

STRATEGIC PLAN

2000 - 2003

GEORGIA

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ACRONYMS

ABA/CEELI	American Bar Association/Central and East European Law Initiative
ACDI/VOCA	Agricultural Cooperatives Development International/Volunteers in Overseas Cooperative Assistance
AED	Academy for Educational Development
AIOC	Azerbaijan International Operating Company
CAC	Citizen Advisory Council
CBO	Community-Based Organization
CEC	Central Electoral Commission
CIS	Commonwealth of Independent States
COE	Council of Europe
COJ	Council of Justice
CSO	Civil Society Organization
DG	Democracy and Governance
DOJ	U. S. Department of Justice
EBRD	European Bank for Reconstruction and Development
ECHO	European Community Humanitarian Organization
ENI	Bureau for Europe and the New Independent States (USAID)
ENKI	Georgian Intermediate Credit Foundation
EU	European Union
EU/TACIS	European Union/Technical Assistance to the CIS
FINCA	Foundation for International Cooperative Assistance
FSA	Freedom Support Act

FSU	Former Soviet Union
GIOC	Georgian International Oil Company
GNERC	Georgia National Electricity Regulatory Commission
GOG	Government of Georgia
GYLA	Georgia Young Lawyers Association
GTZ	German Technical Assistance Agency
IAS	International Accounting Standards
IDP	Internally Displaced People
IESC	International Executive Service Corps
IFC	International Finance Corporation
IFES	International Foundation for Electoral Systems
IIEC	International Institute for Energy Conservation
IMF	International Monetary Fund
IOCC	International Orthodox Christian Charities
IR	Intermediate Result
IRC	International Rescue Committee
IRI	International Republican Institute
IRIS	Institutional Reform and the Informal Sector
IRM	Information and Resources Management (USAID/Washington)
ISAR	Institute for Social Action and Renewal
MEP	Main Export Pipeline
MPP	Mission Performance Plan
NDI	National Democratic Institute
NEAP	National Environmental Action Plan
NGO	Non-Governmental Organization
OSCE	Organization for Security and Cooperation in Europe
PFP	Policy Framework Paper (World Bank)
PRM	Bureau for Population, Refugees and Migration (State Department)
PVO	Private Voluntary Organization
ROL	Rule of Law
SCF	Save the Children Fund
SIF	Georgian Social Investment Fund (World Bank Sponsored)
SME	Small and Medium Enterprises
SMEDA	Small and Medium Enterprise Development Agency
SO	Strategic Objective
SRO	Self-Regulating Organization
SWIFT	An International Electronic Payments System
UMCOR	United Methodist Committee on Relief
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission on Refugees
UNICEF	United Nations Childrens Fund
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USEA	United States Energy Association
USIS	United States Information Service

WB World Bank
WTO World Trade Organization

AMBASSADOR'S STATEMENT

Georgia is at a crossroads in its recovery from a civil war and its transition to a democratic market economy. Important goals such as local elections, the successful privatization of a large state-owned asset, and the creation of a more transparent and responsive legal and regulatory framework have been achieved. However, for the average citizen, material life is not improving.

The proposed Strategic Plan for Georgia addresses the needs of Georgia's citizens. It focuses at the community level and brings the benefit of important macro reforms to the local level. By helping the average citizen to participate in those benefits, the proposed Strategic Plan creates a constituency for continued reform. I fully support this approach.

USAID/Caucasus has worked closely with the Country Team, the Government of Georgia, Partners and Beneficiaries in the creation of the Strategic Plan. It is fully consistent with U.S. foreign policy goals. The proposed Strategic Plan and the Mission Performance Plan are inter-related and strongly supportive of one another. I anticipate that the results of both Plans will be significant.

Kenneth S. Yalowitz
Ambassador

PART I: SUMMARY ANALYSIS OF THE ASSISTANCE ENVIRONMENT AND RATIONALE FOR STRATEGIC CHOICES

1. Introduction

This Strategic Plan sets forth a blueprint for the USAID program in Georgia over the next four years beginning in FY 2000. Its vision is to foster, in partnership with Georgians, a stable, more prosperous market-oriented democracy that empowers citizens, is governed by the rule of law and promotes the basic welfare of the population.

The USAID Strategy is an integral part of the Mission Performance Plan (MPP), conforming closely to the objectives in the MPP. The strategic challenge is to assist Georgia through its difficult transition period from Soviet systems, attitudes and conditions to a nation of private market-driven, participative economic and democratic political systems. Many of the factors affecting this transition are the result of external influences such as its geopolitical position, trade and transit routes, and cross-border relationships. Combined with domestic circumstances and constraints, Georgia's transition will stretch well beyond this strategic period. Consequently, the strategy contemplates continuing U. S. assistance beyond the plan period.

