should be implemented in two overlapping phases. The first phase, which began in 2003 and will run through 2004, is focusing on the restructuring of functions in the executive. Overall, this should involve the reduction of existing ministries and state departments. A reduction in personnel of 30% is anticipated, 20% in 2003-2004 mainly through natural attrition, and another 10% in 2004-2005. The restructuring is based on the following guiding principles:

- Minimal government and maximum devolution;
- Development of clear definitions of core governmental roles and functions;
- Efficient resource use which eliminates overlapping and the duplication of functions;
- Rational use of scarce budget, manpower and management resources by concentrating core competencies and key skills;
- Unified approach to functional, structural and organizational reform;
- Separation of policy, regulatory and service delivery functions to allow focus on core competencies;
- Rationalized supervision and management systems to avoid current wide spans of managerial responsibility;
- A pay and incentive system;
- International experience, particularly institutional arrangement models of those countries that are joining the European Union.

314) The government has worked out a Concept of Reforming the Security and Law Enforcement System (The concept was approved by Presidential Decree No. 1285 of October 11, 2002). According to this decree, respective ministries and agencies were assigned to present a list of measures with specific time frames and cost evaluations. One of the main goals of the concept is the protection of human rights and fundamental freedoms granted by the Constitution and the European Convention on Human Rights and improving law and order. The key directions of this concept are:

- Investigation and enquiry service reform;
- Reform of legislation on criminal procedures;
- Police reform;
- Special training system in law enforcement agencies;
- Reform of institutional arrangements and internal administration in law enforcement and security agencies.

315) The simplification of legal proceedings is needed to increase the efficiency of the operation of law enforcement agencies. Significant amendments to the Criminal Procedure Code were emphasized in the concept.

The protection of human rights requires detailed legal regulations of law enforcement operation and transparency in their actions. A concrete plan for the structural reorganization of law enforcement and security has been prepared. Particular attention has been paid to the education and retraining of personnel (both mid and high level).

316) Judicial reform will be continue and special attention will be given to:

- Improving personnel policy;
- Infrastructure and logistical support;
- Specific anti-corruption measures;
- Improving the execution of court rulings.

317) The implementation of this programme depends on state security and defence issues. Within this context Georgia is attempting to integrate into Euro-Atlantic institutions. The government cooperates closely with NATO and its partner countries, and a significant part of this programme concerns defence and security policy. The major topics are: reform in the defence and security sector; defence planning; issues of military policy and capacity; economic defence issues; defence and security spending. This programme cannot be fully integrated into the EDPRP, but as it is finalized and particular measures defined, its main concepts and costing will be reflected in the EDPRP.

318) Elimination of corruption in the government system requires joint efforts of society and the government. The government has already elaborated its anticorruption programme. The enforcement of the Reform and Reorganization of Central Government and the Public Sector is one of the main anti-corruption documents. The implementation of this policy requires systemic and a no-compromise approach to anti-corruption activities.

319) In forming civil society, the government should restrict itself and create space for joint activities with society and independent civil activities. Relevant state programme should provide for an effective delegation of responsibility between government and civil society and should be duly reflected in legislation. The government is responsible for the creation of an environment that will offer non-government and non-commercial (non-profit) organizations the opportunity to participate in public administration through active dialogue, safeguard all types of minorities, promote the expansion of confidence-based relations and their institutionalization as a social norm, ensure the development of a free press and media and create political conditions for social responsibility and adequate social norms.

320) The programme defines the basic principles of public administration reform and the general objectives for their implementation. Implementation will certainly face political obstacles conditioned by private and group anti-reform interests and the unfavourable political situation. Overcoming these difficulties necessitates political efforts and the support of broad sections of society. Therefore, a public participation policy has been determined covering those necessary for effective implementation. The conceptual and organizational strengthening of central government will be necessary to enable it to implement those measures envisaged by the programme. To this end, research will take place to determine and define all the loopholes and discrepancies existing in the current governance system.

321) The EDPRP together with these other programmes and strategic plans will be carried out as soon as possible to achieve simultaneousness and linked implementation. Therefore, as the programmes are finalized and adopted their conceptual principles, action plans, and cost evaluations should be reflected in this programme by amendment.

3.2. Macroeconomic Stability

322) The major priority of macroeconomic policy is to attain fast and sustainable economic growth, maintain price stability, promote a favourable business and investment climate, increase budgetary revenue, decrease the budget deficit, secure debt sustainability, promote exports and reduce the current account deficit.

323) Given the existing physical capital, limited natural and human resources, economic growth can only be achieved through attraction of investment. Increased foreign investment will have a positive long-term effect on the stability of balance of payments.

324) Given the small size of the domestic market, enhancing export potential is a decisive factor for economic development. Investment should support the expansion of exports to eliminate the growing trade deficit. Accession to the World Trade Organization was a significant achievement and the government will direct its efforts to make full use of its membership in this organization. The government will create effective transitional mechanisms to protect the domestic market and encourage exports and will spare no efforts to eradicate smuggling and falsification.

325) To attract investment the government will promote:

- An improvement in the business climate by establishing effective financial and investment institutions (see 4.4. Improvements in the Structural and Institutional Environment);
- Business development based on free market principles and the creation and strengthening of relevant instruments.

326) Macroeconomic policy will be based on the following principles:

- Macroeconomic stability creates a predictable financial climate necessary for business development;
- A flexible and effective fiscal system facilitates the development of an efficient legal business environment and makes the extralegal business activity unfavourable.

327) The parameters of GDP growth up to 2015 are discussed in detail in 5.1. Macroeconomic Scenarios.

3.2.1. Monetary Policy

328) In the next 5-7 years, monetary policy will preserve the annual rate of inflation at 5-6%. From 2010-2015, inflation will go down to 3-4%.

329) In the short and medium term, the National Bank of Georgia (NBG) will conduct consistent and prudent monetary and exchange rate policy. This provides for the compliance of money supply with actual economic growth and targeted indicators of inflation. Thus, money will be supplied only through non-inflationary methods, which will enable the re-monetization trend in the economy with price stability. Gradual growth of broad money (M3) will take place so that the monetization indicator is increased by at least 0.5-1% per annum (the monetization indicator currently is 11.1%). The growth of broad money will not be through the growth of reserve money, but through the growth of money multipliers by the attraction of cash outside banks into the banking system and improving the quality of banking services. Considering that the main objective of monetary policy is to ensure price stability, the re-monetization of the economy will happen in compliance with this objective.

330) Reserve money will be supplied from the accumulation of international reserves. The main source of international reserves is aid from international institutions and donor countries and the purchase of foreign currency on the domestic market.

331) From 2003, the NBG will start merging the reserve and correspondent accounts of commercial banks. The minimum reserve requirement (currently 14%) will be partially satisfied by the balance amounts available in correspondent accounts of commercial banks. This mechanism will reduce the reserve rate and will improve the liquidity of commercial banks, enhance the efficiency of the banking system and facilitate a reduction of the interest rate.

332) The practice of long-term government lending will continue mainly for servicing the country's external debt. However, this source of money supply will later be replaced by less inflationary mechanisms. The main domestic source of financing the budget deficit will be treasury bills. In this respect, considerable attention will be paid to the planning of treasury bills to avoid crowding out investment, as by issuing T-bills the government competes with the private sector at the credit market.

333) The main emphasis within monetary regulation will be placed on open market operations – re-purchase and reverse re-purchase transactions. Putting them in practice is a top-priority for the NBG because this will enable commercial banks to manage their liquidity more effectively and the NBG to regulate the money supply more promptly.

334) In 2003, part of the GEL 800 million debt of the Ministry of Finance to the NBG will be securitized (transformed into long-term government bonds). This will allow the NBG to possess a significant treasury bond portfolio for open market operations and, more importantly, obtain a new and powerful mechanism for monetary regulation. In particular, this mechanism will allow adjustments of commercial banks' short-term liquidity to mitigate fluctuations at the money market, as well to rapidly sterilize increases in money supply under exogenous factors.

335) Exchange rate policy will be based on a free-floating regime and the NBG does not plan any changes in this regard in the short or long term. At the same time, the promotion of international competitiveness of domestic goods and services and export promotion will remain among the top priorities of exchange rate policy. However, this policy will not be based on currency devaluation principles.

336) The NBG will continue to pay great attention to the replenishment of gross international reserves, so that their amount reaches at least 2.5 months of import equivalents by 2004-2005 and 3 months by 2007. This corresponds to the minimum level required for general macroeconomic stability.

337) To conduct purposeful monetary policy and attain fast and sustainable economic development, one of the most significant objectives will be to improve financial intermediation, and the banking sector. The development

and unhindered operation of the banking system will remain the main priority of the National Bank. The activities to be carried in this regard are described in 3.3.4.1. "The Banking Sector".

3.2.2. Fiscal Policy

338) Fiscal policy objectives for 2003-2005 are:

1. Improving the business and investment climate;
2. Maintain the budget deficit (on a commitment basis) at 1.0-1.5% of GDP;
3. Annual increase of tax revenue to GDP ratio by 0.5-0.8%;
4. Steady growth of tax revenue in relation to the tax base;
5. Substantial growth of the tax base by encouraging extralegal businesses into the formal sector;
6. Enhancing domestic financing sources – gradual growth of maturity and volume of treasury bills;
7. Debt sustainability: the share of net present value of debt will not exceed 150% of exports and the share of net present value of debt to central government revenues will not exceed 250%.
8. Increase in the share of investment spending in the budget to 2.5% of GDP.

339) These objectives will be reached by improving tax and budgetary policies.

3.2.2.1. Tax Policy

340) Review tax legislation. The tax code will be amended in 2003 and built on the following principles. It will be simplified with the aim to create favourable conditions for small and medium businesses; improve tax rates; refine administrative procedures; a clear definition of mutual liabilities for taxpayers and the state. The Code will increase the operational efficiency of the tax and customs administrations. It should be in effect from 2004 and consequently fiscal planning for 2004 should be based on the new Code.

341) Tax and Customs Administrations: It is of utmost importance to complete reforms in the tax administration and implement fundamental changes in the Customs Department. Any tax policy change must be at least neutral to tax revenues. If a decrease in tax revenues is anticipated after simplification of the administration, compensating measures will be undertaken to increase the tax base or to improve the administrative capacity. Structural reorganization along with a strengthened administration will ensure tax payments. Transparency of the tax system and operational efficiency will improve through the creation and maintenance of appropriate computer databases and systems. Taxes that put a heavier burden on the poor will be reconsidered and modified. The Service for Taxation of Physical Persons will be set up within the Tax Department that initially will phase and control the settlement process of the one hundred wealthiest persons and later, will expand its span of operation.

342) Reform of the customs system will continue. Structural reorganization of the system will take place. Customs legislation will be improved to ensure maximum transparency and predictability of customs rules and fast and unimpeded implementation of procedures. Transparency and efficiency of the customs system will be based on the creation and maintenance of appropriate databases and systems. Customs bodies will apply all rights to check compliance with the rules to collect customs duties and eradicate smuggling. It is planned to equip customs checkpoints with technical facilities.

343) Combating economic crime will be assigned to Financial Legion in the Ministry of Finance. The legion will become a police body and will have investigative authority. Law-enforcement bodies will work to detect cases of corruption in government agencies.

344) A uniform tax space will be established on the territory of the country. One of the first steps was the abolition of the Ministry of Tax Revenues and the amalgamation of the Tax and Customs Departments within the Ministry of Finance. It is envisaged to set up a uniform information network and common intra-agency database for the tax, customs, border protection and other relevant bodies. The crosschecking and reconciliation of information will result in improved accounting and reporting and will reduce smuggling and corruption.

345) Special revenue will be used for the employees of Tax and Customs Departments, to improve the logistical base of fiscal bodies and financial support of the reforms in this area.

346) These measures will produce results within one and a half years. Efforts by the government will be directed towards the full taxation of major commodity groups – mainly excisable goods. This should lead to an increase in budgetary revenue.

3.2.2.2. Budget Policy

347) Budget planning and public expenditure management: Budget planning will be based on realistic macroeconomic projections, an objective assessment of current tendencies and indicative plans. Agreement on these issues with government agencies and international financial organizations will be reached in advance.

Coordination between government agencies of the economic profile of the country will be strengthened. The fiscal effects of tax code amendments will be calculated prior to the budget debate or before amendments are introduced to the budget. The Treasury will service the revenue and expenditure of local budgets and all revenue accounts and extra-budgetary funds will be transferred into a single treasury system. For the purpose of transparency of the budgetary process, the practice of dialogue and consultation with representatives of civil society will be introduced.

348) Reform of the treasury system: to strengthen the control and management of public expenditure, it is planned to centralize the Treasury Service. A commitment accounting and control system will be developed and applied. It is scheduled to audit overdue budgetary arrears to line ministries to identify unjustified claims. An expenditure control system will be worked out. It is planned to form effective accounting mechanisms of taxes and create relevant databases and systems to determine the revenue received from each type of tax and simultaneously, ensure maximum transparency of the process.

349) Sale of government securities: Treasury bills as one of the sources of financing the budget deficit will increase. This will be achieved by the promotion of treasury bills to the public and expanding the client base. Gradually average maturity will increase. The government will create the background to issue bonds by the end of 2005 and to start the securitization of existing pension arrears.

350) External Debt Service and debt sustainability: Analysis of the medium-term macroeconomic position and external debt situation demonstrates that to stay solvent, the country will remain dependent on the support of bilateral and multilateral creditors and donors. Soon, Georgia will have to raise the issue of debt restructuring to bilateral creditors in the Paris Club. Debt restructuring will enable the government to direct funds towards sustainable economic development and poverty reduction. In 2003-2004 the country will face a significant increase in foreign debt repayment that could seriously weaken the debt sustainability. The government will conduct bilateral negotiations with Paris club members to restructure foreign debt on Naples conditions. Between 2003 and 2005 the government will not borrow any unconcessional funds and will not issue any guarantee on such borrowing by others.

351) Increasing efficiency in budget spending: To raise efficiency, the practice of so-called "protected items" will stop. During the fiscal year, spending will be oriented on programme goals and outcomes. According to existing practice, expenditure is directed on certain economic categories, i.e. in the event of inadequate mobilization of budgetary revenues, payments are made only on certain economic items. This approach will be substituted and as a result, priority measures of certain spending units will be financed in full. Incentive mechanisms will be introduced for those spending units that direct efforts towards improvements in the management of their targeted programmes. To improve accounting and reporting and enhance transparency the classification system of revenue and expenditure will be brought into conformity with international classification systems of government finances.

352) The volume of all budgetary arrears will be determined and proposals for their repayment prepared.

353) Large-scale introduction of targeted programmes: to increase efficiency of budgetary spending, the focus will be made on various types of targeted programmes. The government will continue negotiations with bilateral creditors to reach agreement on financing of priority and efficient state programmes from funds destined for servicing debt.

354) Poverty Alleviation Fund⁸: Special attention will be paid to planning budgetary policy, which must be in full compliance with this programme. The mid-term expenditure framework will be elaborated that will enable expenditure policy to be more organized. Donor participation in this framework is also envisaged. To elaborate viable mechanism for financing of the measures and activities to be carried out, it is desirable to set up a Poverty Alleviation Fund. This fund should cover budgetary items and programmes with direct relevance to poverty reduction. Three main features of this fund are:

- It will cover the items with direct relevance to poverty reduction;
- The operation of the fund will be subject to strict control and transparent monitoring and representatives of civil society will be involved in this system;
- The fund will be utilized on the basis of a "replenishment" principle.

355) Such an approach will allow the government to determine more effectively the need to attract supplementary resources from the donors.

⁸ There are various models of this Fund, in particular, so called Institutional Funds, or autonomous funds in classical meaning – extra budgetary independent units, and so called Virtual Funds, with the basic objective to improve budgetary accounting and make special entries in the budget, which indicate that this or that expenditure is targeted for poverty reduction, thus simplifying control and monitoring of such expenditures. The Government of Georgia supports the setting up of the Virtual Fund that will improve the budgetary reporting process and make the social spendings more transparent

3.3. Structural and Institutional Environment

356) A major prerequisite for economic development and poverty reduction are institutions corresponding to the principles of democracy and a market economy. To this end, the following tasks are on the agenda:

1. Improving the business and investment climate;
2. Strengthening property rights and capitalization of resources/assets;
3. Enhancing state property management efficiency and acceleration of privatization;
4. Development of financial infrastructure;
5. Improving industrial, energy and communication infrastructure;
6. Enhancing the role of scientific achievement, new technology and information;
7. Involving low-income categories in entrepreneurial activity;
8. Enhancing efficiency in the labour market;
9. Institutional and structural improvement of the pension system.

357) Due to a complex dialectic interrelation between these tasks, their implementation mechanisms are also frequently interrelated and serve several tasks simultaneously. Hence, the attribution of the measures below to the specific tasks is somewhat conditional.

3.3.1. Business and Investment Climate

358) The development of entrepreneurship, attraction of investment, implementation of the national anti-corruption programme and the legalization of extralegal businesses constitute the top priorities of the country. In To establish a normal investment and business climate, it is important to fulfil all the priority objectives and components prescribed by the programme. In this regard it is also necessary:

- **Microeconomic analysis of leading economic sectors.** The analysis should cover existing and recommended technologies, input costs, production costs, and market prices, taxes, tariffs and other legal and regulatory constraints. On the basis of this analysis models will be created concerning the functioning of specific businesses/sectors. This will help legality and ensure the practical operation of the businesses/sectors. Macroeconomic models will be created based upon the integration of the microeconomic data.
- **Improve the system of controlling bodies.** Along with the law “On Control of Entrepreneurial Activities”, a law “On Rules of Delegation of Authorities of Controlling Bodies and Exercising of Control” should be adopted. This will help to eliminate inconsistencies between the normative acts related to state control of entrepreneurial activity.
- **Transparent mechanisms for licensing and permits for entrepreneurial activities.** The rules to issue permits in the sectors that are not covered by the law “On Licensing of Entrepreneurial Activities”, are defined by specific agencies or local government bodies. Frequently, decisions taken by such bodies are illegal and faulty. This complicates business activity and promotes a corrupt environment. Therefore, changes to the exiting legislation should be prepared to define what should be subject to licensing, capture all the licensing spheres and basic procedures. The legislation should nominate an agency that will oversee licensed institutions and define forms and procedures of control. Licensing needs to be regularized further in respect to the following sectors: pharmaceutical industry, education, construction, trade, advertising in the streets, civil transport and the use of natural resources. Special attention will be paid to determine licensing fees and create transparent mechanisms.
- **Simplify and improve standardization and certification.** Simplification and improvement of the system will help to remove low quality goods and services from the market and reduce associated costs. The phased transfer to the system of voluntary certification will be continued, as conditioned by the World Trade Organization. The law on “State Certification Fees” will be prepared, the system of certification by private companies will be improved, mechanisms of control on certified products will be determined and a roster of standards published.
- **Antimonopoly legislation and agencies.** Given the serious duplication of functions among government agencies in the state control and regulation of natural monopolies, institutional reform of the Anti-Monopoly Service will be implemented. The definition of monopolist enterprises, mechanisms regulating their activity and the consumer protection will be enhanced.

- **Protection of business and consumer rights.** To protect the rights of honest entrepreneurs, criminal charges on unfair competition, falsification and other economic offences will be tightened. The Administrative and Criminal Codes will address offences characteristic of a modern market economy.
- **Unhampered movement of goods and services.** To allow the unhindered movement of goods and services, formal and informal barriers will be removed. Due orders will be introduced in tax and customs offices and traffic police.
- **Trade liberalization.** Legislation will be refined in line with WTO rules considering the grace period granted by this organization.
- **Export promotion.** Export policy will be based on relevant strategies, which will identify priority sectors oriented on the export of goods and services and potential target markets. A complex programme of export promotion will be worked out, which in parallel to individual measures to be carried out in specific sectors will encompass:
 - Systems of concessional lending and insurance of export operations;
 - Formation of special units for export promotion and dissemination of relevant information;
 - Simplification of licensing barriers, tax and customs procedures;
 - Regularization of VAT refunds to exporters;
 - Formation of a favourable regime for international trade.
 - Usage of advantages granted by the WTO. This includes the enforcement of mechanisms against unfair competition, popularization of information on tariff preferences and its application;
- **Stable and predictable legal environment.** Investment legislation stability is very important for investors. Profit is also important in accordance with the terms defined and agreed in the period of initial investment. The government assumes responsibility to create a stable and predictable legal framework, the amendment to which will be aimed only at improving the business and investment climate.
- **New tax and customs system.** This system will be based on the principle of partnership between the government and business and will facilitate:
 - Unhampered functioning of structures and systems;
 - Normal functioning of the economy according to micro econometric analysis;
 - Legalization of extralegal business activities.
- **Reduction of barriers to a favourable business environment.** Implementation of the action plan jointly prepared by the World Bank, Foreign Investments Advisory Service of the International Financial Corporation and the government.

3.3.2. Property Rights and Capitalization of Resources/Assets

359) To raise natural resource use efficiency (land, water, forests, mineral resources, and recreational resources), the degree of their capitalization should be increased. To this end, it is necessary:

- **To create a comprehensive register of resources.** To use resources efficiently, they will be described and recorded in accordance with set rules. Resource information will be accurate and comprehensive. The resources will be accounted for by applying modern information technologies and will be public.
- **To establish a clearly defined ownership system and resource usage rights.** The mechanisms for assigning ownership and usage rights will be strictly and clearly defined (for example, land cadastre, forest cadastre,). Notwithstanding whom the resource belongs to – the central or local government, legal person of private or public law, local or foreign person,), protection and strengthening of property rights will be a constant priority of the executive (including law enforcement) and judicial authorities.
- The mechanisms for transferring ownership rights will be worked out and introduced. Such rights will be defined clearly and the mechanisms for transferring of rights will be transparent and effective;
- Introducing these mechanisms will facilitate the phased securitization of resources and increase their liquidity and market price.

360) Increasing the efficiency of available capital will facilitate by further capitalization of assets possessed by the government, companies and individuals (including real estate, company shares, and government arrears). To this end:

- Comprehensive and effective mechanisms for asset accounting will be introduced in line with international accounting standards and modern information technologies;
- Clear system of ownership and use of assets will be established;
- Efficient mechanisms for transferring ownership rights to assets will be worked out and introduced;
- Issuing securities on the basis of such assets will be promoted increasing liquidity and market prices.

- In court practice, precedents of realization of property rights supported by mechanisms of contract law (including mortgages and credit agreements) will be established.
- Enhance the efficiency of corporate structures will be facilitated. Efficiency of these relationships will condition the profitable utilization of all factors and ultimately, the successful performance of the company.
- Introduction of new technologies in business will be promoted.

3.3.3. State Property Management and Privatization

361) The basic objectives of government policy in state property management and privatization between 2003 and 2005 are:

- Accelerate state property privatization process;
- Establish a competitive environment, de-monopolization and strengthen anti-monopolistic mechanisms;
- Attract investments in companies to be privatized;
- Ensure transparency and management efficiency of state owned companies and those sold to strategic investors;
- Utilization of transparent and efficient mechanisms in privatization;
- Development of the securities market;
- Involvement of a broad spectrum of entrepreneurs and private owners (including those with low income) in the privatization process;
- Stimulation and facilitation of timely and effective activation of privatized companies;
- Systematization and improvement of accounting and management processes in state owned real estate;
- Improvement of accounting state owned shares of Joint Stock Companies (JSC) and Limited Liability Companies (LLC); elaboration of new, efficient and transparent management mechanisms;
- Improved accounting in the disposal of state property held by legal persons of public law established on the basis of state property;
- Monitoring state property transferred under management contracts to other parties and improvement of control on compliance with corresponding liabilities of such parties.

362) To reach these goals:

- Large state-owned companies will mainly be organized as Joint Stock Companies;
- When tendering controlling shares of large JSCs to strategic investors, the maximum number of balance shares will be privatized through Stock Exchange Auctions;
- In privatization of JSCs preference will be given to Stock Exchange Auctions.

363) In the privatization of state property during 2003-2005, it is planned:

- To restructure and privatize energy companies on terms of investment attraction; to privatize or transfer under management contract Georgian United Distribution Company (GUDC); to rehabilitate and privatize energy generation units; to privatize a block of shares of JSC established on the basis of municipal and district natural gas operating companies; to privatize property excluded from the capital of a JSC after restructuring the state company "SakNavtobi" ("Georgian Oil"); to privatize the state owned block of shares of JSCs established on the basis of commercial intermediation companies; to restructure and privatize the coal industry;
- To prepare the strategy of privatization or transfer under management contract the water supply-sewage system (including those in big towns). The system will be restructured and privatized or transferred under long-term management contracts;
- To privatize state-owned agricultural land;
- Phased privatization of forests;
- To privatize state owned experimental stations, experimental seed-breeding, seedling, breeding farms, machinery-testing stations; transferring to melioration associations of internal farm watering systems (except the high-capacity headwork) on terms of future management buy out;
- To restructure and privatize transportation companies. To restructure Poti Sea Port in line with recommendations of EC experts and transfer the units with operating functions into long-term leases;
- To privatise the (non-industrial) infrastructure not included in the list of assets of the "Georgian Railway" Ltd. The issues of reorganization of "Georgian Railways" into a joint stock company, its further institutional improvement, development and modernization of its technical base in conformity with international experience will be discussed;
- To restructure and privatize telecommunication companies. To privatize JSC "Sakartvelos Elektrokavshiri" (Georgian Electro Communication) and "Sakartvelos Telekom" (Georgian Telecom);

- Restructuring and privatization of healthcare system objects will be continued in accordance with the plan and terms set by the Ministry of Labour, Health and Social Security.

364) Certain strategic companies will stay under state ownership. They can be transferred under long-term management contract (or rent) to strategic investors by means of international tender.

365) The government will conduct regular efficiency monitoring of state-owned buildings and offices used by ministries and agencies or those recorded in their balance sheets. In agreement with the ministries and agencies, the government will prepare proposals on privatization of non-utilized and/or utilized in a non-targeted way premises in line with legislation.

366) State-owned companies that are insolvent or have arrears significantly exceeding their assets will be bankrupted and liquidated.

3.3.4. Financial Infrastructure

367) Financial infrastructure is one of the most important components of the economy. To attract investment, the sustainability of government and municipal finances, insurance against risks and efficient investment of idle financial resources, it is necessary to develop and improve the country's financial infrastructure.

3.3.4.1. Banking Sector

368) Attracting a higher share of financial resources available in the country into the banking system, reducing interest rates, directing credit resources and introducing modern mechanisms and technologies will be promoted.

369) To ensure stability in the banking system, in terms of regulation of the activity of commercial banks, attention will be paid to:

- Increasing bank capitalization;
- Issues of risk management and diversification;
- Establishing best corporate governance principles;
- Improving internal control systems.

370) To stimulate further interest in banking services, networks and real time banking settlement systems will be facilitated.

371) Anti-money-laundering legislation is adopted and corresponding measures will be taken.

372) Within the framework of harmonization of legislation with European standards, the minimum capital of commercial banks will be increased in a phased manner, so that by 2015 it will be the equivalent of Euro 5 million. Enhancing capitalization will promote banks and deepen consolidation in the banking system. Against the background of business development and bank mergers, the networks of bank branches will be further expanded, which will result in enhanced competitiveness between banks and improve the quality and spectrum of banking services in the regions.

373) For the strategic development and prompt operation of commercial banks, great importance is given to the further participation of banks in foreign credit lines, raising their reputation and improvement of management, increased sustainability and reliability of the entire banking system, deepening of sound competition and reduction of interest rates.

374) To ensure the safety of the banking system and deepen public confidence, special attention will be paid to the establishment of the deposit insurance system. Work will be continued to select the model of institutionalization and identification of primary sources of financing of insurance funds with the assumption that the deposit insurance system becomes fully functional by 2010.

375) One of the ways for banks to manage credit risks and improve credit culture is to introduce the institute of the credit bureau. The bureau will consolidate the credit history of borrowers. This will make it easier for banks to determine client credibility and will allow a solvent client to obtain financing quickly and on better terms. Leading commercial banks have started joint efforts and by about 2005-2007 such an institute will be established.

376) As a result of the Law on Credit Unions, credit unions have been included under the regulation of the National Bank. Great attention will be paid to establishing the institutional and legal environment in line with international standards required for credit unions. This will become an important precondition for the development of small business.

377) To develop and introduce housing finance, relevant legislative framework will be prepared and the institutional environment created.

378) In compliance with housing finance systems worldwide, a special institution will be set up to attract resources and ensure concessional lending to the housing sector accessible for the population.

379) A number of measures, including legislation, will be carried out to ensure increased interest in the banking sector in mortgage to reduce interest rates and extend repayment periods.

