

PN-ACD-184

U \aidrep\docs\strategy\stratpln gpm 4/22/96

**UNITED STATES DEVELOPMENT
STRATEGIC PLAN**

FOR

GEORGIA

April 1996

TABLE OF CONTENTS

USAID/CAUCASUS

GEORGIA PROGRAM

STRATEGIC PLAN - FY 1996-2000

PART I

List of Abbreviations

Summary Analysis of Assistance Environment

- A U S Foreign Policy Interests
- B Overview and Priorities
 - 1 Economic Restructuring
 - 2 Democracy and Governance
 - 3 Social Sector Restructuring
- C Customer Focus
- D Transition Issues

PART II

A Rationale and Plans for Strategic Objectives

1 2, Increased Soundness of Fiscal Policies and Fiscal Management Practices

- a Problem Analysis
- b Results Framework
- c Judging Performance
- d Commitment and Capacity of Development Partners
- e Illustrative Approaches
- f Sustainability

1 3, Accelerated Development and Growth of Private Enterprises

- a Problem Analysis
- b Results Framework
- c Judging Performance
- d Commitment and Capacity of Development Partners
- e Illustrative Approaches
- f Sustainability

- 1 4, A More Competitive and Market-Responsive Private Financial Sector
 - a Problem Analysis
 - b Results Framework
 - c Judging Performance
 - d Commitment and Capacity of Development Partners
 - e Illustrative Approaches
 - f Sustainability

- 1 5, A More Economically and Environmentally Sustainable Energy Sector
 - a Problem Analysis
 - b Results Framework
 - c Judging Performance
 - d Commitment and Capacity of Development Partners
 - e Illustrative Approaches
 - f Sustainability

- 2 1, Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making
 - a Problem Analysis
 - b Results Framework
 - c Judging Performance
 - d Commitment and Capacity of Development Partners
 - e Illustrative Approaches
 - f Sustainability

- 2 2, Legal Systems that Better Support Democratic Processes and Market Reforms
 - a Problem Analysis
 - b Results Framework
 - c Judging Performance
 - d Commitment and Capacity of Development Partners
 - e Illustrative Approaches
 - f Sustainability

- 2 3, More Effective, responsive and Accountable Local Government
 - a Problem Analysis
 - b Results Framework
 - c Judging Performance
 - d Commitment and Capacity of Development Partners
 - e Illustrative Approaches
 - f Sustainability

- 3 1, Reduce Human Suffering and Crisis Impact
 - a Problem Analysis
 - b Results Framework

- c Judging Performance
- d Commitment and Capacity of Development Partners
- e Illustrative Approaches
- f Sustainability

B Homestretch Strategic Objectives - Not applicable

C Special Objectives

- 1 Medical Partnership
- 2 NET Training and Exchanges

D Environmental Issues

PART III Resource Requirements

A Program Funding

Tables

Narrative Rationale

B OE/Workforce Requirements

C Discussion of Programming Options

ABBREVIATIONS

AIOC - Azerbaijan International Operating Company
CBIHA - Coordination Bureau for Interational Humanitarian Assistance (Georgian Government organization)
CEPAR - Center for Economic Policy Analysis and Reform (Georgia)
CEPRA - Center for Economic Policy Research and Analysis (Armenia)
CIS - Commonwealth of Independent States

CLAU - Caucasus Logistics Advisory Unit
CUG - Citizens' Union of Georgia
DOT - U S Department of Treasury
EBRD - European Bank for Reconstruction and Development
EC/ECHO - European Community Humanitarian Office

ECU - European Currency Unit
EPS - Electronic Payments System
EU - European Union
FMS - Financial Management System
FSU - former Soviet Union

GANSP - Georgia-Armenia Nutritional Supplement Project
GDP - Gross Domestic Product
GIOC - Georgia International Oil Company
GOA - Government of Armenia

GOG - Government of Georgia
GTZ - German aid program
IBRD - International Bank for Reconstruction and Development (World Bank)
ICRC - International Committee of the Red Cross
IDP - Internally Displaced Persons

IFI - International Financial Institution
IFRC - International Federation of the Red Cross
IMF - International Monetary Fund
IOM - International Organization for Migration
IR - Intermediate Results

ITIC - Inter-Telecommunication and Information Center
NBG - National Bank of Georgia
NGO - Nongovernmental Organizations
NET - NIS Exchanges and Training Project
NIS - New Independent States of the former Soviet Union

MW - megawatts
MVD - Georgian State Police
OSCE - Organization for Security and Cooperation in Europe
PAROS - Armenian Government's needs-based voluntary registration program for humanitarian assistance
PVO - Private Voluntary Organization

SCF - Save the Children Federation
SIF - Social Investment Fund
SME - Small and Medium Enterprise
S O - Strategic Objective
STF - Systemic Transformation Facility (IMF)

STI - State Tax Inspectorate (Armenia)
STS - State Tax Service (Georgia)
TACIS - technical assistance program of the European Union for the former Soviet Union
UNDP - United Nations Development Programme
UNHCR - United Nations Human Rights Commission

UNICEF - United Nations International Children's Fund
USDA - U S Department of Agriculture
USGS - U S Geological Survey
VOCA - Volunteers in Overseas Cooperative Assistance
WFP - World Food Program
WTO - World Trade Organization

PART I SUMMARY ANALYSIS OF ASSISTANCE

A U S FOREIGN POLICY INTEREST

The emergence of a democratic, prosperous and independent Georgia is in the United States' long-term interest. A gateway to the Transcaucasus and on to Central Asia and Kazakstan, Georgia has the potential to become a major stabilizing force in the region, and a vital transportation link to world markets. Democratic development and reforms which lead to an open, privatized market economy are critical to the preservation and strengthening of the sovereignty, independence and territorial integrity of Georgia.

The United States enjoys a strong bilateral relationship with the Government of Georgia (GOG). Nearly \$450 million of U S humanitarian and economic assistance has been provided to Georgia since 1992. This magnitude of aid is particularly significant when measured against a population of approximately 5.4 million in a nation the size of West Virginia.

Following Georgia's independence from the Soviet Union, several years of civil conflict ensued. Economic collapse attendant to the conflict brought a need for the United States to provide substantial humanitarian aid.

Through Georgia's boundaries and access to the Black Sea flow commerce and humanitarian assistance to neighboring Armenia and Azerbaijan, including to the victims of the Nagorno-Karabakh conflict. Assured movement of humanitarian goods to the entire region has solidified a productive bilateral relationship with the United States. The recently established western route for early oil transport from the Caspian basin has increased Georgia's strategic importance as a transportation corridor. If Georgia competes successfully for additional oil or gas pipelines its strategic importance as a regional transport corridor will further increase Georgia's strategic importance to the benefit of both Georgian and U S interests.

Georgia faces threats to its territorial integrity. Russia holds the key to long-term solutions to resolve the separatist movements of Abkhazia and South Ossetia, as well as possible external threats which could spill over from Chechnya. The United States encourages Georgia and Russia to negotiate peaceful solutions which would allow the large internally displaced populations to return to their home areas.

The United States endorses Georgia's accession to the Nuclear Non-Proliferation Treaty and membership in the Partnership for Peace. The U S has concluded bilateral agreements with Georgia on trade, investment and commercial relations.

President Eduard Shevardnadze enjoys great respect in America originating from the time he served as foreign minister of the Soviet Union and his outspoken support of democratic development. Since his return to Georgia in 1992, he has presided over a halt to

civil conflict and the beginning of notable democratic and economic reforms Georgia's elections last November were relatively free and fair, and the new parliament is active and reformist

B OVERVIEW AND PRIORITIES

Introduction

Georgia's Development Challenges

- Develop government functions and strengthen institutions, at the federal and local levels, which encourage civic responsibility and action, but discourage corruption and malfeasance,
- Develop an economic, social and legal framework conducive to an open, privatized economic and business environment in which all Georgians can participate, and in which all have confidence,
- Arrest deterioration and strengthen the financial sector to establish confidence of citizens to borrow, save and invest,
- Increase the private sector's share of power generation and distribution to increase electrical output and efficiency, and promote political stability,
- Increase international trade and foreign investment to generate export-led, market-driven economic growth based on Georgian strengths in agriculture, manufacturing, technology, transportation and possibly tourism, and
- Develop small and medium size businesses which utilize Georgia's highly educated, but inappropriately trained, workforce

There is a unique opportunity to build a market-based, and democratic society grounded in the rule of law and private property if Georgia decentralizes economic and political power and privatizes its agricultural resources, industrial capacity, and infrastructure. To generate private domestic investment and foreign private investment, Georgia needs expertise in law, commerce, finance, government and social welfare to make system reforms that can lead to sustainable economic growth and greater political stability. Georgia's leaders must strive to create an enabling environment for economic and political growth that unleashes rather than controls legitimate business. Georgia should pursue accession to the World Trade Organization (WTO) and avoid joining the CIS Customs Union to retain its independence and make it a competitive producer, transporter, and exporter to global markets.

Because Georgia's democratic and economic reforms are now making initial but strong gains, the United States and The Republic of Georgia are moving to lessen humanitarian assistance, while increasing assistance in economic restructuring, energy sector reform, democratization, and social sector restructuring. If such a strategy is pursued, it is USAID's judgment that Georgia can become a democratic and economic leader in the Trans-

Caucasus As a strong private market economy emerges, and democracy gains more strength, geopolitical stability in the Caucasus will be enhanced Georgia is taking leadership in pursuing cooperation in the Caucasus region

Economic Restructuring

Georgia is currently in a recession and much of the agricultural and industrial capacity remains idle Georgia is one of the poorest countries in the Former Soviet Union (FSU) with Gross Domestic Product (GDP) per capita estimated at US\$ 410 Georgia's economy has suffered since independence in 1991, as collective economic structures and the command economy collapsed and traditional trade links with the rest of the former Soviet Union were broken Real net material product is less than one-fourth of that before independence On the basis of EU estimates, real GDP has fallen by more than 56 percent since 1989 However, the rate of decline in real GDP may be bottoming-out GDP growth might be on the order of 5 percent in 1996 Georgians currently rely on income from agriculture to generate most national income aside from international aid Formal economic activity in all state-owned sectors has all but collapsed and 80 percent of private sector activity may be in the "gray" economy or informal sector

Georgia must strive to be a exporting and trading nation

Despite considerable progress with macroeconomic stabilization, energy shortages have had a devastating impact on economic activity, leaving large segments of the population to face winters with little or no residential heating, electricity, or hot water There is cynicism and frustration among much of the population which has not found productive employment and is faced with shortages of resources to purchase basic necessities Unemployment is underestimated at 7 percent The social safety net has deteriorated severely The energy and transportation networks function, but require maintenance and modernization to support domestic output and an export drive

The collapse of production and investment have created huge budget deficits Revenues as a proportion of GDP fell from around 30 percent in 1991 to 14 percent in 1992 The fiscal deficit rose from 2 percent to 34 percent during this period Before late 1994, the Government borrowed from Russia and the other FSU republics, principally through clearing trade arrangements, running -up external debt to more than \$1 0 billion in less than three years

Georgia has made notable progress on economic reform, including removal of subsidies, liberalization of prices, and elimination of trade controls Some residual subsidies and price controls remain Stabilization of the exchange rate lead to the introduction of a new national currency, the *Lari*, in September 1995 The exchange rate has stabilized and has varied less than 5 percent, making it one of the most stable currencies in the FSU Inflation has fallen dramatically over the past six months to approximately 3 percent per month, down from over 50 percent per month in the first quarter of 1994

Agricultural exports and industry have fallen sharply, import and export markets with the former Soviet Union have shrunk. Exports will not increase appreciably in the near term, thus maintaining Georgia's large trade imbalance, currently equal to 60% of imports. Only half of the land has been privatized and the remainder is under public control. However, tenants of private land do not have basic property rights and, hence, land cannot be used as collateral for loans. Renewed land reform is one of the highest priorities of the Government. The civil unrest in Abkhazia and the resulting refugee problems there and in Ossetia add to disruption in general economic activity. Georgia can afford to import little energy from Russia, Turkmenistan, or Azerbaijan, which in turn limits industrial and agricultural output.

Agriculture, forestry and fishing may account for more than 87 percent of the measured GDP, industry less than 15 percent. Agriculture employs more than one-third of the country's labor force. Agricultural production has begun to increase, almost doubling in 1993 as compared to 1990, but at the expense of efficiency because yields of major crops are decreasing by about 20 percent each year because production potential is seriously limited due to insufficient inputs (principally water and fertilizer) and poor farm management methods. A more disturbing trend is the shift away from horticultural crops and livestock to cereal production. Although logical, since food security is a national issue, the radical deterioration of agricultural infrastructure (e.g., irrigation, canneries), orchards and vineyards has long term, deleterious effects on export potential. For agriculture, the major problems which need to be addressed in the short and medium-term are lack of markets and financing, and unsecured property rights.

Georgia's state industrial sector before independence was focused on heavy manufacturing, chemicals and aerospace industries. Now, Georgia must strive to become an export and trading nation. Under a competitive export growth strategy a shift towards high-value agricultural products, transportation, light-to-medium manufacturing, trade and services, and science and technology can be expected.

Privatization of small enterprises is largely complete and vouchers were issued to citizens in 1995 through "partial privatization." The rate of privatization for medium and large enterprises has increased but is far behind targets. Georgia has a liberal tariff policy, but Government's immediate task for the industrial sector is to identify which products or higher quality goods and services to promote for export and which to promote for import substitution. The western oil pipeline now offers significant scope for private investment in the energy sector.

Energy prices do not reflect full cost recovery. The government has recently terminated its role in the procurement of natural gas and electricity. Past energy imports account for roughly half of Georgia's external commercial debt of one billion dollars. The government is corporatizing its energy authority, Sakenergo, as a condition for a large World Bank energy rehabilitation credit, but power sector recovery is unlikely to occur until the sector is privatized, and new investment takes place.

The collapse of the centralized industrial and agricultural sectors, replaced with informal sector activity poses a major challenge for the Government how to collect sufficient taxes to finance government and social sector priorities Georgia's tax administration system is not working--tax revenues are only 3 percent of GDP, one of the lowest collection rates in the world A promising approach would be to develop commercial laws and a regulatory environment to encourage broad-based growth across all economic sectors, and to implement tax reform which creates a broad base and has low-to-moderate rates

Monetary policy has been tightened and government's uncontrolled access to financing by the National Bank of Georgia (NBG) has ceased The central bank is taking positive steps to improve bank supervision, management of external reserves and payment systems However, the commercial banking sector requires major restructuring to establish western, customer-oriented financial services and to begin commercial lending programs at market rates The development of a payments system to clear accounts and record transactions and the enforcement of prudential regulations by the National Bank are required to provide incentives for capital formation by commercial banks Efforts to strengthen the supervision and capabilities of the National Bank are crucial reforms which need to be undertaken as soon as possible Currently, State commercial banks, which dominate the financial sector are inefficient and ill-adapted to respond to the needs of a market economy There were 230 registered banks about one year ago, now there are 130 The IMF estimates there will be only 20-25 commercial banks by 1998 that can meet the NBG bank capitalization requirements of \$500,000

The transportation sector requires significant rehabilitation Georgia is a hub for humanitarian assistance and trade within the Caucasus Rail service has deteriorated tracks need replacement, bridges and culverts are unsafe, and, rolling stock is dilapidated As a result of recent donor funded technical and commodity assistance, however, the rail links between Batumi and Poti on the Black Sea to Tbilisi and onward to Yerevan and Baku have become more reliable over the past six months

Parliamentary and presidential elections in November 1995 were generally free and fair The new government is made up of many reform-minded officials (a few of whom are U S -educated) and appear committed to developing a private market economy as quickly as possible A major restructuring of the Government is underway, a number of ministries were reduced, following the November elections, and some notoriously corrupt senior officials were not reappointed The public sector workforce was reduced by 30% by the end of 1995, but the extent to which "ghost" employees exist is not known

Democracy

The administrative breakdown that occurred in Georgia between 1991 and 1994 is somewhat unique in the NIS region, and it clearly must be addressed if Georgia's transition is to be successful

Following its independence, Georgia faced multiple political crises in addition to those encountered by all post-Soviet republics

- Dictatorial rule by the first elected head of state, radical nationalist Zviad Gamsakurdia, undermined parliamentary development, alienated powerful interest groups and led to his violent overthrow in 1992
- In response to (east) Georgian ethnic nationalism, three bloody regional secessionist wars against the Mingrelian west, Abkhazians, and South Ossetias. Today, due in part to Russian meddling, the latter two are not controlled by Tbilisi, Moslem Georgia Adjara is controlled by Tbilisi, but this control is mostly nominal and Adjara formally recognizes Tbilisi's authority
- An explosion of organized crime led in part by the radical nationalist paramilitary group, *Mkhedrioni*, but permeating most state institutions, including the MVD police and internal security agencies
- Nearly a quarter million Georgian internally displaced persons from Abkhazia straining physical infrastructure and undermining political order

Though the executive and parliament in Tbilisi are able to pass laws, the 1991-1994 period left the Georgian executive administration with a seriously deteriorated capacity to actually govern. An overwhelmed police force and ineffective judiciary are unable to enforce laws, official corruption is endemic, and the government is only in nominal control of its own administrative bureaucracy, particularly in outlying areas. Combined with crumbling transportation, water, electrical, and communication infrastructure, by early 1994 Georgia was dangerously close to becoming a "failed state."