380) For the stable development of the housing finance system, special attention will be made on due information provision to the public and introduction of new technology.

3.3.4.2. Capital Markets

381) The further development of capital markets is of high importance. This will provide an alternative way of financing for companies, state and local budgets and will improve the business and investment climate, transparency of operation of companies and reduce corruption. It is planned:

- To establish best corporate governance practices, which will ensure enhanced efficiency of companies' management and stimulate broad layers of the population to invest in companies organized as JSCs.
- To ensure practical the application of international accounting standards. The basis for company transparency is reliable and non-ambiguous financial information. This can be best attained through international accounting standards.
- To promote the development and strengthening of securities brokerage companies representing the basic persons of the securities market. Efficiency the market depends on the level of their development, financial sustainability and institutional improvement.
- In the course of privatization of state enterprises (not for sale to strategic investors), to give preference to their establishment as JSCs and the subsequent selling of shares through stock exchange auctions.
- In the course of sale of controlling shares to strategic investors, to retain part of the shares for subsequent selling to broad layers of the population through the stock exchange.
- To promote investment and unit funds. The existence of such funds provides investors with the opportunity to invest in several companies (to diversify investments) with even small resources. At the same time, participation of institutional investors plays a disciplining role in respect to JSCs.
- To facilitate private pension funds. Participation of these institutions in the securities market increases market liquidity, provides discipline on the shares, and ultimately, makes them more attractive for investors.
- To develop the treasury bills market and to involve a wider spectrum of population, to reduce the discount rate on T-bills effectively. The "Treasury Direct" system will be introduced. The stock exchange segment will become functional at the secondary market. As a result: a) demand for T-bills will increase; b) budgetary expenses for servicing T-bills will be reduced; b) the average interest rate will drop.
- To research the possibility of introducing tax or other incentives for the issuance of public securities, to optimize JSCs dividends' taxation. These steps will help to transfer economic activities from less transparent, extralegal sectors to the transparent legal sector.
- To facilitate the phased issuance of corporate bonds by companies on the basis of the overdue arrears to the state budget (securitization of the arrears). This will ensure market mechanisms for capitalization of such arrears and will promote the development of a corporate fixed income sector in the securities market.
- To issue long-term government bonds in exchange of budgetary arrears to the population and private business. Bondholders will have two options: to wait for bond redemption by the treasury at face value on the maturity date or sell them at the market price, including through the secondary market.
- To prepare legal, regulatory and institutional frameworks for the issuance of municipal bonds. This should be preceded by a proper analysis of the market and fiscal situation. Issuance of bonds is the most transparent and sound method for municipalities to attract finances, which, together with the development of the securities market, will reduce corruption.

3.3.4.3. Insurance Sector

382) A developed insurance market is an important pre-condition for social-economic development. The following measures are planned:

- Harmonization of the legal framework with relevant EU legislation;
- Enhance the potential and capacities of the State Insurance Supervision Service and State Social Insurance Fund in terms of regularization;

- Provision of tax and other incentives to insurance services, which play an important role in the management of social risk;
- Introduction of insurance mechanisms for the management of labour safety related risks;
- Promotion of professional training in the field of insurance;
- Establishment of a National Catastrophe Insurance Programme;
- Attraction of external technical assistance to implement these measures.

3.3.5. Low-Income Sections of the Population in Entrepreneurial Activities

383) The involvement of low-income sections of population in entrepreneurial activities will be encouraged. This will make them not only users/customers but owners as well. For this purpose:

- The development of micro, small and medium enterprises (SME) will be promoted;
- The development of large-scale enterprises in the form of JSCs will be promoted.

3.3.5.1. Development of micro, small and medium enterprises

384) Micro, small and medium businesses play an essential role in intensifying the resource potential, the stable and dynamic development of the economy, increase employment and income levels of the population and other social issues. The development of SME is impossible without the preparation and introduction of a system of strong supportive measures from the government. This system should ensure the establishment of a regime of preferred treatment for SME and their protection from the influence of monopolies. For this purpose, the following measures are planned:

- Creation of a legislative framework to support micro business and SMEs which ensure the introduction of a special regime for these enterprises, harmonization of legislation and institutional structures to simplify bureaucratic procedures, stimulating entrepreneurial activities and cutting the number of government institutions involved in the process;
- Establishment of a unified organizational structure to support micro business and SMEs; stimulation and coordination of measures for enterprise development;
- Clear definition of the micro business and SME role in Social-Economic Development Indicative Plan. Adjustment of corresponding numeric and qualitative parameters with macroeconomic, social, regional and sectoral development.
- Clear definition of the involvement of the government in supporting small and medium enterprises (volume, duration, methods and expected effectiveness of the involvement). The competences of the local bodies should be determined in respect to implementation of support mechanisms for small enterprises in accordance with the specificity of the given region;
- Establishment of an effective system of partnership between enterprises, unions, and central and local government bodies. Participation of the representatives of small enterprises in elaborating laws and regulations;
- Satisfaction of information and consultative needs of small enterprises. The Centre for Small Enterprise Development and Support and private consultative bodies will address this issue;
- The measures of financial support for micro business and SME include:
 - Increasing funds through existing credit lines;
 - Financial facilitation of enterprises by the Centre for Small Enterprises Development via: banking guarantees and subsidizing of the banking interest rate;
 - Promoting a network of private guarantee funds and providing banking guarantees;
 - Organization, methodological and financial support to establish a network of leasing companies. The major priority of the leasing service will be to develop small and medium food processing enterprises in various regions.

3.3.6. Labour Market Efficiency

3.3.6.1. Basic Approaches

385) Intensive economic development requires implementing radical changes in labour productivity and saving resources. To this end, in addition to the introduction of investments and new technology, it is necessary to enhance labour discipline, organization and the qualifications of employed people, especially managers.

386) Enhancement of capitalization and liquidity of labour is an essential pre-condition for developing the labour market. Thus, special attention should be paid to producing a qualified work force that will be internationally competitive.

387) In addition to employment-oriented actions, it is necessary to put social security mechanisms for the unemployed into practice. These mechanisms will mitigate the adverse social effects of unemployment and promote reintegration into the labour market. This should take place considering the fact that modern approaches in this area, like income replacement schemes are closely connected with the development of labour relations in the formal economy. The high informal sector does not allow to widely acknowledged social security principles to be introduced at an early stage. At the same time, unsustainable social security mechanisms should not restrict the mobility of workers.

388) The major actions are aimed to improve the legislative framework of labour relations and review tax policy. As a result, overhead expenses on legal labour should be reduced, the tax burden mitigated, hidden unemployment, so called “poor employed”, should be liquidated and effective social security mechanisms of unemployment should be developed.

389) This component consists of three types of actions:

- Actions aimed to reduce factors that hamper labour mobility. This implies updating labour legislation, revision of tax policy, implementation of measures facilitating integration into the domestic labour market and special social security mechanisms;
- Actions to improve the management of labour related risks;
- Actions to raise the quality of education and labour liquidity.

3.3.6.2. Labour Legislation

390) Appropriate labour legislation has special importance for the enhanced mobility of labour resources. The Labour Code should establish viable principles for the relationship between employer and employee; define procedures to settle disagreements, facilitate the legalization of employment and enhanced adaptation skills of the work force and labour motivation. Furthermore, legislation should cover safety at work, protection of rights and limit the volume of work.

391) Revision of tax policy should be aim to mitigate the tax burden on labour remuneration. Personal tax rates should be reduced and as a result of the expansion of the tax base (due to the expansion of the formal sector and tightening tax administration), a positive fiscal effect and enhanced mobility of labour resources should be secured. During the transitional period, it will be important to enforce flexible social security mechanisms to alleviate adverse social effects. These mechanisms should primarily facilitate a return to the labour market and motivate enhanced competitiveness. It should not create a syndrome of dependence on allowances (See 3.5.1.1. Social Security of Vulnerable Groups).

3.3.6.3. Labour Protection and the Management of Risk

392) Labour activity is accompanied by certain categories of risks. Managing these risks is important to sustain labour resources. Otherwise a decline in productivity and shortage of labour resources in the long run will be inevitable. Improving risk management implies preventing risks and compensation of losses in case of their realization. Taking into account the current status of the labour market and labour relations, in the short and medium terms, this objective will mainly address labour safety related risks and proper social safety mechanisms, (occupational trauma, occupational diseases). In the long run, labour related public (social) risk management could involve the following risks: unemployment, temporary or permanent disability (of non-occupational origin), old age and the loss of the breadwinner. (For detailed description of social risks management see: 3.5. Improvement of Social Risks Management).

3.3.6.4. Labour Productivity and Motivation

393) Ensuring labour mobility is directly connected with one of the most important objectives of the economy – the enhancement of labour productivity. It is necessary to train labour resources in the expected accelerated technological development, especially in information technologies. The fast growth of modern equipment and technology and improvement of labour organization is also anticipated, which will set special requirements on labour resources.

394) Wages of government employees should be increased, so that for the benefit of labour productivity, they do not seek other sources of income. At the same time, it is required to define the status of employees in the private sector and the self-employed and account for their income in a proper way. This will make them legally employed and provide incentives and opportunities for them to ask for and receive social or labour security.

395) The development of mechanisms and institutes that service labour protection and introduce professional standards should be facilitated. Labour safety needs to be regularized both in normative and institutional terms. Professional unions should be supported so that they protect labour, assist in gaining professional qualification and also in re-training.

3.3.6.5. Employment and Professional Education

396) Special attention should be paid to the development of human resources in the creation of effective employment system. This is especially with respect to state and private employment services. Professional qualifications need to be enhanced entrepreneurial skills and professional standards developed. Attention should also be directed at developing a market economy common mentality and professional skills (management, finances, marketing, corporate management), as well as reducing the loss of human resources (emigration, lack of qualifications).

397) With growing economic migration, the government should work out and implement appropriate policies to help migrants find jobs (agreements should be reached with other countries on immigration quotas, international professional standards should be adopted and acknowledged), and also assist emigrants living abroad and ease their return home.

3.3.6.6. Institutional and Structural Improvement of the Pension System

398) Pension reform is as an essential factor for the development of financial markets and improving the social risk management.

399) The development of the pension system will be based on a unified concept and strategy in social security. The concept of social protection determines:

- The role of pensions and other mechanisms in providing a worthy old age;
- The balance between state and private pension provision;
- The relation of the pension system to other social risk management systems.

400) The pension system strategy will shift from the one-pillar non-funded system to a multi-pillar pension system in a phased manner. To enhance public interest towards participation into the compulsory state pension system, the principles of solidarity distribution of intergeneration income (PAYG) and social risk insurance by means of differentiated pension security will be applied. Going through each phase will directly depend on macroeconomic dynamics, capital and labour market development and demographic trends. The immediate goal is to create a legislative framework required for future pension reform. The basis for the success of this important activity has been secured by introducing an automated system of individual accounting, which assigns a personal code, registration card and individual account to the participants in the system.

401) Necessary preconditions for implementing pension reform are:

- Payment of pension arrears in full during the next 2-3 days in accordance with the adopted schedule;
- Phased increase of pensions;
- Notification about the goals and conditions of the reform, as well as about the rules for granting pensions and the amounts of various types of pensions.

402) In the course of institutional and structural reform, special attention will be made to the fundamental principles of creating a favourable business climate and expanding the formal sector. The development of the pension system should not restrict labour mobility or cause increases in the informal sector.

3.4. Human Capital Development

403) Human capital development represents an essential condition for the long-term sustainability of economic growth. While the government can do little to alter such parameters as the average age of household members, it can do much in the health and education sectors. Consequently, actions oriented on human capital development can be grouped around two sub-objectives:

- Actions which serve to improve the population's health
- Actions which serve to improve educational level in society

3.4.1. Health

404) To improve health, three types of priority actions are suggested:

- Actions which provide a healthy and safe environment
- Actions in the area of public healthcare
- Actions in the area of primary and urgent healthcare treatment.

405) In defining this group of actions, the approach and priorities laid down in the national healthcare policy are decisive. In particular: a) a clear identification of government commitment in the health care sector, b) multi-sectoral approach to the actions required for improvements in healthcare, c) increased accessibility to basic medical services, including for marginal groups.

406) The government will determine its commitments and ensure their financing in full. There are two arguments:

- It should become easier for the consumer to take advantage of the commitments assumed by the government if he/she knows which type of medical service is provided and which should be bought;
- Vacant space will be created which can be filled by the market in case of the non-availability of other favourable conditions.

407) There are numerous activities to improve healthcare that are better performed by the state than the private sector. Implementation such measures is a government responsibility.

408) In the course of selecting its commitments, the government will prioritize considering cost-effectiveness (main criteria). Supplementary criteria are moral and cultural factors.

409) Based on this, the healthcare strategy will aim to ensure financial and geographic accessibility to the minimum required medical service for the whole population for a healthy and safe environment. To this end, the following activities should be financed as priorities: a) prophylactics and early diagnosis of diseases, b) dispensary and hospital treatment, and c) medicine supply for replaceable therapy.

410) According to the national healthcare policy, the programmes designated will have a great impact on improving public health. The elaboration, implementation and funding of these programmes are beyond the competence of a single government agency and require the coordinated efforts of the government and society. It will be necessary to implement state programmes that are multi-sectoral oriented with concrete outcomes (e.g. trauma programmes and reducing traffic accidents, health nutrition, anti-tobacco measures and others).

411) Increased financial accessibility to medical services implies the introduction of mechanisms to operate and fund the health sector that will create equal opportunities for everybody to use the service. Where equal opportunity cannot be secured for certain marginal groups, this will be compensated through social assistance mechanisms.

412) In parallel to the targeted programmes, there will be auxiliary actions to improve the quality of existing services, regularize the medical base, enhance the efficiency of private and public healthcare resources, as well as improve the management of state owned entities in the health sector.

3.4.2. Education

413) The educational system is to provide all citizens of the relevant age with modern, high quality education at secondary, professional and higher institutes, and also through continued education.

414) To improve the quality of education, ensure its compliance with the requirements of society and labour market, systemic and consistent reform of all sectors of formal education (pre-school, secondary, secondary professional and higher education) will be carried out.

415) Reform should ensure a generation prepared for a rapidly changing modern society. Reform should develop skills to see future objectives and issues.

416) To improve the quality of education, the World Bank supported Programme of Secondary Education will be continued. This Programme provides for:

- The elaboration of effective management and financial mechanisms, establishment of school autonomy;
- Preparation of a state curriculum with modern requirements, preparation of appropriate text-books;
- Creation and introduction of a new system of assessment;
- Professional training of teachers.

417) As a result of reform, and with public participation, the efficiency of the secondary education system will be raised.

418) To bring up a harmoniously developed person and citizen, attention will be given to improving informal education. This means:

- Identification of interests and creative skills, promotion of self-expression, assistance in professional orientation;
- Introduction of guidelines for a healthy life;

- Development of public awareness.

419) One of the most significant aspects of the poverty reduction is professional education. This means professional training for young people without qualifications, improving professional qualifications and re-training. To establish an effective system of professional education, it is necessary:

- To improve the system of professional education, and ensure its compliance with the need for a qualified work force
- Establish close links between the professional education system and production
- Prescribe new professional and educational standards in conformity with international standards.

420) To enhance the quality of education, reform of the higher education system should be prepared and carried out. To this end, it is required:

- To determine the goals and principles of higher education in accordance with local and international requirements;
- To define the type of higher educational institutes required;
- To identify financial mechanisms for higher educational institutes;
- To separate private and state sectors from a legislative and funding basis;
- To consolidate the state and private sectors into a uniform system on the basis of standardized requirements based on the quality of education;
- To change the substance and structure in the studying process in line with the goals of higher education.

421) The education system should ensure equal opportunity and accessibility. New models of financing will be established that will enable young people to pursue education in accordance with their talent and interests (notwithstanding solvency).

422) To enhance the quality of education, it is necessary to introduce new technologies, equip educational institutes and renovate buildings.

423) Reforming the educational system will have an impact on personnel resources. To this end, arrears in labour remuneration will be paid in accordance with existing legislation.

424) The state contracting system will be reviewed. State contracts should consider labour market requirements, the strategic development of the country and individual regions and the budget. The experience of developed countries in this area should be studied.

425) Special attention should be paid to the issue of socially vulnerable children, orphans, children without parental care, homeless children and those residing in special institutions. The worldwide-accepted method for such children is their integration into society is through adoption. However there needs to be an improvement in the network of institutional agencies. The formulation of relevant legislation has started. The programmes and methods of dealing with such children need to be improved. Key government agencies have taken initiatives to pilot family and community-based systems of care. National policies that support the goal of deinstitutionalizing the system of child welfare by creating community-based and family focused models need to be put in place. In this way, new systems of care can be established while old systems are dismantled. Due to the high significance of the issue, it is required to seek additional sources of financing to better implement the programme for orphans and children without parental care.

426) In line with the government's commitment to build a "country fit for children" and contribute to achieving the Millennium Development Goals, particular attention will be given to early childhood development. Developing an integrated approach to these services including health, nutrition, social care and early learning and child protection.

3.5. Social Risk Management

427) Individuals, households and society face dangers of various types and scope. To avoid them, it is necessary to prevent risks, mitigate their impact and implement adequate rehabilitation mechanisms. A large number of risks are managed within the social security system. However, this programme will pay equal attention to risks outside the social security system. Ignoring these risks may hinder development and deepen poverty.

3.5.1. Improvement in Social Risk Management

428) The role of the government in the management of social risks is divided into two main groups:

1. To set up a social security system to allow any member of the society to acquire social protection;
2. To set up a system of social protection that guarantees a decent standard of social integration for those who are not capable to secure social protection themselves.

429) The Government will differentiate clearly between state and other liabilities based upon the following assumptions:

- Economic development creates a resource base to resolve social problems
- Economic activity should ensure a decent standard of living (individual welfare).

430) Any member of society may find himself/herself under a certain social risk. As a result, there is a danger of welfare deterioration and a loss of social status. Certain individuals and households have a high probability of such risks. These are the vulnerable groups in society.

431) The management of social risks in respect to vulnerable people is based on strategies to reduce and mitigate those risks.

432) The management of social risks in respect to marginal groups is based on strategies to improve their standard of living.

433) The programme is not confined to marginal groups only. The priority of the programme is to reduce vulnerability as a whole by improved management. Social protection without reducing vulnerability increases the quality of marginalization that is a heavier burden on society.

3.5.1.1. Social Security of Marginal Groups

434) Depending upon the duration and acuteness of the influence of social risks, the welfare of an individual or family declines - from a decent standard of living to extreme poverty and social exclusion (the horizontal line of the chart, see Annex 4) wherein the row “decent standard of living” represents the positive points on the scale, “absolute poverty” represents negative points, and “worsening of the quality of living – relative poverty” is an intermediary position.

435) In Georgia, there is no unconditional guarantee that those affected by risk will not end up at the extreme position of the scale.

436) The aim of the social security system is to ensure a social management mechanism of the risks.

437) The government should clearly define the extent of its interventions. For example, three types of interventions are depicted on the chart. Their nature and timeliness conditions the maintenance of a decent standard of living at various stages.

438) In the event of any risk, the government should create conditions for income replacement (revenue lost from economic activity or unforeseen expenditure entailed upon risks). This intervention (see Attachment 4 – “The Role of Government in Social Risks Management”) should be carried out through an effective insurance system. The intervention prevents:

- A drastic deterioration in individual or family welfare
- Further regression into relative poverty.

439) The second type of intervention aims to restore welfare to its original position. A necessary condition for this is the individual’s reintegration into the labour market. This means that there should be an active labour market policy (see on Attachment 4 – “Active Labour Market Policy”).

440) If the welfare of an individual (family) cannot be restored and all resources have been used, the last social protection mechanism needs to be deployed. This is a basic social benefit to prevent the individual or family falling into extreme poverty.

441) The government should decide on the type of intervention to be applied at a particular stage given the particular risk level. Currently, the social security system intervenes at the final stage, i.e. attempts to stop absolute poverty. However, moving an individual or family out of this position (extreme poverty) very difficult because of financial considerations and management issues.

442) A state strategy for social security should be prepared that reflects a conceptual vision of social protection, and encompasses instruments of social risk management and functions of social institutes in the light of economic and political development.

3.5.1.2. Living Standards of Marginal Groups

443) Actions to improve living standards of marginal groups should be based on a uniform social protection concept and represent an organic part of the social protection system.

444) Actions to improve living standards of marginal groups can be divided into two groups:

- State social protection programmes – transfers of public funds
- Measures for the promotion of social assistance (services)

445) The difference between these actions is not only of an institutional character. The first group is implemented by government institutions in an obligatory way, with different levels of participation of other institutes (family, civil society or market). The second group creates favourable conditions to mobilize non-government resources and the measures are carried out by non-government social institutions. The major difference between these two groups is that the first defines government guarantees – the volume of public resources for social assistance and spending principles, while the second is based on the principle of subsidiarity and aims to share efforts between the state and other social institutions.

3.5.1.2.1. Social Assistance Programmes

446) Social assistance (allowance) programmes should be targeted to individuals (families) that have no possibility of economic activity (temporarily or permanently).

447) The actions in the area of social assistance can be divided into two groups:

- General schemes
- Specific schemes

448) General schemes should have fixed limits. This should correspond to the minimum subsistence level and provide for other sources of household income.

449) General schemes should be financed from the budget. Budget policy should promote decentralization in financing these schemes.

450) General schemes should be selective unlike the existing principle of universalism. Currently beneficiaries are selected according to a single criterion – their attribution to a predefined social group. In future, beneficiaries will be selected on the basis of needs assessment (means tested).

451) Administration of the scheme should be decentralized as much as possible and implemented by local government bodies. This should be followed by financial decentralization.

452) Various techniques will be deployed in means testing. These include assessment of income (or income and property), or the person in extreme need should be identified by civil society (e.g. community union or village council).

453) Specific schemes are also based on the principle of selectivity, i.e. the recipient will be selected on the basis of the following two criteria: social group and need. Unlike general schemes, specific schemes aim to satisfy particular needs of marginal groups. Allowance can be paid in cash as well as in kind (e.g. fuel, home treatment, etc.). Some specific schemes can be financed from the central budget, others only from local budgets. The schemes will be administered by local government.

3.5.1.2.2. Measures Encouraging Social Assistance

454) The second group of actions should encourage various social institutions to render social assistance to marginal groups.

455) Social assistance can often be rendered more efficiently by the family (relatives) primarily, community organizations, the church and the market. State schemes will be developed gradually and the current non-government social assistance will be partially replaced and replenished. Interventions should not only match existing non-government allowances but also extend their volume and coverage.

456) The scope of actions under this group is broad. The priority are financial mechanisms (so called fiscal social security), in particular, instruments like: tax benefits, grants, etc. Actions to enhance the capabilities of social institutions by developing new skills and providing services is equally important.

457) Special attention will be paid to the church. Its social function is increasing permanently especially in terms of providing social assistance and services in various forms to marginal groups.

3.5.2. Natural, Technological and Other Man-Made Risks

458) The primary responsibility of government is to ensure the safety of the population. This is not only military-defensive safety, but also biological, food and energy security and being able to cope with natural calamities and territorial conflicts associated with emergencies. Given the existence of post-conflict zones in Georgia, military action near the borders and that the country is a mountainous, seismically dangerous region, where natural calamities are quite frequent, great importance is assigned to safety and readiness for disasters. This is even more important in respect to vulnerable layers of society, because they do not have own resources to mitigate the adverse effects of sudden change.

459) It is necessary to create an organizational infrastructure and material reserves. It is also essential to encourage private insurance schemes so that the country is prepared to handle natural calamities: earthquake, landslide, flood and avalanche. To this end, it is necessary:

- To enhance the organizational and resource potential of community mobilization, to prepare the population for action in the event of emergency. For this purpose, educational and organizational programmes should be conducted;
- To restore or create monitoring and forecasting systems of natural calamities;
- To establish a Catastrophe Risk Management Programme, based on risk pooling and clearly defined allocation of risk between the state, the insurance industry and households
- To foresee potential risks at the stage of displacement and planning and implementation of economic activity;
- To plan mobilization actions at all levels in advance;
- To implement prevention measures wherever possible.

460) It is necessary to promote readiness in government agencies and the population to cope with humanitarian catastrophes, in the event of military action and forced migration. To this end:

- A civil defence system should be developed involving centralized and community rescue organizations;
- The functioning of the National Red Cross Organization should be facilitated;
- The Service of Emergency Situations should be provided with resources. Its organizational and professional readiness should be increased.

461) To secure food security, two major elements should be ensured – accessibility of food and food safety. To this end, it is required:

- To set ensure that there is the minimum necessary food reserves and create relevant strategic stock;
- To ensure alternative ways for obtaining food – in addition to local production;
- The government should set up a “Food Safety and Quality” system in line with EU standards. Quality control should be carried out and a long-range action plan devised.

462) Given the dangers posed from animal diseases there should be a tightening of veterinary control and the development of an epidemiological service.

463) It is necessary to prepare legislation in the area of bio safety to avoid problems of trade with genetically modified organisms following entry into the WTO. A control mechanism should be devised.

464) The country’s dependence on energy imports especially in winter has safety issues attached. As a consequence it is necessary:

- To eliminate political considerations concerning electricity supply. Additionally there should be tight control over energy industrial capacities (Tbilisi State Regional Thermal Electric Power Station, Enguri Hydro Electric Power Station) and equipment (Enguri Hydro Electric Power Station);
- To create strategic energy reserves from oil and gas pipeline projects.
- To exercise an efficient approach to reduce electricity costs – introduction of energy saving technologies;
- To utilize alternative, renewable and economic sources of power (bio gas, small power stations, wind, thermal water, solar energy).

3.6. Economic Priorities

3.6.1. Energy

465) The strategy to improve the energy sector includes measures towards infrastructure rehabilitation, improvements in energy generation and transportation and the reduction of waste. It is planned to carry out measures to improve the financial standing of the sector, by increasing collection fees for electricity and gas and better management of the electricity wholesale market.

466) Market principles will be introduced. The centralized wholesale energy market will be decentralized. The wholesale market will primarily be a financial and technical operator. Bilateral direct contracts will occur between wholesale buyers and sellers. This will bring competition and will balance the production and consumption of energy. Tariff policy will be adjusted in line with this model. Price liberalization will thus be ensured.

467) Improvements in the accounting process of the distribution infrastructure will help to reduce energy waste. Criminal charges will be tightened for the theft of energy resources. The disconnection of non-payers will be

continued. In addition, the existing practice of providing general social security through free electricity and gas will be abolished. As a result, collection rates will substantially improve.

468) Rehabilitation and upgrading of hydropower facilities is planned. This will increase overall production. Reforms in the sector will attract investment for renewable energy resources. Energy-saving technologies within the industry and in households are planned.

469) Debt will be managed through negotiation with creditors on debt restructuring.

470) In close cooperation with donors, the Electricity Sector Action Plan has been devised. This Action Plan set out improvements in the management of the sector, enhancing collection levels and implementing projects supported by international organizations.

3.6.2. Transport and Communications

471) The development of transport and telecommunication infrastructure is important to build the transit potential of the country. To attain increased efficiency, the strategy aims to empower transport regulation administration, reduce staff and train retained staff, advance technical and environmental safety of domestic and overseas transportation, introduce advanced management technologies, establish information facilities for the Great Silk Road concept through the design and introduction of relevant databases and software.

472) A wide range restructuring and privatization process will be completed. The material-technical base will be improved and the following goals achieved through the attraction of investment:

- Rehabilitation of marine transportation infrastructure;
- Privatization of railway infrastructure and facilities;
- Restructuring and privatization of telecommunications infrastructure;

473) Considering the country's transit role, special significance will be given to the TRACECA Project. On the basis of systemic analysis, a tariff policy will be developed to make the South Caucasus route competitive. Administrative procedures for transit goods will be simplified. These measures will increase transit trade.

474) The efficient operation of the Baku-Supsa pipeline has created a positive environment for the construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and Baku-Tbilisi-Erzurum (BTE) gas pipeline. These projects are of special importance in accelerating development and strengthening security.

475) A modern fully equipped centre to conduct research and testing will be established. It will conduct studies to monitor emergency conditions, to restore infrastructure of strategic importance as well as those damaged from earthquakes .

3.6.3. Industry

476) To realise industrial potential vital importance is assigned to integration into foreign markets. It is necessary to integrate into the international labour distribution system. To this end a number of measures will be carried out that to identify the industrial sectors with a comparative advantage.

477) The country wishes to increase exports. This should ensure the expansion of local production, increased employment, and competitiveness. The advantages granted from accession to the WTO should be applied in full.