Over the past year-and-a-half, however, conditions have been improving. President Eduard Shevardnadze has neutralized the *Mkhedrioni* and other crime groups through parliamentary action enforced by the MVD, the national police. This progress needs to be extended and institutionalized through criminal justice and court reform. Shevardnadze has also sought to reverse administrative chaos by placing his personal representatives in charge of most of the regions still under direct Georgian control. Establishing executive governance structures has been a slow process in which the head of state, with limited resources, has had to move cautiously given the array of powerful interest groups involved. It is by no means certain yet that these efforts will succeed. However, the government has demonstrated the political will to make progress toward a democratic, more market-oriented society, and to do so generally within a context of the rule of law. The economic team has demonstrated the

will to embark upon significant macroeconomic reform, and the elections for President and parliament were relatively free and fair, except in Adjara

As orderly government is established in Georgia, it is essential to consolidate democratic institutions to help guide and legitimize the process, and to ensure that shortcuts taken to address current problems do not help consolidate a new form of centralized authoritarianism. The approval of a new constitution was an important step in the democratization process.

Two strategic areas must be emphasized: (a) rebuilding effective capacity of the state to govern, fairly but effectively, through criminal justice reform, and conducting local elections and building local governance institutions, and (b) establishing effective constraints on the exercise of executive power through free and fair elections, constituency-based political parties, and open and free flows of information.

Social Sector Restructuring

The Georgian standard of living has plummeted in the four years since independence. The World Bank estimates that per capita income has declined by 60 percent from its estimated level of \$1,640 in 1991.

The worst affected are the economically vulnerable, whose numbers are estimated at 700,000 and include internally displaced persons (IDPs), pensioners, single mothers with children, orphans and institutionalized persons. Discussions regarding a political settlement in Abkhazia continue but there is no current plan for the repatriation of the 250,000-or-so IDPs. Underemployment is pervasive and growing, and may represent as much as one-third of the working-age population. Workers subsist on wages well below what is considered adequate.

Most families rely upon informal means of support to supplement their incomes. In urban areas, which account for about half the population, the state remains the largest employer and salaries range from \$3-5 per month. Most of the population has access to land and rely on subsistence farming for basic foodstuffs. Georgians with relatives working abroad, primarily in Russia, depend on remittances. When other means are exhausted, families resort to selling possessions to generate needed income.

The breakdown of the economy has resulted in the collapse of the social safety net and a severe disruption in the delivery of social services such as basic health care. Soviet-era, government-provided free housing, health care, guaranteed employment, and pensions, have been drastically reduced or eliminated. In view of the financial crisis, there is little scope for introduction of a comprehensive social safety net at this time.

Inflation has eroded the real value of government allowances and pensions provided to the most vulnerable groups. A recent United Nations Development Programme (UNDP)

report estimates that in January 1995 the average monthly consumer basket for an adult male was equal to about \$30. By comparison, the maximum monthly government allowance paid to a pensioner with no other source of income is roughly \$2, only 7% of the basket's value.

The energy crisis has imposed additional hardships. There is virtually no gas available for domestic heating and cooking, a particular problem for urban populations dependent on centralized systems for electricity, heat, and water. They have turned to alternative sources, such as kerosene, wood and electricity, to help meet energy needs, but these energy sources are not always available. Frequent interruptions of electrical power leave citizens without water and heat, and disrupt or close hospitals, schools, and bakeries, particularly in the winter months. Spontaneous citizens' protests against electrical shortages reflect public frustration and anger with the state electrical monopoly.

C. CUSTOMER FOCUS

In developing the Strategic Plan for Georgia, USAID/C first identified the array of customers who would ultimately benefit from the results presented in the Strategy. Looking from the grass roots level up, customers include vulnerable groups within the general population, refugees and IDPs and their families, community groups (Nongovernmental Organization (NGOs), political parties, and various associations), small and medium size entrepreneurs, local and municipal government entities, national ministries and the Parliament. Then based on the Mission's knowledge of the economic and social conditions of the customers and consultation with the key customers, Ministry of Finance, Ministry of Economy, State Fuel and Energy Corporation, Parliamentary Committees, and various NGOs, results frameworks and timelines were developed.

Though Customers were less involved in the preparation of the Strategy, the Mission has a long standing cooperative relationship with the Customers in developing the various program elements which contribute to the achievement of programmatic results.

The Mission will also prepare a Customer Service plan, as required.

D TRANSITION ISSUES

Georgia has lagged behind in its quest of a democratic market-based economy because of extended civil conflict in the first few years after independence. The International Financial Institutions (IFIs), have initiated economic stabilization and structural reform by focusing on the initial changes necessary for Georgia to become operative in the international financial community. The Government has courageously responded by undertaking broad macroeconomic, fiscal and monetary reforms, and by privatizing most small business. However, the policy, legal and regulatory decisions required to develop private market-oriented growth at the firm, government and household levels need to be addressed. Export-driven growth and democracy could falter or even regress if a commercial infrastructure which works for Georgia is not put in place (for example, western oriented commercial laws and regulations). Principal constraints are the lack of an integrated economic, legal and regulatory framework to stimulate private sector investment and growth, lack of competitive, private financial markets, inefficient state monopolies in energy generation, slow progress on privatization of land so that it can be freely bought and sold, and as the agricultural sector offers the strongest prospects for private investment and growth, slowness in moving forward with the privatization of state provided agricultural services, and the lack of social services for population groups most acutely affected by the economic crisis.

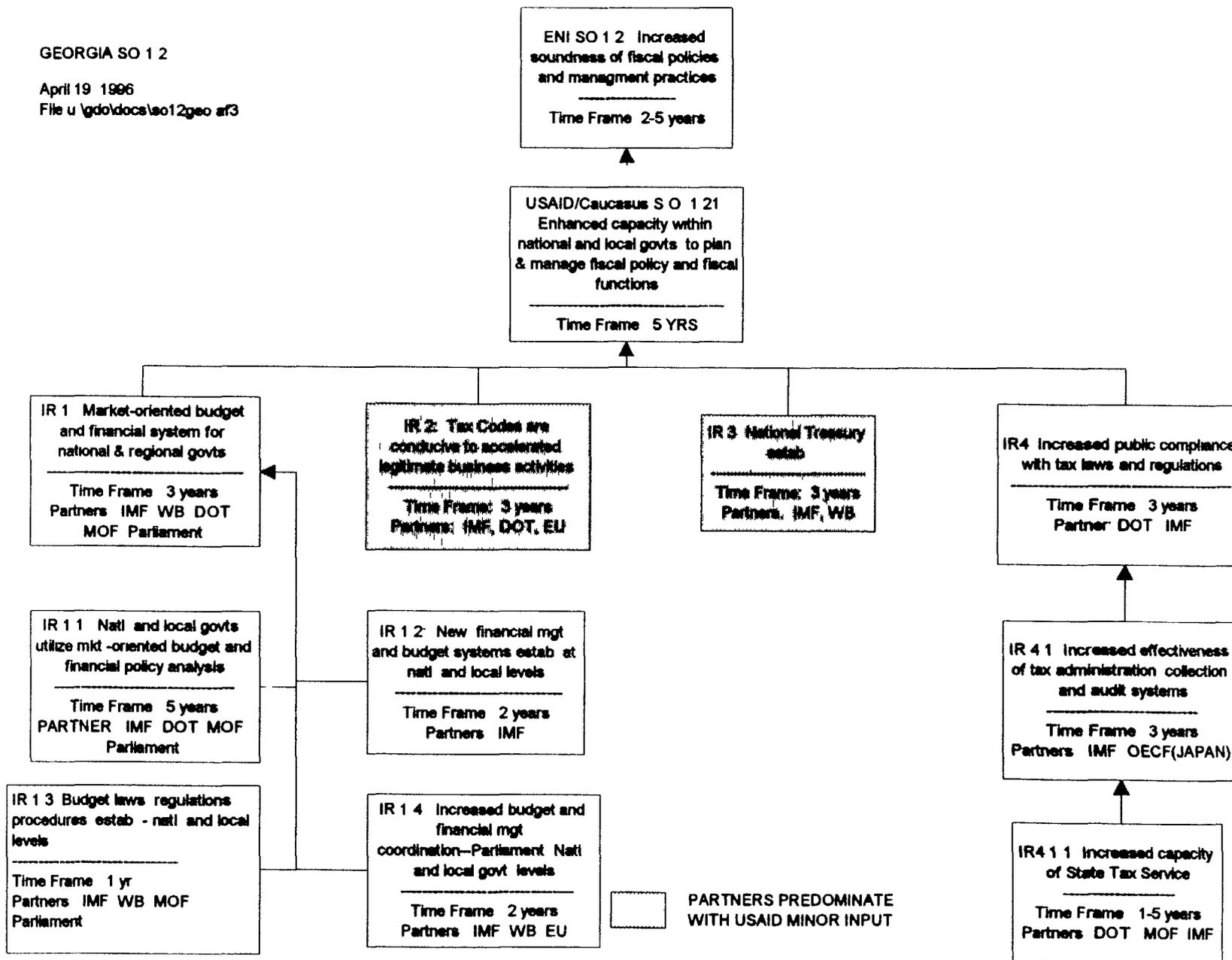
a

GEORGIA SO 1 2

April 19 1996

File u \gdo\docs\so12geo ar3

11a



PART II STRATEGIC PLAN ELEMENTS

A. Rationale and Plans for Strategic Objectives

ECONOMIC RESTRUCTURING

Strategic Objective 1.2 Increased Soundness of Fiscal Policies and Fiscal Management Practices

Problem Analysis

Georgia does not have a coherent national budget law or methodology. There is no consolidated budget formulation unit or treasury. However, the Government recently enacted a decree to establish a budget administration, and the International Monetary Fund (IMF) is assisting with the establishment of its Chart of Accounts and treasury functions. Additional help in formulating the national budget system is required.

Georgia faces a major problem to develop a national budget system to apportion revenues between federal and regional levels. The national constitution does not provide clear guidance and the Government has proceeded to develop ad hoc arrangements with the regions, but in violation of the new constitution. This unresolved problem could precipitate a legal and economic crisis.

Existing tax laws require strengthening to broaden the tax base and, as required by the IMF, to provide greater authority to the State Tax Service (STS) to collect taxes. New tax laws enacted in 1994 such as profit, personal income and a value added tax, require improvement and improved administrative procedures and regulations. Although the IMF is assisting in the reorganization of the STS, senior officials there do not have the required capacity to manage a modern tax administration in a market economy, especially one that is export-driven. STS staff need training and technical assistance to conduct taxpayers' audits and tax collection. Tax collection procedures need to be overhauled providing incentives for greater emphasis on voluntary tax payments. However, regulations, including the means to appeal decisions in a coherent, published tax code do not exist. The current tax regime and the intrusive manner of STS collections are prime obstacles for enterprise development in the formal sector and will not support and attract foreign investment.

Results Framework

See Results Framework (R4), Part II

Judging Performance

See R4, Part for Performance Assessment Data

Overall Progress

The collapse of production and investment have created huge budget deficits. Revenues as a proportion of GDP fell from around 30 percent in 1991 to 14 percent in 1992. The fiscal deficit rose from 2 percent to 34 percent during this period. Before late 1994, the Government borrowed from Russia and the other FSU republics, principally through clearing trade arrangements, running up external debt to more than \$1.0 billion in less than three years. Government revenue fell to less than 3 percent of GDP and expenditures far exceeded revenues. The fiscal arrears and unsustainable monetary policy, exacerbated by an intermediate currency, the *coupon*, fueled hyperinflation.

Georgia has made notable progress on fiscal reform, beginning in late 1994, as a result of balance of payments support under the IMF's Systemic Transformation Facility (STF) and Standby Arrangement, the World Bank's Rehabilitation Credit and large amounts of humanitarian assistance provided by USAID, the European Union and other donors. With this assistance the Government tackled fiscal reform in earnest, including the removal of subsidies, liberalization of prices, and elimination of trade controls. Some residual subsidies and price controls remain, but their complete elimination is expected in 1996. Stabilization of the exchange rate led to the introduction of a new national currency, the *Lari*, in September 1995. The exchange rate has stabilized and has varied less than 5 percent, making it one of the most stable currencies in the FSU. Inflation has fallen dramatically over the past six months to approximately 3 percent per month for the last three quarters of 1995, down from over 50 percent per month in the first quarter of 1994.

The mid-term goal is to limit the Government's responsibilities to basic public services, infrastructure, defense, law and order, protection of the most vulnerable groups and improving the enabling environment plus promoting the private sector to take on many services formerly provided by Government. Fiscal policy will have two main objectives: to increase public revenue generation, and to downsize and restructure budgetary organizations in line with a market economy. Tax revenue is projected to increase from 4 percent of GDP in 1995 to 10 percent in 1998. Substantial improvements in the tax and customs administration are necessary to achieve this target. Establishment of a Treasury with assistance from IMF will help contain expenditures, additional IMF assistance will include improved information management, a debt register and a debt-management strategy and administration.

In spite of the dramatic improvements in Georgia due to tight fiscal and monetary policy, the fiscal situation remains weak. There is no market-oriented budget process or understanding of budget planning at the national level, the problem is exacerbated at the level of local government where new administrative districts have been formed to assume responsibility for local services and capital development. There is no national treasury function, which impedes government planning and cash management. Although Georgia has a liberal trade regime to support private enterprise, tax codes and regulations are not sufficiently liberal to attract foreign investment. Even if the tax codes were more conducive

to private enterprise the administration of the State Tax Service is weak. Citizens are not complying with present tax laws to pay personal and business income--a value-added tax accounts for approximately 70 percent of tax revenues. The State Tax Service (STS) can not carry-out tax collection and audit functions efficiently and revenue agents engage in extortion because they are poorly trained and paid. Until citizens pay taxes, essential investment in infrastructure and services will go unmet and dependence on external financing will have to continue. In particular, the IMF and USAID will cooperate to complete the functional reorganization of the State Tax Service. Finally, the lack of accurate fiscal data which is available to the public underscores the tentative progress made towards transparent fiscal planning and restoration of public and investor confidence in the Republic's economy. USAID assistance from CEPAR and US Treasury will focus on improving the national accounts and price indices, as well as the fiscal, monetary and balance of payments statistics.

ENI's Significant Contributions

In 1996, USAID is engaging US Treasury assistance, in the form of resident advisors --one for national budget formulation and one for tax administration.

The US Treasury Advisor for Budget will work with the Ministry of Finance and the Parliament to develop a draft national budget law and budget system that recognizes the importance of the balance of power between the national and local levels of government in Georgia. The draft budget law will also meet the international budget standards of the IMF. Two major tasks remain: to develop and formalize the fiscal relationships between national and local levels of government related to fiscal relationships, and, to begin the large job of developing competence to carry-out the budget process. USAID and Treasury will provide US training for key budget personnel in the Ministry of Finance and the Parliament who must develop the budget system for national and local governments.

The US Treasury Advisor for Tax Administration will work with the State Tax Service, the national Treasury and the Ministry of Finance to develop an effective national tax administration that is organized functionally, using the reorganization plan developed with IMF assistance. Considerable training will be required in management under the new scheme including the establishment of a file-and-pay tax system, collection procedures and a selective audit system that includes enforcement.

Commitment and Capacity of Development Partners

Commitment and Capacity USAID's principal partners in Georgia are the IMF and World Bank which are responsible for the major fiscal policy reforms that exist under the conditionalities in the Enhanced Structural Adjustment Facility (ESAF) and Structural Adjustment Credit (SAC) with the Government. USAID will work closely with the IFIs and the Government to (1) assess the efficacy of fiscal and monetary policy reforms and laws and regulations which will ensure improvement in fiscal management and provide a

supporting environment for economic growth, and, (2) provide technical assistance and training to the Government to carry out fiscal policy analysis and to improve fiscal management. Mainly, our collaboration will occur in two ways: through the US Treasury Advisors for budget and tax administration, and, through policy dialogue between CEPAR and the IMF and between CEPAR and the Ministry of Economy, and the President's Consultative Economic Council, when the Ministry of Economy uses policy analysis to formulate its own policy recommendations to the IMF or the World Bank. The Consultative Economic Council, newly created by President Shevardnadze, is responsible for developing and implementing Georgia's economic policies to stimulate private sector investment and growth. The President's Economic Assistant and the Chief of State of the Chancellery's Economic Service share responsibility for the Economic Council. The Economic Council includes Government and business representatives.

Illustrative Approaches.

A Tax Codes and Administration The U S Treasury will provide short- and long-term technical assistance to the State Tax Service to augment the IMF's pilot activity designed to improve tax administration. The U S Internal Revenue Service will assist the STS develop an efficient centralized organization with clear functional supervision from headquarters to regional and through to district level fiscal operations. Tax administration functions to target include audit, collection, and tax return data. The statutory framework or the institution of tax administration will be developed to provide for organizational efficiency, enabling taxpayers to meet their legal obligations and to protect them from indiscriminate extortion by the "Tax Police". Adequate powers to enforce compliance will be developed. Tax rates will apply to as broad a base as possible. The STS will receive training in tax administration policies and operations, including audit supervision, and processing tax returns. STS revenue agents are licensed, but since most taxpayers do not file returns, agents succumb to extortion to collect taxes, with agent and taxpayer never knowing what the actual legal obligation is. A tax payer education service program is a high priority. At present, penalties are not effective as there is no tax court, or procedures to try tax fraud cases. Assistance is required to develop a cost-effective system of tax enforcement and adjudication.

B National Budget Formulation and Execution U S Treasury long- and short-term assistance will aid the Ministry of Finance to develop national budget functions: a schedule for budgetary action, a formulation process, a review process (executive and parliamentary branches), and a budget execution process, including controls. Laws to explain these new procedures will be developed in parallel. A federal budget system will include regional autonomy for both revenue generation and budgetary expenditures. The longer range goal will be to assist the Government develop a computerized financial management system (FMS) that incorporates new executive budget and treasury functions including federal and regional apportionment.

Sustainability

The US Treasury programs in budget and tax administration are important to initiate in 1996 to carry-out fiscal reforms and provide a foundation to sustain fiscal policy

The Government has made dramatic progress to reduce deficit spending and has established ambitious targets for 1996 the reduction of inflation to less than 10 percent by end-1998, the reduction of the external current account deficit to 4.2 percent in 1998 from 15.3 percent in 1995, and the strengthening of the country's international reserves position. The Government's fiscal policy will seek to reduce the overall deficit of the general Government to about 3 percent of GDP in 1998 from about 6 percent in 1995. Tax revenues will be raised in order to finance essential current Government expenditures, while the financing of capital investment will rely mainly on external resources. To improve revenue performance, the Government will limit tax exemptions, expand the tax base and strengthen tax and customs administration. A tight monetary program will remain in place to obtain the inflation objectives of the program. Within the medium term strategy established in collaboration with the IMF, the 1996 program aims at an annual growth rate of 8 percent of GDP, an annual inflation rate of 20 percent, an external current account deficit of 7.1 percent of GDP, and international reserves at approximately 2.7 months of projected 1996 imports. To achieve these objectives the overall budget deficit is targeted to decline to 3.4 percent of GDP and tax revenues for 1996 are expected to increase to 6.7 percent of GDP from an estimated 3.7 percent of GDP in 1995.

However, in establishing these targets, the Government has also increased its external debt, albeit largely concessional, and servicing this debt will take a good share of revenue which should be diverted to rebuilding infrastructure needed for economic growth. Presently, there is virtually no compliance with personal income or corporate income tax obligations, so only progress is possible. The addition of a US Treasury Tax Advisor beginning 1996 is important because insufficient technical assistance and training have been provided to the State Tax service to enforce or encourage compliance. The IMF will need to accelerate its assistance to the Government to develop a national treasury to separate revenue and expenditure functions.

The addition of a Treasury resident Budget Advisor in Georgia in 1996 will hasten the development of a national budget process, but the entire process is like to take at least five years. The marriage of international accounting standards and the development of a coordinated budget process for national and local levels of government will require considerable resources--additional cooperation with IFIs will be important. Responsibility for training hundreds of elected government officials, members and staff of the Parliament responsible for the budget system is an issue that must be addressed soon. The development of a government securities market and the debt and cash management system is also a high priority of USAID and the IFIs. The development of a public education and information

program for taxpayers and government debt instruments is needed but has not been addressed so far

Strategic Objective 1.3 Accelerated Development and Growth of Private Enterprises

Problem Analysis

Although Georgia has achieved major macroeconomic reform over the last 18 months, the policy framework to achieve a vibrant market economy is far from complete. Required structural adjustments are only beginning to be addressed. Neither an examination of the constraints to private sector growth, nor the identification of investment opportunities to spur private sector growth have been undertaken. The ministries responsible for economic policy lack sufficient analytical capacity to make prudent choices and take necessary action. The Government must begin to restructure institutions and prepare policy-makers to deal with the new market orientation. Institutions with responsibility for economic policy, and the formulation of commercial laws and regulations must develop their capacities to conduct policy analysis and formulation based on both valid economic information and sound analysis. There is a tendency to put greater reliance on donor technical assistance for economic and legal advice at the expense of building institutional capacity to drive the reform process.

Private enterprise growth is stymied because corruption persists and personal relationships take precedence over competition in the market place. There are few, well understood, enforced commercial laws and procedures which support rather than control business. Agribusiness, transportation, and possibly tourism will underpin growth over the next decade. However, good business opportunities cannot attract investment until more progress is achieved with economic stabilization, and a commercial legal and regulatory framework is in place, supported by market oriented institutional restructuring. New laws, codes and procedures are urgently required to encourage and regulate business in an open, competitive market. However, two important dichotomies exist: (1) the need to draft and enact urgently new laws, codes and regulations clashes with the need for lawyers, judges and citizens to understand the principles of market economics that are the foundation of most western commercial law codes, and, (2) the inclination of the Government to adopt complicated, lengthy laws generated by foreign experts which produce a new western legal system that is less widely understood and enforceable (presently) than the Soviet-system which Georgia's reformers now wish to discard.

Results Framework

See R4, Part II

Judging Performance

See R4, Part II for performance assessment data

GEORGIA SO 1 3
 April 22, 1996
 File so13geo af3

SO 13 ACCELERATED
 DEVELOPMENT AND
 GROWTH OF PRIVATE
 ENTERPRISE

 TIME FRAME



IR FROM THE RESULTS FRAMEWORK
 OF ANOTHER STRATEGIC OBJECTIVE

IR 1 EXPANDED EXPORT
 AND DOMESTIC MARKETS

 TIME FRAME 5 YRS
 PARTNERS EU IMF WB

IR 11 INCREASED FOREIGN
 INVESTMENT

 TIME FRAME 3 YRS
 PARTNERS EU WB EBRD

IR 12 INCREASED
 TRANSFER OF COMPETITIVE
 TECHNOLOGY

 TIME FRAME 5 YRS
 PARTNER EU

IR 13 INCREASED ACCESS
 TO CREDIT BY DOMESTIC
 ENTERPRISES

 TIME FRAME 4 YRS
 PARTNERS EU WB EBRD

IR 14 INCREASED ACCESS
 TO EXPORT & DOMESTIC
 MARKETS AND CONTACTS

 TIME FRAME 3 YRS
 PARTNERS EU EBRD

IR 111 INCREASED
 AVAILABILITY OF FINANCIAL
 SERVICES (SO 1A)

 TIME FRAME 3 YRS
 PARTNER EU WB IMF EBRD

IR 121 IMPROVED
 LINKAGES FOR APPLIED
 RESEARCH & DEVELOPMENT

 TIME FRAME 5 YRS
 PARTNER EU

IR 131 IMPROVED
 MANAGEMENT AND
 TECHNICAL CAPACITY OF
 DOMESTIC ENTERPRISES

 TIME FRAME 3 YRS
 PARTNER EU EBRD

IR 141 INCREASED ACCESS
 TO MARKET INFORMATION
 AND CONTACTS

 TIME FRAME 3 YRS
 PARTNER EU WB

IR 112 INCREASED INVESTOR
 CONFIDENCE

 TIME FRAME 5 YRS
 PARTNER EU

IR 1131 IMPROVED FRAMEWORK
 FOR ECONOMIC POLICIES
 COMMERCIAL LAWS AND
 REGULATIONS AND CRIMINAL CODES
 FOR ECONOMIC ACTIVITIES

 TIME FRAME 3 YRS
 PARTNER EU WB IMF

IR 113 IMPROVED AND MORE
 RELEVANT SKILLS FOR AN
 INCREASED PORTION OF THE
 EXISTING WORK FORCE

 TIME FRAME 4 YRS
 PARTNER EU

IR 11311 INCREASED
 INDIGENOUS CAPACITY TO
 CONDUCT POLICY AND DATA
 ANALYSIS

 TIME FRAME 3 YRS
 PARTNER EU WB IMF

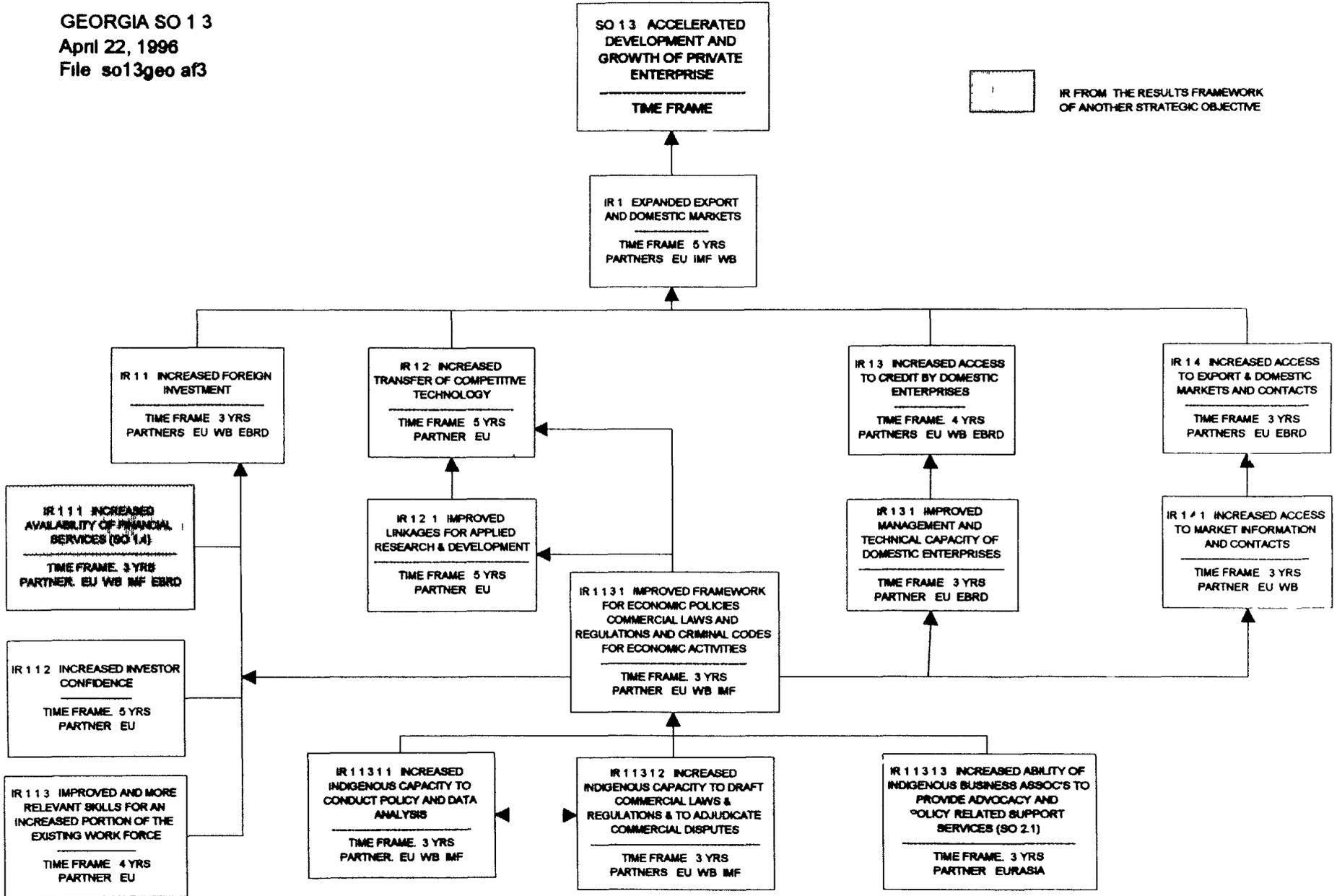
IR 11312 INCREASED
 INDIGENOUS CAPACITY TO DRAFT
 COMMERCIAL LAWS &
 REGULATIONS & TO ADJUDICATE
 COMMERCIAL DISPUTES

 TIME FRAME 3 YRS
 PARTNERS EU WB IMF

IR 11313 INCREASED ABILITY OF
 INDIGENOUS BUSINESS ASSOC'S TO
 PROVIDE ADVOCACY AND
 POLICY RELATED SUPPORT
 SERVICES (SO 21)

 TIME FRAME 3 YRS
 PARTNER EURASIA

17a



Overall Progress

Georgia has lagged behind in its quest of a democratic market-based economy because of extended civil conflict in the first few years after independence. The IFIs, have initiated economic stabilization and structural reform. However, export-driven growth could falter or even regress if a commercial infrastructure which works for Georgia is not put in place (for example, western oriented commercial laws and commercial banks). Principal constraints are the lack of an integrated economic, legal and regulatory framework to stimulate private sector investment and growth, lack of competitive, private financial markets, inefficient state monopolies in energy generation, slow progress on privatization of land so that it can be freely bought, sold and used for collateral, slow progress on the privatization of agricultural activities, and, the lack of social services for population groups most acutely affected by the economic crisis.

Georgia is currently in a recession and much of its agricultural and industrial capacity remains idle. Georgia is one of the poorest countries in the FSU with Gross Domestic Product (GDP) per capita estimated at US\$ 651 (in *Lart*, 1995). Georgia's economy has suffered since independence in 1991, as the command economy collapsed and traditional trade links with the rest of the former Soviet Union were lost. On the basis of EU estimates, real GDP has fallen by more than 56 percent since 1989. However, the rate of decline in real GDP may be bottoming-out. The target for GDP growth in 1996 is 5 percent. Georgians currently rely on income from agriculture to generate most national income aside from international aid. Formal economic activity in all state-owned sectors has all but collapsed and 80 percent of private sector activity may be in the informal sector. Privatization of small enterprises is largely complete and vouchers were issued to citizens in 1995 through "partial privatization." The rate of privatization for medium and large enterprises has increased but is far behind targets, but expected to be complete by the end of 1997.

Agricultural exports and industry have fallen sharply, import and export markets with the former Soviet Union have shrunk. Exports will not increase appreciably in the near term, thus maintaining Georgia's large trade imbalance, currently equal to 60% of imports. Only half of the land has been privatized and the remainder is under public control. However, tenants of private land do not have basic property rights and, hence, land cannot be used as collateral for loans. Renewed land reform is one of the highest priorities of the Government. In February 1996, Parliament passed a law on ownership of agricultural land which legalizes private ownership by Georgian citizens and allows land lease by foreigners and non-citizen residents. The civil unrest in Abkhazia and the resulting refugee problems there and in Ossetia add to disruption in general economic activity. Georgia can afford to import little energy from Russia, Turkmenistan, or Azerbaijan, which in turn limits industrial and agricultural output.

Agriculture, forestry and fishing may account for more than 87 percent of the measured GDP, industry less than 15 percent. Agriculture employs more than one-third of the country's labor force. Agricultural production has begun to increase, almost doubling in 1993 as compared to 1990, but at the expense of efficiency since yields of major crops are decreasing each year because production potential is seriously limited due to insufficient inputs (principally water and fertilizer) and poor farm management methods. A more disturbing trend is the shift away from horticultural crops and livestock to cereal production. Although logical, since food security is a national issue, the radical deterioration of agricultural infrastructure (e.g., irrigation, canneries), orchards and vineyards has long term, deleterious effects on export potential. For agriculture, the major problems which need to be addressed in the short and medium-term are lack of markets and financing, and unsecured property rights.

Georgia's state industrial sector before independence was focused on heavy manufacturing, chemicals and aerospace industries. Under a competitive, export growth strategy a shift towards high-value agricultural products, transportation, light-to-medium manufacturing, trade and services, and science and technology could be Georgia's comparative advantage, but further analysis, trade promotion activities and even test markets should be pursued. The development of the oil pipeline will certainly provide more opportunities for spin-off and supporting private enterprise, e.g., pipeline maintenance, refineries, ground transportation and technical management.

Georgia has liberal trade and payments policies: no surrender requirements on foreign currency, removal of many licensing requirements and trade prohibitions, a uniform import tariff rate of 12 percent for all imports, and, the removal of many export prohibitions. Now, the Government's immediate task for the industrial sector is to identify which products or higher quality goods and services to promote for export and which to promote for import substitution. The western oil pipeline also offers significant scope for private investment in the energy, technology, finance and transportation sectors.

Although Georgia has achieved major macroeconomic reform over the last 18 months, the framework to achieve a export-driven market economy is far from complete. Neither an examination of the constraints to private sector growth, nor the identification of investment opportunities to spur private sector growth have been undertaken. The ministries responsible for economic policy lack sufficient analytical capacity to make prudent choices and take necessary action. The Government must begin to restructure institutions and prepare policy-makers to deal with the new market orientation. Institutions with responsibility for economic policy, and commercial laws and regulations must develop their capacities to conduct policy analysis and formulation based on valid economic information and sound analysis. There is a tendency to put greater reliance on donor technical assistance for economic and legal advice at the expense of building institutional capacity to drive the reform process.

Private enterprise growth is stymied because corruption persists and personal relationships take precedence over competition in the market place. New laws, codes and procedures are urgently required to encourage and regulate business in an open, competitive market. However, two important dichotomies exist: (1) the need to draft and enact urgently new laws, codes and regulations clashes with the need for lawyers, judges and citizens to understand the principles of market economics that are the foundation of most western commercial law codes, and, (2) the inclination of the Government to adopt complicated, lengthy laws generated by foreign experts which produces a new western legal system that is less widely understood and enforceable (presently) than the Soviet-system which Georgia's leaders now wish to discard.