478) To enhance the efficiency of large-scale state enterprises, they will be restructured, privatized or transferred under private management. The development of the stock market should facilitate the realization of surplus property of enterprises and the distribution of stocks more effectively. The reinforcement of corporate management will promote transparency of management. To improve management there will be an enhancement of quality control and improved financial control. The implementation of the so-called "Marshall Plan" will be continued through the Centre for Enterprise Restructuring and Management (CERMA).

3.6.4. Tourism

479) The impact of tourism on economic growth is rather wide and all-inclusive and has a direct and indirect nature. The direct impact involves an increase in public and budgetary revenue, employment, and the attraction of investment. Indirect impacts facilitate other economic development.

480) Short-term measures to develop tourism include:

- Market research of tourism and resort potential;
- State, non-commercial international advertising campaign;
- Inventory-certification of resorts;

- Creation of sanitary protection zones of resorts and resort zones;
- Attraction of private investment in tourism-resort business;
- Rehabilitation of infrastructure in priority resort zones;
- Simplification of border crossing procedures;
- Introduction and development of agro tourism;
- Creation and development of rescue-escort infrastructure;
- Training and retraining of professional staff for the sector;
- Development of conference tourism;
- Development of cultural, ecological and adventure tourism, arising from the interest of local communities and their involvement;
- Rehabilitation of historical and cultural monuments included in the Programme of Cultural Tourism and of other cultural institutions, creation of relevant infrastructure.

3.6.5. Agriculture and Food

481) To achieve efficiencies in the agriculture and food sector, administrative and institutional reform will be conducted. The Ministry of Agriculture and Food will be focused on three major trends:

- Formulating and implementing a sustainable policy for agriculture and the implementation of priority programmes;
- Public control on quality, utilization of agricultural resources, testing and protection of breeds, food security;
- Sector services including consultation, provision of information, scientific development and staff training.

482) Land reform will be completed, including privatization and the establishment of a land market; design and development of a unified geographic information system for land cadastre, associated natural resources and buildings. Developing the land market will help to introduce credit and insurance systems in rural areas with subsidised interest rates.

483) It is important to develop infrastructure in rural areas, industrial capacity, modernization and the use of advanced technologies. A major focus will be on export potential and import substitute sectors. Access to credit resources will be increased to benefit farmers and the processing industry. Taking into account the specificities of various regions, microfinance schemes will be tested on a pilot basis. Long and short-term credits will be introduced taking into account the seasonal nature of the sector. Vertical and horizontal cooperation of farmers and entrepreneurs will be facilitated, through incentives to improve cooperation in distribution and sales, as well as for capacity growth in processing. There will be a focus on small and medium agro-food enterprises.

484) Special attention will be made to rehabilitate irrigation and drainage systems, central facilities, mains and distribution channels and pumping stations. Several water supplier associations have already been formed in rural areas. This process will continue and these associations will operate irrigation systems. In addition, the state will retain its responsibility over the operation and maintenance of primary systems.

485) As agriculture depends largely on perennial plants, insurance mechanisms will be introduced to safeguard producers against rapid market changes and natural calamities.

3.7. Environment

486) Given the current irrational management of natural resources and the concomitant negative impact on the environment and inefficient spatial planning, special importance will be given to reform monitoring and control systems. That requires the introduction of a modern system of environmental quality standards and the development of efficient human resources and technologies for environmental monitoring.

487) While elaborating the National Strategy for Sustainable Development (NSSD), in accordance with treaty and convention commitments, economic, social and environmental interests will be incorporated. Additional efforts will be made to bring the NSSD into compliance with this programme.

488) Taxes on the use of natural resources and environmental pollution will be improved and simplified. There is a need to establish various environmental funds where a portion of budgetary revenue from the sector and other donations will be used to address specific environmental issues. Debt for Environment Swap mechanisms will be proposed as well. The funds will be used to create protected territories, monitoring systems, improve drinking water, and introduce new technologies and other environmental issues.

489) A Strategic Environmental Assessment will be introduced at an early stage of decision-making on all approved of strategies, concepts, projects, programmes and plans that have a potential effect upon the environment.

490) With the active participation of all stakeholders, appropriate changes will be carried out to improve the environmental protection planning system in conformity with the requirements in the law on protecting the environment. For the sustainable management of local resources, action plans of differentiated environment protection for each administrative unit will be devised. These processes will be conducted publicly and with extensive civic participation, which will be especially important to monitor the implementation of activities envisaged by the action plans.

491) The legislation for planning spatial development will be prepared which will define the administrative levels of spatial development, detailed rules for adoption of territorial-spatial development plans, amendments and control over these plans. The legislation will determine public participation procedures. The legislative acts will consider issues of protection and conservation of bio diversity and sustainable management of land resources (forest, water, minerals) during the planning of territorial-spatial development.

492) In conformity with the requirements of the Kyoto Protocol, efforts will be made to establish the “clean development mechanism”.

493) A modern system of waste management will be set up that will ensure the implementation of “best clean technologies”, and the minimization and recycling of waste.

494) Special attention will be paid to preserve land fertility, including private arable land and common or state owned (especially pasture) land. Special measures need to be carried out to reduce degradation, erosion, desalinization and desertification of soil. Over-grazing of pastures will be eliminated.

495) Regional and local programmes of hydro resource management will be worked out to ensure accessibility to clean water especially for the poor. These programmes will regularize issues of clean water supply. Specific programmes for improving water quality in trans-boundary rivers and the Black and Caspian Seas will be worked out separately. Moreover, the plan of activities to mitigate the effects of global climate change and the rationalization of water resource management will be devised.

496) Central, regional and municipal property will be separated. The rights and responsibilities of central, regional and local government bodies in respect to planning and implementation of environment protection actions will be separated.

3.8. Socio-Economic Condition of Post-Conflict Zones

497) As a result of armed conflicts inspired by separatist forces in Abkhazia and Tskhinvali Region (South Ossetia), more than 300 000 persons (mostly Georgians) were compelled to leave their homes and find temporary shelter in various regions of the country. The issue of social protection of the internally displaced persons (IDPs) has become a long-term problem. The territories are *de facto* outside the jurisdiction of Georgia and managed by separatist regimes. No entity of international law acknowledges their legitimacy.

498) In the event of progress in the process of settlement of political problems, the government will face the issue of the social and economic rehabilitation of these regions. This objective implies:

- Repatriation of refugees and IDPs and of the return of their property;
- Restoration of houses and devastated infrastructure;
- Social assistance and employment for those repatriated.

499) Georgia will need substantial material and financial aid from the international community to fulfil these most difficult objectives. The first step will be adequate information provision. It is necessary to conduct research about the existing situation and work out socio-economic development plans for these regions.

500) Prior to political resolution of the conflicts:

- Programmes will be implemented that will ensure social support for refugees and IDPs through their employment and integration into society;
- Special programmes for the rehabilitation of post-conflict zones will be prepared. The basic mechanisms for implementing these programmes are the Social Investment Fund and Municipal Development Fund.

501) A mechanism will be worked out to implement special programmes for the rehabilitation of post-conflict regions. This mechanism should ensure coordinated cooperation between central and regional authorities, international organizations and donor countries.

502) The participation of international organizations and donors in preparing special programmes of rehabilitation will provide an additional stimulus to the political resolution of the conflicts.

503) These programmes will be implemented only after the conflicts have been resolved.

504) An important factor to regularize this process would be to prepare IDPs and those residing in conflict zones to participate in designing and implementation these programmes. No social guarantees can be secured unless mutual confidence and a sense of cooperation are restored between Abkhazian and Ossetian people and IDPs.

505) This policy can be implemented through close cooperation between government agencies and civil society. Setting up groups for national diplomacy, especially groups comprised of women will enable us to conduct a proper campaign among the population residing in conflict zones to ensure the rehabilitation of these regions.

506) A communication strategy for this process will include, audio and video materials, correspondence, special bulletins and booklets, meetings, workshops, dialogues and other means of communication including the media.

507) These types of communication strategy between the conflicting parties will help them realize the need for implementing a social security programme for these regions and prepare them to take part in designing and implementing this programme.

508) Political resolution of the conflicts will considerably facilitate the economic recovery of the country, restore international communication, attract investment, restore normal economic links between regions and will lead to the fast development of small and medium businesses in the post-conflict zones.

3.9. Science and Information Technology

509) Development will be oriented on the elaboration and introduction of state of the art technologies without which it is impossible to achieve fast and sustainable economic growth.

510) The introduction of modern technology requires direct government support, as well as educational programmes and measures in society. There is a need to create a powerful scientific and research base in the area of rapidly developing information technologies, biotechnology and semi-conducting. There should be an increase in the proportional share of modern equipment and technology in industry and special measures should be taken to import new technology and know-how. The country should use its potential to become a scientific and technological leader in the region.

511) Three strategies for innovation and technology have been developed: A strategy of transfer – utilizing the scientific-technical potential existing abroad. A strategy of borrowing – using cheap labour and the domestic scientific-technical potential, mastering the scientific manufacturing of products already produced in industrialized countries; and a strategy of intensification – permanent growth of innovation through utilizing domestic scientific-technical potential.

512) In the short term, elements of the borrowing strategy should be applied more intensively where there are joint ventures that manufacture competitive products and sell them with the partner's trademark. This will preserve the existing industrial potential and employment level help to implement other innovative projects.

513) It is necessary to focus on priority scientific-technical trends and technologies over the next three to five years. They should be carried out on a competitive basis by state order, as well as through the commercialization of technologies and the creation of conditions to attract non-government capital into the innovation process.

514) Priorities include information technology, bio-technology, and technology to make new materials, extraction and refining of natural resources, technology for industrial plants and machinery (e.g., in energy and agriculture), microelectronic technology and ecologically clean technology.

515) Additionally it is necessary:

- To ensure adopt a law on innovation activity;
- To establish infrastructure for the development of innovation activity (small scientific, engineering and consulting services, leasing services, service yards, and business incubators);
- To set up joint ventures and manufacture scientific products with external partners, to disseminate information and advertisements on national innovations abroad, to secure foreign credit for innovation infrastructure;
- To use recommendations on resource saving, small waste, environment protection and environmentally appropriate technologies in coordination with international organizations;
- To support in a preferential way the implementation of small-scale and self-repayable innovative projects, innovation programmes and projects of national importance;
- To set up a system of government support for innovation with the participation of private investors and to carry out research with the special services of the EU, UN and other international organizations, non-government institutions, venture funds and potential donor countries;

- To establish innovation and special funds. These funds will facilitate scientific-technological development, establish scientific production, finance risk-bearing projects, introduce highly productive and resource saving technologies, transfer technologies, stimulate the performance of scientists and specialists, and extend concessional targeted credits;
- To enforce mechanisms for attracting venture capital;
- To prepare and implement proposals to stimulate innovation activity.

516) The creation of the information society is of importance for a transitional country like Georgia because this issue is directly linked to the formation of a public and transparent information infrastructure.

517) Knowledge and information technologies represent the basis for rapid economic growth. It is feasible to realize the intellectual potential of the country and revive the economy based on these technologies. An information infrastructure should obtain, process and disseminate information and knowledge and ensure the establishment of the information sector in the economy and the formation of a digital economy.

518) There should be a common-public informational bank created with information on natural and legal persons, public information maintained in government institutions, information on tax and customs systems, information on pension, healthcare and the social sector, land cadastre, natural resources, premises, legal (including forensic) information.

519) There should be a unified electronic turnover of documents, strategic planning and modelling, electronic commerce and media, and telemedicine. Furthermore, an infrastructure should be created to facilitate sustainable economic development and improvement of governance, overcoming corruption and the fair distribution of resources, improving the investment climate and safeguarding business entrepreneurs against discrimination, the development of agriculture, education, healthcare and pension systems and tourism.

520) It is necessary to create the communication infrastructure required for the development of an economy oriented on information technologies and knowledge. The wide use of computer facilities by the population should be promoted to rectify existing communication and digital inequality. In addition to the development of communication facilities, there should be the creation of Georgian language versions of computer systems that should be widely used.

4. Macroeconomic Forecasting and Cost-Evaluation

4.1. Macroeconomic Forecasting

521) Two scenarios - optimistic and realistic - for economic development have been worked out based upon a comprehensive analysis of the economy, on-going processes in world financial markets, and the economic condition of the country's main trade partners.

522) Both scenarios are based on the following assumptions:

- Average annual inflation in the range of 5-6% between 2003-2010, and 3-4% inflation from 2010-2015;
- Improvements in tax administration in relation to GDP by 0.5-0.8% per year (including 0.4-0.7% improvements in the central budget, and 0.1-0.3% improvements in local budgets);
- Maintaining the budget deficit (on a commitment basis) at 1-1.5% in relation to GDP.

523) One of the government's main poverty reduction objectives is to adjust existing salaries. This first of all entails a gradual approach towards the minimum wage and increasing it beyond the minimum subsistence level.

524) In 2003, the average monthly salary is 74% of the minimum subsistence level. Through the EDPRP programme by 2005 the average monthly salary will exceed the minimum subsistence level. By 2015, it will be approximately three times higher than the minimum subsistence level.

4.1.1. Realistic Scenario

525) **The realistic scenario** is based on assumptions concerning the strengthening of economic reform, less-favourable endogenous and exogenous factors on the economic growth. It assumes a 5% average growth in GDP per annum. Based on this scenario, nominal GDP in 2005 will reach GEL 9.6 billion. This constitutes GEL 2,139 per capita.

526) In 2005, general government revenue will reach GEL 1.6 billion. General government expenditure will amount to GEL 1.8 billion.

527) By 2010, nominal GDP should equal GEL 15.6 billion, which is GEL 3,316 per capita.

528) In 2010, general government revenue will reach GEL 3.1 billion. General government expenditure will amount to GEL 3.5 billion.

529) By the completion of the programme, in 2015, nominal GDP should equal GEL 24.3 billion, which is GEL 4,900 per capita.

530) By 2015, general government revenues will reach GEL 5.6 billion. General government expenditure will amount to GEL 6.2 billion.

531) According to the realistic scenario, by the completion of the programme, nominal GDP will increase four times in comparison to 2001.

Table 1: Realistic Scenario

Realistic Scenario		2001	2002	2003	2004	2005	2010	2015
Real GDP growth (percent change)	1	4.5	5.4	4.8	4.5	4.0	5.0	5.0
Consumer Price Index (end of period, % change)	2	3.4	5.4	4.8	5.0	5.0	5.0	4.0
Nominal GDP (GEL million)	3	6,618	7,284	8,016	8,795.6	9,604.7	15,645.1	24,293.6
Real GDP (mln GEL in constant prices of 2001)	4	6,618	6,975.4	7,306.7	7,635.5	7,940.9	10,134.9	12,934.9
General government tax revenue (% of GDP)	5	14.4	14.8	16.0	16.5	17.0	20.0	23.0
General government tax revenue (GEL million)	6	951.5	1,076.0	1,284.1	1,453.0	1,634.7	3,132.0	5,592.2
General government expenditures (% of GDP)	7	18.3	18.2	18.8	19.0	19.3	22.8	25.5
General government expenditures (GEL million)	8	1,211.9	1,324.2	1,504.5	1,674.1	1,851.4	3,563.1	6,196.5
General government balance, commitments basis (% of GDP)	9	-2.0	-2.0	-0.6	-0.9	-0.9	-1.0	-1.0
General government balance, commitments basis (GEL million)	10	-130.0	-147.1	-47.9	-82.0	-82.5	-156.5	-242.9
Nominal GDP per capita, GEL	11	1,504.1	1,655.5	1,821.8	1,979.2	2,139.9	3,316.5	4,899.9
Real GDP per capita, GEL	12	1,504.1	1,585.3	1,660.6	1,718.2	1,769.2	2,148.4	2,608.9

4.1.2. Optimistic Scenario

532) **Optimistic scenario** is based on the assumptions concerning the fostering of economic reform and the favourable influence of endogenous and exogenous factors on economic growth. Under this scenario GDP growth

per annum will average 8%. According to this scenario, nominal GDP in 2005 will reach GEL 10 billion. This will constitute GEL 2,233 per capita.

533) In 2005, general government revenue will increase to GEL 1.7 billion. General government expenditure will amount to GEL 1.9 billion.

534) By 2010, nominal GDP should equal GEL 18.8 billion, which is GEL 3,984 per capita.

535) In 2010, general government revenue will reach GEL 3.9 billion. General government expenditure will amount to GEL 4.4 billion.

536) By the completion of the programme, in 2015, nominal GDP should equal GEL 33.6 billion, which is GEL 6,777 per capita.

537) In 2015, general government revenue will reach GEL 8.4 billion. General government expenditure will amount to GEL 9.2 billion.

538) According to this scenario, by the completion of the Programme, nominal GDP will increase five times in comparison to 2001.

539) The parameters in both scenarios may increase during the lifecycle of the programme. Over the next few years, significant investment is anticipated to derive in connection with the construction of the Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum oil and gas pipelines. During 2003-2006, US\$ 515 million should be invested in constructing the oil pipeline, and during 2003-2005, US\$ 500 million should be invested in the gas pipeline construction.

540) The operation cost of Baku-Tbilisi-Ceyhan oil pipeline will be on average US\$6.5-12.4 million, which will be covered by oil companies. The tariff revenues from the transported oil will be US\$112 million in the years 2005-2008 and US\$360.1 million in the years 2009-2015. Over the 40-year life of pipeline the total budget revenues for Georgia will amount to US\$2.5 billion or US\$62.5 million per annum on average. Moreover, Georgia will receive other important social and economic benefits, such as:

- 80% of employment will consist of local staff
- The construction will primarily use local building materials and equipment
- The orders placed on Georgian industry will amount to tens of millions of dollars

541) During the whole construction period, 60% of all cargo for the implementation will go through Poti and Batumi, railways, motor and air transport. Revenue per ton of cargo is US\$ 8-10.

Table 2: Optimistic Scenario

Optimistic Scenario		2001	2002	2003	2004	2005	2010	2015
Real GDP growth (percent change)	1	4.5	5.4	5.0	6.0	7.0	8.0	8.0
Consumer Price Index (end of period, percent change)	2	3.4	5.4	4.8	5.0	5.0	5.0	4.0
Nominal GDP (GEL million)	3	6,618	7,284	8,016	8,921.8	10,023.7	18,797.1	33,602.9
Real GDP (mln GEL at constant prices of 2001)	4	6,618	6,975.4	7,324.1	7,763.6	8,307	12,205.8	17,934.3
General government tax revenue (percent of GDP)	5	14.4	14.8	16.0	16.5	17.0	21.0	25.0
General government tax revenue (GEL million)	6	951.5	1 076	1,284.1	1,473.8	1,705.9	3,951	8,407.2
General government expenditure (percent of GDP)	7	18.3	18.2	18.8	19.0	19.2	23.6	27.4
General government expenditure (GEL million)	8	1,211.9	1,324.2	1,504.5	1,695.8	1,926	4,443.8	9,194
General government balance, commitment basis (percent of GDP)	9	-2.0	-2.0	-0.6	-0.9	-0.8	-1.0	-1.0
General government balance, commitment basis (GEL million)	10	-130.0	-147.1	-47.9	-81.6	-81.8	-188.0	-336.0
Nominal GDP per capita, GEL	11	1,504.1	1,655.5	1,821.8	2,007.6	2,233.2	3,984.6	6,777.5
Real GDP per capita, GEL	12	1,504.1	1,585.3	1,664.6	1,747	1, 850.8	2,587.4	3,617.2

4.2. Cost Evaluation⁹

542) Overall 138 individual activities will be implemented between 2003 and 2005 with a total value of GEL 3,846.4 million. In particular:

1. The total share of social security and protection, which covers pensions, allowances and employment programmes, in the entire programme expenditure is 27.7%. This is one of the largest non-deficit areas that will be 91% financed by the government.
2. There are five large programmes in health care representing 10.9% of total expenditure in the programme. The budget will fund this area.
3. The share of education expenditure is 21.9% and the budget is the major source of funding where the deficit in financing is 11.9%.
4. The share of two activities to strengthen government administration in the total programme cost evaluation is 1.3%. These two programmes have no committed funding to date.
5. The share of four activities to improve the material-technical base of fiscal bodies and to strengthen fiscal administration is 0.5%. These programmes have no committed funding to date.
6. The share of eight individual activities in the energy sector in the total programme expenditure is 16.4%. These programmes are to be financed through bilateral and multilateral investment projects and the budget. The gap in financing is 6.9%.
7. There are thirteen individual programmes in transport and communications with its share in total programme expenditure of 7.9%. Almost 92% of spending in this area will be used to rehabilitate and maintain domestic intercity and interstate roads. The share of government funding constitutes 57.8%.
8. The share of thirty-three individual programmes in agriculture and food in total programme expenditure constitutes 3.8% with the budget contributing 88.6% of funding. There are four programmes funded in full through international investment projects.
9. The share of five programmes in information technology in the programme expenditure is 1.4%. The share of budget funds is only 4% and the rest is in deficit.
10. The share of five activities included in tourism constitutes 0.1% of total programme expenditure. The budget will contribute 5.8% of the funding.
11. The share of six programmes in urbanization and construction in total programme expenditure is 0.6%. The budget will provide 51% of the total funds. About 71% of the funds are for the rehabilitation of damaged housing stock after the earthquakes of April 25, 2002.
12. There are eighteen programmes in environmental protection with its share in total programme expenditures of 2.5%. The budget and committed external financing are the major source of funding in this area. The deficit in financing is 0.4%.
13. The share of six programmes envisaged for the development of forestry resources in the total Programme expenditures is 0.2 percent, where the government will be able to contribute only 32.6 percent of funds.
14. There are five individual activities planned to improve land management in the country, with its share in total programme expenditure of 0.8% and the bulk of funding is from external sources.
15. There are fourteen other major projects, the majority of which are funded by donors and the government. There are programmes that include programme planning and implementation costs. The total value of all these projects is GEL 154.46 million that is 4% of total expenditure. The deficit in financing is 14.8%.

543) The average deficit in financing for the whole programme is 12.6%. The deficit is 2.7% in 2003, 15.7% in 2004 and 16.6% in 2005. Seventy nine percent of the budget funds in the programme will be spent on social activities (education, healthcare, social security and protection). State budget expenditure on priority areas will grow steadily.

544) External financing is a major source for filling the deficit and for this purpose negotiations with foreign donors will need to be conducted. Only those strategy programmes considered to be first order priorities will be implemented will be funded in full.

⁹ Various government agencies participated in the process of Cost-Evaluation of the Program activities. These government agencies have been represented in five Governmental Sub-Commissions for elaborating the present Program. The goal of the Cost-Evaluation was to analyze costing of individual activities submitted by these government agencies, based on the Strategy priorities. The member agencies of the Sub-Commissions generated appropriate information in a specialized format. The experts on Cost-Evaluation, relevant government agencies, Sub-Commissions and the Ministry of Finance were actively participating and collaborating during the process of gathering, analyzing and agreeing the relevant materials for Cost-Evaluation of the Program. As a result of this collaboration, each relevant government agency developed an appropriate activity plan with detailed expenditures for the 3-year period (2003-2005 years), indicating the sources of financing. Before presenting Cost-Evaluation materials to the Editorial Board, they have been discussed at special technical workshops by the Sub-Commissions with the participation of civil society representatives.

545) There are second order priority activities that are not reflected in the existing strategy expenditure. The issue of funding second order priority activities can be discussed in the longer term.

Table 3: Cost-evaluation of individual activities (consolidated, 2003-2005): (GEL million)

	Projects	# of Projects	Total for 2003-2005					
			Requested Funds	State Budget	Local Budget	External Funding	Private Sector	Fin. Gap
1	Social Protection and Security	7	1,063.75	878.70	55.45	30.00	-	(99.60)
2	Healthcare	5	418.46	273.35	90.71	43.80	10.60	0,00
3	Education	7	844.10	183.63	483.60	56.24	20.27	(100.36)
4	Governance	2	48.52	-	-	-	-	(48.52)
5	Fiscal Area	4	13.38	-	-	-	-	(13.38)
6	Energy	8	630.70	184.54	27.10	369.60	5.90	(43.56)
7	Transport and Communication	13	305.46	176.48	-	77.20	-	(51.78)
8	Agriculture and Food	33	147.99	77.54	-	53.61	-	(16.84)
9	Information Technologies	5	53.23	2.11	-	-	-	(51.12)
10	Tourism	5	4.34	0.25	-	-	-	(4.09)
11	Urbanization and Construction	6	22.43	0.45	-	11.00	-	(10.98)
12	Environmental Protection	18	97.27	10.31	4.26	74.45	7.85	(0.42)
13	Forestry	6	7.84	2.56	-	-	-	(5.28)
14	Land Management	5	29.49	1.25	-	16.00	-	(12.24)
15	Other Activities	14	154.46	39.03	-	92.58	-	(22.85)
	Total	138	3,846.41	1 830.20	661.12	824.47	44.62	(486.01)

Table 4: Cost-evaluation of individual activities (by years): (GEL million)

	Projects	# of Projects	2003						2004						2005					
			Requested Funds	State Budget	Local Budget	External Funding	Private Sector	Fin. Gap	Requested Funds	State Budget	Local Budget	External Funding	Private Sector	Fin. Gap	Requested Funds	State Budget	Local Budget	External Funding	Private Sector	Fin. Gap
1	Social Protection and Security	7	273.45	257.70	15.75	-	-	-	370.60	289.00	18.70	15.00	-	(47.90)	419,70	332,00	21,00	15,00	-	(51,70)
2	Healthcare	5	112.26	78.75	26.21	4.20	3.10	-	145.30	90.50	30.00	21.30	3.50	-	160,90	104,10	34,50	18,30	4,00	-
3	Education	7	215.76	54.64	143.30	11.06	6.76	-	306.66	61.16	160.50	25.18	6.76	(53.06)	321,68	67,83	179,80	20,00	6,76	(47,30)
4	Governance	2	14.20	-	-	-	-	(14.20)	22.48	-	-	-	-	(22.48)	11,84	-	-	-	-	(11,84)
5	Fiscal Area	4	4.05	-	-	-	-	(4.05)	7.83	-	-	-	-	(7.83)	6,50	-	-	-	-	(6,50)
6	Energy	8	146.30	51.30	8.00	87.00	-	-	207.40	62.10	9.00	123.80	2.70	(9.80)	277,00	71,14	10,10	158,80	3,20	(33,76)
7	Transport and Communication	13	110.20	57.39	-	52.80	-	-	101.32	56.72	-	24.40	-	(20.19)	93,95	62,37	-	-	-	(31,59)
8	Agriculture and Food	33	30.59	19.59	-	11.00	-	-	64.05	29.56	-	25.66	-	(8.84)	53,35	28,40	-	16,95	-	(8,00)
9	Information Technologies	5	3.31	0.45	-	-	-	(2.86)	23.54	0.83	-	-	-	(22.70)	26,38	0,83	-	-	-	(25,55)
10	Tourism	5	0.08	0.08	-	-	-	-	2.49	0.09	-	-	-	(2.41)	1,77	0,09	-	-	-	(1,68)
11	Urbanization and Construction	6	3.44	0.14	-	3.30	-	-	12.14	0.15	-	7.70	-	(4.29)	6,85	0,16	-	-	-	(6,69)
12	Environmental Protection	18	39.09	1.74	-	29.50	7.85	-	37.44	5.02	2.18	30.03	-	(0.22)	20,75	3,55	2,08	14,92	-	(0,20)
13	Forestry	6	0.78	0.78	-	-	-	-	3.44	0.85	-	-	-	(2.59)	3,62	0,93	-	-	-	(2,69)
14	Land Management	5	3.00	-	-	3.00	-	-	12.25	0.75	-	6.50	-	(5.00)	14,24	0,50	-	6,50	-	(7,24)
15	Other Activities	14	48.56	11.78	-	30.97	-	(5.81)	55.72	13.44	-	34.06	-	(8.22)	50,18	13,81	-	27,55	-	(8,82)
	Total	138	1005.06	534.34	193.26	232.83	17.71	(26.93)	1372.65	610.16	220.38	313.62	12.96	(215.53)	1468,71	685,70	247,48	278,02	13,96	(243,56)

4.3. The Budget and EDPRP

546) To ensure implementation of the EDPRP, it is necessary to establish a close interrelation between this long-term strategic programme and the annual budgets of the country. It is important to ensure that the budget reflects the long-range strategic goals and priorities envisaged by the EDPRP.