ENI's Significant Contributions

USAID/Caucasus has provided continuous economic policy advice since 1994. In January 1996 the USAID-funded Center for Economic Policy Research and Reform (CEPAR) began operation, housed in the Ministry of Economy. CEPAR is intended to serve the Government, including the office of the President. CEPAR's initial activities for commercial legal reform, based on requests from the Government, are anti-monopoly legislation, foreign investment legislation and the general area of corporate governance and entrepreneurship. Assistance has been provided to the Ministry of Economy and the macroeconomics section of the Chancellery to develop simple models for policy analysis to provide succinct explanations of economic trends, constraints and opportunities for policy, legal and institutional reforms. CEPAR has been assisting the Ministry of Foreign Affairs prepare itself to lead the effort to apply for accession to the World Trade Organization.

Commitment and Capacity of Development Partners

USAID's principal partners are the IMF, the World Bank, Ministries of Economy and Justice, the Economic Consultative Council of the President's Chancellery and EU/TACIS. However, the Ministry of Economy is the principal coordinator of policies and programs that affect private enterprise. USAID's principal avenue for economic policy dialogue and commercial legal reform is the Ministry of Economy, the President's Economic Consultative Council and the Parliament. Issues related to business development, access to domestic credit by small and medium enterprises and increased access to markets, contacts and information are usually discussed with EU/TACIS and the various USAID-funded PVO grantees who work in the field with small and medium enterprises. The Tbilisi Business School, a private, market-oriented private training institute, has been an excellent partner for various business education programs. One agricultural USPVO has assisted Georgia develop a long term plan for agriculture development. Generally, there is lack of coordination on private enterprise policy and ground-truthing policy decisions with businesses and donors. Farther behind, but with a better chance for collaboration is the role that CEPAR has taken on to assist economic policy and commercial legal reform--principal partners include the Ministries of Economy and Justice, representatives of the President's Economic Consultative

Council, and Parliament and the IMF USAID has considered cooperation with the EBRD and the EU/TACIS on various credit schemes for small and medium businesses

Donor initiatives, principally from the IFIs, have to date focused upon achieving macroeconomic stability and have not analysed the constraints at the institutional, firm or household level. By contrast, the Center for Economic Policy Analysis and Reform (CEPAR) will provide a multidisciplinary team that addresses sectoral and firm level constraints to growth, complementing the efforts of other donors

CEPAR has established relations with the IBRD/UNDP-funded aid coordinator in the President's chancellery and other bilateral donors. CEPAR will work with the IMF to coordinate assistance provided to the central bank and the commercial bank sector

The IMF and World Bank provide short-term technical assistance to support stabilization and economic restructuring, but overall coordination in legal drafting and the legislation process needs to be addressed

A U S expert has drafted the foreign investment law, a British expert the investment fund law, and German experts have drafted tax, enterprise, banking, bankruptcy, and land laws. CEPAR will engage in active steps to become knowledgeable of the legal environment, and to coordinate donor and Georgian expertise in the area of the commercially oriented legislative and legal framework, including the agenda for implementing legislation

Illustrative Approaches

A Economic Policy Analysis, Legislation and Macroeconomic Performance The CEPAR provides an operational adjunct to the Minister of Economy, who is one of the President's chief advisors for economic reform. The staff of the Center works with the Government and the IFIs to monitor the performance of the economy and to identify policy and institutional constraints which impede private sector growth, and will identify opportunities for market-driven development. On the basis of economic analyses and consultation with government, parliament and private business, CEPAR will conduct applied economic analyses to identify key policy options. This will support policy-makers and key national leaders in the formulation of economic reforms required to achieve an enabling environment for private sector growth. CEPAR is assisting in establishing analytical capacity within the economic and legislative institutions to produce an integrated policy framework designed to accelerate economic liberalization and the growth of the private economy

B Commercial Laws, Regulations and Procedures CEPAR is the focal point to develop the legal and regulatory framework to accelerate the growth of the private sector. Legal assistance will be available through CEPAR to Georgian institutions and policy makers responsible for organizing, drafting and enacting economic laws, especially in export-driven markets. New, or revised commercial laws will be targeted to ensure that laws and regulations accelerate private investment and broad based economic growth. The CEPAR

role will complement other legal work performed under USAID democracy objectives as commercial laws and civic codes will be integrated into Georgia's new Civil Code

Sustainability

USAID has made some progress in preparing existing entrepreneurs find new markets and qualify for business loans USAID-funded CEPAR is a major contributor to economic policy dialogue at the microeconomic level, an area that has not received enough attention but is important to small and medium enterprise performance and growth

Growth of the private sector is assured whether USAID assists or not However, accelerated growth to ensure sustainability will not occur unless access to competitive technology and foreign and domestic financial credit occurs in a narrow window of opportunity within the next five years After then, the government must begin to draw up tax revenues and foreign investors to rebuild or replace its archaic infrastructure which a modern market economy needs to flourish After a less than successful start two years ago to jump-start private enterprise by lecturing about business management, USAID now concentrates on getting the legal and regulatory environment right and facilitating access to market information and contacts, will then facilitating access to affordable credit, western technology, and management There is probable disagreement between the position that USAID/C will take the IMF on the existing tax structure and the high tax rates, and their negative effect on private enterprise growth The tax structure is generally satisfactory, but the high rates discourage new start-ups and encourage existing business activity to remain in the informal sector After Georgia has incorporated new and imported technology to develop its new products and services for export markets in the next two to four years, donors must assist the Republic to rebuild its applied research and development capability in order that Armenian scientists and engineers can develop their own technologies which are appropriate for export and domestic markets Finally, an overarching concern is the disintegration of the basic and vocational educational system teachers are underpaid and undertrained, the use of Georgian language is largely inappropriate for economic activity which focuses on sophisticated technology (e g , computer software marketing or precision engineering), and, school facilities are decrepid

Strategic Objective 1.4 A More Competitive and Market-Responsive Private Financial Sector

Problem Analysis

Nowhere on the Georgian economic landscape has the scenario of institutional collapse and rebirth been more pronounced than in the financial sector--private banks have merged by the hundreds, the process of corporatization of old Soviet-style agricultural, savings and labor banks was accomplished without any new management restructuring or recapitalization All five corporatized state banks carry large numbers of underperforming loans Most donor activity has been focused on the National Bank of Georgia (NBG), while

commercial banks have been largely ignored. Economic recovery will depend upon an increased capacity to mobilize savings and the capacity of commercial banks to serve as financial intermediaries between savers and investors. Improvement in central bank operations over the past 14 months has been responsible for reducing inflation and increasing trade, both domestic and regional. However, the formation of a viable banking sector is hindered by (1) the absence of a modern electronic payments system (EPS) to conduct timely financial transactions, (2) managers untrained in modern portfolio management, (3) a regulatory environment that discourages lending to the private sector, and (4) financial institutions that are either lacking or do not respond to market forces. Financial sector reform will need to be accompanied by domestic and foreign resource mobilization to generate large amounts of capital to loan at market terms to small and medium sized enterprises seeking resources for investment in new products and services, particularly those that are export-driven.

The government has yet to adopt an internationally-accepted accounting system to replace the Soviet system, however, assistance to the NBG in this area is planned by the Central Bank of Holland.

USAID has limited resources and, therefore, believes the best way to assist in the transition to a market economy is to assist Georgia attract investment in legitimate business activity. The development of market-oriented capital markets will attract domestic and foreign investment and workers will be retrained according to market needs. Science and technology, manufacturing, agriculture, transportation and other skilled workers need to be retrained to help new companies and businesses compete successfully in the market place, particularly in export markets. Investment in Georgian small and medium enterprises will also result in new technology, western management and increasing foreign investment. Presently, the private sector has virtually no access to credit at affordable rates. Savings mobilization, commercial lending and foreign transactions will not be possible until Georgia's commercial banks operate like western commercial banks. The NBG, under the new Bank Law, is providing the foundation for a market-oriented banking sector. Banks are now required to have \$500,000 capitalization and prudential regulations are beginning to be enforced. However, financial services and lending programs for business firms have not emerged quickly enough to take advantage of a relatively stable macroeconomic environment. Now, the financial sector must be organized to perform effectively in a manner acceptable to investors, or the opportunity to attract technology and investment will be lost or slowed considerably. The commercial banking sector should be opened to outside capital with appropriate guarantees for repatriation of profits and protection against arbitrary capital market controls.

Results Framework

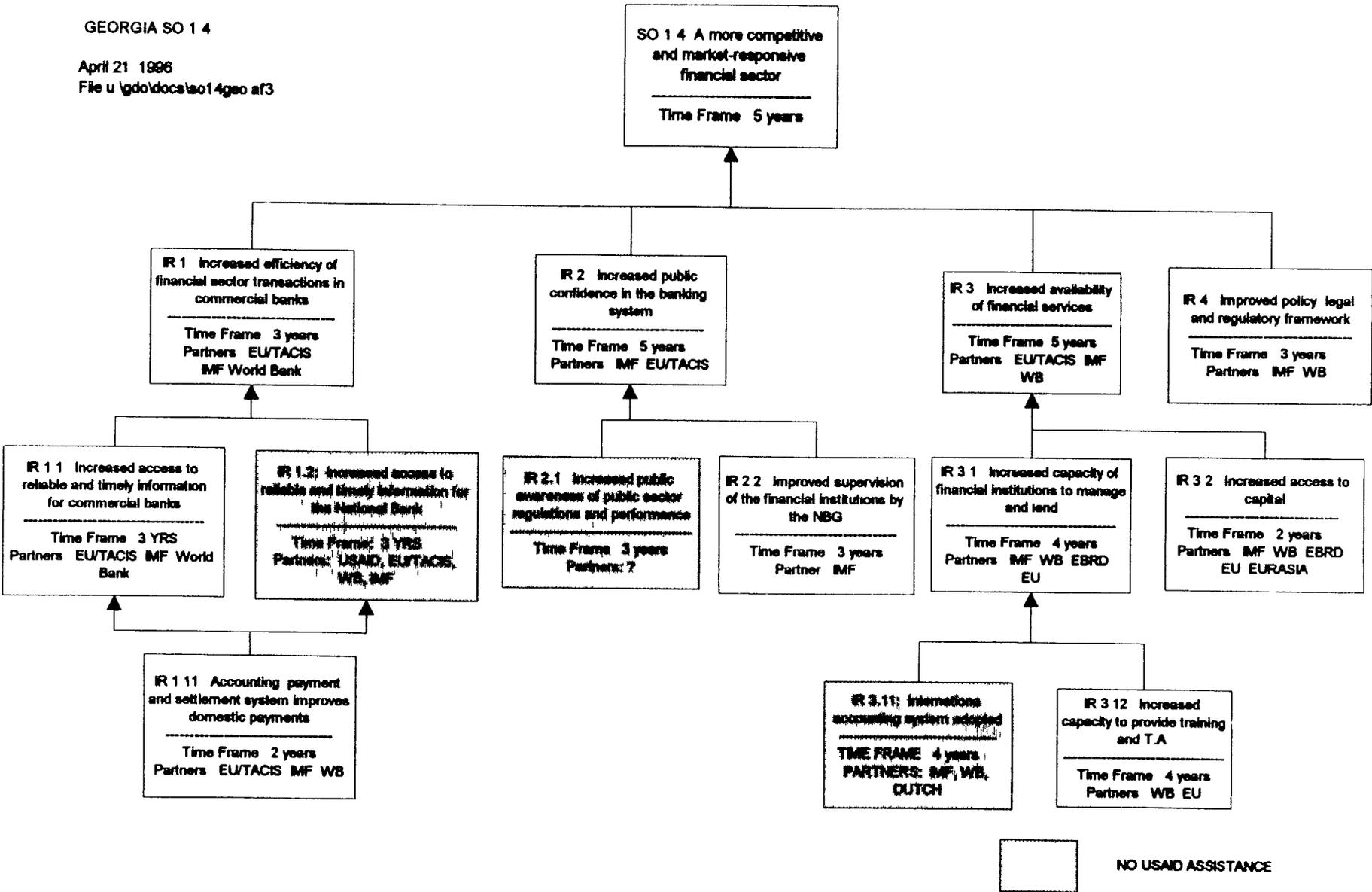
See R4, Part II

Judging Performance

GEORGIA SO 1 4

April 21 1996

File u:\gdo\docs\so14geo.af3



23a

See R4, Part II for performance assessment data

Overall Progress

Georgia's banking system must improve quickly to help economic reform and generate more private enterprise activity. Its current weak financial and management condition is detrimental to its development. There were 230 registered banks about one year ago, now there are 130. The IMF estimates there will be only 20-25 commercial banks by 1998 that can meet the NBG bank capitalization requirements of \$500,000. Despite the presence of IMF and US Federal Reserve advisors in the NBG, there may be no commercial bank in Georgia that satisfies all prudential normatives and capitalization requirements. Monetary policy has been tightened and government's uncontrolled access to financing by the National Bank of Georgia (NBG) has ceased. The elimination of foreign exchange surrender requirements in January 1996 and the development of an interbank credit auction in May 1995 will build a money market for commercial banks and will permit the NBG to influence liquidity conditions in the banking system. The NBG is taking positive steps to improve bank supervision, management of external reserves and payment systems. The development of a domestic payments system to clear accounts and record transactions and the enforcement of prudential regulations by the National Bank are required to provide incentives for capital formation by commercial banks. Efforts to strengthen the supervision and capabilities of the National Bank need to be undertaken as soon as possible. To achieve access to export markets (S O # 1 3) Georgia places high priority to develop an electronic capability to effect financial transactions with corresponding overseas banks. Confidence in the banking sector must be strengthened by an improved legal and regulatory framework which includes banking laws that support competitive private banks. Bank laws to enact include financial disclosure (sunshine), share registries, collateral, secured transactions, bankruptcy and more prudential normatives to secure the viability of commercial banks.

The commercial banking sector requires major restructuring to establish western, customer-oriented financial services and to begin lending at market rates. Currently, State commercial banks, which dominate the financial sector are inefficient and ill-adapted to respond to the needs of a market economy. The NBG will largely confine its role to capital requirements and prudential regulations. However, the NBG will also require banks to provide a "strategic corporate business plan" beginning April 1996 which will require banks to specify how they will resolve or dispose of nonperforming assets, how they will strengthen management, and, how and when financial services will offered to the public. Presently, commercial banks cannot perform as financial intermediaries. Considerable technical assistance and training will be required to enable banks to meet international banking standards.

Access to capital will be important as banks become able to offer financial services. The World Bank, EU and EBRD are likely to establish credit programs for agriculture and small and medium scale enterprise development--their plan is to channel much of the credit through stronger commercial banks and provide technical assistance to enable them to lend

The five State Commercial Banks that still exist pose a problem because of their relationship to the total banking system and because nonperforming loans are large. The Government states its commitment to restructure them, but so far not much has been done to force an orderly merger, liquidation or removal of their licenses.

ENI's Significant Contributions

USAID continues to cooperate with the National Bank of Georgia, EU/TACIS and the World Bank to plan for the establishment of an electronic payments system for commercial banks and for international financial transactions. USAID plans to complete the design of both systems in 1996, procure the equipment and train NBG and commercial bank personnel. CEPAR is reviewing banking legislation and has provided comments to NBG. A training program for commercial bankers will be designed and implementation will begin in 1996.

Commitment and Capacity of Development Partners

The development of a modern, market-responsive financial sector is a top priority of USAID, as it is the keystone to achieve an export-driven market for Georgians. USAID's principal partners include the National Bank of Georgia (NBG), IMF, EU/TACIS and the World Bank. All are collaborating to design and implement an electronic payments system for the NBG and the commercial banks. The IMF has two resident advisors in the NBG bank operations management and monetary policy, and, accounting conversion. We will continue to work with the NBG, the IMF, EU and the World Bank to develop a continuing education program for Georgia's commercial bankers. USAID, the IMF, the Ministry of Finance, the NBG and perhaps Parliament will need to increase their cooperation to review and revise banking laws that affect bankruptcy, financial disclosure (sunshine laws), share registries, collateral, prudential normatives and secured transactions.

Illustrative Approaches

A Assistance To Procure and Install an Electronic Payments System for the Banking Sector (EPS). The EPS will permit more timely financial transactions to take place among domestic banks and with the central bank and its seven regional clearing branches, will improve banking supervision, permit timely international transactions, and provide financial market data to bank managers and their clients. A U.S. short- and long-term technical assistance project team will work with the National Bank of Georgia to identify equipment and software specifications, and then procure and install an electronic payments system within the banking system. USAID funded advisors will provide training on its use,

providing a project manager to coordinate USAID, IMF and World Bank support to build the EPS may be necessary

B Training in Portfolio Management and Lending Procedures After the accounting conversion is underway, USAID will provide short-term technical assistance to train commercial bank managers and officers. The focus of this training will be portfolio management, including savings mobilization, debt management, strengthening of audit and supervision functions and the development of sound lending policies and procedures. CEPAR will provide assistance to formulate laws and regulations to improve commercial bank policies and operations to support private enterprise lending.

C Creation of Capital Markets USAID's objective is to establish a successful model for a competitive capital market. Towards this objective, the USAID-funded Eurasia Foundation, will select a commercial bank to initiate a small and medium enterprise (SME) lending program. Loan funds will be used to form small companies which harness the technological expertise existing in the Georgian labor force, refocusing on new products and services. Lending will start in 1996, with reflows from lending operations to begin in 1997. Bank personnel will receive training in banking operations, and accounting and lending procedures. To help stimulate the demand for credit, the International Executive Service Corps (IESC) and other USAID-funded PVOs will identify and assist clients to prepare viable investment and business plans. Second, USAID, through a grantee, will provide technical assistance to farmers' unions in the areas of business management and member services, especially targeting qualifying regional and local farmers unions to receive loans under the Eurasia SME credit facility. USAID will provide technical assistance to private farmers' unions and other producer groups to improve association organization, management and services to their membership.

Sustainability.

The electronic payments system (EPS) will be state-of-the-art will about 20 years service. It will (1) provide sufficient capacity for all commercial banks and other financial institutions to clear payments, settlements and transmit accounting information in a secure manner, (2) facilitate foreign financial transactions, and, (3) provide access to international financial markets and information. Fully articulated and functioning accounting standards are required to establish the credibility of the financial sector for foreign investors, domestic savers and entrepreneurs. All such functions will enable the NBG to carry out its prudential functions and efficiently enforce monetary policy. USAID will initiate its training program for commercial bankers, but focus on institutionalizing it at the onset. USAID's approach to institutionalizing accounting and lending competency in the banking sector will be to work with the financial industry and Government to adopt international standards, build indigenous capacity to train officers and managers to teach towards those standards, and assist the industry and Government to develop a rewards system for those who develop full competency to manage, lend and function efficiently as market-economy bankers. USAID will look for other ways and means to create and expand capital markets--the Trans-Caucasus

Enterprise Fund could be used as a tool to strengthen the capacity of financial institutions to manage and lend

Strategic Objective 1.5 A More Economically Sound and Environmentally Sustainable Energy Sector

Problem Analysis

Georgia's energy situation is worsening, and is especially critical during the long winter months. Energy supplies have become intermittent at best, and blackouts are commonplace. The shortage of power has accelerated the rate of economic decline that started in 1987 with the breakup of the former Soviet Union. The continuing shortage of energy threatens the political stability of President Shevardnadze's administration, stagnates the desired transition to a market economy, and endangers public health.

The country's installed generating capacity is about 4,900 MW of which about 2,800 MW is hydro and 2,100 MW is thermal power. Hydro-electric and hydro-thermal generation, presently Georgia's only sources of operating capacity, are producing less than 15% of the 4,900 MW installed capacity.

During the past 18 months, a de facto restructuring of the Georgian power industry was initiated. From a vertically integrated monopoly with all generation, transmission and distribution in one entity, Sakenergo, the sector has seen most of the distribution function assigned to municipalities. A small number of hydro power plants have been sold to private investors as part of the GOG's overall privatization program. Regrettably, this "unbundling" was not the result of a systematic and rational plan, but rather stemmed from a series of ad hoc measures driven by certain political and operational considerations. Nevertheless, it does represent a small step in the direction of utility industry restructuring.

The Georgian Government has established a Commission to coordinate international donor efforts in the energy sector and to promote development of an institutional framework supportive of restructuring and eventual privatization. Sakenergo, Georgia's principal electric production utility, remains the focus for much of the international donor assistance to the energy sector. Sakenergo's ability to operate and rehabilitate electric generation and transmission facilities is constrained by its lack of access to foreign exchange. The situation leads to severe shortages of imported fuel, and the equipment and spare parts necessary to provide adequate electric service, including the full-time operation of thermal power stations, and many small hydro-power stations. A fire at Sakenergo's newest thermal units -- some 600 MW -- at the Gardabani station has further decreased available capacity. Some progress has been made, however, in rehabilitating several units damaged by fire at Gardabani which should partially mitigate the effect of the fire damage. Sakenergo's largest hydro station at the Inguri site, is partially located in the Abkhazia conflict zone and provides only a small percentage of its full capacity. Inguri suffers from severe safety problems.

The power systems of Armenia, Georgia, and Azerbaijan were operated as the Transcaucasus Region Grid until about 7 years ago. With the cessation of the interconnected operation of this regional network, available electricity supply to Georgia has been further diminished.

Sakenergo suffers from massive payment defaults by industrial and residential consumers. It survived in the past through barter deals arranged with the few large industrial consumers which were involved in exports. Public spending in the energy sector has incurred a \$500 million debt for fuel, most of it to Turkmenistan and Russia, and for that reason the IMF has imposed a conditionality which only permits the GOG to procure fuel from foreign sources to the extent that it has revenue to cover such costs.

Heavy state subsidization of energy prices during the Soviet era has left no incentive to conserve energy and inefficient consumption continues to plague Sakenergo. Moreover, price reform is now necessary so that electricity tariffs reflect the long run marginal costs of production.

Results Framework

See R4, Part II

Judging Performance

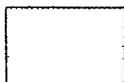
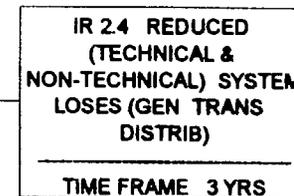
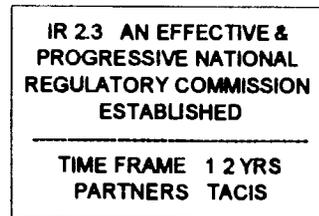
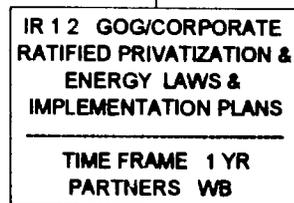
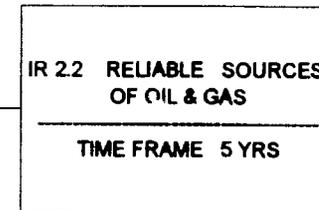
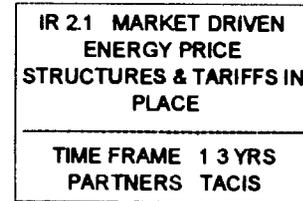
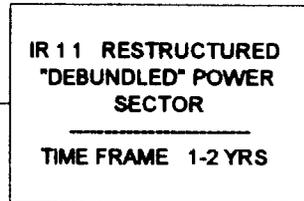
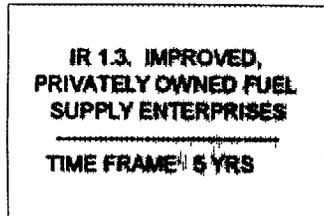
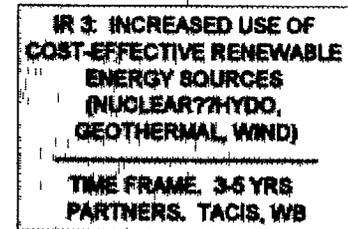
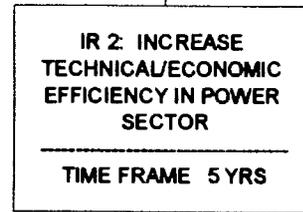
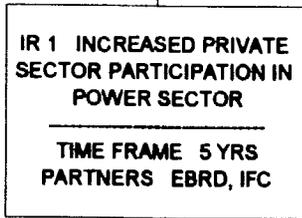
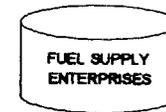
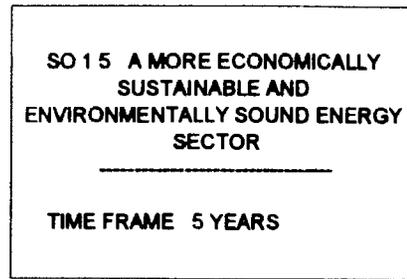
See R4, Part II for Performance Data

Overall Progress.

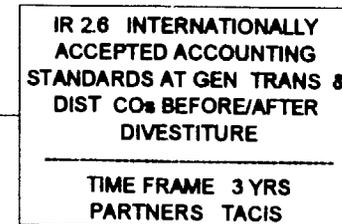
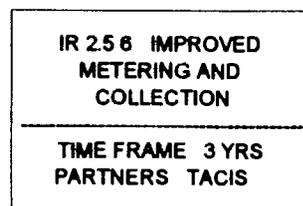
Some progress has already been made in the area of restructuring. Thus far, the electrical distribution function has been assigned to municipalities and a small number of hydro power plants (30 MW and under) have been sold to private investors as part of the GOG's overall privatization program. In addition, a Georgia International Oil Company (GIOC) was established by Presidential Decree on February 18, 1996 and was granted jurisdiction over most oil and gas related assets of the GOG. On April 2, 1996 the Georgian Parliament ratified a Pipeline Construction and Operating Agreement with the Azerbaijan International Operating Company (AIOC), and over a two year period \$130 million will be spent on the Georgian segment of a pipeline construction activity. These two developments represent the achievement of two significant benchmarks which should help to promote privatization throughout the energy sector.

ENI's Significant Contributions

USAID's technical assistance has been instrumental in the overall progress to date, but much remains to be done (see R4).



FEW OR NO USAID RESOURCES



Commitment and Capacity of Development Partners

With regard to on-going activities, EU/TACIS has completed a comprehensive assessment of energy sector. The World Bank is currently conducting a \$30 million loan appraisal for maintenance and rehabilitation work. USAID is undertaking the pre-loan analyses in the electric and distribution area as well as the supporting institutional analysis in, for example, the areas of privatization and the regulatory environment. The EBRD has recently approved an \$18.1 million loan to Sakenergo to rehabilitate the Rioni hydro station and to improve operations and water treatment at the Gardabani thermal station.

With respect to commitment and capacity of partners, thus far, both the World Bank and the EBRD have imposed a number of conditionalities for assistance including revision of existing wholesale and retail tariffs including full recovery of operating costs, creation of a regulatory commission to set reasonable rates and tariffs, and a commitment to restructure and privatize the power sector. These conditionalities along with USAID inputs should help to achieve Intermediate Results 1 and 2 as well as USAID's ultimate objective of developing a more economically sustainable and environmentally sound energy sector. The World Bank will soon meet with the GOG to jointly develop a Policy Letter to reaffirm the GOG's commitment to undertake legislative and regulatory reform measures as well as restructuring and privatization in the energy sector.

Illustrative Approaches

USAID's emphasis is two fold: (a) to increase energy efficiency and reduce waste in power generation, distribution/transmission, and utilization through technical assistance and limited commodity support, and (b) to assist in the development of an institutional framework to support these changes and to promote restructuring and privatization in the sector. Commodity support will be limited to those enterprises actually targeted by the GOG for privatization. There are three main sub-sectors of intervention planned over the three year period 1995-97.

A Power Sector Restructuring and Privatization, Including Legislation and Regulatory Reform, Formation of an Independent Pipeline Transmission Company and Enactment of Oil/Gas Legislation

- 1) Continue technical assistance aimed at the restructuring and privatization of Sakenergo in support of World Bank conditionalities. Also, provide technical assistance to facilitate the corporatization of Sakenergo as an open joint-stock company, permitting, initially, at least 49 percent private ownership, and full or nearly full private ownership thereafter. Additional technical assistance will be provided to help privatize large hydro and thermal plants, and to establish separate, private transmission/dispatch corporate utilities.

- 2) Continue technical assistance to complete the drafting and encourage passage of specific energy sector laws that support sector restructuring and private commercial energy development while safeguarding the environment. In particular, such legislation should provide for private participation in the energy sector and would include recognition and protection of private property rights, creation of contracts between Sakenergo (or successor companies) and existing distribution units separated from Sakenergo.
- 3) Provide technical assistance to help establish an independent commission, or commissions, to set rates and tariffs for electricity, oil and gas transmission and to license private power production, transmission, distribution. Along with establishing regulatory commissions and a legal framework (see below), provide technical assistance and limited commodity support where feasible to promote the privatization of small/medium hydro systems.
- 4) Provide technical assistance to municipal distribution companies to assist in privatization with benchmark competition or through franchise competitive bidding.
- 5) Provide technical assistance to help establish an independent pipeline transmission company to facilitate construction of an oil pipeline from Baku in Azerbaijan through Georgia to the Black Sea, and provide assistance in the drafting of legislation to promote eventual oil and gas exploration and development.

B Limited Commodity Support to Facilitate Restructuring and Privatization

- 1) Provide technical assistance and some limited commodities for developing pre-loan packages for new independent private energy projects in the areas of hydro-thermal power generation.
- 2) Only for privatizing or privatized entities, provide technical assistance and key commodities for the electric generation, transmission, and distribution systems, including monitoring and control system maintenance systems in support of World Bank activities in the energy sector. Upgrade maintenance capacity of such systems and recommission currently dormant operations where feasible.
- 3) Provide technical assistance, training, and limited commodities to develop and implement modern accounting, billing, collection, and metering systems for privatizing or privatized municipal distribution companies.

C Energy Supply System Rehabilitation

Prepare pre-loan studies for rehabilitation of the privately-owned geothermal source district heating at Zugdidi, which the EBRD is considering to finance, and provide selected commodities for the rehabilitation of key facilities

Sustainability

Assuming continuous support from the host government, other partners such as the World Bank, TACIS, and the EBRD along with USAID inputs, it is reasonable to assume that USAID's Strategic Objective for the Energy Sector should be achieved by the year 2000

One area which may remain problematic is the development of a local and/or regional capital market. Such a mechanism will be of vital importance since tariff based revenue alone may not be sufficient to sustain operations of newly privatized utility companies. Some possibilities for raising capital (i.e., both debt and equity capital) would be the formation of a local/regional stock exchange and/or a local or regional enterprise fund. It is anticipated that the eventual creation of such institutions will be discussed at future donor conferences and hopefully, with sufficient donor interest will be established well before the end of this decade.

Although the Georgian Government has established a Commission to coordinate international donor assistance in the energy sector and to promote development of an institutional framework supportive of restructuring and privatization, the Commission has not reached a consensus for endorsing reform measures. However, as a result of recent progress on this front, USAID will initiate an exchange program between the Tennessee Valley Authority (TVA) and Georgia's National Electric Utility, Sakenergo, which can be expected to support and aggressively promote energy sector reform over the next few years.

DEMOCRACY AND GOVERNANCE

Strategic Objective 2.1 Increased, Better-Informed Citizens' Participation in Political and Economic-Decision Making

Problem Analysis

Following the November Parliamentary elections, which were deemed by international and domestic monitors as reasonably free and fair, Georgia has a new parliament with significant power within the GOG to be both pro-active legislatively, and to act as a check on executive power. However, individual deputies, committee chairs, and political factions and parties both in and outside parliament still lack many of the skills necessary to succeed in a pluralistic democracy. They remain weak in terms of links to popular constituencies and in terms of effective skills for parliamentary action. Most of those parties which did not achieve the 5% threshold in the November 1995 elections have disintegrated, and many of those surviving are still struggling with personality issues, rather than platform and political issues.

With the promise for change that this new parliament brings, comes the requirement for a parliamentary staff capable of supporting these new, often inexperienced deputies and factions. The new Speaker has instituted some reforms in the structure of the parliamentary staff, which heretofore was a massive conglomeration of duplicative offices and irrelevant service functions, but much remains to be done. In order for the new Parliament to function both efficiently and transparently, both members and staff of parliament need to be trained in a variety of parliamentary, administrative, and research skills.

As in all other developing and historical democracies, civil society must be strong and active in both governmental and social reform for democracy to be balanced and thrive. Georgia has a small but growing civil society. As Georgia accelerates its political and economic development, there is increasing need to strengthen independent civic action organizations which seek to play an active role in public policy. In order to participate effectively in the political process, these groups will need to build organizational capacity, increase inter-NGO collaboration, and improve their links to the press and public.

The independent media in Georgia generally operate with fewer state restrictions than do their counterparts in most other former Soviet republics (including Armenia). Of the 25 local TV stations, about 14 are fully privatized and several others are joint ventures. However, program quality is low owing in part to outdated technologies, and transmission is irregular due to frequent power shortages. Both state and private print media face severe financial difficulties. A small number of independent newspapers boast rising circulation, though some of them are reportedly subsidized by questionable interests.