547) Based on the EDPRP, which is a long-term programme, the Ministry of Economy, Industry and Trade, National Bank, Ministry of Finance, State Chancellery and other agencies will, under joint coordination, prepare mid-term (three-year) macroeconomic and fiscal projections at the initial stage of the budgetary process (in March) on an annual basis. The document will contain the macroeconomic overview and include indicators about real, fiscal, monetary-financial and external sectors. Within the mid-term fiscal projections, which represent revenue projection, expenditure and basic elements of financing of the consolidated budget, the maximum threshold projected amounts of financing, in the light of a functional classification of planned government expenditure, will be defined. When defining the maximum threshold amounts, projected amounts of baseline expenditure required to meet government liabilities as prescribed by legislation, the amounts of the expenditure required to continue or complete State Targeted Programmes, or those financed as per the liabilities assumed during previous years, as well as expenditure to meet assumed liabilities for servicing and repayment of State debt, will be considered. When defining threshold amounts of functional financing, the strategic priorities set by the EDPRP and the cost-evaluation of the programmes envisaged in it will be considered as a major factor.

548) Within the framework of the threshold amounts of expenditure envisaged by the mid-term fiscal projection, a special government commission set up at the Ministry of Economy, Industry and Trade will review the draft State Targeted Programmes submitted by various ministries and agencies for their inclusion in the draft budget of the country. When selecting State Targeted Programmes, the commission will be guided by the EDPRP.

549) The EDPRP will be the basis for all stages of formulating state and local budgets.

550) To improve the budgetary system, a law on the budgetary system was adopted in April 2003. This law differs from its predecessor and sets out clearly the rights of those units involved in the budgetary system, the principles of arranging the budgetary system and the budget exercise process. Comprehensiveness, transparency, accountability, independence, unity, universality and consolidation of resources are identified as basic principles of the budgetary system. The law describes in detail the processes and procedures of formulation, submission and approval of the annual budget. The law strictly defines the rights, responsibilities, as well as the rules of accounting and reporting of those units involved in the budget execution process. It also prescribes the terms and rules for borrowing and guarantee by the government.

551) To improve the budget system further, it is planned to adopt a number of new laws soon. These are: “On the budgets of autonomous republics and local budgets”, “On the state treasury”, “On long-term normatives for the distribution of tax and non-tax revenues among the state, autonomous republics and local budgets, and allocations from common-state revenues to the budgets of the Autonomous Republics of Adjara, Abkhazia and other territorial units of Georgia”, “Amendments and addenda to the law on the state debt”, and “Amendments and addenda to the law on local self-Governance and governance”.

552) Following adoption of these laws, a comprehensive base will be established that will regularize the budgetary system, thus making it more efficient, flexible and predictable.

5. Coordination, Monitoring and Civil Society Participation in Implementation

5.1. Introduction

553) The programme is implemented by the government. The short-term implementation plan (2003-2005) is laid down in the Annex (see Annex 1 on page 74).

554) A detailed implementation plan for the next phase of the programme will be devised in 2005.

555) The programme is updated on a continuous basis to take account of the prevailing circumstances. As the programme is concerned with long-term outcomes (through 2015), it is appropriate to specify measures and evaluate costs every three years.

556) It is planned to revise the programme once a year. This will reflect strategic decisions taken by the government in the programme, introduce amendments where necessary, and incorporate changes based on monitoring and evaluation.

5.2. Coordination and Monitoring

557) The Bureau of Coordination and Monitoring of the Economic Development and Poverty Reduction Programme (hereinafter referred to as “Bureau”) will coordinate and monitor the implementation of the programme. In accordance with the relevant normative act of the President, the Service for Economic Reforms and Cooperation with the International Organizations in the State Chancellery will become the Bureau.

558) The functions of the Bureau will be as follows:

- To ensure monitoring and evaluation of the programme implementation;
- To ensure public participation in the implementation of the programme;
- To ensure the revision and updating of the programme.

559) To discharge these functions the Bureau will:

- Organize an indicator matrix and standard instruments for the collection of information to monitor and evaluate with the active participation of civil society (see 564) and 584));
- Consolidate information supplied by government agencies and civil society based on these instruments (see 568);
- Draft quarterly and annual reports on the status of the programme and submit them to government and society (see 576);
- Coordinate Country Reports on Millennium Development Goals together with UN Organizations;
- Monitor decisions taken by the government and parliament to determine their correlation with the programme, and submit opinions and recommendations to government and the parliament (see 641);
- Work out a relevant methodology to monitor the implementation process, assessment, institutionalization of participation, and revise the programme pursuant to the principles of participation. It will introduce this methodology through technical training and workshops (see section 5.4.3.2.1 Participation in the Implementation of the Programme on page 70);
- Work out a communication strategy for the programme and coordinate its implementation;
- Render methodological assistance at the regional level to prepare relevant development plans and establish a dialogue between civil society and local governments. To this end, the Bureau will:
 - Assist local government bodies through the Service of Regional Policy and Management of the President to enable them to prepare regional development and poverty reduction plans with active civil society participation;
 - Foster civil society participation at local level by introducing participation mechanisms and sharing accumulated experience.

- Organize the “Economic Development and Poverty Reduction Annual National Conference”, as one of the basic instruments for institutionalizing participation and dialogue between various government units and society. The conference will discuss the outcomes of the previous year, and make concrete recommendations to improve the implementation of the programme (see 626);
- Submit recommendations made at the Annual National Conference to the President for consideration;
- The Bureau will coordinate the preparation of amendments to the programme and submit them to the President and the members of the government;
- Assist the Ministries of Finance and Economy, Industry and Trade and other government agencies to prepare detailed action plans with corresponding cost-evaluation for the subsequent cycles of the programme, and submit them to the President for approval;
- Prepare draft normative acts of the President on the basis of government decisions related to the implementation of the programme, and exercise control over their enforcement.

560) The Bureau will cooperate with representatives of international organizations and donor countries in the course of implementation of the programme. Based on an on-going dialogue with the international community, the Bureau will promote the deepening of coordination between the government and donors during the implementation of the programme. Twice a year, the Bureau will organize joint meetings between the government and donors to discuss the status of implementation (see 627).

5.3. Monitoring and Assessment

5.3.1. Basic Principles

561) The system of monitoring and evaluation of the Economic Development and Poverty Reduction Programme is based on the following principles:

- Integration of the system with state decision-making processes: working out and introduction of feedback mechanisms;
- Broad dissemination of and accessibility to the results of monitoring and assessment;
- Adaptation of information to various categories of users, e.g.: policy makers, programme implementers, programme beneficiaries, general public, mass media, academia, representatives of civil society, donor organizations, etc.;
- Tools of dissemination: modern information and communication technologies (for example Internet), publications (brochures, periodicals), presentations at face-to-face meetings;
- Ensure the participation of civil society in the monitoring and evaluation system (see section 5.4.3.2.2 Participation in Monitoring and Evaluation , on page 72).

562) Monitoring and evaluation of the EDPRP implementation and preparation of the MDG report will form two concurrent and interconnected processes. This will avoid the creation of parallel structures and allow the sharing of accumulated expertise and statistical information/data. This approach will maximize country ownership and efficiency of both processes. Relevant stakeholders (civil society, academia, media, donors and business) other than the state authorities will also be actively involved in these processes.

563) Monitoring and evaluation of the programme is an open process. The Bureau will ensure:

- Methodological support (in order to apply uniform instruments for data compatibility);
- Dissemination of the results of monitoring and evaluation;
- Strengthening of the technical capacity for monitoring and evaluation, definition of specific research needs;
- Feedback between the monitoring and evaluation system and the decision-making process.

564) Civil society will have unrestricted freedom to take part in the measurement and assessment of the implementation process and its outcomes, collect data independently (both quantitative and qualitative), draw conclusions, propose recommendations, and influence the decision-making process at its own discretion and capacity. This can be achieved in the following ways:

- Independently – through direct liaison with decision-makers using common schemes of institutionalized participation (e.g. through involvement in local government or parliament);
- Consolidation – by contributing to the system of monitoring and evaluation, through liaison with the Bureau.

5.3.2. Arrangement of the System

565) The purpose of the Monitoring and Evaluation System of the programme implementation is twofold:

- To assess progress in implementation of the measures envisaged by the programme by means of interim indicators;
- To facilitate revision of the objectives envisaged by the programme using final indicators (of outcome and impact);

566) Due to functional and organizational specificity, the system of monitoring and the system of outcome/impact assessment are discussed separately below.

5.3.2.1. Monitoring System

567) The monitoring system will primarily use data submitted by the government and state agencies on a regular basis in a predefined format.

568) The Bureau (see section 5.2 on page 62) will collect data from the following government agencies:

- Ministry of Finance of Georgia
- National Bank of Georgia
- Line Ministries
- State Department of Statistics of Georgia (SDS)
- Local Government Bodies

569) The quarterly survey of households prepared by the SDS within the framework of Living Standard Measurement Study (LSMS) has a special significance.

570) Supplementary (especially qualitative) data required for monitoring will be obtained:

- From materials of special surveys conducted at national or regional level by the government and non-government sectors;
- From materials supplied by the implementers of specific projects envisaged by the programme.

571) After processing the data, the EDPRP Coordination and Monitoring Bureau will prepare quarterly reports, submit them to the President and government, and make then publish them (through the internet and special bulletins).

5.3.2.2. Evaluation System

572) The evaluation system will use data received from the government agencies and specially conducted surveys, namely the impact assessment materials.

573) The evaluation system will measure programme outcomes and impact indicators and check against targets.

574) The materials of the household surveys prepared by the SDS (including assessments of these surveys conducted by the SDS) (see 569) and data submitted by the Ministry of Economy will be used to measure outcome indicators. The outcome indicators will be measured on an annual basis.

575) The impact assessment of the implementation of the programme will be conducted to identify the contribution of a concrete policy and programme to the achievement of two strategic objectives: economic development and poverty reduction. Due to the high costs and technical issues involved, decisions on impact assessments will be made according to the following criteria:

- The need to review the strategic importance (proportional share, weight) of a concrete policy or programme in terms of poverty reduction and/or economic development objectives; in order to make a choice between various policy alternatives;
- The need to determine the suitability of new actions for the purpose of poverty reduction and/or economic development;
- In the absence of empirical arguments as to the suitability of a widely acknowledged policy or programme with poverty reduction and economic development objectives.

576) The decisive factor in revising the programme will be the results of evaluation and the implementation and impact assessment of concrete policies. The Bureau will hold public debates on the outcomes of assessments with representatives of civil society, expert groups and academia. These debates will result in recommendations, which will be subsequently submitted to the government and the President for programme revision purposes. The Bureau will discuss the impact assessment of concrete policy and/or programme with relevant ministries and agencies.

5.3.3. Indicators and Targets

577) The selection of poverty reduction and economic development indicators was the main topic of discussion between the government and civil society at the initial stage of the participatory process. The indicators of poverty assessment and reduction were the key subject matters. These discussions improved the conceptual understanding of poverty for both the government and civil society.

578) The following aspects were taken into consideration when selecting the indicators:

- International practice (typology of indicators);
- Specificities of poverty in Georgia;
- Accessibility, reliability and difficulty (both technical and financial) in obtaining data to measure the indicators;
- Sensitivity and specificity of the indicators.

579) A complete list of the indicators, sources, official structures responsible for data collection, and the frequency (periodicity) of measurement are given in a separate table (see Annex 2 on page 82)

580) The process and outcome indicators will be disaggregated according to the following principles:

1. Geographic:
 - 1.1. Administrative units (region, district, municipality);
 - 1.2. Geographic-climatic zones (high mountainous/plains, types of soil, agrarian and non-agrarian districts, etc.).
2. Demographic and social:
 - 2.1. Gender;
 - 2.2. Age groups;
 - 2.3. Economic status;
 - 2.4. Specific social categories;
 - 2.5. Forcibly displaced persons.
3. Income, consumption, poverty:
 - 3.1. Income and consumption quintiles;
 - 3.2. Households below and above the poverty line.

5.3.4. Introduction of the Monitoring and Evaluation System

581) When introducing the monitoring and evaluation system, efforts will be made in two directions:

- Reinforcement of coordination and institutionalization of monitoring-assessment: usage of existing experience and capacity of data-collection and assessment for the purpose of monitoring and evaluation of the EDPRP, integration of civil society participation into this process;
- Reinforcement of capabilities for comprehensive monitoring and evaluation: standardization of the monitoring and evaluation methodology (techniques, instruments), introduction of impact assessment methodology and its integration in the decision-making process.

582) Together with the State Department of Informatization, a conceptual framework for the information system of the monitoring and evaluation management of the programme will be devised. Step-by-step computerization of the system will be conducted on the basis of this framework.

583) The Bureau will:

- Issue special methodological guidelines on registration, initial processing, data verification, and the format and periodicity of the supply of data to central and local government bodies;
- With the SDS, determine standard modules and sampling criteria for quantitative surveys of households to be used by any government or non-government entities while conducting independent surveys. This will enable civil society to participate and contribute to monitoring and evaluation with greater efficiency.
- With donor organizations, elaborate measures to introduce impact assessment systems, and with external technical assistance, make assessments to transfer experience and capacities to local institutions at the same time.

5.4. Participation

5.4.1. Vision

584) Public participation in the preparation, revision and implementation of the Economic Development and Poverty Reduction Programme is not an end in itself. It represents an instrument to attain certain objectives. These are:

- Engender confidence and support of the population towards the programme and generate a sense of ownership;
- Improve the quality and viability of the programme;
- Enhance the sustainability and efficiency of the programme's implementation.

585) The government has designed the programme for and together with society. The programme should make a discernible difference to people's lives. It is, however, difficult to change people's life for the better unless they have full confidence in the proposed measures and approaches. It is even more difficult to preserve success, unless the programme is supported by society. Support comes only after trust. Society needs to understand what the programme proposes, what are their responsibilities and what changes and benefits are promised. While it may be difficult to comprehend this complex document fully, it is feasible and necessary to communicate it in the right way to each citizen. The **Communication Strategy** is targeted with this in mind.

586) The government is responsible for the elaboration of the programme. However, the programme is not designed solely for the government. It addresses the problems facing the country. These problems concern everybody, especially the poor and vulnerable citizens. They cannot be understood only from the government's standpoint. To find solutions to the problems is not easy. Seeking solutions is the responsibility of everybody, both government and civil society. The way to solve the problems will only happen by sharing experience and knowledge, and reconciling ideas. In the attempt to find the best way, some questions might be left unanswered; others might need to be revised after a certain period of time. The programme is not designed for one day. It is a live document, because society continues to seek ways to resolve problems. It develops, learns lessons, and finds better ways to attain those goals. The programme has been designed in this way and needs to be considered as valuable, viable and effective. **Public participation in the preparation and implementation of the programme** serves these objectives.

587) The Programme addresses the country's problems and covers the entire strata of society. The problems and ways to solve them are not abstract. The problems cannot be resolved only in the corridors of government, or solely by government activity. The majority of the issues exist around us – in the environment we live in: villages and cities, residential areas and offices. Resolution of these problems and taking concrete actions is a civic duty, and no one else can do it better than society. The scope of operation of the programme refers to all the segments of society. The programme requires actions on-site. The economy cannot develop and the poverty cannot be reduced in the abstract. The programme specifies the measures to resolve problems on-site. Carrying out these measures is the responsibility of citizens and local governments. These measures cannot be realized without civic activity. The programme will be productive and sustainable when the plans are fulfilled jointly at the government level and on the ground. Assignment of the measures in the programme is not sufficient for actions to be undertaken at the grassroots levels. To ensure public participation in the programme's implementation, it is necessary to secure different levels of public awareness and partnership between civil society and local government bodies and to discern methods to share authority and responsibility. **The Strategy for Public Participation in Governance** serves this objective.

5.4.2. Communication Strategy

5.4.2.1. Basic Principles

588) Communication Strategy (effective public relation) is based on the following principles:

- Scientific study and analysis of public opinion;
- Informing society and government about their positions on equal terms until these positions approximate;
- Operation on the basis of authentic, undistorted information, transparency and openness;
- Clear, specific and indicator-based goals, implementation and control mechanisms.

5.4.2.2. Main Strategy

589) The objectives of the Communication Strategy are as follows:

- Enhance the interest and level of participation of wide layers of the population in the programme;
- Enhance the awareness of the population of the history, content and processes of the EDPRP.

590) The Communication Strategy consists of the following nodal components:

- Establish support structures for the population: public participation in the programme should acquire the form of a civic movement, involving individuals, professionals, non-government and party organizations in the process of elaborating and monitoring. After holding public meetings, it is necessary to set up volunteers' contact groups comprised of physical and legal persons with communication facilities that will have direct communication links with the coordination group of the communication campaign (the Bureau) and media (for more details see 5.4.3.2 Institutionalization of Participation on page 70); Furthermore, it is planned to establish media groups and educate them in vital social and economic issues concerning the implementation of the programme.
- Educational information: sociological studies demonstrated that without knowledge of a market economy, the active involvement of society in the programme might result in serious mistakes. Thus, public relations will be focused on information supply (see 628), as well as enhancing public competence in economic and social issues.
- Psychological background for participation in the programme: poverty is not purely the fact that certain people are helpless in respect to new economic and social processes. Poverty has been conditioned by an "ideology of helplessness" prevalent in society as a whole. Due to the efforts of some politicians and the press, this state of mind is acquiring an epidemic nature and weakens large numbers of people. For the purpose of poverty reduction, efforts will be made to establish common thinking that only *active measures* need to be undertaken to succeed in any endeavour. After public opinion is established, a citizen will arrive at the conclusion that poverty reduction involves his/her own efforts.

5.4.3. Public Participation

591) The strategy consists of two stages (sub-strategies) and will be discussed below separately:

- The first stage aimed to ensure the effective participation of civil society in programme's preparation of (past stage);
- The second phase aims to institutionalize civil society participation in the programme's implementation and maintain its viability (future stage).

5.4.3.1. Public Participation in Preparation of the Programme

5.4.3.1.1. Participation History

592) In accordance with Presidential decree #678 dated July 1, 2001, a government commission and five sub-commissions were set up to prepare the programme. The commission and sub-commissions was coordinated by the secretariat to the government commission.

593) Members of Parliament and representatives of civil society were included in the sub-commissions.

594) The Government of Georgia discussed and approved interim document (I-PRSP) in November 2000. It received a positive appraisal from the international financial institutions.

595) The Secretariat to the governmental commission launched public discussions of the document. Consultative meetings with various representatives of civil society were held in the capital and the regions. Given the interest of the public, in October 2001, in lieu of the final document, the Secretariat published discussion materials prepared by the sub-commissions.

596) To assist the participatory process, information/working papers and discussion materials were published on the Internet and through the library network (both in the centre and in the regions).

597) Publication of the discussion materials laid the foundation for a qualitatively new phase of civil society participation in the preparation of the programme.

5.4.3.1.2. Participation Format

5.4.3.1.2.1 Participation Principles

598) Civil society participation was based on the following principles:

- Accountability
- Equality
- Organization
- Transparency
- Productivity

599) Participant rights expanded in parallel with the level of participation. Responsibilities were increased as well. The defining of responsibilities and agreement on participation produced an effort based upon teamwork. Accountability implies high quality of the remarks and proposals, observance of participation rules (e.g. response to correspondence within a set time), and also compliance with professional ethics.

600) All the participants enjoyed equal rights and opportunities:

- To provide remarks and proposals;
- To receive responses on those remarks and proposals.

601) Participation required agreed and coordinated efforts of the participants, especially considering the complexity and productivity requirements. Participation could not be productive if not organized properly. Organization meant the preparation of a uniform format, adoption and adherence to it.

602) The uniform format provided for:

- The submission of written comments and suggestions within a set time;
- Definition of the form to respond to suggestions and comments (duration of the review, response procedure, terms for remote and face-to-face discussions);
- Definition of the forms of communication/information sharing between actors.

603) For organisation purposes, it was recommended to sign a memorandum between the government (Secretariat to the governmental commission) and major participants (for example, civil society coalitions). This memorandum confirmed participation in a clear format that was acceptable for the parties.

604) Constructive participation was impossible without trust. Openness and transparency were needed for trust to exist.

605) Participation and the entire process of preparation were transparent and open. For example, any participant could discover the rationality behind any decision (rejection or acceptance of alternatives).

606) Participation was not an end itself. External (quantitative) aspects were not important. What was important was its fruitfulness (internal aspects).

607) Participation was productive if it was followed by two outcomes:

1. The Programme Document was as comprehensive possible and as well thought out as possible:
 - 1.1. Usable and useful
 - 1.2. Dynamic
2. Public awareness of the Programme is evident.

608) The scope of participation (quantitative aspects) and productivity (qualitative side) are, to some extent, incompatible. The principle of balancing scope and quality was applied. The initial emphasis was made on the volume of participation – contribution of each participant (stakeholder). Together with progress in preparation, i.e. in proportion to the technical difficulty of the process, the quantitative aspect of participation was superseded by productivity. Contribution was according to capacity (skills) and not mere desire. The transformation into a qualitative process was evidenced by the setting up of an editorial board in the final stage of the elaboration of the programme (see617).

5.4.3.1.2.2 Participation Forms

609) In accordance with the conceptual framework and general plan, several forms of participation were defined:

4. Attended participation:
 - 4.1. working meetings
 - 4.2. debates
 - 4.3. workshops
 - 4.4. conferences
5. Non-attended (distant) participation: exchange of (supply and reaction to) opinions, remarks.

610) The participation format was considered beneficial if it enabled the participants to enhance the programme.

5.4.3.1.3. Participation Outcomes

611) The basic outcome of participation is the qualitative difference between the interim document, discussion materials and the final document. This was secured through the joint efforts of the government and civil society.

612) The foundation has been laid for effective participatory mechanisms for civil society in the implementation stage.

613) In addition to the participatory process contributed to civil society development and started a new tradition of productive dialogue between the government and civil society.

614) The active involvement of civil society made the responsibility of policy makers clearer – to make concrete choices among proposed alternatives based on appropriate arguments.

615) Civil society participation was intensive both in analysis and in the formulation of the programme (definition of cause-effect relationship of the issues, identification of objectives and focus of the programme in interactive, working process between the representatives of the society and the government).

616) The following defined the scope and qualitative side of participation:

- A conceptual framework and organizational format has been mapped out and introduced:
 - Conceptual framework-document of participation has been worked out, discussed with stakeholders and disseminated in civil society;
 - A participation master plan has been devised and adopted by the stakeholders.
- A memorandum of cooperation has been drawn up between the government (Secretariat to the government commission) and representatives of civil society that defines the responsibilities of the parties and the format of working relations (signed between the Secretariat and one of the coalitions of non-governmental organizations (NGOs)).
- A database of representatives of civil society has been created that enabled the secretariat to communicate with and invite representatives from 750 NGOs via electronic or ordinary mail to take part in the programme preparation.
- A special web site was created to communicate and coordinate efforts between and accessibility to the information of the participants. Updates, remarks and proposals were and continue to be regularly placed on this web page.
- Mechanisms for civil society integration development programmes/activities were introduced in parallel to civil society participation. For example, within the framework of the Georgian Community Mobilization Initiatives Project, working meetings were held with the representatives of up to 400 community organizations to secure their input into decision-making processes regarding the programme. Methodologies/instruments were worked out that enabled the effective involvement of the civil society groups such as community-based organizations, in the decision-making processes in the elaboration process of EDPRP.
- Between December 2001 and May 2002, two coalitions of NGOs held a series of debates and working meetings (more than 30 meetings in all) and discussed sectoral issues, cause-effect relationship analysis (building of so-called “problem tree”) within the framework of the programme. They also considered conceptual issues and ways to reach consensus (e.g. on principles of social assistance, distribution of allowances, development of information society, gender issues, etc.). Representatives of the government sub-commissions took part in these meetings. The materials were publicized regularly on the Internet.
- As a result civil society engagement the programme objectives changed from a sectoral approach to one based upon issues. In May 2002, materials prepared by civil society were refined and discussed by each sub-commission. NGOs and academia took an active part in the work of the sub-commissions.

617) Civil society was involved in the editorial board. Indeed there were an equal number of representatives from the sub-commissions and civil society. The final document is the product of joint efforts and it is impossible to distinguish which particular section, approach or element belongs to the government or civil society. The participatory process was therefore more than satisfactory. The editorial board drafted the document on the basis of the materials prepared by the sub-commissions, civil society and initial discussion materials. In the course of drafting the editorial board organized technical workshops. Sub-Commission members, senior officials including ministers, Members of Parliament and experts from NGOs attended these workshops. Concrete topics, structural and notional issues were re-discussed and reconciled. Given the need to exercise a multi-sectoral approach oriented on issues and objectives, Sub-Commissions members took part in the working process simultaneously.

618) Civil society participation was facilitated by financial and technical assistance from donor and international organizations. In the course of the process, mechanisms for the sustainability of society’s participation emerged. Again, the willingness, skills of the parities, mechanisms of close cooperation became prerequisites for effective

participation and the financial support from donor organizations was important to initiate this process and conduct it at a high technical level.

5.4.3.2. Institutionalization of Participation

619) The experience of public participation in the programme preparation process showed:

- **The extent** to which is necessary and beneficial to have a permanent dialogue between government and society to ensure high quality and productivity of the process
- **How** this dialogue should be conducted at various levels, taking into account specificities existing in Georgia (governance system, cultural environment, public awareness and behaviour, maturity and technical readiness of civil society).

620) From the start, it was stated clearly that the programme should be a live document. While it would be foolhardy to suggest that the document is perfect it provides a good basis where areas can be improved in the course of implementation. Specifically as the programme moves to the implementation phase it will be possible to:

- Reply to unanswered questions and make policy choices that was not possible during the preparation phase due to the absence of corresponding evidence and sectoral development concepts;
- Review the measures prescribed on the basis of results of the monitoring and evaluation.

621) During implementation:

- A process similar to the participation of civil society will be continued, but with a longer time scale and more focus on certain components;
- New perspectives for participation will be outlined for the purpose of monitoring and evaluation.

622) Participatory processes together with their mechanisms (technology) are targeted long-term. Participation requires the continual involvement of various groups of civil society at central and local levels. The diversity of participants, geographic range and complexity of the process requires a high level of coordination (vertical – sectoral, horizontal – administrative-geographic). As a consequence the institutionalization of participation will be inevitable.

623) The Institutionalization of participation can be divided into two parts:

1. Participation in management:
 - 1.1. supplement, expansion and improvement of the programme
 - 1.2. monitoring implementation and evaluation of outcomes.
2. Participation in implementation of the measures envisaged by the programme (sectoral measures):
 - 2.1. on-site participation
 - 2.1.1. in self-governance, namely in budget planning and execution process
 - 2.1.2. in implementation of concrete programmes on-site
 - 2.2. Participation at the central level.
 - 2.2.1. in budget planning and execution process
 - 2.2.2. in definition of sectoral policy
 - 2.2.3. in legislative activity

624) Institutionalization mechanisms in the implementation management (1.1) and civil society involvement in the process of updating and monitoring/evaluation (1.2) are discussed separately below.

625) Institutionalization of public participation (#2.1 and #2.2) is discussed in Public Participation Strategy in Governance in the next Section (see 5.4.3.3 Public Participation in Local Governance on page 73).

5.4.3.2.1. Participation in the Implementation of the Programme

626) The rudiment of institutionalization emerged in the process of civil society participation in the preparation phase. This referred mainly to the establishment of NGOs' coalitions at the central level and their readiness to direct efforts for implementation with independent resources or donor support.

627) The Programme provides for:

3. General measures:
 - 3.1. accessibility to information (materials);
 - 3.2. preparation of participators (in the centre and in the regions);
 - 3.3. setting up coordination structures of participation.
4. Group-specific measures:

- 4.1. generation of interest and preparation of Parliament;
- 4.2. involvement of NGOs (civil society);
- 4.3. involvement of employer/business associations and professional unions.

628) Accessibility to information (materials): from the technical viewpoint, the programme is a complex document. For the purpose of institutionalization, it will be required to prepare a simplified summary and publish it widely. The full technical document will be made available for anyone who may wish to have it. In addition to the summary, discussion and the production of educational materials about the Programme will be encouraged.

629) Preparation of participants (both in the centre and in the regions): the second necessary step will be to prepare civil society: a) in general issues of project cycle management; and b) in issues related to programme-specific measures: budget management, social safety, governance, etc. Experience acquired in preparing the programme and consultations held with community organizations and NGOs (up to 400 organizations) suggest the need for capacity building with civil society actors.

630) Civil society should be prepared in a passive way (producing educational materials via internet and media) in accordance with the availability of the resources and in an active way (training programmes of various duration targeted for various types of audience in the centre and regions). These components supplement interventions planned in the programme that mainly create a general background and interest of broad layers of society in the programme (see Sections 5.4.2 Communication Strategy and 5.4.2.2 Main Strategy above).

631) Establishment of participation coordination structures: coordination structures will be set up in either direction: top-down and bottom-up.

632) Top-down institutionalization will be an integral part of the entire implementation process and is, therefore, discussed in the relevant section (see 5.2. Coordination and Monitoring on page 62). It entails the formalization of a permanent working process between central government and coalitions of NGOs through meetings of working groups, sectoral commissions, round tables, etc.

633) The bottom-up approach will be based on and keep pace with the development of civil society through various initiatives for community mobilization and interventions in the field of governance and democracy development. Projects financed by international organizations can play a significant role in this respect. GCM (Georgian Community Mobilization Initiative) under the aegis of USAID is especially noteworthy in this regard. Within the framework of introducing the programme Public Monitoring Regional Centres (may be, as a result of consolidation of one or several NGOs) will be set up and government and non-government organizations, citizens and informal groups (interest groups) will use the services of these centres on equal terms. These centres will: a) disseminate information; b) enhance civil education; c) provide qualified explanatory and consultative services on specific issues of the programme (objectives, principles, interventions, etc.).

634) Civil society participation in implementation management will equip citizens with realistic mechanisms to influence policy. In future, these mechanisms will be replaced by or transformed into a democratic governance system. Within the framework of the programme itself, the focus will be made to establish bilateral, efficient links between the process of civic activity at the grassroots level and the making of policy decisions at the central level. To this end, both government and non-government channels will be used equally (so called vertical networks built on association of the community, district and regional organizations, or the sectoral networks, for example: unions of human rights protection organizations). To organize this it is necessary to ensure high-level coordination between representatives of government and civil society, as well as between international organizations and donors.

635) Parliamentary interest: Parliamentary participation is considered to be the best (though not the only) form of institutionalization of civil society participation. Parliament itself represents the highest form of institutionalizing public participation in the management of the country. Parliament will be a connecting bridge between specific actions at grassroots level and decision-making at the central level via vertical channels of democratic governance and active dialogue with civil society. Finally, Parliament participation in the implementation will derive from the budget debate and public hearings.

636) In preparation stage, regional specificities were identified in the activity of civil society, the practice (willingness, skills and experience) of dialogue with government bodies and the level of involvement in decision-making process at grassroots levels. Efforts will be directed to adjust regional inequalities. One of the mechanisms to this end will be the application of technical workshops, public hearings, round tables, solicitation (mediation), for institutionalization purposes based on one of the components – social policy analysis and support under the Georgia Community Mobilization Initiative Project.

637) NGO involvement: to institutionalize civil society participation, it will be necessary to share and publicize success stories (precedents, examples). The main function of the coordination structures of participation will be to state and analyze success cases, and ensure access of each participant to practical recommendations. Regular

exchange of successful experience will have not only a technical value but will also encourage enthusiasm for the programme among the sceptical and relatively passive part of society.

638) Employer/business associations and professional unions: professional unions and associations as well as employer organizations (at present mainly business associations) are considered to be special forms in mobilizing society. It is necessary to intensify and systemize their participation in order to ensure the development of dialogue and cooperation processes between government and civil society. Instruments like round tables and technical workshops will be used.

5.4.3.2.2. Participation in Monitoring and Evaluation

639) A necessary condition for institutionalizing participation is agreement between government and civil society on the basic objectives of the programme and an indicator network of outcomes of directions and targets.

640) Two considerations have been taken into account in this respect:

- Institutionalization of civil society participation in monitoring and assessment should primarily serve to evaluate the efficiency and status of development of the actions envisaged by the programme and not only to evaluate its final impact in terms of poverty reduction and economic growth levels.
- Institutionalization is a progressive step in terms of civil society development, but its contribution to the success of the programme will be modest without civil society having realistic leverages of influence on the process. Unless these leverages are in place, the sustainability of participation in the monitoring and evaluation will become doubtful as there will be a gradual diminution in motivation.

641) The Programme will set up an independent, analytical centre and support its role in assessing programme outcomes. This centre will be a powerful public institution and will analyze socio-economic information. It will mobilize the intellectual resources of the country and establish the practice of evidence-based policy making. The centre will conduct empirical research regarding the implementation of the programme; assess the impact of this or that policy, and make mid and long-term macroeconomic models and forecasts.

642) Parliament will evaluate the development and achievement of programme objectives (targets). A quarterly reporting system will be introduced between parliament and relevant executive agencies responsible for programme implementation. Parliament will assess the efficiency of the executive on the basis of the indicators or on the basis of the progress made in specific interventions. Parliament will be fully authorized to not only learn about the results of assessment, but also to make an impact on the development of the programme and may raise the issue of executive responsibility on behalf of society.

643) To assist the institutionalization of civil society participation in the monitoring and evaluation, instruments such as public hearings, workshops, and quantitative and qualitative research will be applied. Special importance will be assigned to establish horizontal (geographic) and vertical (sectoral) networks of NGOs that will monitor and evaluate the actions envisaged in the programme on a regular basis.

644) One instrument will be an Annual National Conference. All stakeholders from government, civil society, international organizations and donors will be invited to these conferences. They will discuss and analyze the successes and failures of the programme, work out practical recommendations, and define the ways to revise or update the programme. The conferences will be preceded by preparatory works at the centre and in the field. Similar representative meetings will be organized at a regional level, where materials for the national forum will be prepared. The EDPRP Coordination and Monitoring Bureau will coordinate the organization of the conferences and all related preliminary meetings and activities. To this end, in addition to the conferences, quarterly meetings will be held with participation of government and the civil society to summarize quarterly outcomes. Various other meetings will also be held to assess sectoral issues in the programme. During these meetings, the active part of civil society will be identified, who will then participate in national conference. The findings, recommendations and proposals made at the conference will be submitted to the government for its consideration. The Bureau will prepare amendments to be incorporated in the programme based on those findings, recommendations and proposals, and submit them to the President and government for approval.

645) The Bureau will facilitate the deepening of coordination between the government and the international community. It will organize specific meetings twice a year between the government and the donors. These meetings will be dedicated to discussions of the important issues related to the programme.

646) The government will also promote the initiatives of the non-governmental sector to monitor and assess implementation independently (be that monitoring and analysis of the entire programme, or accomplishments in a specific sector). At the same time, the government will be open to active cooperation with representatives of civil society related to the issues in the programme.

5.4.3.3. Public Participation in Local Governance

647) The single main achievement of institutionalization of civil society participation will be the involvement of the public in local governance. This is not confined only to active participation of society in decision-making as a necessary condition for democratic governance (duly discussed in the relevant section on governance). It also includes various stages and levels of participation that provide not only for decision-making but also for sharing responsibilities and risks and taking actions (policy implementation).

648) It is obvious that the programme will not be implemented only at the centre or at the highest levels of government. It is a process that requires actions on the ground. Such developments are not only the responsibility of local government. Basic actions and the majority of objectives cannot be fulfilled if the burden of the programme is transferred to the government, while society stays passive or acts as an independent observer. Numerous objectives and measures cannot be performed by local government alone. These include changes to the business environment, improving living standards for marginal groups (social services), and environment protection activities.

649) The level of public activity required for programme implementation cannot be attained without the involvement of society. Thus, for the success of the programme, it is very important to gauge how feasible is it to move through the stages and levels of public participation from identification to implementation of a policy, assessment of outcomes (participation stages), consultation to partnership and self-governance (participation levels).

650) All these components of public participation in programme implementation represent the pre-condition of institutionalization of the involvement in governance. In addition, efforts will be made in the following three directions:

- Civil education
- Technical education in specific issues like: budget process (design, decision-making, control on allocation and sharing of responsibility), social protection (social benefits and services), and education.
- Best practice sharing.

6. Annexes

Annex 1: Plan of activities¹⁰

ACTIVITIES	IMPLEM. DATE	RESPONSIBLE AGENCIES
Improvement of Governance		
1 Development of a comprehensive, long term concept and action plan of executive government reform	Q IV, 2003	State Chancellery, relevant executive government bodies
2 Development of a programme to improve structure and number of employees in organizations under budgetary financing	Q IV, 2003	State Chancellery, Ministry of Justice, Ministry of Finance
3 Preparation and introduction of codes of conduct for civil servants; Strengthening of public control on the performance of civil servants	From Q IV, 2003	State Chancellery
4 Improvement and phased expansion of the system of declaration of financial and property status of government employees	From Q IV, 2003	Bureau of declaration of financial and property status; Ministry of Finance
5 Preparation of draft bill on inspectorate generals	The draft bill is submitted to the Parliament	Ministry of Justice
6 Inventory of normative acts defining the competence of government agencies to avoid duplication of local government functions	From 2004	State Chancellery, Ministry of Justice
7 Improvement of normative acts regulating the activities of self-government bodies and main administrative bodies of local governance	Q I, 2004	State Chancellery, Ministry of Justice
8 Improvement of legislative regulation of budgetary processes at municipality level	From Q I, 2004	State Chancellery, Ministry of Justice, Ministry of Finance
9 Distinction of municipal property from central government and private property	From Q I, 2004	State Chancellery, Ministry of Economy, Industry and Trade, Agency of State Property Management, Ministry of Justice, Ministry of Finance
10 Improvement of enforcement mechanisms from court rulings	From Q I, 2004	Ministry of Justice
Macroeconomic Stability		
11 Preparation of indicative plans of development for the economy for 2004 and 2005	Q IV, 2003 and 2004	Ministry of Economy, Industry and Trade
12 Initiation and methodological support for econometric modelling of macro and microeconomics	During 2003	Ministry of Economy, Industry and Trade
13 Conduct an analysis of the impact of public expenditure on poverty	2003-2004	Ministry of Finance
14 Preparation of monetary policy for 2004 and 2005 in line with programme objectives	Q IV of 2003 and 2004	National Bank
15 Initiation of gradual consolidation of required reserves and correspondent accounts of commercial banks	From 2003	National Bank
16 Initiate the process to convert a portion of government debt liabilities into long term debt instruments	From 2004	National Bank

¹⁰ The Bureau of Coordination and Monitoring of the Economic Development and Poverty Reduction Programme will be responsible for monitoring the implementation of the measures envisaged under the plan of activities, while the Anti-Corruption Bureau will be monitoring the implementation of Improvement of Governance measures

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ACTIVITIES	IMPLEM. DATE	RESPONSIBLE AGENCIES
17 Improvement in the management of international reserves of the NBG	2003-2004	National Bank
18 Completion of tax and customs administration reform	2003-2004	Ministry of Finance, State Tax and Customs Departments
18.1 Reorganize the Special Legion within the Ministry of Finance and turn it into a body with investigative functions to fight economic crime. Appropriate material-technical equipment for the Special Legion; 18.2 Set up respective service within the Tax Department that will control the settlement process of physical persons with the budget; 18.3 Appropriate material-technical equipment for the customs checkpoints; 18.4 Introduction of a satellite control system for imported cargo.		
19 Implementation of treasury reform, centralization of treasury service; development and introduction of commitment accounting and control system; development and introduction of expenditure control system	2003-2004	Ministry of Finance
20 Improve government procurement system and expand scope of its coverage	Q IV, 2003	State Procurement Department, Ministry of Economy, Industry and Trade
21 Gradual increase of the share of targeted programmes in the state budget	2003-2005	Ministry of Finance, Ministry of Economy, Industry and Trade
22 Inventory of budgetary arrears	Q III, 2003	Ministry of Finance
23 Increase the number of participants in treasury bill market and improve bidding mechanisms to increase maturity and reduce the discount rate through market: 23.1 Promotion of treasury bill sales at secondary markets; 23.2 Introduce mechanism of "direct purchase of treasury bills".	2003-2005	Ministry of Finance, National Bank, National Commission of Securities
24 Develop legislation promoting the activities of investment funds in order to introduce best corporate management practice in enterprises and develop stock market	Q I, 2004	Ministry of Finance, National Commission of Securities
25 Promote development of private voluntary insurance systems	2003-2005	State Service of Insurance Supervision
26 Prepare and adopt bill "on Personification and Registration of Insurance Contributions to Social Insurance System" required for regularizing first (distributive) pillar of pension system and development of pensioners' personified registration system	Q III, 2003	Ministry of Labour, Health and Social Protection
27 Prepare and adopt bill "On Compulsory Social Insurance Pensions" on the basis of length of insurance and amounts paid as insurance contributions in order to introduce insurance principles in the pension system and differentiate pensions	Q III, 2003	Ministry of Labour, Healthcare and Social Protection
28 Prepare bill "on Compulsory Social Insurance" to separate obligations of the government and United Social Protection Fund, identify insurance cases and phased reduction of the social tax rate	Q III, 2003	Ministry of Labour, Health and Social Protection
29 For private pension funds, adopt statutory normative acts in accordance with the laws "on Non-Government Pension Funds" and "on Securities Market"	Q II-IV, 2003	National Commission of Securities, Ministry of Labour, Healthcare and Social Protection
30 Prepare amendments to the Tax Code and investment rules of pension assets to promote the development of non-banking financial sector, including non-government voluntary insurance system	Q II-IV, 2003	Ministry of Finance, State Service of Insurance Supervision, National Commission of Securities
31 Develop proposals to introduce private insurance mechanisms for the state and municipal real estate against damage from natural disasters (earthquake, landslide, floods and others) difficult to indemnify	Q IV, 2003	Tbilisi Municipality, State Service of Insurance Supervision

ACTIVITIES	IMPLEM. DATE	RESPONSIBLE AGENCIES
Structural Reforms		
32 Analyse economic legislation and prepare proposals for improvements and simplification	Regularly	Ministry of Justice, Ministry of Economy, Industry and Trade, Ministry of Finance together with other Ministries
33 Establish and strengthen competition at domestic markets:		
33.1 Assess magnitude and share of smuggled goods and those manufactured in the informal sector of the economy by various commodity groups;	Regularly	Ministry of Finance, Ministry of Economy, Industry and Trade, State Department of Statistics
33.2 Study the causes of the shadow economy and prepare proposals to reduce its volume;	Regularly	Ministry of Economy, Industry and Trade and other concerned ministries and agencies, local government and self-government bodies, CERMA
33.3 Implement measures to combat falsification, exercise control on the quality of manufactured products and adhere to existing standards;	Regularly	State Department of Standardization, Metrology and Certification; Ministry of Economy, Industry and Trade; Ministry of Agriculture and Food
33.4 Prepare proposals on business legalization and coordinate implementation measures;	2003-2005	Ministry of Economy, Industry and Trade, Ministry of Finance
33.5 Reinforce control on the origin and quality of products;	Regularly	"Sakstandard"; Ministry of Economy, Industry and Trade together with line ministries and business associations
33.6 Increase effectiveness of anti-monopoly legislation and administration; improve criteria to identify monopolistic companies and regulate monopolistic behaviour; enhance efficiency of consumer rights protection	Regularly	State Anti-Monopoly Service, Ministry of Economy, Industry and Trade
33.7 Increase anti-monopoly control over natural monopolies (electricity, gas, railway and others)	Regularly	State Anti-Monopoly Service; Ministry of Economy, Industry and Trade
34 Develop proposals to encourage investment:		
34.1 Prepare proposals to improve the system of controlling agencies;	Q IV, 2003	Ministry of Economy, Industry and Trade; Ministry of Finance; Ministry of Justice
34.2 Simplify and introduce transparent mechanisms for licensing entrepreneurial activity;	During 2003	Ministry of Economy, Industry and Trade; Ministry of Justice and other line ministries
34.3 Prepare measures to increase investment climate in certain areas of the economy	2003-2005	Ministry of Economy, Industry and Trade; Ministry of Finance and other line ministries
34.4 Prepare proposals for state support in investment projects of national importance and coordinate their implementation;	2003-2005	Ministry of Economy, Industry and Trade; Ministry of Finance and other line ministries
34.5 Intensify cooperation with international financial institutions and the donor community and promote investment activity to attract foreign investment	Regularly	Ministry of Economy, Industry and Trade; Ministry of Foreign Affairs; Ministry of Finance; line ministries and agencies
35 Measures to intensify innovation:		
35.1 Identify government policy in innovation and prepare proposals to promote innovation	2003	"Sakinovation", Ministry of Economy, Industry and Trade; Department of science and Technologies, Ministry of Finance.
35.2 Improve legislative-normative framework for innovation, adopt law on innovation;	2003-2004	"Sakinovation", Ministry of Economy, Industry and Trade; Department of Science and Technologies.
35.3 Prepare comprehensive medium and long-term development programme for innovation and promote creation of adequate infrastructure.	2003	"Sakinovation", Ministry of Economy, Industry and Trade; Ministry of Finance; Department of Science and Technologies, Line Ministries
36 Implement export promotion measures:		
36.1 Create system for export credits and insurance	2003	Ministry of Economy, Industry and Trade; Ministry of Finance;
36.2 Establish information provision and other special institutions for export promotion	2003-2005	Ministry of Economy, Industry and Trade; Ministry of Finance;

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ACTIVITIES	IMPLEM. DATE	RESPONSIBLE AGENCIES
36.3 Facilitate external trade; promote application of privileges granted through WTO membership;	Regularly	Ministry of Economy, Industry and Trade; Ministry of Foreign Affairs; Ministry of Finance
36.4 Analyse legal regulations for customs, transit and general border crossing procedures and prepare proposals to simplify them.	2003-2005	Ministry of Finance; Ministry of Economy, Industry and Trade
37 Harmonize system of standardization, metrology and certification with international norms	2003-2005	State Department of Standardization, Metrology and Certification; Ministry of Economy, Industry and Trade; line ministries
38 Promote the introduction of international accounting standards	2003	Accountants' Association of Georgia
39 Prepare proposals for training and retraining specialists employed in various sectors of the economy and strengthen links between higher education and business	2003-2005	Ministry of Labour, Health and Social Protection; Ministry of Education; Ministry of Economy, Industry and Trade
40 Full statistical coverage of Georgian enterprises, improve business registration	2003	State Department of Statistics
41 Study small and medium business, develop proposals to promote their activity	Regularly	Ministry of Economy, Industry and Trade; Centre for Development and Promotion of Small Enterprises; Ministry of Finance; State Department of Statistics
42 Study the demand side of the labour market	Regularly	State Service of Employment
43 Implement programme of state support for small and medium enterprises	2003-2004	Ministry of Economy, Industry and Trade; CERMA; Centre for Development and Promotion of Small Enterprises; relevant ministries and agencies
44 Increase transparency in state owned companies, introduce best practice of corporate management, develop securities market, attract capital into companies:	2003	Ministry of Economy, Industry and Trade; Agency of State Property Management, National Commission of Securities
44.1 Transform large state owned companies primarily into Joint Stock Corporations;	2003	Ministry of Economy, Industry and Trade; Agency of State Property Management, National Commission of Securities
44.2 Transfer not more than 51 percent of stock shares of these corporations to strategic investors in the process of privatization and sell remaining shares through stock exchange auctions;	2003	Ministry of Economy, Industry and Trade; Agency of State Property Management, National Commission of Securities
44.3 Establish stock exchange auctions as the primary form of privatization of the company shares.	2003	Ministry of Economy, Industry and Trade; Agency of State Property Management, National Commission of Securities
45 Accelerate privatization process of state property, improve state owned property management	2003-2005	Ministry of Economy, Industry and Trade; Agency of State Property Management; line ministries, Ministry of Justice, Ministry of Finance
46 Improve legal mechanisms to distribute dividends and net profit for companies with state participation	2003	Ministry of Economy, Industry and Trade; Agency of State Property Management; Ministry of Finance, Ministry of Justice
47 Improve bankruptcy procedures	Q IV, 2003	Ministry of Justice
48 Support the introduction of a comprehensive system of housing finance	2004-2005	
48.1 Study the housing sector and elaborate its development	Q I, 2004	Secretariat to the Foreign Investment Advisory Council under the President of Georgia
48.2 Prepare draft normative acts required for the development of a housing finance system	Q IV, 2004	Secretariat to the Foreign Investment Advisory Council under the President of Georgia; National Bank
48.3 Establish special institute to provide concessional mortgage loans	2005	Secretariat to the Foreign Investment Advisory Council under the President of Georgia; National Bank of Georgia; Ministry of Finance; Ministry of Economy, Industry and Trade

ACTIVITIES	IMPLEM. DATE	RESPONSIBLE AGENCIES
48.4 Attract credit resources from International Financial Institutions required to develop housing finance sector	2005	Secretariat to the Foreign Investment Advisory Council under the President of Georgia; National Bank of Georgia; Ministry of Finance; Ministry of Economy, Industry and Trade
Human Capital Development		
Health		
49 Revise government commitment in healthcare sector to ensure full financing	During 2003	Ministry of Labour, Healthcare and Social Protection; Ministry of finance
50 Further reform healthcare sector to improve the quality of medical service, increase efficiency of private and public funding, improve resource management in state owned healthcare entities	2003-2005	Ministry of Labour, Healthcare and Social Protection;
51 Develop and implement multi-sectoral and state programmes ensuring healthy and safe environment	2003-2005	Ministry of Labour, Healthcare and Social Protection; Ministry of finance and other line ministries
52 Implement targeted programmes for health promotion, prevention of diseases and epidemic control	2003-2005	Ministry of Labour, Healthcare and Social Protection
53 Develop out-patient service programmes	2003-2005	Ministry of Labour, Healthcare and Social Protection
54 Develop a programme of medical provision for specific patients	2003-2005	Ministry of Labour, Healthcare and Social Protection
Education		
55 Improve the system of state orders concerning the condition of the labour market and available budgetary resources	2003	Ministry of Education, Ministry of Economy, Industry and Trade, Ministry of Culture
56 Introduce international standards to improve the quality of education	During 2004	Ministry of Education, Ministry of Culture
57 Prepare specific state education programmes for orphans, the homeless and those residing in special houses	2003-2005	Ministry of Education
58 Develop programmes for basic education	2003-2005	Ministry of Education, Ministry of Culture
59 Create a model system for professional training	2003-2005	Ministry of Education, Ministry of Labour, Healthcare and Social Protection
60 Create professional standards	2003-2005	Ministry of Education, Ministry of Labour. Healthcare and Social Protection
Science and Technology		
61 Form information network covering the entire country	2003-2005	State Department of Information Technology
62 Establish database of legal information for the public	2003-2005	State Department of Information Technology
63 Establish database of commercial and economic information for the public	2003-2005	State Department of Information Technology
64 Establish public database of geographic information	2003-2005	State Department of Information Technology
65 Computer literacy for students and the public	2003-2005	State Department of Information Technology
Social Risk Management		
66 Define the nature and periodicity of government commitments in the social sector to ensure full financing	2003	Ministry of Labour, Healthcare and Social Protection; State Social Security Fund; Ministry of Finance
67 Enforce package of draft bills on compulsory social insurance	2004-2005	Ministry of Labour, Healthcare and Social Protection, State Social Security Fund
68 Introduce system to register employees, employers and pensioners	Q IV, 2003	Ministry of Labour, Healthcare and Social Protection, State Social Security Fund
69 Phased repayment/securitization of pension arrears	2003-2005	Ministry of Labour, Healthcare and Social Protection, State Social Security Fund
70 Phased increase of pensions	2004-2005	Ministry of Labour, Healthcare and Social Protection, State Social Security Fund

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ACTIVITIES	IMPLEM. DATE	RESPONSIBLE AGENCIES
71 Model and monitor fiscal sustainability parameters of the pension system based on compulsory social insurance	From 2003	Ministry of Labour, Healthcare and Social Protection, State Social Security Fund
72 Develop state social security strategy with conceptual vision on social security in the country, approaches and instruments of social risk management	2003	Ministry of Labour, Healthcare and Social Protection; Ministry of finance State Pension Fund, Ministry of Finance
73 Introduce principles of selectivity instead of principles of universalism in social assistance programmes. Improve assessment criteria	From 2003	Ministry of Labour, Healthcare and Social Protection; Ministry of finance State Pension Fund
74 Decentralize social assistance and increase responsibilities of local government bodies	From 2003	Ministry of Labour, Healthcare and Social Protection; Ministry of finance State Pension Fund
75 Implement programmes of pension repayment	During 2003-2005	Ministry of Labour, Healthcare and Social Protection; Ministry of finance State Pension Fund, Ministry of Finance
76 Implement social assistance programmes for temporary disability	2003-2005	Ministry of Labour, Healthcare and Social Protection; Ministry of finance State Pension Fund, Ministry of Finance
77 Implement household assistance social programmes	2003-2005	Ministry of Labour, Healthcare and Social Protection; Ministry of finance State Pension Fund, Ministry of Finance
78 Implement Intensive Employment Policy 78.1 Develop institutions supporting small businesses and employment 78.2 Develop and enhance accessibility of private consultative centres (associations) for the unemployed and small-scale entrepreneurs 78.3 Develop business incubators' network 78.4 Develop "guarantee institutions" 78.5 Facilitation the formation of leasing companies 78.6 Develop micro lending organizations – create legislative framework 78.7 Facilitate the formation of venture companies 78.8 Implement concessional (preferential) micro lending programmes	2003-2005	Ministry of Economy, Industry and Trade, Ministry of Labour, Healthcare and Social Protection
Economic Priorities		
Energy Sector		
79 Reorganize electricity wholesale market to resume the functions of financial and technical operator	Q II, 2003	Ministry of Fuel and Energy
80 Amend tariff policy in line with model of wholesale market and consider liberalization of prices	Q III, 2003	Ministry of Fuel and Energy; National Regulatory Commission of Energy; Ministry of Economy, Industry and Trade
81 Improve collection for electricity and gas use	2003-2005	Ministry of Fuel and Energy
82 Approve strategy to manage energy sector debts	2003	Ministry of Fuel and Energy, Ministry of Finance
83 Transfer energy sector companies, including National Distribution Company under management contract in accordance with existing strategy	2003-2005	Ministry of Fuel and Energy
Transport and Communications		
84 Improve transport regulatory administration	During 2003	Ministry of Transport and Communication
85 Restructure and privatize maritime, railway and communication infrastructure	2004-2005	Ministry of Economy, Industry and Trade, Agency of State Property Management, Ministry of Transport and Communication
86 Analyse transit duties (tariffs) and transit traffic on the territory of the country and prepare relevant recommendations	Regularly, once in every six month	Ministry of Transport and Communication

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ACTIVITIES	IMPLEM. DATE	RESPONSIBLE AGENCIES
87 Technical monitoring of emergency conditions, restore status of premises and constructions of strategic importance and special complexity of the energy, transportation, communication and construction infrastructure as well as those damaged from earthquakes	2004-2005	Ministry of Economy, Industry and Trade, Ministry of Fuel-Energy, Ministry of Transportation and Communication, State Department of Highways
88 Improve implementation of road construction plan, identify strategic projects and sources of financing	2003	State Department of Highways
89 Promote interest of international and donor organizations and private investors to accelerate road construction in line with prescribed priorities	2003	State Department of Highways
Tourism		
90 Market research tourism and resort potential	2003-2005	State Department of Tourism and Resorts
91 Inventory-certification of resorts and create sanitary protection zones	2003-2005	State Department of Tourism and Resorts
92 Introduce and develop agro tourism	2003-2005	State Department of Tourism; Ministry of Economy, Industry and Trade; Ministry of Finance
93 Establish infrastructure for rescue service	2003-2005	State Department of Tourism; Ministry of Economy, Industry and Trade; Ministry of Finance
94 Prepare special programme to attract additional funding from international donor organizations to develop tourism	2003-2005	State Department of Tourism and Resorts
Agriculture and Food		
95 Establish water consumer associations in rural areas	2003-2005	Ministry of Agriculture and Food, Melioration System Management Department
96 Develop unified geographic computer system of land cadastre and registration	2003-2005	Ministry of Agriculture and Food, State Department of Land Management
97 Establish private veterinary services	2003-2005	Ministry of Agriculture and Food, Veterinary Department
98 Structural reorganization of plants protection services	2003-2005	Ministry of Agriculture and Food, Plant Protection Service
Environmental Protection		
99 Develop radiation safety programme	2003-2004	Ministry of Environment Protection and Natural Resources
100 Prepare sustainable development strategy	2004-2005	Ministry of Environment Protection and Natural Resources
101 Implement project to protect territories in forest ecosystems in the Central Caucasus	2003-2005	Ministry of Environment Protection and Natural Resources; State Department of Protected Territories, Preserve and wild-life preserve; Project Implementation Unit; local government bodies
102 Implement integrated management project for the coastline	2003	Ministry of Environment Protection and Natural Resources; Project Implementation Unit
103 Borjomi-Kharagauli "Open Programme" 103.1 Utility Infrastructure Development Project 103.2 Borjomi-Kharagauli National Park Auxiliary Zone	2003-2004	Ministry of Environment Protection and Natural Resources; State Department of Protected Territories, Conservations and Hunting Entities; Coordination Council; Corporation of Public Law "Water Supply and Sewage System of Borjomi-Kharagauli National Park Auxiliary Zone."
Socio-Economic Conditions in Post-Conflict Zones		
104 Prepare programme to repatriate internally displaced persons, restore destroyed houses and infrastructure, social assistance, employment and development by the time conflicts are resolved politically	2003	Ministry of Refugees and Accommodation, Ministry of Labour, Healthcare and Social Protection; Ministry of Economy, Industry and Trade; other ministries
105 Prepare IDPs and those residing in conflict zones to participate in designing and implementing programmes through national diplomacy and other effective means; develop special communication strategies	2003	Ministry of Refugees and Accommodation, Ministry of Labour, Healthcare and Social Protection; Ministry of Economy, Industry and Trade; Other Ministries