Results Framework

See R4, Part II

Judging Performance

See R4, Part II for Performance Assessment Data

Overall Progress

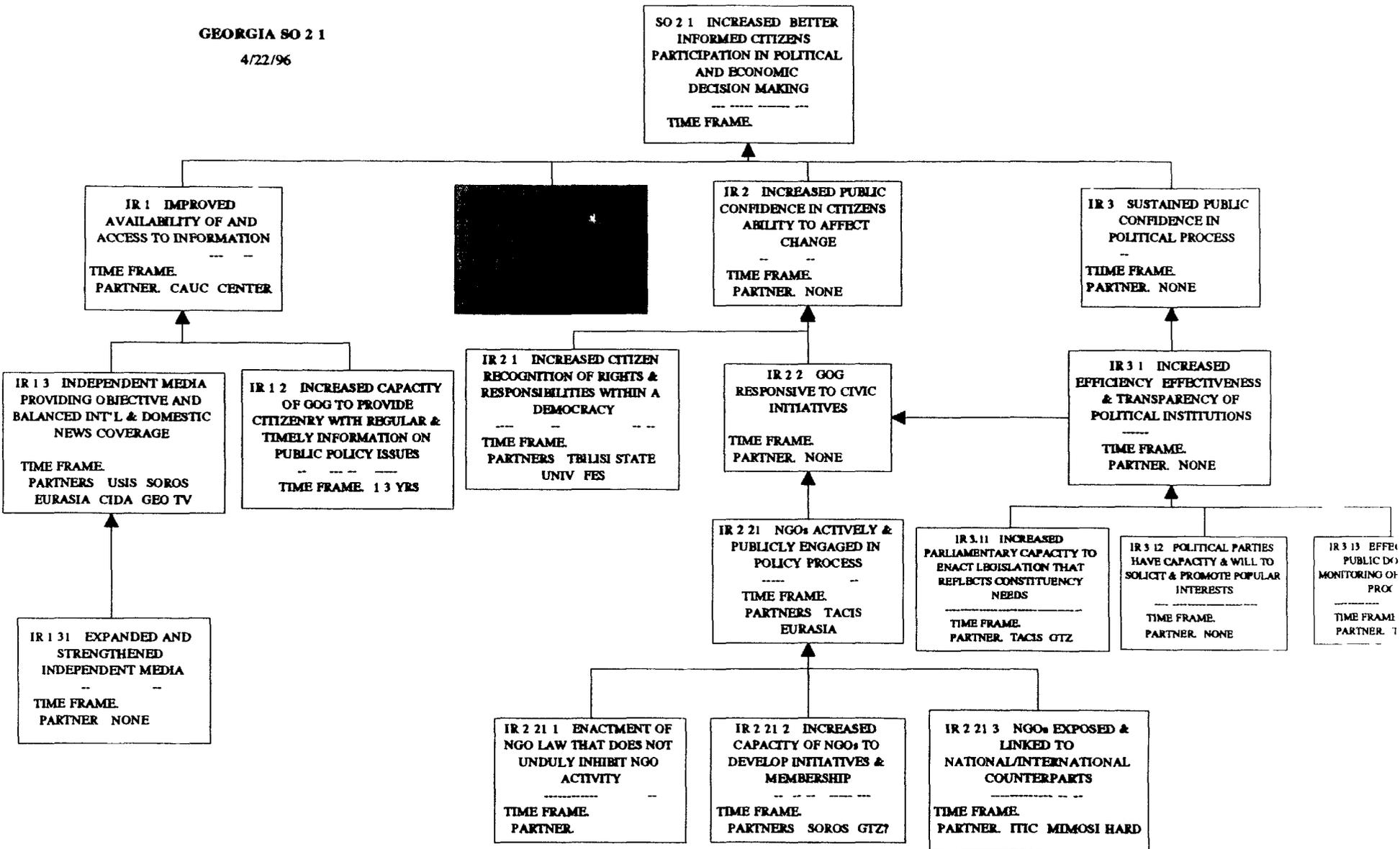
Progress in the sphere of democratic political processes since the November 1995 elections in Georgia has been remarkable. Georgia's parliament is one of the most progressive in the former Soviet Union, and while the capacity for long term democratic reform and sustainability may not yet be apparent, the political will is firm. Though the President's party, the Citizens' Union of Georgia (CUG), maintains a substantial majority of deputies, there are solid oppositional factions, and often, CUG factions themselves question executive decisions. As an example, immediately following Shevardnadze's inauguration, he submitted his proposed cabinet to Parliament - all assumed a quick and unchallenged confirmation - instead, the President was taken to task for suggested unqualified cronies for certain posts, and was forced to resubmit. In addition to the pronounced independence of the legislature, there is a recognition among a large number of parliamentarians for the need for constituency outreach and input - this is a difficult concept for many former Soviet parliamentarians, that is, being responsible to a group outside of one's own party, and much needs to be done in building the skills and capacity for significant constituency relations building, but again, the political will to do so is apparent.

The non-governmental organization community in Georgia is also impressive when compared to non-governmental sectors in other former Soviet Republics. Though not as large as some (there are currently 120 active NGOs registered at the USAID-supported ITIC NGO Center, perhaps twice that many are currently registered with the government), Georgian NGOs tend to be more focused on civil society development issues, rather than humanitarian assistance. There is comparatively good cooperation and coordination among NGOs, and remarkably, between certain highly respected NGOs - such as the Georgian Young Lawyers' Association - and Parliament. Though capacity is still limited among democracy-oriented NGOs, in the areas of resources, training, and particularly, public outreach, there are not currently any substantial political threats to NGO participation in the politics of the nation.

Though independent print media in Georgia is still struggling with impossible technical odds, independent television and radio outlets have been making impressive progress in recent months. A minimum of 14 independent television stations currently operate throughout Georgia, and a handful (less than five) radio stations. The period prior to the November elections was a struggle for some of the regional television stations, particularly in Ajaria. However, the current environment for independent media in Georgia

GEORGIA SO 2 1

4/22/96



33A

is fairly open, politically speaking. There is still a government monopoly on printing presses, and to a lesser extent, television and radio frequencies, but overall, government interference with independent media does not appear to present a serious threat to its growth and expansion.

ENI's Significant Contributions

Support of the private Internet provider has led to free internet access for government institutions engaged in reform of the rule of law in Georgia, including Parliament, the President's office, and the Ministry's of Interior and Foreign Affairs, agencies which in turn have established World Wide Web sites on the Internet accessible to any Georgian citizen or international Internet user, strong private provider now offers internet access at accessible rates to Georgian NGOs, private companies, and individuals,

USAID work over the last 6 months with independent television stations has led to strengthening of stations, professionalization of journalists and technicians, growth of understanding and acquisition of sponsors, both local and multinational, international and domestic news coverage more widely available in a more objective and professional venue. USAID-funded Internews succeeded in helping to establish a network of 11 independent television stations, committed to sharing programming and advertisers, as well as to speaking with a collective voice on the issues of freedom of the press.

Work with advocacy oriented NGOs has contributed to growth of the NGO base, sustainability of NGOs, and more active and public NGOs participating in democratic and market reform process. Approximately 50 new NGOs focused on a variety of substantive reform issues have been established in the last 24 months, all receiving training and/or funding from USAID providers.

Work with local NGOs and government officials in the months prior to the November Presidential and Parliamentary elections resulted in 1) An electoral law providing for the most transparency of any in the former Soviet Union, 2) The establishment of a committed, well organized, nonpartisan domestic monitoring organization, 3) Improved voter education and more voters understanding how and why to vote.

Work with members of parliament and political parties and factions focused on developing constituency relations, how and when to conduct public hearings, how to form coalitions, focus on issue-based platforms, and the development of regional outreach programs, over the last 4 months has contributed to the strengthening of parliamentary skills, improved capacity and independence of the Parliament of Georgia.

Commitment and Capacity of Development Partners

Principal donor partners in Georgia in this area are the UN Human Rights Center (UNHRC) in Geneva, the UN Development Programme, and EU/TACIS.

The UNHRC in Geneva is committed to providing democracy development assistance to Georgia in the areas of human rights education and training. Though funding is not yet certain, the Center's proposed work in Georgia will include the development of human rights education for primary and secondary school students, the development and distribution of introductory human rights textbooks, and the establishment of human rights resource library, possibly within the confines of the Academy of Sciences.

The UNDP in Georgia will focus on parliamentary-executive relations in policy-making (emphasis on technical assistance to the executive) and civic society, in the form of seminars and workshops, undefined support for NGOs, and equally undefined development of a responsible media. The UNDP will work through the GOG to implement these programs. Total projected funding for the program is \$525,000 in 1996, and \$455,000 in 1997. Full funding has not yet been secured.

The EU/TACIS democracy programs in Georgia, as elsewhere in the NIS, have a top-down and a bottom-up approach. The top-down side of the program is providing assistance to the Parliament in the form of limited staff training and equipment provision. TACIS has supported the Parliamentary Research Service, an independent arm of the Parliamentary staff which is currently facing a folding into the regular staff, or dissolution altogether. The bottom-up approach for TACIS relates to grants to NGOs in the areas of government and civil society reform, prospective grantees must acquire EU partners, and grants are up to ECU 200,000.

Donor coordination up to this point in democracy programs has been limited, but is starting to improve dramatically. All USAID programs will be well coordinated with other donor programs, to both avoid duplication and allow for multiplication of efforts.

Illustrative Approaches

- A Parliamentary and Political Party Development Provide training to political parties and factions, both in and outside of the current parliament, on building organizational capabilities, operating as effective parliamentary factions inside the legislature, upgrading parliamentary skills, strengthening party-constituency linkages, and building substantive political platforms.
- B Parliamentary Staff Development Assistance in the restructuring of parliamentary staff, procedures and rules, and the development of training programs for staff in the areas of information technology, administrative and managerial skills, upgrading research skills, cataloging/publishing/distribution of legislation and legislative acts, and other needs as identified by the parliamentary leadership.
- C Support for Democracy-oriented NGOs Help to increase the organizational capacity of public advocacy, human rights, and constituent advocacy organizations. The goal

of this support is to improve the management and communications capacity of these organizations, and strengthen their ability to assist in developing and promoting reform legislation related to their respective areas of interest

- D Improve Linkages Among NGOs and Between NGOs, the Press, and Parliament Assistance will aim at improving inter-NGO coordination and developing effective strategies for communicating NGO interests/positions to the press, the general public, and parliament
- E Establishment and Operation of Independent Media Train staff and provide equipment to independent television to prepare state-of-the-art productions, news broadcasts, and documentaries for general audiences
- F Establishment and Strengthening of Media Associations and Networks. Promote the establishment of professional associations for press, TV and radio Provide training in self-sustainability, coalition building, and legal rights and responsibilities Develop broadcasters' capacity to communicate their views, and influence parliamentarians and government decision-makers to adopt legislation and regulations safeguarding freedom of the press

Sustainability

USAID progress towards this strategic objective is assured, so long as funding levels are not decreased, regional stability is not further compromised, and the Georgian economic situation does not substantially worsen

With the current rate of progress, USAID should be able to show substantial impact on intermediate results noted in the strategic framework The time frame of 2 to 4 years to evidence USAID programming materially affecting these objectives is realistic, so long as the above noted critical assumptions do not compromise activities

The one caveat would be related to the intermediate result related to human rights institutions As noted by the shading in the framework, USAID is not devoting any resources to this result, activities in this area are being undertaken by organizations such as the OSCE and the UN's Human Rights Center in Geneva The importance of these activities is the need for sustained legal openness of Georgian society, so that inadequate enforcement of human rights legislation does not unduly limit citizen participation in the country's political and economic decision-making

The estimated USAID funding level is \$6.5 million from FY 1996 to 2000 Substantial achievement of the S O should be possible with this level of resources and if the above assumptions and issues permit

Strategic Objective 2.2 Legal Systems That Better Support Democratic Processes and Market Reforms

Problem Analysis

One of the few actions of the last parliament of the Republic of Georgia that was both domestically and internationally praised was the passage of the new constitution. The constitution adopts an American-style presidential system, with solid provisions allowing for independent legislative, executive, and to a lesser extent, judicial branches. Although new constitutions in other former Soviet republics often pay mere lip service to the principle of separation of powers, the Georgian constitution reflects a commitment to both the principle and the mechanisms to achieve the reality.

Though the foundation for developing a democratic market-oriented society based on the rule of law is solid, the requirements for articulating and implementing that foundation are massive. An entire legal infrastructure needs to be built from the ground up to provide the GOG with efficient and fair means for enforcing the constitution and subsequent legislation. Implementing legislation is needed in nearly all areas, including civil, commercial and criminal law. The entire court system and judiciary needs to be restructured and its staff retrained. Additionally, members of the legal community, both governmental and private, need to become familiarized with and competent in implementing both new Georgian laws and procedures, and international legal norms in general.

Finally, as in most other former Soviet republics, public distrust of the legal system and its practitioners is the norm. Years of shadow economic and political activity, followed by the temporary rule of regional "war-lords" and Mkhedrioni henchmen, citizens are both apathetic and wary of law enforcement and the judicial system. For rule of law to be firmly established in Georgia, not only will the institutions and framework need to be put in place, but the population will need to be both aware of and respectful towards their importance in a democratic society.

Results Framework

See R4, Part II

Judging Performance

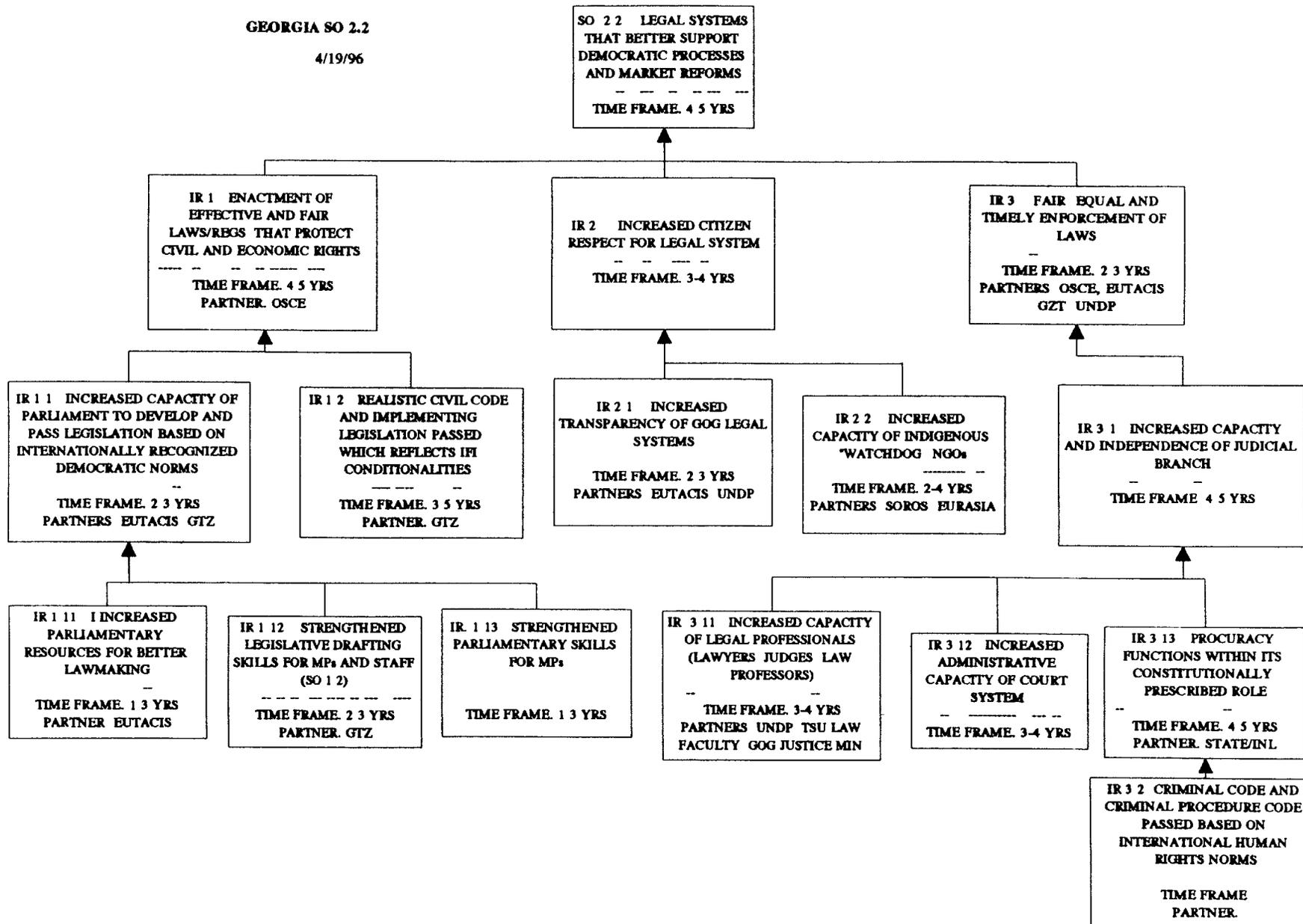
See R4, Part II for Performance Assessment Data

Overall Progress

The Parliament of Georgia has been moving at a fairly steady pace on implementing legislation for the constitution in a variety of civil and economic areas. As noted above, the new Georgian constitution is a particularly good base to start from for general legal reform.

GEORGIA SO 2.2

4/19/96



37

The draft civil code is in the process of review among Parliamentary committees, the Ministry of Justice and legal academics. The criminal code and criminal procedure code have been somewhat stalled in their progress. Generally, Georgian government officials have been very receptive to international advice and assistance. Because there is a code, rather than common law system, Georgians have relied heavily on European, and particularly, German legislative drafting assistance on economic laws. However, legislators and drafters alike are eager for American expertise on issues related to government and judicial functions, as well as criminal procedure and specific legislation.

Some progress has been made in the development of a legislative base for the new judicial system, but little - if any - progress has been made in developing mechanisms for implementation. However, the political will is strong for serious and rapid judicial reform. In contrast to many other former Soviet republics, the Georgian constitution places explicit limitations on the heretofore unlimited authority of the procuracy in investigative and court proceedings. The Ministry of Justice is eager to establish a sustainable training capacity for current and future judges, to include training in the new commercial areas, and new court procedures. The main law school, the Tbilisi State University Law Faculty, while run by some fairly old-school old-line professors, has shown promise in developing new curricula and faculty interested in revising old-school teaching methodologies. Capacity, western legal skills (particularly in the area of commercial transactions), and resources are limited, but political will for change is evident, and the level of legal scholarship, albeit somewhat limited by years of Society isolation, is particularly high.

There is some evidence that the Parliament has earned a greater degree of respect in the eyes of voters since the November elections. As yet, however, there does not appear to be any change in the attitude of citizens towards the legal infrastructure intended to enforce those laws in place to promote and protect their civil and economic rights. The judicial system is still - rightly so - seen as incapable of fairly and efficiently adjudicating disputes, whether commercial or civil. Disputants generally find their own means for resolving conflicts, outside of the court system. And criminal court proceedings are in reality still under the thumb of an entrenched and wary procuracy - wary for the impending loss of its power if the procuracy is ever to exist within the bounds that the new constitution has established.

ENI's Significant Contributions

Work with drafters of the Civil Code (now being continued by German aid - GTZ) led to the drafting of a Civil Code which in large part incorporates international market and democratic norms.

Internet access for parliamentarians has provided instant access to international laws, staff trained to research and then translate laws from the Internet, laws then used as models in the drafting and enactment of a wide array of implementing legislation for the constitution.

Work began in March of 1996 on the current drafts of Georgia's criminal code and criminal procedure code, as well as efforts to engage the Procuracy (Prosecutor's Office) in a dialogue leading towards restructuring and retraining,

U S Law Enforcement agencies will begin programs this spring to work with Georgian law enforcement agencies on improving efficiency and fairness of criminal investigations, in the areas of financial crime and organized crime

Commitment and Capacity of Development Partners

Principal USAID partners in this area are the Organization for Security and Cooperation in Europe (OSCE), UNDP, United Nations Human Rights Center (UNHRC) in Geneva, Soros Foundation, and the German Embassy

The OSCE conducted an assessment of the criminal justice system in January of 1996, proposed activities cover a broad range of legislative drafting assistance, training and resource provision, however, OSCE does not appear to have available funding to conduct all, or possibly even part, of the assessment team's recommended technical assistance programs USAID will maintain coordination with OSCE on any planned initiatives OSCE is also providing ad hoc legal expertise on specific pieces of human rights related legislation

The UNDP proposes programs in the areas of parliamentary support for "legal, policy and accountability functions", as well as work with the judiciary in the areas of "supporting its capacity to apply new legislation especially in areas of administrative law and law necessary to the nurturing of civic society, and securing the provision of public information about new legislation and promoting respect for the law" These activities are included in the budget noted in the above S O , that is, \$980,000 over two years, which has not at this date been secured

The UNHRC in Geneva has proposed training programs at the police academy, subjects to include human rights issues related to arrest, detention, and prison reform No funding has been secured at this date for these activities

The Soros Foundation, locally registered as Open Society Georgia, is in the process of soliciting applications for a competition to develop an independent, non-partisan, advisory legal council to the Georgian Parliament This council will "stimulate reform of the legal system, by promoting the concept of governance through fair and equitable law administered by those freely chosen by the people to govern in a fair and equitable manner This Council of advisors will serve as a think tank for the Parliament, serving as an incubator for the drafting of new laws aimed at advancing legal and legislative reforms " Soros will provide up to \$25,000 of funding, and the applicant must include official authorization from the Parliament

The German Embassy, through donor organizations such as GTZ, has been providing legislative drafting assistance on specific commercial legislation, as well as the new Civil Code. More specific information related to Germany's assistance in this area has not been readily available, but USAID is attempting to better coordinate information-sharing with German providers.

USAID activities towards achievement of this S O will be closely coordinated with the above noted donor current and proposed programs.

Illustrative Approaches.

- A Constitutional Implementing Legislation Design and implement training workshops on legislative drafting for parliamentarians, government officials, and their respective staffs. Also, provide short-term consultative expertise on specific legislative drafting requirements.
- B Criminal Law Reform Provide technical assistance to reform criminal law and criminal procedure codes. Integrated training programs will be developed for judges, prosecutors, investigators, and defense attorneys focusing on effective and fair implementation of the law.
- C Strengthen Georgia's Private Legal Profession and Legal Advocacy Organizations A technical assistance program for reform-oriented Georgian lawyers will help revitalize and legitimize the legal profession, particularly in the areas of commercial law and human rights. Training will focus on developing an indigenous capacity for continuing legal education, private law-practice management, curriculum reform and development, as well as the development and strengthening of legal advocacy organizations.
- D Develop Legal Community's Access to International Legal Resources and Contacts. Support of Internet connectivity for the Parliament, Ministry of the Interior, and rule-of-law-entities such as the Ministry of Justice, Tbilisi State Law Faculty, and others, to be determined as available and appropriate.

Sustainability

The strong political will which currently exists in Georgia for legal reform will heavily contribute to the success of USAID initiatives towards achievement of this S O.

However, reform of the legal sector is a long term process in any democratic country, and progress may be slow, particularly as relates to judicial reform. Nonetheless, so long as political will remains, and economic conditions do not substantially worsen, USAID will be able to materially affect and impact on the intermediate results noted in the strategic framework. USAID focus in this area in seeking S O achievement will be on the development of indigenous capacity to maintain over time the pace and progress of reform.

The estimated USAID funding level is modest - \$3.3 million from FY 1996 to the year 2000. While substantial inroads can be made on progress towards this S O , realistically this must be seen as a long term effort, and for full and sustainable achievement of our highest level intermediate results and the S O itself, more resources may be required.

Strategic Objective 2.3 More Effective, Responsive, and Accountable Local Government

Problem Analysis

In the period following Georgia's independence, municipal officials were faced with major transition challenges. The de facto devolution of responsibility to local governments for many functions previously carried out by the national government, in combination with declining central budgets and shortage of skilled personnel, left local authorities increasingly isolated from the center and unable to halt the degradation of water, energy, and transport infrastructure. In addition, paramilitary and criminal activity, together with the war-spawned refugee problem, overwhelmed the capacity of local governments to maintain basic services. Finally, in the absence of effective leadership and with wages eroding precipitously due to inflation, local civil service bureaucracies are facing increased petty corruption and the loss of their best staff.

The GOG has been slow to move on the "local government question" for a number of reasons, but ostensibly because two regions in particular (South Ossetia and Abkhazia) still claim independent sovereignty, and thus, a federal system, as envisioned by the new constitution, is not yet possible. This has meant an indefinite postponement of local government elections. All local government officials are currently presidential appointees.

Results Framework

See R4, Part II

Judging Performance

See R4, Part II for Performance Assessment Data

Overall Progress

There appears to be renewed political will to begin to address the problems of local administration and governance. Recent steps by the President, parliament, and a few municipalities (e.g., Kutaisi) have begun to surmount some of the obstacles noted above, establishing local order and more effective administration. Local and municipal governments, whether appointed or elected, need assistance in developing greater administra-

GEORGIA SO 2 3

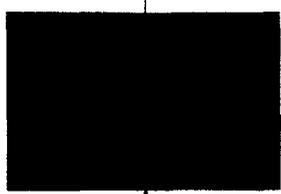
4/19/96

SO 2 3 MORE EFFECTIVE
RESPONSIVE AND
ACCOUNTABLE LOCAL
GOVERNMENT IN GEORGIA

TIME FRAME

IR 1 INCREASED
INVOLVEMENT BY CITIZENS &
ORGANIZATIONS IN LOCAL
CIVIC PROCESSES
(SO 2 1)

TIME FRAME
PARTNER EURASIA



*(Improved
Municipal
Infrastructure
and Services)
Time Frame
We let
Break)*

IR 3 LOCAL GOVERNMENT
HAS THE CAPACITY & WILL
TO BE RESPONSIVE TO CIVIC
NEEDS

TIME FRAME
PARTNER NONE

IR 4 FREE & FAIR LOCAL
GOVERNMENT ELECTIONS
COMPLETED
(SO 2 1)

TIME FRAME
PARTNER FES

IR 2 1 STRENGTHENED
LOCAL TECHNICAL,
MANAGERIAL AND
PLANNING CAPABILITIES

TIME FRAME
PARTNERS TACTIS IPA

IR 3 1 INCREASED LEVEL OF
FINANCIAL RESOURCES
AVAILABLE TO LOCAL GOV TS
(SOs 1 2/1 3)

TIME FRAME
PARTNER NONE

IR 4 1 LAWS & REGULATIONS
ON LOCAL GOV T EFFECTIVELY
IMPLEMENTED &
ENFORCED
(SO 2 2)

TIME FRAME
PARTNER

4/19

IR 1 2 ACTIVE &
EFFECTIVE LOCAL
GOV T ASSOCIATIONS

TIME FRAME
PARTNER EURASIA

IR 3 1 1 INCREASED INFLUENCE
OF LOCAL GOVERNMENT ON
NATIONAL POLICY

TIME FRAME
PARTNER NONE

IR 4 1 1 LEGISLATION PASSED
WHICH PROVIDES FOR
DEMOCRATIC LOCAL
GOVERNANCE
(SO 2 2)

TIME FRAME
PARTNER NONE

IR 1 3 INCREASED
INTERACTION AMONG
LOCAL GOV TS

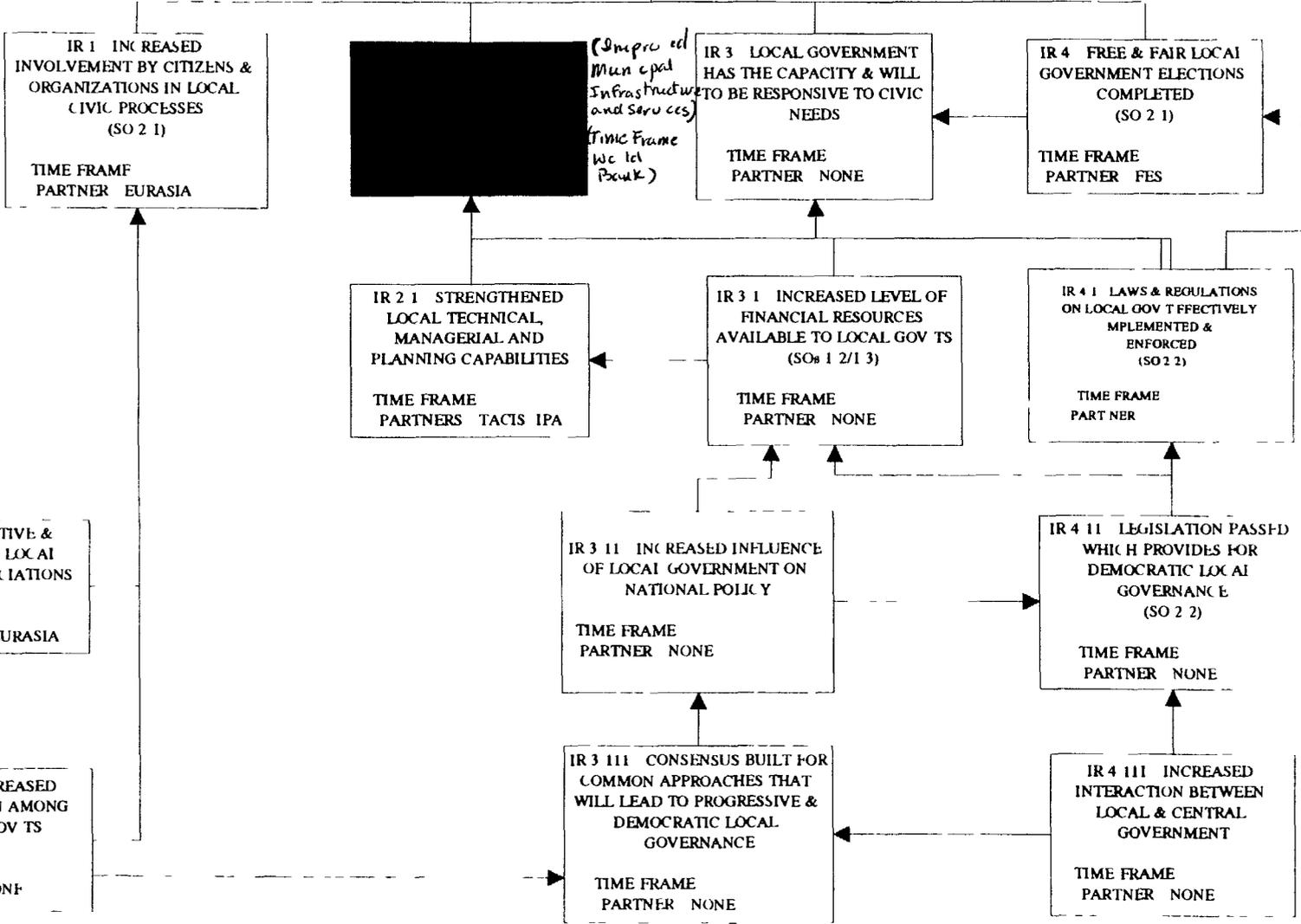
TIME FRAME
PARTNER NONE

IR 3 1 1 1 CONSENSUS BUILT FOR
COMMON APPROACHES THAT
WILL LEAD TO PROGRESSIVE &
DEMOCRATIC LOCAL
GOVERNANCE

TIME FRAME
PARTNER NONE

IR 4 1 1 1 INCREASED
INTERACTION BETWEEN
LOCAL & CENTRAL
GOVERNMENT

TIME FRAME
PARTNER NONE



tive capacity and efficiency, as well as the construction of a rational inter-governmental administrative and financial system

ENI's Significant Contribution

FY 1996 will be the first year of activity under this S O

Commitment and Capacity of Development Partners

The World Bank has recently conducted an assessment of municipal government reform needs. This assessment was part of an ongoing exploration of a municipal development loan for Georgia. USAID is awaiting additional information on the size and timing of this loan before committing substantial resources to municipal development in Georgia. USAID progress towards the proposed strategic objective will in no small part depend upon the size and depth of World Bank assistance in the area of municipal infrastructure assistance.

Illustrative Approaches.

- A **Municipal Government Reform.** Senior municipal staff training conducted in key technical areas, e.g., taxation, city management, budgeting, in selected cities. The result will be more efficient and effective procedures and processes that will support both local government capacity and efficiency and improved communication between municipalities and the central government.
- B **Develop and Support Mayors' Association.** The formation of a mayors' association would aid the dissemination of lessons learned and best practices among municipal officials and also help to create an effective mechanism for lobbying the central government on issues of concern to local governments.

Sustainability

USAID has deliberately projected a small scale, targeted municipal development project for the first year of activities. Limited progress can be made towards the majority of intermediate results noted in the framework in this first year, however, a solid base for the democratic side of local governance reform can be placed, with increased funding over subsequent years supporting substantial achievement of the majority of intermediate results. However, as noted above, one of the most crucial intermediate results needed for accomplishment of the S O is improved municipal infrastructure and services, which USAID does not contemplate devoting significant resources towards. For full S O achievement, the World Bank municipal development loan will have to successfully fulfill this integral component.

The estimated USAID funding level is \$3.6 million from FY 1996 to the year 2000. Substantial achievement of the S O should be possible with this level of resources and if the above assumptions and issues permit.

SOCIAL SECTOR RESTRUCTURING

Strategic Objective. 3.1 Reduce Human Suffering and Crisis Impact.

Problem Analysis

The economic crisis and associated collapse of the social safety net coupled with the current stalemate in Abkhazia, have left Georgia's most vulnerable populations without a viable means of support. An estimated 700,000 individuals, including 250,000-or-so internally displaced persons, continue to depend on humanitarian food aid to help meet their basic needs. Conditions are especially harsh during the winter months since fuel for home energy needs (e.g., cooking, heating, and electricity to operate water pumps) is scarce due to the on-going energy and financial crisis.

Although the Georgian government continues to provide allowances and pensions on a limited basis, benefit levels for the vulnerable population are so low they fall far short of what is required to achieve a subsistence level. Eligibility for assistance is based upon categories of family size and composition, rather than being based upon real need.

The deteriorating conditions in the economy and limited resources available through the Georgian budget to support economic activity have caused unemployment and underemployment to increase substantially, resulting in larger numbers of households existing at or below the poverty level. Until economic conditions improve and the private sector growth becomes a reality, employment and household income will continue to decline thus increasing the size of the vulnerable population.

Results Framework

See R4, Part II

Judging Performance

See R4, Part II for performance assessment data

Overall Progress

Foreign aid agencies have taken over the bulk of social services and welfare programs that prior to independence were carried out by the Georgian government. The formation of private relief and welfare organizations is encouraged by the government. However, the bulk of resources for indigenous relief is provided by foreign assistance agencies. As international resources available for humanitarian relief and assistance decrease, it becomes increasingly important to target aid to those who are most vulnerable. At the same time, the government must become increasingly responsible for managing the affairs of its vulnerable populations, particularly refugees and internally displaced persons.