Annex 2: Relationship between Millennium Development Goals and the EDPRP Goals and Objectives

MILLENNIUM DEVELOPMENT GOALS	EDPRP GOALS AND OBJECTIVES
Goal 1: Eradicate extreme poverty and hunger	
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	2.3. Program goals and objectives
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Pending the revision of national MDG targets (the first national report)
Goal 2: Achieve universal primary education	3.4.2 Education (on page 46)
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Indicator of receiving basic education (see Annex 2, indicator# 4.1) Indicator of accessibility of supplementary education (Annex 2: indicator #4.2)
Goal 3: Promote gender equality and empower women	2.4.11 Gender Factors (on page 29)
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015	Indicator of Education of schoolchildren according to gender (Annex 2: 4.18)
Goal 4: Reduce child mortality	3.4 Human Capital Development (on page 45) ¹¹
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	Indicator of under-five mortality (Annex 2: #4.9-4.10.)
Goal 5: Improve maternal health	
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	Indicator of Maternal Mortality (Annex 2: #4.11)
Goal 6: Combat HIV/AIDS, malaria and other diseases	3.4 Human Capital Development (on page 45)
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS	Pending the revision of national MDG targets (the first national report)
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases	Pending the revision of national MDG targets (the first national report)
Goal 7: Ensure environmental sustainability	3.7 Environment (on page 52)
Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	Indicators of Environment Protection (Annex 2: indicators #5)
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water	Indicators of Environment Protection (Annex 2: indicators #5)
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	N/A
Goal 8: Develop a Global Partnership for Development*	
Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system	2.4.4 Harmonization of Legislation with European Union (EU) Legislation (on page 273.1 Governance (on page 32) 3.3.4 Financial Infrastructure (on page 41)
Target 13: Address the Special Needs of the Least Developed Countries	N/A
Target 14: Address the Special Needs of landlocked countries and small island developing states	N/A
Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	3.2 Macroeconomic Stability (on page 34)
Target 16: In co-operation with developing countries, develop and implement strategies for decent and productive work for youth	2.4.10 Youth and Development (on page 29)
Target 17: In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries	N/A
Target 18: In co-operation with the private sector, make available the benefits of new technologies, especially information and communications	3.9 Science and Information (on page 54)

¹¹ One of the reasons these objectives and targets are not explicitly stated in the EDPRP is the existence of and reference in the text to Georgian National Healthcare Policy (410), which provides sectoral framework of health related policy objectives and targets. Recognizing the EDPRP as an overarching policy framework of the country, then its scope has to be reviewed together with existing or pending sectoral policies (with corresponding policy objectives and targets). This comment is equally relevant to MDG #4, 5, and 6

Annex 3: Monitoring Indicators

INDICATORS	TYPE	SOURCE, RESPONSIBLE AGENCY	PERIODICITY OF COLLECTION AND MEASURING	LINK TO MDG
1 Economic development indicators				
1.1 GDP per capita	Final	State Department of Statistics National Accounts	Annual	
1.2 Share of net investments in GDP	Interim	State Department of Statistics, National Accounts	Annual	
1.3 Volume of export and import and its share in GDP	Interim	State Department of Statistics, Balance of Payment, National Accounts, Customs Department	Annual	
1.4 Share of manufactured goods in total export	Interim	State Department of Statistics, Balance of Payment, National Accounts, Customs Department	Annual	
1.5 Share of manufactured goods in GDP	Interim	State Department of Statistics, National Accounts.	Annual	
1.6 Usage of non-renewable energy resources	Interim	State Department of Statistics, Ministry of Fuel-Energy, Ministry of Environmental Protection and Natural Resources	Annual	
1.7 Energy consumption	Interim	State Department of Statistics, Ministry of Fuel-Energy	Annual	
1.8 Usage of renewable energy resources	Interim	State Department of Statistics Ministry of Fuel-Energy	Annual	
1.9 Share of net transfers in GDP	Interim	State Department of Statistics, Ministry of Finance	Annual	
1.10 Share of foreign debts in GDP	Interim	State Department of Statistics	Annual	Target 15 (Goal 8)
1.11 Share of servicing foreign debt in GDP	Interim	State Department of Statistics	Annual	Target 15 (Goal 8)
1.12 Net foreign investment	Interim	State Department of Statistics	Annual	
1.13 Capitalization of resources	Interim	State Department of Statistics	Annual	
1.14 Indicator of impact of sectors	Interim	State Department of Statistics	Annual	
1.15 Share of tax revenue in GDP	Interim	Ministry of Finance	Annual (Quarterly)	
2 Social Indicator				
2.1 Household income	Interim	State Department of Statistics, Household Survey	Annual (Quarterly)	
2.2 Minimum salary in formal sector	Interim	State Department of Statistics, Ministry of Finance, Ministry of Economy, Industry and Trade, Ministry of Labour, Healthcare and Social Security	Annual	
2.3 Average salary in formal sector	Interim	State Department of Statistics, Ministry of Finance, Ministry of Economy, Industry and Trade, Ministry of Labour, Healthcare and Social Security	Annual	Target 1 (Goal 1)
2.4 Average compulsory insurance pension	Interim	State Department of Statistics, Ministry of Labour, Healthcare and Social Security	Annual	Target 1 (Goal 1)
2.5 Compulsory social insurance rate	Interim	State Department of Statistics, Ministry of Finance, Ministry of Labour, Healthcare and Social Security	Annual	
2.6 Compulsory pension insurance rate	Interim	State Department of Statistics, Ministry of Finance, Ministry of Labour, Healthcare and Social Security	Annual	
2.7 Household expenditure	Interim	State Department of Statistics, Sampling Survey of Households	Annual (Quarterly)	

INDICATORS	TYPE	SOURCE, RESPONSIBLE AGENCY	PERIODICITY OF COLLECTION AND MEASURING	LINK TO MDG
2.8 Poverty level	Final /Interim	State Department of Statistics, Sampling Survey of Households	Annual (Quarterly)	Target 1 (Goal 1)
2.9 Poverty depth	Final /Interim	State Department of Statistics, Sampling Survey of Households	Annual (Quarterly)	
2.10 Severity of Poverty	Final /Interim	State Department of Statistics, Sampling Survey of Households	Annual (Quarterly)	
2.11 GINI Index	Final /Interim	State Department of Statistics, Sampling Survey of Households	Annual (Quarterly)	
2.12 Tayl Index	Final /Interim	State Department of Statistics, Sampling Survey of Households	Annual	
2.13 Quintile/Decimal Ratios	Interim	State Department of Statistics, Sampling Survey of Households	Annual	Target 1 (Goal 1)
2.14 Share of non-cash consumption in total consumer expenditure and total income	Final /Interim	State Department of Statistics, Sampling Survey of Households	Annual (Quarterly)	
2.15 Subjective Assessment of Poverty	Final /Interim	State Department of Statistics, Sampling Survey of Households	Annual	
2.16 Proportion of compulsory insurance pensioners in total population	Interim	State Department of Statistics, Ministry of Finance, Ministry of Labour, Healthcare and Social Security	Annual	
2.17 Ratio of participation of employed in compulsory insurance pension system (insured participants/total employed)	Interim	State Department of Statistics, Ministry of Finance, Ministry of Labour, Healthcare and Social Security	Annual	
2.18 Substitution average ratio in compulsory insurance pension system (average pension/average salary)	Interim	State Department of Statistics, Ministry of Finance, Ministry of Labour, Healthcare and Social Security	Annual	
2.19 Ratio of compulsory insurance pension system security (employed/pensioners)	Interim	State Department of Statistics, Ministry of Finance, Ministry of Labour, Healthcare and Social Security	Annual	
2.20 Average life expectancy after retirement according to age	Interim	State Department of Statistics, Ministry of Finance, Ministry of Labour, Healthcare and Social Security	Annual	
3 Sustainability Indicators				
3.1 Share of scientists and engineers engaged in development related surveys	Interim	State Department of Statistics	Annual	Target 9 (Goal 7)
3.2 Share of non-incurred expenditure on development related surveys in relation to GDP	Interim	State Department of Statistics	Annual	Target 9 (Goal 7)
3.3 Ratified Global Agreements	Interim	State Department of Statistics	Annual	
3.4 Main telephone network per 100 capita	Interim	State Department of Statistics, Ministry of Transport and Communications	Annual	Target 18 (Goal 8)
3.5 Accessibility of information	Interim	State Department of Statistics, State Department of Information Technology, Ministry of Transport and Communications	Annual	
3.6 Share of Non-Government organizations in sustainable development	Interim	Bureau of Monitoring and Coordination	Annual	
4 Human capital indicators				
4.1 Indicator of basic education	Interim	Sampling Survey of Households, current statistics on education	Annual	Target 3 (Goal 2)

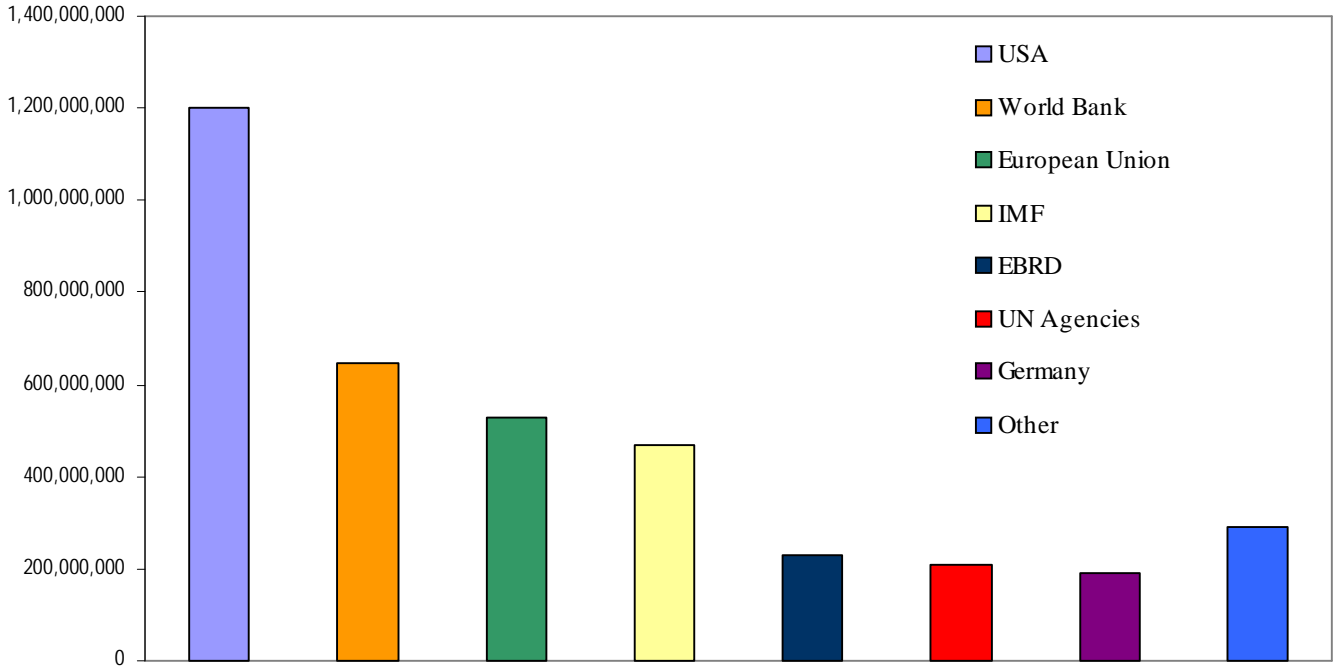
INDICATORS	TYPE	SOURCE, RESPONSIBLE AGENCY	PERIODICITY OF COLLECTION AND MEASURING	LINK TO MDG
4.2 Indicator of accessibility to supplementary education	Interim	Sampling Survey of Households	Annual	
4.3 Budgetary expenditure on education per capita	Interim	Ministry of Finance, State Department of Statistics	Annual	
4.4 Share of budgetary expenditure on education per pupil	Interim	Ministry of Finance, State Department of Statistics	Annual	
4.5 Share of budgetary expenditure on education in GDP	Interim	State Department of Statistics	Annual	
4.6 Indicator of change of population	Interim	State Department of Statistics	Annual	
4.7 Indicator of Birth	Interim	State Department of Statistics, Demographic Statistics	Annual	
4.8 Indicator of Mortality	Interim	State Department of Statistics, Demographic Statistics	Annual	
4.9 Indicator of Infant Mortality	Interim	State Department of Statistics, Demographic Statistics	Annual	Target 5 (Goal 4)
4.10 Indicator of under-five mortality	Interim	State Department of Statistics, Demographic Statistics	Annual	Target 5 (Goal 4)
4.11 Indicator of Maternal Mortality	Interim	State Department of Statistics, Demographic Statistics	Annual	Target 6 (Goal 5)
4.12 Share of expenditure on compulsory insurance pensions in total GDP	Interim	State Department of Statistics, Ministry of Finance, Ministry of Labour, Healthcare and Social Security	Annual	
4.13 Budgetary expenditure on healthcare per capita	Interim	State Department of Statistics, Demographic Statistics	Annual	
4.14 Share of budgetary expenditure on healthcare in GDP	Interim	State Department of Statistics, Demographic Statistics	Annual	
4.15 Budgetary expenditure on immunization and vaccination	Interim	Ministry of Finance, Ministry of Labour, Health and Social Protection	Annual	Target 5 (Goal 4)
4.16 Migration Indicator	Interim	State Department of Statistics, Demographic Statistics	Annual	
4.17 Indicator of population change of school age	Interim	State Department of Statistics, Demographic Statistics	Annual	
4.18 Education of schoolchildren according to gender	Interim	State Department of Statistics	Annual	Target 4 (Goal 3)
4.19 Level of education of population with working age	Interim	State Department of Statistics	Annual	Target 3 (Goal 2) Target 4 (Goal 3)
4.20 Assessment of liquidity of education, functional literacy	Interim	State Department of Statistics	Annual	
4.21 Structure of food consumption	Interim	Sampling Survey of Households	Annual	Target 2 (Goal 1)
4.22 Share of income from economic activity in total income	Interim	Sampling Survey of Households	Annual	
4.23 Share of expenditure on food in total consumption costs	Interim	Sampling Survey of Households	Annual	
4.24 Structure of Household expenditure	Interim	Sampling Survey of Households	Annual	
4.25 Difference between Household income and expenditure	Interim	Sampling Survey of Households, current statistics of work force	Annual	
4.26 Legal income from hired employment	Interim	Sampling Survey of Households, current statistics of work force	Annual	
4.27 Unemployment level	Interim	Sampling Survey of Households	Annual	Target 16 (Goal 8)
4.28 Employment structure	Interim	Sampling Survey of Households	Annual	
4.29 Share of hired employment in total employment and employment structure	Interim	Sampling Survey of Households, current statistics of work force	Annual	Target 4 (Goal 3)

INDICATORS	TYPE	SOURCE, RESPONSIBLE AGENCY	PERIODICITY OF COLLECTION AND MEASURING	LINK TO MDG
4.30 Share of self-employed in non-agricultural sectors in total self-employment	Interim	State Department of Statistics	Annual	Target 4 (Goal 3)
4.31 Share of women in labour force	Interim	State Department of Statistics	Annual	
5 Indicators of Environment Protection				
5.1 Indicator of land cadastre	Interim	Department of Land Management	Annual	
5.2 Indicator of arable lands	Interim	State Department of Statistics	Annual	
5.3 Indicator of fertilizer consumption	Interim	State Department of Statistics, Ministry of Agriculture and Food	Annual	
5.4 Indicator of land erosion	Interim	Ministry of Agriculture and Food	Annual	
5.5 Indicator of forest resource usage	Interim	Ministry of Environmental Protection and Natural Resources	Annual	Target 9 (Goal 7)
5.6 Indicator of protected territories	Interim	Ministry of Environmental Protection and Natural Resources	Annual	Target 9 (Goal 7)
5.7 Water consumption	Interim	State Department of Statistics	Annual	Target 9 (Goal 7)
5.8 Accessibility to potable water		State Department of Statistics	Annual	Target 9 (Goal 7)
5.9 Utilization Indicator	Interim	State Department of Statistics	Annual	Target 9 (Goal 7)
5.10 Indicator of liquid fuel consumption	Interim	State Department of Statistics	Annual	
5.11 Indicator of gas consumption	Interim	State Department of Statistics	Annual	
5.12 Indicator of fire wood and other solid fuel consumption	Interim	State Department of Statistics	Annual	
5.13 Indicator of motor transport fuel consumption	Interim	State Department of Statistics	Annual	
5.14 Indicator of volume of various emissions	Interim	State Department of Statistics, Ministry of Environmental Protection and Natural Resources	Annual	Target 9 (Goal 7)
5.15 Carbon dioxide emissions (per capita)	Interim	Ministry of Environmental Protection and Natural Resources	Annual	Target 9 (Goal 7)
5.16 Share of environmental expenditures in GDP	Interim	Ministry of Environmental Protection and Natural Resources	Annual	

Annex 4: Overview of Cooperation between Georgia and the International Community

Information presented in this annex reveals the importance of the assistance provided by the international community. The largest donors are the USA, the World Bank, the European Union, and the IMF (approximately 70% of total assistance). The USA is the single largest donor with assistance exceeding US \$1 billion 200 million. Other significant donors include the European Bank for Reconstruction and Development, UN agencies and Germany (Chart 1).

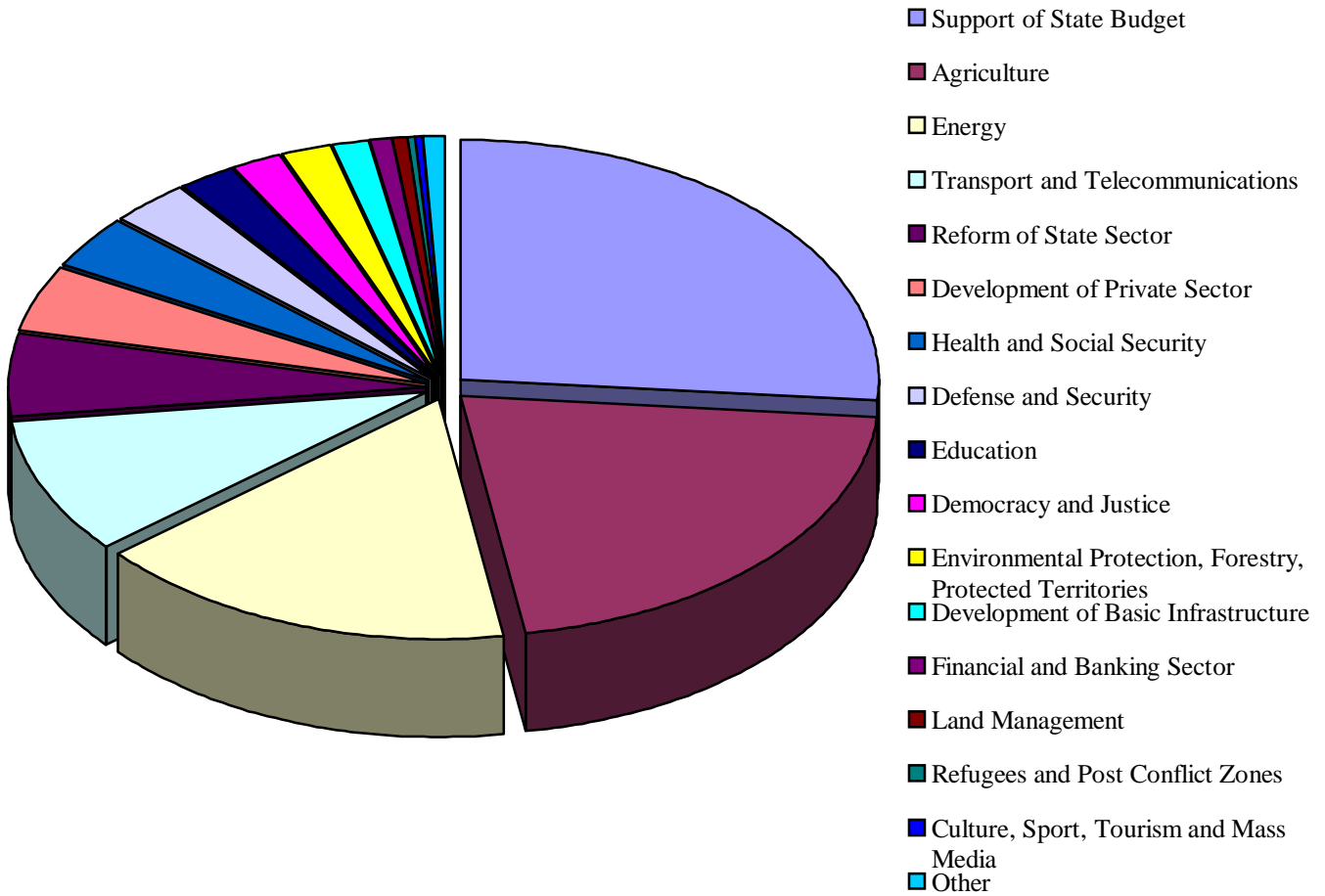
Chart 1



Assistance provided by some donor countries has not been fully disbursed. For example, World Bank disbursed amounts exceed US\$ 460 million, while the total commitment is more than US\$ 640 million.

Donor assistance by sector is interesting. The priority spheres are state budget support, agriculture, humanitarian assistance and energy (Chart N2). It is possible to define the sectoral distribution of assistance provided by each donor.

Chart 2



International Monetary Fund (IMF)

Current IMF assistance is approximately US\$ 470 million. This is used for to support balance of payments. Large-scale economic and structural reforms occurred with IMF assistance. The reforms promoted macroeconomic stability required for economic growth and positive growth was achieved.

The World Bank

Total amounts committed by the Bank exceed US\$ 640 million. Approximately US\$ 460 million were disbursed by July 1, 2002. To support structural reform, the Bank allocated US\$ 316.9 million, from which US \$280 million was transferred directly to the state budget. This is more than 60% of allocated World Bank credits. The remaining allocated amounts were for investment projects carried out in nearly every sector. Eighteen projects are under implementation and ten projects have been completed. There has been support in the following areas, structural reform, social infrastructure, transport, agriculture, environmental protection, energy, health and social Insurance, judiciary reform and private sector development.

Social Infrastructure World Bank assistance in social infrastructure started with the implementation of the Municipal Infrastructure Rehabilitation project, for which the Bank allocated US\$ 18 million in 1994. Since 1998, the Municipal Development and Decentralization Project has been and is still being implemented for which the Bank allocated a further US\$ 20.9 million. Rehabilitation of local infrastructure - roads, water supply systems and in eleven municipalities - Tbilisi, Batumi, Gori, Telavi, Rustavi, Ambrolauri, Kazbegi, Kutaisi, Zugdidi, Ozurgeti and Poti are being implemented under this project.

The Bank also provides assistance in social infrastructure rehabilitation. To this end, the Bank financed the Social Investment Fund and allocated US\$ 20 million. Rehabilitation of basic social-economic infrastructure - schools, water-pipelines and others is being implemented in all regions. Three hundred and seventy micro-projects have been completed and 39 are under implementation.

Transport In 2002, the World Bank loaned US\$ 38 million for a Roads Project. The Bank also allocated US\$ 12 million and US\$ 2.3 million for the rehabilitation of the transport sector. The amount allocated in this sector is more than US\$ 50 million, which comprises 8% of the total amount.

Agriculture and Environmental Protection In 1997 Georgia initiated an Agriculture Development Project, for which the World Bank and the International Fund for Agriculture Development allocated US \$15 million and US \$6.5 million respectively. Credit lines were opened under the project; different agro-business enterprises were financed in various regions and land cadastre activities were implemented. The Irrigation and Drainage Community Development Project has started in 2003, the total cost of which amounts to US\$32.5 million, of which US\$27 million is allocated by the World Bank. Water-consumers Associations are to be established and drainage and irrigation systems repaired. A Research, Consultation and Training Project has been implemented since 2002, the total cost of which amounts to US\$ 12.4 million, from which US\$7.5 million was financed by the World Bank. In 1998 the World Bank allocated US\$4.4 million for the implementation of the Black Sea Integrated Coastal Zone Management Project. The Kolkheti National Park and Kobuleti Nature Reserve were created. The amount of the funds allocated by the World Bank in this sector is US\$55 million, which is more than 8% of the total amount.

Health and Social Insurance The Social Insurance Project started in 1996. Its total cost amounts to US\$19.7 million, from which US\$14 million was allocated by the World Bank. The Gudushauri National Medical Centre was recently completed. This is a high-technological treatment centred equipped to modern standards. Within the framework of the Structural Reform Support (SRS) Credit of the World Bank, US\$1.52 million was allocated for the pension system, which provided a legislative framework for the state pension system, software for registration, establishment of a computer network and institutional and administrative development. In 2000-2002, three bills were prepared based on compulsory social insurance. They have been discussed by the government and submitted to Parliament for ratification. Work is underway to develop software for the registration component of the pension system scheduled to be completed in 2003.

Culture and Education The Cultural Heritage Preservation Project was started in 1998, for which the World Bank allocated US\$4.5 million. Emergency rehabilitation works were implemented under the project (more than 55 projects). The Education Strengthening and Realignment Project started last year, for which the World Bank allocated US\$25.9 million. The funds allocated by the World Bank in the sector amount to more than US\$30 million, 5% of the total amount.

Energy Between 1997 and 2000 the Energy Rehabilitation Project of Georgia was implemented. The total cost of the project was US\$68.4 million. The World Bank allocated US\$50 million and the German Reconstruction Bank US\$14.8 million. The World Bank allocated US\$1.4 million for the now completed Oil Institutional Building Project. The Energy Transit Institution Building Project started in 2002. The World Bank allocated US\$9.6 million. Consultative Services for agreements on oil and gas pipeline transit are planned under the project. An Energy Market Support Project will start in 2003. The World Bank and German Reconstruction Bank have allocated US\$27.4 million and US\$12.4 million, respectively. Allocations by the World Bank in this sector are more than US\$90 million, 15% of the total.

Judicial Reform Judicial reform started in 1999 and will be completed in 2003 The World Bank allocated US\$13.4 million.

Private sector The World Bank has assisted the private sector with the Enterprise Rehabilitation Project with an amount of US\$15 million. Assistance to 100 private and privatized enterprises, retraining 400 managers and training of 200 local consultants are envisaged under the project. The project activities resulted in establishing western business standards and increasing entrepreneurial potential of local companies.

The International Financial Corporation (IFC) actively cooperates with the private sector. The IFC has financed 10 projects since 1995. In future, the IFC plans to finance joint stock companies and assist private sector development. The IFC provides credits to private companies without government guarantees. Support to the Georgian Glass and Mineral Water Company is worth mentioning among the projects financed by the IFC. The IFC has done much in the development of the banking sector. Credit lines for small and medium enterprises were opened in TBC Bank. Similar projects are being implemented at the Micro-Finance Bank and the Bank of Georgia.

United States of America

Cooperation with the USA is very important. The USA is the largest donor amounting to US\$1.2billion. Assistance can be divided into four main areas: economic restructuring, energy, democratic governance and the social sector.

Economic Restructuring To assist economic transition and private sector and investment development, the USA has helped to streamline the economic and financial legislative framework.

Energy There has been help and advice in restructuring and privatization, including legislative and regulatory reform to increase private sector participation in the energy sector.

Democracy and Governance The US provided assistance in promoting democratic governance and helped to prepare many significant laws. These include the administrative code, licensing legislation, laws on state secrets and freedom of speech. There has also been a notable contribution in helping to establish the Constitutional Court.

The US has also played an important role in helping media independence. A number of information agencies were created with US assistance as well as professional media associations. Many non-governmental institutions were established with US support.

Social Sphere The US has financed a heating assistance programme each winter since 1999. The programme provides heating to 300 thousand people and a wide range of organizations, and has targeted the most vulnerable groups including the elderly, hospitals, maternity houses, orphanages, kindergartens and refugee centres.

UN Agencies UN Agencies started their activities in Georgia in 1993. Initially UN assistance was mainly humanitarian due to the social and economic situation. In April 1995 the UN country team worked out an Interagency Consolidated Appeal calling on international donors and the government to consider measures necessary for the coherent implementation of urgent and long-term economic activities.