GEORGIA SO 3 1
MARCH 29, 1996

SO 3 1 REDUCED HUMAN
SUFFERING AND CRISES
IMPACT

TIME FRAME

IR 1 POTENTIAL IMPACT OF
HUMANITARIAN CRISES
REDUCED

TIME FRAME
PARTNER

IR 2 URGENT BASIC HUMAN
NUTRITIONAL
SHELTER/CLOTHING HEALTH
NEEDS MET FOR VULNERABLE
GROUPS

TIME FRAME
PARTNER

IR 3 DECREASED
DEPENDENCE ON
HUMANITARIAN ASSISTANCE

TIME FRAME
PARTNER

IR 1 1 CAPACITY ESTABLISHED
TO IDENTIFY AND
DISAGGREGATE DATA ON
VULNERABLE GROUPS

TIME FRAME
PARTNER

IR 2 1 TIMELY DELIVERY OF
FOOD & NON FOOD
COMMODITIES

TIME FRAME

IR 2 2 IN-COUNTRY
STOCKS ADEQUATE FOR
MOST HUMANITARIAN
NEEDS

TIME FRAME

IR 2 3 EMERGENCY
ACTMITIES BETTER
COORDINATED WITH
PARTNERS

TIME FRAME ACHIEVED

IR 3 1 REGIONAL AND
COMMUNITY LEVEL
SERVICES STRENGTHENED
(SO 2 3)

TIME FRAME

IR 3 2 HUMANITARIAN AND
DEVELOPMENT ASSISTANCE
BETTER INTEGRATED

TIME FRAME
PARTNER

IR 3 3 BUILDING BLOCKS FOR
CIVIL SOCIETY AND MARKET
ECONOMY IN PLACE
(SO 1 3 2 1)

TIME FRAME
PARTNERS

IR 3 4 HOUSEHOLD
FOOD SECURITY
INCREASED

TIME FRAME
PARTNERS

IR 1 2 MITIGATING PREVENTION
PREPAREDNESS AND CONFLICT
RESOLUTION MEASURES
ESTABLISHED

TIME FRAME
PARTNER

IR 2 1 1 TARGETED
ASSISTANCE REACHES
VULNERABLE IDPs

TIME FRAME
PARTNER

IR 1 3 DONOR PLANNING &
COORDINATION MECHANISM
ESTABLISHED

TIME FRAME ACHIEVED

44

Working on behalf of the GOG, donors and relief agencies have concentrated on meeting food and fuel shortages for the most vulnerable. They have improved shelters for the refugees and homeless in the earthquake zone and assist vulnerable populations to meet emergency winter needs through food and fuel distribution. The GOG's approach to addressing humanitarian needs has been to allow donors and relief agencies wide operating discretion, an approach which has achieved highly positive results.

ENI's Significant Contributions

Between 1992-1995, USAID primarily focused its resources on humanitarian assistance. Humanitarian assistance will still be required for several more years, but at diminishing levels. In the future, USAID will place greater emphasis on the establishment of and economic growth and broad-based competition within the private sector. It is anticipated that this new focus will create increased sources of income and reduce Armenia's dependence on humanitarian assistance.

USAID has been the largest bilateral donor, providing more than half of the country's emergency needs, providing assistance to over 750,000 Georgians since 1992, directly reducing human suffering. Since 1992 USAID assistance has financed the importation of heavy oil for electricity generation and winter heating. Over 100,000 displaced persons have received non-food assistance and over 35,000 supplemental food packages. Over 100 female victims of the Abkhazia conflict and their families have received psychological counseling and 60 women have been provided with reconstructive surgery.

USAID has also financed humanitarian assistance activities of international organizations, such as The United Nations Children's Fund (UNICEF) to control the diphtheria epidemic through the provision of vaccines to immunize those children and adults most at risk for contracting the disease. The Caucasus Logistics Advisory Unit (CLAU - under the World Food Program) manages the rail, port, and communications network throughout the Caucasus and making possible timely and efficient delivery of humanitarian assistance. The CLAU operation, U.S. Center for Disease Control, and PVO programs - all financed by USAID - are helping to build Government of Georgia (GOG) and local NGO capacity to manage and respond to humanitarian emergencies. However, Georgia's government and NGO community require further capacity strengthening before social services can be effectively provided and targeted.

Commitment and Capacity of Development Partners

The national vulnerability assessment is a joint effort supported by EU/ECHO, UNDHA, and USAID. UNHCR has also initiated a project with the Ministry of Refugees and Resettlement to provide a computer tracking system to register and record the location of displaced persons. USAID-funded International Organization for Migration (IOM) technical assistance to the Ministry of Refugees and Resettlement complements this effort.

UNICEF conducted a national survey of 1,000 families to assess household ability to pay health care costs. This activity includes recording socio-economic data relating to each household. In addition the International Federation of the Red Cross (IFRC) is conducting a survey of IFRC beneficiaries to assess vulnerability status. These combined activities should enhance the ability of the Georgian government and the donors to target humanitarian assistance to the most vulnerable.

EC/ECHO and WFP will continue to import and distribute food commodities. ECHO is the major donor for non-food humanitarian assistance. In an effort to eliminate duplication of food distribution and equalize geographic coverage, the WFP and CBIHA developed an overall food distribution plan for Georgia. This mechanism will continue to provide the framework for coordinating food distribution activities in Georgia.

UNHCR will continue support for rehabilitation of IDP collective centers and initiate income generation activities for this population.

Illustrative Approaches.

A Sustain and improve the targeting of humanitarian assistance. Humanitarian assistance will continue at reducing levels for the most vulnerable segments of the Georgian population.

USAID's emphasis for 1995-1997 is two-fold: (1) refine the definition of vulnerable groups to ensure that those individuals most in need receive humanitarian assistance, and (2) enhance the Government of Georgia's (GoG) capacity to manage and coordinate humanitarian assistance.

As part of the overall effort to refine the targeting of humanitarian assistance, USAID is co-financing the national assessment of vulnerability. The assessment is a collaborative effort initiated by the U.N. Department of Humanitarian Affairs (UNDHA), the European Community Humanitarian Office (ECHO), the Georgian Government's Coordination Bureau for International Humanitarian Assistance (CBIHA) and Save the Children Federation (SCF). Through the SCF Cooperative Agreement, USAID funded the team leader of this three-month assessment which began in February 1996. Household data on income, nutrition and health status will be collected to establish country-specific vulnerability criteria for identification of humanitarian aid beneficiaries. Results of the assessment will be available in April 1996 and will serve as a useful planning tool for donors, the GOG, and organizations involved in the delivery of humanitarian assistance.

As part of the effort to enhance the capacity of the GOG to manage and coordinate humanitarian assistance, SCF transferred the data collection reporting functions of the Data Analysis and Collection Unit (DACA) to the CBIHA in October 1995. On a monthly basis CBIHA collects and publishes data on food, non-food, and medical humanitarian distributions along with a market survey report which provides prevailing price data on food, fuel, transportation and other Consumer Price Index-type components to illustrate price trends in

the economy The monthly report is available in both English and Georgian and is distributed to over 200 organizations The CBIHA/DACA report has been the primary source of quantitative data used by international organizations, NGOs, and government Ministries involved in targeting and coordinating humanitarian assistance

Additionally, USAID will continue support to the International Organization for Migration (IOM) for capacity building within the GOG in the areas of emergency management and coordination of humanitarian aid Both the newly established Ministry of Refugees and Resettlement (MRR) and the CBIHA will continue to receive technical assistance and training through the International Organization for Migration's (IOM) Capacity Building Project For the MRR, IOM will work closely with UNHCR and UNDP to assist in the establishment of a migration management system and formulation of a national policy on migration For the CBIHA, IOM training will focus on staff development and skill building

B Assistance to vulnerable groups During winter 1995 and spring of 1996, wheat flour, vegetable oil, dried beans, dry whole milk, and farina will be distributed to a total of 82,000 vulnerable women and children by CARE through the Georgia-Armenia Nutritional Supplement Project It is anticipated that additional tonnages of food for the winters of 1996 and 1997 will be provided by USDA Also, through the SCF Cooperative Agreement, humanitarian assistance will be targeted to internally displaced communal centers for the provision of emergency winter needs, improved sanitation facilities and water supply

C Bridging from humanitarian assistance to development activities The SCF Cooperative Agreement, will provide support for "bridging" activities which promote self-reliance and stimulate economic recovery at the local community level Under the agreement, approximately 10-15 sub-grants will be awarded to finance rural and urban projects that promote income generation and micro enterprise development

D Provision of emergency commodities In FY 95, USAID provided approximately 68,500 MT of mazout to help meet Georgia's emergency winter fuel requirements In addition, USAID provided approximately 29,000 MT of wheat to supplement existing wheat supplies for the provision of the basic staple, bread, to the general population

In FY 96, a fifty percent reduction is anticipated in the amount of mazout fuel for Georgia USDA will provide \$20 million worth of wheat supplies under the Food for Progress Program Subject to the availability of funds, it is anticipated that additional food commodities will be made available to PVOs for monetization under the USDA 416 Title II Program

E Establishing a Social Investment Fund Subject to the availability of funds, a pilot Social Investment Fund (SIF) will be established to finance community level projects that promote local employment and income generation through the rehabilitation of socio-economic infrastructure Examples of such activities would include the rehabilitation of hospitals and clinics, schools and selected municipal services Priority project sites will include villages

and towns where the need for rehabilitation activities are the greatest and where significant vulnerable populations reside

Sustainability

Ultimately the resolution of conflict in the region, settlement of IDPs, and the creation of a vibrant private sector-led economy are required for Georgia to achieve sustainable social systems

While Georgia has registered impressive progress on the road to democratic rule and free-market reform, the society still bears the scars of recent armed civil conflict. The violence which plagued Georgia spawned more than 700,000 internally displaced persons and exacerbated an already difficult economic situation attending the transition away from the centrally planned system. Without any major resettlement in sight, IDPs are likely to continue to constitute a large portion of the vulnerable population. The resource poor national government has done relatively little to improve the acute conditions faced by most IDPs. There is concern that even as the economy picks up and the ranks of the vulnerable correspondingly decline, the needs of the most disadvantaged IDPs could unmet.

As alluded to above, the resource-strapped GOG has been unable to do much to reduce human suffering caused by the collapse of the old economic order and civil conflict. Nor does the government appear to be taking steps to increase its institutional capacity to prevent or mitigate the severity of future humanitarian crises, or to provide for "chronically vulnerable" groups over the long-term. USAID is concerned that there is as yet no reliable means to disaggregate the population for the purpose of targeting and ensuring humanitarian assistance reaches the most vulnerable groups. The GOG continues to rely on old Soviet categories in determining social benefits, meager as they are. USAID helped to fund a soon-to-be-released study on vulnerable households but it is not as ambitious or comprehensive as the PAROS project in Armenia.

USAID is very conscious of avoiding the creation of a dependency mentality among the Georgian population and is eager to help the most vulnerable groups while prompting the move away from humanitarian assistance to development aid. Lastly, the prospect of some authority being devolved to the local or regional level, possibly in the context of municipal elections, may create some interesting opportunities for cooperation between indigenous humanitarian assistance-oriented NGOs and local officials.

B. Homestretch Strategic Objectives

This is a new strategy, Section B is not applicable for the Georgia Strategy

C. Special Objectives

1 Medical Partnerships.

XXXXX

2 NIS Exchanges and Training. Training and Exchanges funds are considered as cross-cutting activities, as they contribute to all strategic objectives. As such, their objectives, intermediate results, indicators, time frame and criteria for judging performance fall within the strategic objectives which they support. For FY 1996, USAID has targeted these funds with 40 percent and 60 percent going to support D/G and economic restructuring activities.

D. Environmental Issues.

Sections 118/119 do not apply, there are no tropical forests in the Caucasus.

PART III. RESOURCE REQUIREMENTS

A. Program Funding Requirements

See Tables

Narrative follows

B. OE/Workforce Requirements:

Guidance has not been provided by USAID/W for development of this section

C. Discussion of Programming Options.

Impact of funding Options in FY 1998

A cut in FY 1998 funding of 20 percent would significantly affect Strategic Areas 2, Democratic Transition, and 3, Social Stabilization. Funding for all three Strategic Objectives in the democracy area would be cut in half, significantly delaying impact. Humanitarian assistance would be cut by \$2 million, a major reduction in critical aid given if significant needs for IDPs is still continuing.

The programming option of minus 20 percent for years 1998, 1999, and 2000 would dramatically affect the Georgia strategy and significantly delay achievement of results. Not only would SOs terminated earlier than planned, the results expected from the remaining SOs were substantially delayed. Below are the specific consequences of this option:

- Accelerated phase-out of Strategic Objective 3.1 - Humanitarian Crisis and substantially less funding in 1998
- Lower level funding for Strategic Objective 1.5 - Energy, during the planning period
- Lower level funding for Strategic Objectives 2.1, 2.2 and 2.3 which would delay attainment of results, and require the elimination of possible several activities all together
- Elimination or at less significant reduction in funding for Other Agency Programs

**Georgia Resource Requirements by SO
(in 000s)**

STRATEGIC OBJECTIVE	FY 96 Approved OYB	FY 1997	FY 1998 Plan	FY 1999 Plan	FY 2000 Plan
	GEO	GEO	GEO	GEO	GEO
Economic Restructuring					
1 2 Increased soundness of fiscal policies and fiscal management practices	1 380	2,500	1 500	700	700
1 3 Accelerated development and growth of private enterprises	4 900	5 900	4 900	4,900	5,000
1 4 A more competitive and market-responsive private sector	720	2,000	2,500	2,000	1,200
1 5 A more economically sustainable and environmentally sound energy sector	3 000	6,500	6 000	6 000	5 000
Democratic Transition					
2 1 Increased better informed citizens participation in political and economic decision making	1,700	2,000	1,300	1,300	600
2 2 Legal systems that better support democratic processes and market reforms	450	800	700	700	700
2 3 More effective responsive and accountable local government	250	700	1 000	1 000	700
Social Stabilization					
3 1 Reduced human suffering and crisis impact	6,850	10,000	5 400	2,000	0
3 2 Improved sustainability of social benefits services					
Special Initiatives/CrossCutting Issues					
Medical Partnerships	600				
NET Training & Exchanges	200	600	200	200	200
warsaw Initiative	250				
Other Agency Transfers	600	2 000	1 500	1 200	900
TOTAL COUNTRY	20,900	33,000	25,000	20,000	15,000

51

**GEORGIA Resource Options/Levels by SO
(in 000s)**

STRATEGIC OBJECTIVE	FY 96 Approved OYB	FY 1997 Plan	FY 1998 Plan (-20%)	FY 1999 Plan(- 20%)	FY 2000 Plan (-20%)
	GEO	GEO	GEO	GEO	GEO
Economic Restructuring					
1 2 Increased soundness of fiscal policies and fiscal management practices	1,380	2,500	1,500	700	700
1 3 Accelerated development and growth of private enterprises	4,900	5,900	4,900	4,900	4,900
1 4 A more competitive and market-responsive private sector	720	2,000	2,500	2,000	1,100
1 5 A more economically sustainable and environmentally sound energy sector	3,000	6,500	6,000	6,000	4,000
Democratic Transition					
2 1 Increased better informed citizens participation in political and economic decision making	1,700	2,000	650	1,000	500
2 2 Legal systems that better support democratic processes and market reforms	450	800	350	700	350
2 3 More effective responsive and accountable local government	250	700	500	500	350
Social Stabilization					
3 1 Reduced human suffering and crisis impact	6,850	10,000	3,400	0	0
3 2 Improved sustainability of social benefits services					
Special Initiatives/CrossCutting Issues					
Medical Partnerships	600				
NET Training & Exchanges	200	600	200	200	0
Warsaw Initiative	250				
Other Agency Transfers	600	2,000		0	0
TOTAL COUNTRY	20,900	33,000	20,000	16,000	12,000

GEORGIA Strategic Plan Budget Sheet
(in 000s)

PROJECTS	SO	FY 1996 OYB GEO	FY 1997 GEO	FY 1998 GEO	FY 1999 GEO	FY 2000 GEO
110-0001 Special Initiatives	3 1	6,850	10,000	5,400	2,000	0
110-0002 Energy	1 5	3,000	6,500	6,000	6,000	5,000
110-0003 Environment						
110-0004 Health Care	Spl	600	0			
110 0005 Private Sector	1 3	500	1,000	1,000	500	500
110 0006 Food Systems	1 3	500	1,000			
110 0007 Democratic Reform	2 1,2,2,3	2,400	3,500	3,000	3,000	2,000
110-0008 Housing	1 3	0	0	0	0	0
110-0009 Econ Restructuring	1 2,1 3,1 4	2,100	4,500	4,000	3,200	2,700
110-0010 Eurasia Foundation	1 3	900	900	900	900	700
110-0011 Enterprise Funds	1 3	3,000	3,000	3,000	3,000	3,000
110-0012 Exchanges & Training	Cxl	200	600	200	200	200
Performance Fund						
632(A) Transfers (including)	Cxl	850	2,000	1,500	1,200	900
Direct Trade and Investment		0	0	0		
USIA Training and Exchanges		600	500	1,000	1,000	900
Warsaw Initiative		250	1,500	500	200	
Transfers to G Bureau		0	0	0	0	
TOTAL COUNTRY		20,900	33,000	25,000	20,000	15,000

53