UNDP is active in three major areas. These are: promotion of human resources development through improving governance, poverty alleviation, economic growth and environmental measures. Between 1997 and 2000, UNDP allocated US\$30 million of which US\$16 million came from UNDP and more than US\$13 million from partners - international financial institutions, bilateral donors and non-governmental organizations. 28% of technical assistance resources are used for economic growth, 64% for governance and 8% for environmental protection.

The World Food Programme's current activities are directed to ensure long-term assistance for vulnerable groups and reduce dependence on imported food. Georgia has already received US\$2.3 million under the Programme.

The Food and Agriculture Organization helps to develop the agricultural sector by raising living standards and improving agricultural productivity. The goal of the International Fund for Agricultural Development is to mobilize resources and use them at concessional terms to eliminate poverty in rural regions. The Fund's assistance amounts to US\$36.2 million. An agriculture development project and a programme for mountainous and high mountainous regions are being implemented.

UN High Commissioner for Refugees helps towards conflict resolution, increasing security, controlling post-conflict zones and providing emergency humanitarian assistance to IDPs through rehabilitation assistance.

The activities of the UN agencies and sub-agencies are quite diverse. UN programmes and projects indirectly promote economic growth and stability.

European Union Between 1992 and 2000, the EU provided €600million, under various programmes, including TACIS, Special Financial Assistance, Food Security, Rehabilitation, Border Support and Humanitarian Support.

TACIS is the most important instrument of EU assistance. Georgia received more than €70 million in the form of grant under TACIS (excluding regional projects). About 250 projects were implemented in the following sectors: energy, transport, agriculture, statistics, human resource development, telecommunications, public sector reform, private sector promotion, environmental protection, financial and in education. Approximately 30 projects are currently under implementation.

Among the ongoing projects implemented under the aegis of TACIS, the most important ones are the regional programmes, particularly, TRACECA and INOGATE. Funds allocated through INOGATE since 1996 amount to €46 million. Projects include an assessment of existing oil and gas pipelines (monitoring); development of new gas and oil transition systems; institutional improvement of hydrocarbon interstate transportation and trade; emergency small scale investments; transferring know-how in the management of environmentally harmful infrastructure, pipelines and resources. Twenty-eight technical assistance projects totalling to €40million and 7 investment projects totalling to €15million have been financed through TRACECA since 1998. One third of the technical assistance is co-financed by the World Bank and EBRD. The share of the funds allocated through TACIS is 13% of the whole assistance provided by the EU.

The European Bank for Reconstruction and Development (EBRD) The EBRD has signed 18 projects with Georgia in the energy, financial institutions, transport, natural resources and agricultural sectors. In addition, the EBRD has implemented 5 regional projects. The total amount of the Bank's commitment amounts to €250million, more than 60% of which has already been disbursed. It should be mentioned that 61.4% of the commitment comes from the private sector, and 38.6% from the public sector. EBRD investment in energy sector is €90 million (36% of the total), Financial institutions – €40 million (16%), Natural resources (oil, gas, oil products) – €34 million (13%), Transportation – €28 million (11%), Agriculture – €16 million (6%).

Germany Germany provides significant support. Assistance amounts to DM378 million, to date.

About DM 300 million was allocated by the German Reconstruction Bank and is directed towards investment projects. The main priority sectors supported by the German Reconstruction Bank are energy, agriculture, land cadastre and environmental protection. Financing for the energy sector exceeds DM160 million, which is more than

53% of total assistance. This financing included projects to rehabilitate Tbilisresli Energy Blocks (Units), Power Transmission Lines and Vartsikhe Power Station.

The amount allocated for agriculture and land cadastre exceeds DM45 million, which is 15 % of total assistance. Modern systems of land cadastre and registration as well as necessary conditions for their functioning are being established. The funds allocated by for environmental protection are DM20 million, which comprises 7% of total assistance. Borjomi-Kharagauli National Park rehabilitation and associated projects have been carried out.

The rest of German assistance is allocated through technical cooperation and humanitarian assistance, which comprises 20% of total assistance.

Japan Assistance from Japan exceeds US\$80 million. Priority sectors are energy agriculture and health care. Assistance in energy exceeds US\$45 million, which is more than half of the total assistance. In agriculture US\$ 18 million has been provided representing 20% of the whole. The health sector received US\$13 million that is 15% of the total assistance.

The Netherlands The Netherlands assistance amounts to more than US\$60 million. Assistance has involved cooperation for economic development. The Dutch have supported macroeconomic stability through co-financing of World Bank projects, and improved governance, human rights, and conflict prevention programmes. The modernization and rationalization of public finances, anti-corruption measures, improvements in local governance, decentralization and human rights protection are implemented under the programme. The long-term objective of economic cooperation is to facilitate the transition to a market economy.

Turkey Turkey is a main partner in the implementation of oil and gas pipeline projects. Technical assistance and small grants for various institutions became available through projects prepared by the Turkish Agency of Development and Partnership. Training has been provided in customs, trade and tourism. Between 1994 and 2002 the total worth of projects amounted to US\$1.5 million. Turkey is a major trading partner and provides important assistance in defensive issues. The total amount of this assistance exceeds US\$30 million.

Sweden. The Swedish International Cooperation Agency, since 1995 has provided assistance in facilitating economic growth, economic and social equality, economic and political independence, environmental protection and equality between men and women. Energy and education projects are being implemented with these areas. The amount allocated since 1995 equals US\$4.4 million.

Great Britain. Between 1994 and 2002 Great Britain allocated to £11million through its assistance programmes. The Department for International Development (DFID) is provides financing in the form of technical assistance in the following areas: poverty reduction, agriculture, health, governance and conflict prevention.

China. The Government of China has allocated approximately US\$5 million , which was used for the private sector development.

Assistance provided by the international community covers almost every sphere. Such assistance is even more important because during the first years of independence there was no experience of implementing economic and social reform, nor were there many resources. The development of a market economy would have been extremely difficult without this assistance.

Initially macroeconomic stability was created and this provided conditions for deepening the reform process. Georgia now has the attributes of a democratic country with a market infrastructure. Experience obtained through cooperation with the international community has laid the groundwork for further reform and development.

Annex 5: Donor Participation in the preparation of the EDPRP of Georgia

The donor community were involved in the EDPRP preparation process from an early stage. To support the government, the largest donors formed the so-called **“Donor Framework Group”**. The purpose of the group was to deepen cooperation among donors and provide uniform assistance to the government in the preparation of the programme. Initially, the group was comprised of the following five donors:

- § United Nations Development Programme
- § World Bank
- § International Monetary Fund
- § European Commission
- § United States Agency for International Development

Shortly after, the UK Department for International Development and the governments of the Netherlands and Germany joined the group. The group was coordinated by the UNDP.

Two immediate objectives included:

1. to strengthen the capacity of the government to improve the coordination and content of the full-EDPRP; and
2. to ensure active public participation in the preparation of the full-EDPRP by strengthening the relevant capacity of the government.

Donors have met regularly to discuss issues of relevance to the EDPRP process. Formal and working meetings with the government’s central civil service, as well as with line ministries have been held from time to time.

There were two types of donors’ involvement in the EDPRP preparation process:

1. Indirect involvement:
 - 1.1. Provision of resources (in-kind and cash) to support local stakeholders
 - 1.2. Provision of technical support (experience, knowledge transfer)
2. Direct involvement:
 - 2.1. Review of intermediate and final documents, provision of comments
 - 2.2. Participation in workshops, debates, working meetings

Financial and in-kind support to the government was of paramount importance for the preparation of the EDPRP. A summary of the financial support is presented in the table below:

Donor Technical Assistance in the Elaboration of the EDPRP during 2001-2003:

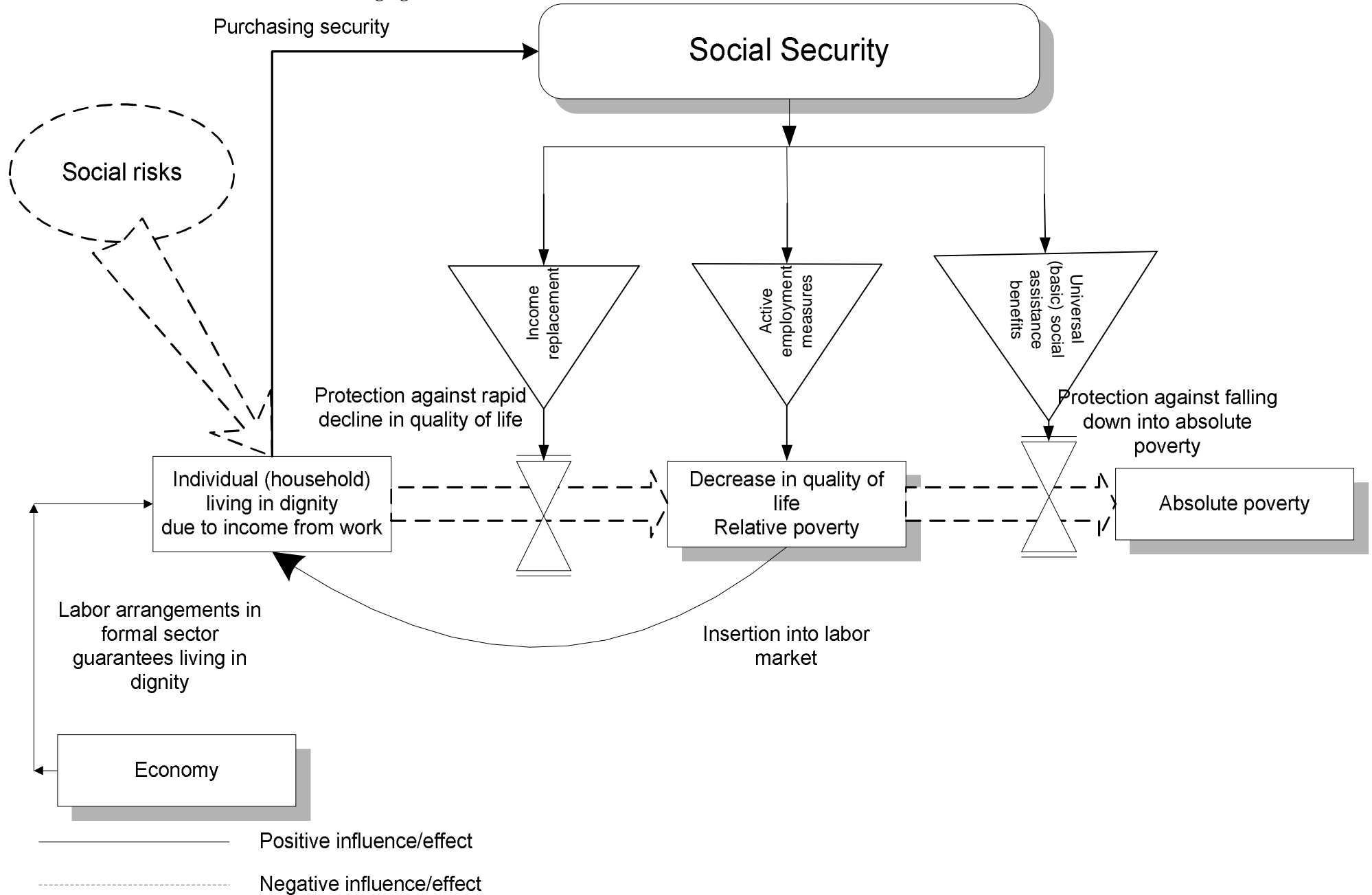
World Bank	USD 60,000
European Commission	EURO 250,000
UNDP	USD 161,500
The Netherlands	USD 25,000
USAID	USD 69,616
DFID	USD 183,060
Poverty Reduction Strategies Trust Fund	USD 123,200

The representatives of the donors were present at meetings of sub-commissions and participated in the debates together with other stakeholders. Furthermore, they provided comments and inputs for draft papers prepared by the sub-commissions, and for the interim EDPRP. The donors also prepared comments on the so-called discussion materials for the final EDPRP. Donor assistance improved the decision-making process (in terms of its methodology), while keeping the policy choices the prerogatives of the relevant government agencies. This was very welcome.

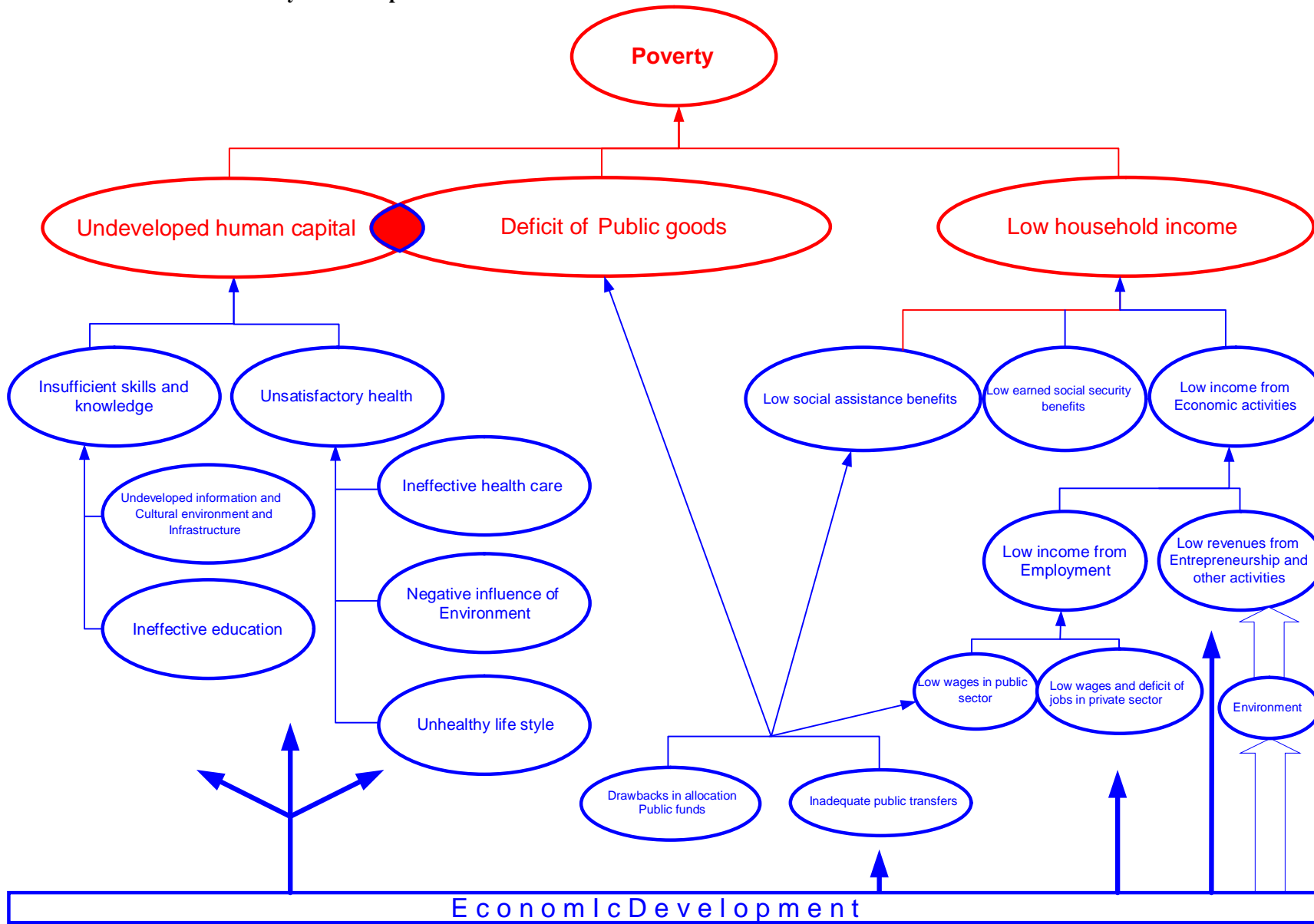
The Donor Framework Group acknowledged that the ownership of the Economic Development and Poverty Reduction elaboration process belonged to the government and civil society and rendered financial assistance and shared expertise in technical issues. This once again demonstrated the readiness of the international community to help the country overcome issues through be enhancing it own capacities and take the decisions on its future development.

The government expresses the hope that cooperation with the donors will continue during the implementation stage of the programme. Final agreement in this regard needs to happen soon. It will be highly beneficial to deepen the cooperation between the government and donors as this will considerably help implementation.

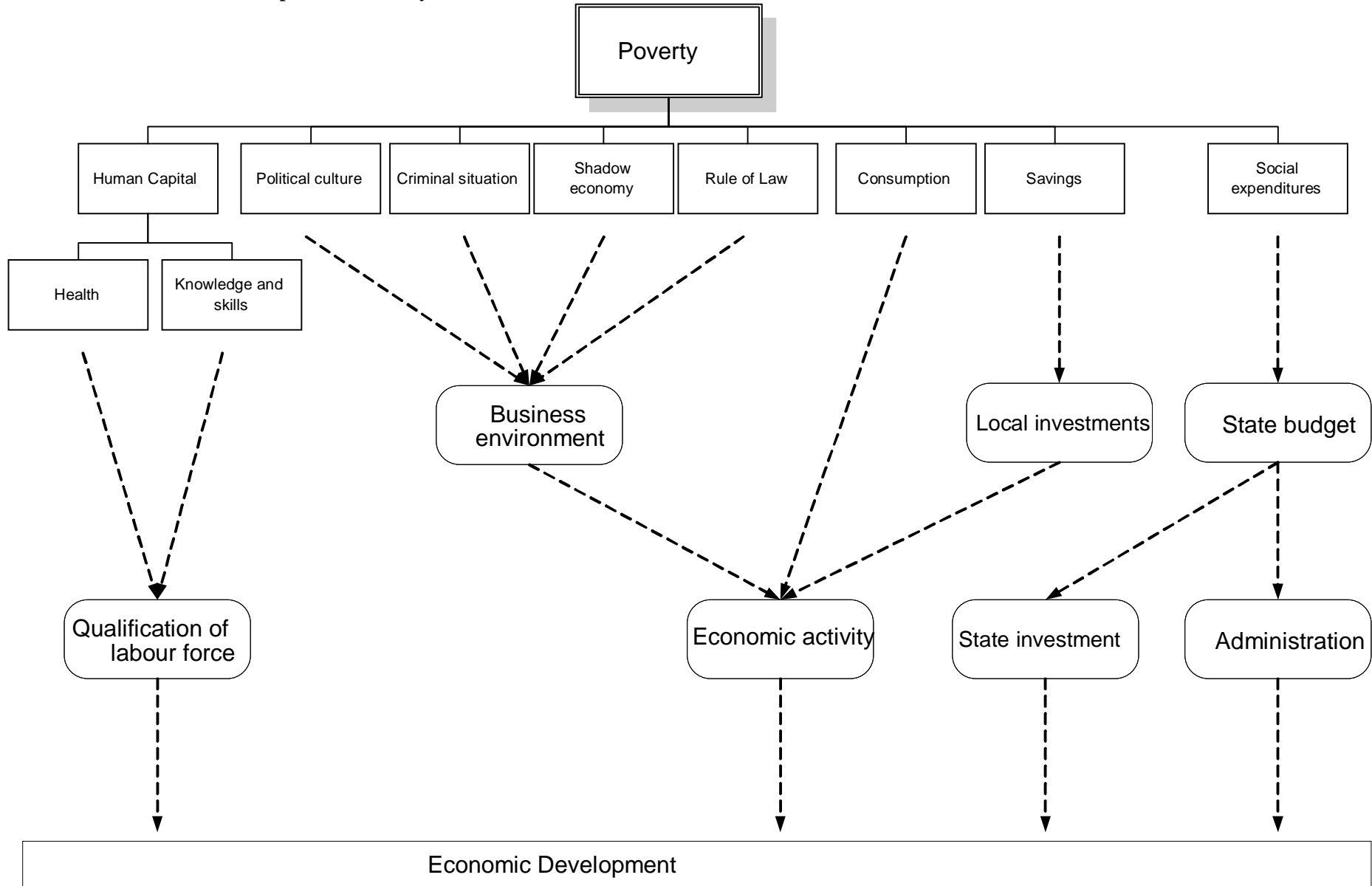
Annex 6: The Role of Government in Managing Social Risks



Annex 7: Influence of Poverty on Development



Annex 8: Influence of Development on Poverty



Annex 9: Relationship between General Government Expenditures and EDPRP (GEL million)

2003					
	Sector	General Government Expenditures on EDPRP	General Government Expenditures on the Sectors		
			Total	o.w. State Budget	o.w. Local Budget
1	Social Protection and Security	273.45	312.65	296.90	15.75
2	Healthcare	107.16	117.66	91.45	26.21
3	Education	203.64	220.70	77.40	143.3
4	Governance	-	-	-	-
5	Energy	104.80	104.80	96.80	8
6	Transport and Communication	57.39	59.65	59.25	0.4
7	Agriculture and Food	30.59	35.84	35.24	0.6
8	Information Technologies	0.45	1.03	1.03	-
9	Tourism	0.08	0.28	0.28	-
10	Urbanization and Construction	0.14	0.87	0.87	-
11	Environmental Protection	7.94	12.44	8.44	4
12	Forestry	0.78	2.56	2.56	-
13	Land Management	3.00	7.60	6.70	0.9
14	Other Activities	42.74	42.74	42.74	-
	Total	832.16	918.82	719.66	199.16
	<i>Total General Government Expenditures</i>		11,504.50		

Note 1: The difference between General Government total expenditures and expenditures on the sectors covered under EDPRP are expenditures on general purpose public service (GEL 150 Million), Defence (GEL 74.5 Million), National Security (GEL 119.2 Million), External and Domestic Debt Service (GEL 119.2 Million), other expenses.

Note 2: General Government Expenditures on EDPRP activities cover expenditures of the State budget, external funding included in the state budget and local budgets

Economic Development and Poverty Reduction Programme of Georgia

Annex 10: Detailed Cost Evaluation of the activities envisaged under EDP RP

Million GEL																								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	
	2003	Sources of Funding						2004	Sources of Funding						2005	Sources of Funding						Gap	Total for 2003-2005	Total Gap 2003-2005
1		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap			
1.1	Support for job seekers, professional training and re-training	6.07	5.95	0.12	-	-	6.07	-	8.10	6.80	1.30	-	-	8.10	-	9.20	7.80	1.40	-	-	9.20	-	23.37	-
1.2	Pensions, allowances and stipends	242.82	231.29	11.53	-	-	242.82	-	278.70	266.00	12.70	-	-	278.70	-	319.20	305.00	14.20	-	-	319.20	-	840.72	-
1.3	Social Integration of disabled persons	2.66	2.66	-	-	-	2.66	-	3.00	3.00	-	-	-	3.00	-	3.50	3.50	-	-	-	3.50	-	9.16	-
1.4	Institutional Patronage of disabled persons	1.80	1.80	-	-	-	1.80	-	2.10	2.10	-	-	-	2.10	-	2.40	2.40	-	-	-	2.40	-	6.30	-
1.5	Payment of previous period pension arrears	14.00	14.00	-	-	-	14.00	-	34.00	11.10	-	-	-	11.10	(22.90)	40.00	13.30	-	-	-	13.30	(26.70)	88.00	(49.60)
1.6	Pension reform and development of social security institutional and legal basis	2.00	2.00	-	-	-	2.00	-	15.00	-	-	15.00	-	15.00	-	15.00	-	-	15.00	-	15.00	-	32.00	-
1.7	Increase and Indexation of Pensions	4.10	-	4.10	-	-	4.10	-	29.70	-	4.70	-	-	4.70	(25.00)	30.40	-	5.40	-	-	5.40	(25.00)	64.20	(50.00)
	Total 1	273.45	257.70	15.75	-	-	273.45	-	370.60	289.00	18.70	15.00	-	322.70	(47.90)	419.70	332.00	21.00	15.00	-	368.00	(51.70)	1,063.75	(99.60)
2	HealthCare		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
2.1	Support for HealthCare, disease prevention and epidemic control	12.56	4.62	5.94	2.00	-	12.56	0.00	12.10	5.30	6.80	-	-	12.10	-	13.90	6.10	7.80	-	-	13.90	-	38.56	0.00
2.2	Outpatient Treatment	21.59	12.54	9.06	-	-	21.60	0.00	24.80	14.40	10.40	-	-	24.80	-	28.50	16.60	11.90	-	-	28.50	-	74.89	0.00
2.3	Stationary Service	55.46	42.37	9.99	-	3.10	55.46	-	63.60	48.70	11.40	-	3.50	63.60	-	73.20	56.00	13.20	-	4.00	73.20	-	192.26	-
2.4	Medicine Support for specific patients	6.40	6.40	-	-	-	6.40	-	7.40	7.40	-	-	-	7.40	-	8.50	8.50	-	-	-	8.50	-	22.30	-
2.5	Institutional and functional reform of the Social Sphere	16.25	12.83	1.22	2.20	-	16.25	(0.00)	37.40	14.70	1.40	21.30	-	37.40	-	36.80	16.90	1.60	18.30	-	36.80	-	90.45	(0.00)
	Total 2	112.26	78.75	26.21	4.20	3.10	112.26	0.00	145.30	90.50	30.00	21.30	3.50	145.30	-	160.90	104.10	34.50	18.30	4.00	160.90	-	418.46	0.00
3	Education		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
3.1	Pre-School education	21.07	0.17	20.90	-	-	21.07	-	36.72	0.20	23.40	-	-	23.60	(13.12)	34.42	0.22	26.20	-	-	26.42	(8.00)	92.21	(21.12)
3.2	Basic Education	122.28	-	111.40	10.88	-	122.28	-	176.55	-	124.70	25.00	-	149.70	(26.85)	188.05	-	139.70	20.00	-	159.70	(28.35)	486.88	(55.20)
3.3	Boarding Schools	17.10	6.60	10.50	-	-	17.10	-	20.44	7.60	11.80	-	-	19.40	(1.04)	22.84	8.74	13.20	-	-	21.94	(0.90)	60.37	(1.93)
3.4	Vocational Schools	2.02	1.26	-	-	0.76	2.02	-	4.66	1.45	-	-	0.76	2.21	(2.45)	4.66	1.67	-	-	0.76	2.43	(2.23)	11.34	(4.68)
3.5	Colleges	1.97	1.72	-	-	0.25	1.97	-	6.41	1.98	-	-	0.25	2.22	(4.18)	5.41	2.28	-	-	0.25	2.52	(2.88)	13.78	(7.07)
3.6	Universities	48.77	42.52	0.50	-	5.75	48.77	-	56.05	46.93	0.60	-	5.75	53.28	(2.77)	60.47	51.82	0.70	-	5.75	58.27	(2.20)	165.29	(4.97)
3.7	Education Reform	2.55	2.37	-	0.18	-	2.55	-	5.84	3.00	-	0.18	-	3.18	(2.66)	5.84	3.10	-	-	-	3.10	(2.74)	14.22	(5.40)
	Total 3	215.76	54.64	143.30	11.06	6.76	215.76	-	306.66	61.16	160.50	25.18	6.76	253.59	(53.06)	321.68	67.83	179.80	20.00	6.76	274.38	(47.30)	844.10	(100.36)
4	Governance		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
4.1	Restructuring of the government administration	13.83	-	-	-	-	-	(13.83)	22.11	-	-	-	-	-	(22.11)	11.50	-	-	-	-	-	(11.50)	47.44	(47.44)
4.2	Project of Modernisation of Georgian Executive Government	0.37	-	-	-	-	-	(0.37)	0.37	-	-	-	-	-	(0.37)	0.34	-	-	-	-	-	(0.34)	1.08	(1.08)
	Total 4	14.20	-	-	-	-	-	(14.20)	22.48	-	-	-	-	-	(22.48)	11.84	-	-	-	-	-	(11.84)	48.52	(48.52)
5	Fiscal Area		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
5.1	Creation of an unified information network and country-wide intragovernmental database	2.20	-	-	-	-	-	(2.20)	3.08	-	-	-	-	-	(3.08)	-	-	-	-	-	-	-	5.28	(5.28)
5.2	Technical equipment of customs checkpoints	0.50	-	-	-	-	-	(0.50)	1.50	-	-	-	-	-	(1.50)	1.50	-	-	-	-	-	(1.50)	3.50	(3.50)

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	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	
5.3	Reorganization of the extraordinary legion and the improvement of its material-technical base	1.00	-	-	-	-	(1.00)	3.00	-	-	-	-	-	(3.00)	5.00	-	-	-	-	-	(5.00)	9.00	(9.00)	
5.4	Introduction of satellite control system for imported goods	0.35	-	-	-	-	(0.35)	0.25	-	-	-	-	-	(0.25)	-	-	-	-	-	-	-	0.60	(0.60)	
	Total 5	4.05					(4.05)	7.83						(7.83)	6.50						(6.50)	18.38	(18.38)	
6	Energy		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
6.1	Structural reform of power distribution companies	14.00	-	-	14.00	-	14.00	-	25.00	-	-	25.00	-	25.00	-	30.00	-	-	30.00	-	30.00	-	69.00	-
6.2	Rehabilitation of natural and liquid gas infrastructure	4.20	4.20	-	-	-	4.20	-	15.00	5.00	-	8.10	1.90	15.00	-	17.00	5.00	-	9.80	2.20	17.00	-	36.20	-
6.3	Rehabilitation of hydro-power stations (Enguri, Lajanuri, Vartsikhe, Vardnili)	74.00	9.00	-	65.00	-	74.00	-	81.00	11.00	-	70.00	-	81.00	-	104.00	14.00	-	90.00	-	104.00	-	259.00	-
6.4	Oil and gas exploration	7.00	-	-	7.00	-	7.00	-	10.00	-	-	10.00	-	10.00	-	12.00	-	-	12.00	-	12.00	-	29.00	-
6.5	Rehabilitation of Coal extraction industry	1.20	1.20	-	-	-	1.20	-	7.50	2.50	-	4.20	0.80	7.50	-	10.50	2.50	-	7.00	1.00	10.50	-	19.20	-
6.6	Utilization of sources of renewable energy	0.10	0.10	-	-	-	0.10	-	7.00	2.00	-	5.00	-	7.00	-	9.50	2.50	-	7.00	-	9.50	-	16.60	-
6.7	Improvement of energy consumption efficiency	1.00	-	-	1.00	-	1.00	-	1.90	0.40	-	1.50	-	1.90	-	4.00	1.00	-	3.00	-	4.00	-	6.90	-
6.8	Refund of the electroenergy cost consumed by public organisations and socially vulnerable population	44.80	36.80	8.00	-	-	44.80	-	60.00	41.20	9.00	-	-	50.20	(9.80)	90.00	46.14	10.10	-	-	56.24	(33.76)	194.80	(43.56)
	Total 6	146.30	51.30	8.00	87.00	-	146.30	-	207.40	62.10	9.00	123.80	2.70	197.60	(9.80)	277.00	71.14	10.10	158.80	3.20	243.24	(33.76)	630.70	(43.56)
7	Transport and Communications		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
7.1	Project of support for technical upgrading of Georgian TV-Broadcasting network	2.00	2.00	-	-	-	2.00	-	2.70	-	-	-	-	-	(2.70)	2.70	-	-	-	-	-	(2.70)	7.40	(5.40)
7.2	Broadcasting radio programs on medium waves	0.33	0.33	-	-	-	0.33	(0.00)	1.20	0.36	-	-	-	0.36	(0.84)	1.30	-	-	-	-	-	(1.30)	2.83	(2.14)
7.3	Improvement of the material technical base of mobilization reserves	0.07	0.07	-	-	-	0.07	-	0.07	0.07	-	-	-	0.07	-	0.07	0.07	-	-	-	0.07	-	0.20	-
7.4	Improvement of material-technical base of Georgian naval academy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.40	-	-	-	0.40	0.40	-	0.40
7.5	Improvement of material base of rescue coordination and oil leakage liquidation centre	-	-	-	-	-	-	-	0.15	-	-	-	-	-	(0.15)	0.96	-	-	-	-	-	(0.96)	1.11	(1.11)
7.6	Creation of computer database for motoring transportation, program support and database analysis for further prognosis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.40	-	-	-	-	-	(0.40)	0.40	(0.40)
7.7	Preparation of national rescue operations project	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.06	-	-	-	-	-	(1.06)	1.06	(1.06)
7.8	Strategy of renovation and automatisatation of Georgian Postal Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.80	-	-	-	-	-	(0.80)	0.80	(0.80)
7.9	Rescue and fire preventive activities in Georgian Air Space	-	-	-	-	-	-	-	0.80	-	-	-	-	-	(0.80)	0.72	-	-	-	-	-	(0.72)	1.52	(1.52)
7.10	Support of marine rescue service	-	-	-	-	-	-	-	0.70	-	-	-	-	-	(0.70)	7.92	-	-	-	-	-	(7.92)	8.62	(8.62)
7.11	Reconstruction of transport infrastructure of Oncology Centre	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.73	-	-	-	-	-	(0.73)	0.73	(0.73)
7.12	Program for improvement of environmental security of motor transport	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.40	-	-	-	-	-	(0.40)	0.40	(0.40)
7.13	Rehabilitation of roads	107.80	55.00	-	52.80	-	107.80	-	95.70	56.30	-	24.40	-	80.70	(15.00)	76.90	61.90	-	-	-	61.90	(15.00)	280.40	(30.00)
1	Motor way Tbilisi-Tianeti (50 km)	-	-	-	-	-	-	-	1.20	-	-	-	-	-	(1.20)	1.40	-	-	-	-	-	(1.40)	2.60	(2.60)
2	Motor way Tsikhisdziri-Akhalgori (25 km)	-	-	-	-	-	-	-	0.60	-	-	-	-	-	(0.60)	0.70	-	-	-	-	-	(0.70)	1.30	(1.30)
3	Motor way Kutaisi-Tskaltubo-Lentekhi-Lasdili (90 km)	-	-	-	-	-	-	-	3.00	-	-	-	-	-	(3.00)	3.00	-	-	-	-	-	(3.00)	6.00	(6.00)
4	Motor way Kutaisi-Alpana-Mamisoni (80 km)	-	-	-	-	-	-	-	3.00	-	-	-	-	-	(3.00)	2.00	-	-	-	-	-	(2.00)	5.00	(5.00)
5	Motor way Zugdidi-Tsalenjikha-Chkorotsku-Senaki (80 km)	-	-	-	-	-	-	-	1.50	-	-	-	-	-	(1.50)	3.00	-	-	-	-	-	(3.00)	4.50	(4.50)
6	Motor way Zugdidi-Khaishi-Mestia (120 km)	-	-	-	-	-	-	-	4.50	-	-	-	-	-	(4.50)	4.10	-	-	-	-	-	(4.10)	8.60	(8.60)
7	Motor way Gomi-Sachkera-Zestafoni (15 km)	-	-	-	-	-	-	-	0.60	-	-	-	-	-	(0.60)	0.40	-	-	-	-	-	(0.40)	1.00	(1.00)
8	Motor way Zestaponi-Kitskhi-Kharagauli (20 km)	-	-	-	-	-	-	-	0.60	-	-	-	-	-	(0.60)	0.40	-	-	-	-	-	(0.40)	1.00	(1.00)
9	Maintenance of Roads	107.80	55.00	-	52.80	-	107.80	-	80.70	56.30	-	24.40	-	80.70	-	61.90	61.90	-	-	-	61.90	-	250.40	-
	Total 7	110.20	57.39	-	52.80	-	110.19	(0.00)	101.32	56.72	-	24.40	-	81.12	(20.19)	93.95	62.37	-	-	-	62.37	(31.59)	305.46	(51.78)
8	Agriculture and Food		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		

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		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
8.1	Water management for food security (Development of irrigation and land reclamation)	8.11	8.11	-	-	-	8.11	-	10.00	7.80	-	-	-	7.80	(2.20)	10.00	9.00	-	-	-	9.00	(1.00)	28.11	(3.20)
8.2	Epizooty prevention	2.30	2.30	-	-	-	2.30	-	2.40	2.32	-	-	-	2.32	(0.08)	2.55	2.55	-	-	-	2.55	-	7.25	(0.08)
8.3	Plant protection	0.86	0.86	-	-	-	0.86	-	1.54	1.20	-	-	-	1.20	(0.34)	1.70	1.60	-	-	-	1.60	(0.10)	4.10	(0.44)
8.4	Identification of specific viticulture zones and planting unique viticulture	1.54	1.54	-	-	-	1.54	-	1.40	1.30	-	-	-	1.30	(0.10)	1.80	1.50	-	-	-	1.50	(0.30)	4.74	(0.40)
8.5	Rehabilitation of tea production industry	-	-	-	-	-	-	-	11.00	7.00	-	-	-	7.00	(4.00)	7.00	3.00	-	-	-	3.00	(4.00)	18.00	(8.00)
8.6	Creation of farmer training and consultation system	0.80	0.80	-	-	-	0.80	-	1.00	0.80	-	-	-	0.80	(0.20)	1.10	0.80	-	-	-	0.80	(0.30)	2.90	(0.50)
8.7	Testing new agricultural products, arrangement of perennial plant greenhouses and rehabilitation of seeding	0.75	0.75	-	-	-	0.75	-	0.90	0.75	-	-	-	0.75	(0.15)	1.00	0.70	-	-	-	0.70	(0.30)	2.65	(0.45)
8.8	Protection of soil from erosion and raising soil fertility	0.80	0.80	-	-	-	0.80	-	1.50	1.00	-	-	-	1.00	(0.50)	2.00	1.50	-	-	-	1.50	(0.50)	4.30	(1.00)
8.9	Cattle breeding, poultry and beekeeping	0.40	0.40	-	-	-	0.40	-	0.60	0.50	-	-	-	0.50	(0.10)	1.10	0.80	-	-	-	0.80	(0.30)	2.10	(0.40)
8.10	Rehabilitation of fisheries	0.10	0.10	-	-	-	0.10	-	0.10	0.10	-	-	-	0.10	-	0.10	0.10	-	-	-	0.10	-	0.30	-
8.11	Equipment of technical inspections of quality inspection of agricultural products and flour	0.26	0.26	-	-	-	0.26	-	0.42	0.32	-	-	-	0.32	(0.10)	0.20	0.20	-	-	-	0.20	-	0.88	(0.10)
8.12	Expertise and monitoring of food products	0.09	0.09	-	-	-	0.09	-	0.33	0.10	-	-	-	0.10	(0.23)	0.10	0.10	-	-	-	0.10	-	0.52	(0.23)
8.13	Organization of viticulture pillars	0.05	0.05	-	-	-	0.05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.05	-
8.14	Rehabilitation of silk industry	0.10	0.10	-	-	-	0.10	-	0.20	0.15	-	-	-	0.15	(0.05)	0.30	0.20	-	-	-	0.20	(0.10)	0.60	(0.15)
8.15	Equipment of phitosanitary service	0.70	0.70	-	-	-	0.70	-	0.50	0.45	-	-	-	0.45	(0.05)	0.10	-	-	-	-	-	(0.10)	1.30	(0.15)
8.16	Technical equipment of inspection of planting and seeding materials	0.15	0.15	-	-	-	0.15	-	0.18	0.15	-	-	-	0.15	(0.03)	0.25	0.20	-	-	-	0.20	(0.05)	0.58	(0.08)
8.17	Monitoring of budget expenditures	0.05	0.05	-	-	-	0.05	-	0.05	0.05	-	-	-	0.05	-	0.05	0.05	-	-	-	0.05	-	0.15	-
8.18	Prognosis	0.10	0.10	-	-	-	0.10	-	0.20	0.10	-	-	-	0.10	(0.10)	0.30	0.25	-	-	-	0.25	(0.05)	0.60	(0.15)
8.19	Organization of cattle grazing roads	0.02	0.02	-	-	-	0.02	-	0.01	0.01	-	-	-	0.01	0.00	-	-	-	-	-	-	-	0.03	0.00
8.20	Introduction by express diagnostics of new non-traditional biotechnologies and biologically active materials	0.03	0.03	-	-	-	0.03	-	0.03	0.03	-	-	-	0.03	-	-	-	-	-	-	-	-	0.06	-
8.21	Eradication of sources for mosquito spreading	0.20	0.20	-	-	-	0.20	-	0.30	0.25	-	-	-	0.25	(0.05)	0.70	0.40	-	-	-	0.40	(0.30)	1.20	(0.35)
8.22	Identification of zones of deposits of mineral and plain water	-	-	-	-	-	-	-	0.30	0.20	-	-	-	0.20	(0.10)	0.30	0.30	-	-	-	0.30	-	0.60	(0.10)
8.23	Rehabilitation of fruit processing industry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.00	0.70	-	-	-	0.70	(0.30)	1.00	(0.30)
8.24	Development of agricultural cooperation	-	-	-	-	-	-	-	0.20	0.15	-	-	-	0.15	(0.05)	0.20	0.20	-	-	-	0.20	-	0.40	(0.05)
8.25	Rehabilitation of essential oil production	-	-	-	-	-	-	-	0.30	0.20	-	-	-	0.20	(0.10)	-	-	-	-	-	-	-	0.30	(0.10)
8.26	Improvement and execution of the mechanism for expertise and monitoring of the quality of food products	-	-	-	-	-	-	-	0.35	0.25	-	-	-	0.25	(0.10)	0.20	0.20	-	-	-	0.20	-	0.55	(0.10)
8.27	Support for the production of canned foods	-	-	-	-	-	-	-	0.80	0.60	-	-	-	0.60	(0.20)	0.80	0.50	-	-	-	0.50	(0.30)	1.60	(0.50)
8.28	International degustatory competition of wine and brandy	-	-	-	-	-	-	-	0.15	0.15	-	-	-	0.15	-	0.15	0.15	-	-	-	0.15	-	0.30	-
8.29	Improvement of the material technical base of Georgian Technical Supervision Service	-	-	-	-	-	-	-	0.06	0.05	-	-	-	0.05	(0.01)	-	-	-	-	-	-	-	0.06	(0.01)
8.30	Program of development of agriculture of high-mountainous regions	1.80	0.30	-	1.50	-	1.80	-	3.46	0.52	-	2.93	-	3.46	(0.00)	3.51	0.57	-	2.94	-	3.51	(0.00)	8.77	(0.00)
8.31	Project of development of agriculture	3.84	0.64	-	3.20	-	3.84	-	3.92	0.00	-	3.92	-	3.92	0.00	-	-	-	-	-	-	-	7.76	0.00
8.32	Project for agroindustrial training and consultation	2.14	0.34	-	1.80	-	2.14	-	8.25	0.62	-	7.63	-	8.25	(0.00)	3.37	0.39	-	2.98	-	3.37	(0.00)	13.76	(0.01)
8.33	Project for development of irrigation and drainage systems	5.40	0.90	-	4.50	-	5.40	-	13.60	2.43	-	11.17	-	13.60	-	13.47	2.44	-	11.03	-	13.47	0.00	32.47	0.00
	Total 8	30.59	19.59	-	11.00	-	30.59	-	64.05	29.56	-	25.66	-	55.21	(8.84)	53.35	28.40	-	16.95	-	45.35	(8.00)	147.99	(16.84)
9	Information Technologies		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
9.1	Establishment of a general public database and intragovernment electronic documentation flow system	3.31	0.45	-	-	-	0.45	(2.86)	3.67	0.83	-	-	-	0.83	(2.84)	3.85	0.83	-	-	-	0.83	(3.01)	10.82	(8.71)
9.2	Creation of national social security database	-	-	-	-	-	-	-	4.62	-	-	-	-	-	(4.62)	4.62	-	-	-	-	-	(4.62)	9.24	(9.24)
9.3	Computer literacy of students and the general public	-	-	-	-	-	-	-	5.06	-	-	-	-	-	(5.06)	5.06	-	-	-	-	-	(5.06)	10.12	(10.12)
9.4	Establishment of general-public geographical information system	-	-	-	-	-	-	-	6.38	-	-	-	-	-	(6.38)	8.95	-	-	-	-	-	(8.95)	15.34	(15.34)
9.5	Creation of a general-public database of commercial and economic information database	-	-	-	-	-	-	-	3.81	-	-	-	-	-	(3.81)	3.90	-	-	-	-	-	(3.90)	7.71	(7.71)
	Total 9	3.31	0.45	-	-	-	0.45	(2.86)	23.54	0.83	-	-	-	0.83	(22.70)	26.38	0.83	-	-	-	0.83	(25.55)	53.23	(51.12)

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		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
10	Tourism		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
10.1	Marketing and research of potential resorts and non-commercial public advertisement	0.05	0.05	-	-	-	0.05	-	0.40	0.06	-	-	-	0.06	(0.34)	0.40	0.07	-	-	-	0.07	(0.33)	0.85	(0.67)
10.2	Creation of sanitary-protection zones and inventarization of resort places in Georgia	0.02	0.02	-	-	-	0.02	-	0.78	0.02	-	-	-	0.02	(0.78)	0.83	0.02	-	-	-	0.02	(0.81)	1.63	(1.56)
10.3	Development of agro-tourism	-	-	-	-	-	-	-	0.41	-	-	-	-	-	(0.41)	0.25	-	-	-	-	-	(0.25)		
10.4	Development of rescue services	-	-	-	-	-	-	-	0.10	-	-	-	-	-	(0.10)	0.29	-	-	-	-	-	(0.29)		
10.5	Development of special program for attracting international donor funding	-	-	-	-	-	-	-	0.80	-	-	-	-	-	(0.80)	-	-	-	-	-	-	-		
	Total 10	0.08	0.08	-	-	-	0.08	-	2.49	0.09	-	-	-	0.09	(2.41)	1.77	0.09	-	-	-	0.09	(1.68)	4.34	(4.09)
11	Urbanization and construction		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	0.10	-	-	-	-	-	(0.10)	0.29	-	-	-	-	-	(0.29)	0.39	
11.1	Prevention of floods	-	-	-	-	-	-	-	0.80	-	-	-	-	-	(0.80)	-	-	-	-	-	-	-	0.80	(0.80)
11.2	Development of city construction documentation	0.15	0.15	-	-	-	0.15	-	5.88	0.17	-	-	-	0.17	(5.71)	3.83	0.18	-	-	-	0.18	(3.65)	8.01	(9.36)
11.3	Rehabilitation of Jinvai-Tbilisi sewage system	-	-	-	-	-	-	-	0.50	-	-	-	-	-	(0.50)	0.50	-	-	-	-	-	(0.50)	1.00	(1.00)
11.4	Protection of black sea coastal line from washing off	-	-	-	-	-	-	-	0.40	-	-	-	-	-	(0.40)	0.40	-	-	-	-	-	(0.40)	0.80	(0.80)
11.5	Project for rehabilitation of damaged housing	-	-	-	-	-	-	-	0.12	-	-	-	-	-	(0.12)	0.07	-	-	-	-	-	(0.07)	0.19	(0.19)
11.6	Liquidation of consequences of the earthquake damage of April 25, 2002	3.30	-	-	3.30	-	3.30	-	9.30	-	-	7.70	-	7.70	(1.60)	3.25	-	-	-	-	-	(3.25)	15.85	(4.85)
	Total 11	3.44	0.14	-	3.30	-	3.44	-	12.14	0.15	-	7.70	-	7.85	(4.29)	6.85	0.16	-	-	-	0.18	(6.67)	22.43	(10.96)
12	Environmental Protection		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
12.1	Rehabilitation of Tbilisi water supply and sanitary system	4.20	0.70	-	3.50	-	4.20	-	17.73	3.00	2.18	12.56	-	17.73	(0.00)	16.68	3.01	2.08	11.60	-	16.68	0.00	38.62	0.00
12.2	Project of development of protected territories in Central Caucasus forest ecosystems	3.30	0.30	-	3.00	-	3.30	-	7.04	0.99	-	6.05	-	7.04	-	2.20	0.31	-	1.89	-	2.20	-	12.53	-
12.3	Integrated coastline management project	1.42	0.22	-	1.20	-	1.42	-	4.17	0.18	-	3.99	-	4.17	-	-	-	-	-	-	-	-	5.59	-
12.4	Development of local sources of renewable energy	25.41	-	-	17.93	7.48	25.41	-	1.43	-	-	1.43	-	1.43	-	1.43	-	-	1.43	-	1.43	-	28.27	-
12.5	Radiation safety	0.07	0.07	-	-	-	0.07	-	0.07	0.07	-	-	-	0.07	-	0.07	0.07	-	-	-	0.07	0.00	0.21	0.00
12.6	Program for monitoring the environmental and social impact of Tbilisi-Baku-Geyhan and south Caucasus oil pipeline	0.04	0.04	-	-	-	0.04	-	0.04	0.04	-	-	-	0.04	-	-	-	-	-	-	-	-	0.08	-
12.7	Preparation of natural resource places of Georgia for licensing and development of legislation to ensure efficient utilization of natural resources	0.07	0.07	-	-	-	0.07	-	0.07	0.07	-	-	-	0.07	-	0.08	0.08	-	-	-	0.08	(0.00)	0.22	(0.00)
12.8	Climate change	0.01	0.01	-	-	-	0.01	-	0.01	0.01	-	-	-	0.01	-	0.01	0.01	-	-	-	0.01	0.00	0.03	0.00
12.9	Implementation of artificial restocking measures of Sturgeon fish in the Black Sea Georgian coastline	0.02	0.02	-	-	-	0.02	-	0.02	0.02	-	-	-	0.02	-	0.02	0.02	-	-	-	0.02	0.00	0.06	0.00
12.10	Protection from flooding	0.01	0.01	-	-	-	0.01	-	0.01	0.01	-	-	-	0.01	-	0.01	0.01	-	-	-	0.01	0.00	0.03	0.00
12.11	Utilization of overdue pesticides existing in Georgia	-	-	-	-	-	-	-	0.02	0.02	-	-	-	0.02	-	0.02	0.02	-	-	-	0.02	-	0.04	-
12.12	Study and projection of the quality conditions of air, water and soil along the Eurasian auto corridor	-	-	-	-	-	-	-	0.02	0.02	-	-	-	0.02	-	0.02	0.02	-	-	-	0.02	-	0.04	-
12.13	Development of the national biosafety system in Georgia	0.37	-	-	-	0.37	0.37	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.37	-
12.14	Development of Pops national action plan according to Stockholm convention	0.87	-	-	0.87	-	0.87	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.87	-
12.15	Preparation of environmental sustainable development strategy	-	-	-	-	-	-	-	0.17	-	-	-	-	-	(0.17)	0.10	-	-	-	-	-	(0.10)	0.27	(0.27)
12.16	Project for development of a plan of management reform of Tbilisi water supply and sewage system	-	-	-	-	-	-	-	0.05	-	-	-	-	-	(0.05)	0.05	-	-	-	-	-	(0.05)	0.10	(0.10)
12.17	Support for voluntary introduction of environmental management standards (ISO 14000 Series)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.05	-	-	-	-	-	(0.05)	0.05	(0.05)
12.18	Program of Borjomi-Kharagauli National Park	3.30	0.30	-	3.00	-	3.30	-	6.60	0.60	-	6.00	-	6.60	-	-	-	-	-	-	-	-	9.90	-
	Total 12	39.09	1.74	-	29.50	7.85	35.79	(3.30)	37.44	5.02	2.18	30.03	-	30.62	(0.22)	20.75	3.55	2.08	14.92	-	20.55	(0.20)	97.27	(3.72)

Economic Development and Poverty Reduction Programme of Georgia

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
13	Forest Resources		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
13.1	Forest development	0.04	0.04	-	-	-	0.04	-	0.40	0.04	-	-	-	0.04	(0.35)	0.45	0.05	-	-	-	0.05	(0.40)	0.89	(0.76)
13.2	Forest cadastre	0.03	0.03	-	-	-	0.03	-	0.09	0.03	-	-	-	0.03	(0.06)	0.12	0.04	-	-	-	0.04	(0.08)	0.24	(0.14)
13.3	Reforestation, forest utilization and forest protection	0.71	0.71	-	-	-	0.71	0.00	2.24	0.77	-	-	-	0.77	(1.47)	2.30	0.84	-	-	-	0.84	(1.45)	5.25	(2.92)
13.4	Building of forest roads	-	-	-	-	-	-	-	0.62	-	-	-	-	-	(0.62)	0.65	-	-	-	-	-	(0.65)	1.27	(1.27)
13.5	Planting of nuts	-	-	-	-	-	-	-	0.09	-	-	-	-	-	(0.09)	0.10	-	-	-	-	-	(0.10)	0.19	(0.19)
13.6	Creation of forest inventory	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total 13	0.78	0.78	-	-	-	0.78	0.00	3.44	0.85	-	-	-	0.85	(2.59)	3.62	0.93	-	-	-	0.93	(2.69)	7.84	(5.28)
14	Land Management		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
14.1	Creation of computer database of land tax and land rent payments	-	-	-	-	-	-	-	0.75	0.75	-	-	-	0.75	-	0.50	0.50	-	-	-	0.50	(0.00)	1.25	(0.00)
14.2	Study of soil fertility	-	-	-	-	-	-	-	3.00	-	-	-	-	-	(3.00)	6.00	-	-	-	-	-	(6.00)	9.00	(9.00)
14.3	Privatisation of non-rented land	-	-	-	-	-	-	-	0.50	-	-	-	-	-	(0.50)	0.31	-	-	-	-	-	(0.31)	0.81	(0.81)
14.4	Privatisation of rented land	-	-	-	-	-	-	-	1.50	-	-	-	-	-	(1.50)	0.93	-	-	-	-	-	(0.93)	2.43	(2.43)
14.5	Project of land cadastre and register	3.00	-	-	3.00	-	3.00	-	6.50	-	-	6.50	-	6.50	-	6.50	-	-	6.50	-	6.50	-	16.00	-
	Total 14	3.00	-	-	3.00	-	3.00	-	12.25	0.75	-	6.50	-	7.25	(5.00)	14.24	0.50	-	6.50	-	7.00	(7.24)	29.49	(12.24)
15	Other Activities		State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap	-	State Budget	Local Budget	External Funding	Private Sector	Sum	Gap		
15.1	Social Investment Project II	8.00	-	-	8.00	-	8.00	-	10.00	-	-	10.00	-	10.00	-	12.00	-	-	12.00	-	12.00	-	30.00	-
15.2	Project of municipal development and rehabilitation	12.00	-	-	12.00	-	12.00	-	14.00	-	-	14.00	-	14.00	-	14.00	-	-	14.00	-	14.00	-	40.00	-
15.3	Project for enterprise restructuring and management assistance	5.85	1.35	-	4.50	-	5.85	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.85	-
15.4	Study of the housing sector and elaboration of the main directions for its development	-	-	-	-	-	-	-	0.66	-	-	-	-	-	(0.66)	-	-	-	-	-	-	-	0.66	(0.66)
15.5	Establishment of the special institute required for providing concessional mortgage loans	-	-	-	-	-	-	-	0.22	-	-	-	-	-	(0.22)	-	-	-	-	-	-	-	0.22	(0.22)
15.6	Court reform	5.40	0.90	-	4.50	-	5.40	-	5.16	0.86	-	4.30	-	5.16	-	-	-	-	-	-	-	-	10.56	-
15.7	Support for the development of small and medium enterprises	0.15	0.15	-	-	-	0.15	-	3.00	3.00	-	-	-	3.00	-	4.00	4.00	-	-	-	4.00	-	7.15	-
15.8	Development and implementation of investment climate improvement measures	5.00	5.00	-	-	-	5.00	-	5.00	5.00	-	-	-	5.00	-	5.00	5.00	-	-	-	5.00	-	15.00	-
15.9	Implementation of export promotion measures	3.00	3.00	-	-	-	3.00	-	4.00	3.00	-	1.00	-	4.00	-	3.00	3.00	-	-	-	3.00	-	10.00	-
15.10	Reform of the State Procurement System	0.30	-	-	0.30	-	0.30	-	0.20	-	-	0.20	-	0.20	-	0.20	-	-	0.20	-	0.20	-	0.70	-
15.11	Institutionalisation and development of innovations service	0.05	0.05	-	-	-	0.05	-	0.05	0.05	-	-	-	0.05	-	0.05	0.05	-	-	-	0.05	-	0.15	-
15.12	Statistical expenditures of program implementation	3.53	1.33	-	1.67	-	3.00	(0.53)	8.10	1.53	-	4.56	-	6.09	(2.01)	6.93	1.76	-	1.35	-	3.11	(3.82)	18.56	(6.36)
15.13	Creation of Centre for Experiment and Research of Load-Carrying ability of Engineering Constructions and Buildings	-	-	-	-	-	-	-	1.73	-	-	-	-	-	(1.73)	1.40	-	-	-	-	-	(1.40)	3.13	(3.13)
15.14	Support to the implementation, coordination, monitoring and coparticipation of the program	5.28	-	-	-	-	-	(5.28)	3.60	-	-	-	-	-	(3.60)	3.60	-	-	-	-	-	(3.60)	12.48	(12.48)
	Total 15	48.56	11.78	-	30.97	-	42.75	(5.81)	55.72	13.44	-	34.06	-	47.50	(8.22)	50.18	13.81	-	27.55	-	41.36	(8.82)	154.46	(22.85)
	TOTAL	1,005.06	534.34	193.26	232.83	17.71	978.13	(26.18)	1,372.65	610.16	220.38	313.62	12.96	1,150.52	(215.53)	1,468.71	685.70	247.48	278.02	13.96	1,225.15	(243.56)	3,846.41	(486.01)