2. U. S. Foreign Policy Interests

Two primary themes establish the underlying basis for U. S. foreign policy objectives in Georgia: (1) the requirement for a politically and economically stable Caucasus region at a geographic crossroads that borders states with potential volatility, such as Russia and Iran; and (2) the vital position of Georgia as a Caucasus transit country of oil and gas for the U. S. and the West.

Achieving stability goes to the core of Georgia's need to restore its territorial integrity, strengthen its sovereign status and build a nation with socio-economic and political standards accepted by western states and international institutions. The U. S. has a central role in this process, and its continuing efforts are key to U. S. national security interests as well as those of Georgia. Successful transition to a market economy and a democratic society are the means for Georgia to attain a strong, stable and enduring society that will shape a positive commercial and political relationship with the U. S. and the West. As the linchpin of the Eurasian corridor for Caspian Basin oil and Transcaucasus gas transport to western markets, the importance of a stable Georgia cannot be overstated. Georgia maintains a policy of openness to the West, and actively seeks closer and stronger formal ties with the U. S. and Europe.

An important aspect of the U. S. relationship with Georgia is the need to maintain realistic expectations of what can happen, and the speed with which change can take place. While independence occurred eight years ago, the early years were preoccupied with civil conflict and the need to create basic tenets of government and governance. Only in 1995, with the promulgation of a new Constitution followed by a shift in donor assistance from humanitarian toward development programs, did significant initiatives begin in the direction of economic and

democratic reform. Much has been achieved, but the road ahead is steep and winding. Patience, focus and determination will be required in working with Georgia to broaden and deepen the initial changes in economic and political systems in order to create a more stable, viable and prosperous country.

A strong and excellent bilateral relationship exists between the U. S. and the Government of Georgia, which provides the foundation for making this country Strategy a reality.

3. Factors Influencing the Reform Process

A. Regional Context

That this Strategy is Georgia-specific does not diminish the fact that the Caucasus countries need to be looked at in an integral manner. Weak political, economic and security conditions in one Caucasus country negatively impact on the region's stability, as do adversarial relationships between countries. Peace and political stability are especially critical as investment decisions are made during the initial period in which new Caspian Sea oil and gas exploitation and transportation initiatives are implemented.

Georgia wants and needs to solidify and build upon its cooperation with neighboring countries. Today, these relationships are founded largely on commerce, but need to extend to greater political cooperation to sustain stability in the region.

Reviving the Silk Route from Central Asia to Europe through the Caucasus will facilitate trade and commerce that will help integrate Georgia into the global economy and reinforce independence and economic development. Improved regional transport and telecommunications infrastructure is essential for stronger trading ties and investments that will lead to increased economic growth. Regional sharing of electric power would substantially improve efficiency, reliability and availability of electrical energy for producers and consumers. The relatively small Georgian marketplace cannot solely support major foreign investments outside the service sector, so potential investors likely will be looking for export opportunities in regional and global markets. Fostering mechanisms to reduce trade and customs barriers, improve economic contacts and establish better understanding between nations will help in moving the Caucasus region toward greater stability and prosperity.

B. Ethnic Conflict

Any comprehensive discussion of Georgia cannot ignore the complex and troublesome problem of ethnic conflict. Georgia is the size of South Carolina, with 5.4 million people and numerous ethnic minorities, the most in population size and the Caucasus-Georgia geo-political context being first Georgian, then Abkhaz, Russian, Armenian, Azeri and Ossetian. Culture, religion and language are factors distinguishing Georgia's ethnic mix. As a relatively new country, Georgia's unity as a nation still is being defined, and its unification of several ethnic minorities into the nation-state has resulted in conflict and violence.

Georgia encompasses a variety of key factors that put it at risk for conflict. These include (1) poorly managed, sharply defined, ethnic differences; (2) political and economic legacies from the Cold War; (3) a weak, corrupt governmental structure; (4) threatening and provocative regional relationships; (5) a cultural patrimony of rent-seeking rather than open economic relationships; and (6) inadequate institutions and resources to rebuild society.

USAID views conflict-prevention as an integral aspect of development. Unfortunately, Georgia has areas already in a state of civil conflict, with peacekeeping efforts and delicate negotiations underway. The etiology, historic chronology and political aspects of the breakaway areas have been intensively analyzed and understood by all parties. A further discussion of this subject can be found in Appendix D. The necessity now is to undertake preventive measures outside the contested areas, while separate actions are underway to resolve existing conflicts.

The best antidote for conflict is a better livelihood for people measured in terms of employment and income, access to education and social services, participation in the governing process and choice in the marketplace. Of course this translates into development, and is the heart of USAID's overall goal. The next stage of the USAID program in Georgia, as described in this Strategy, is to move Mission efforts even more closely to the community and the people. Now that significant pieces of the macro-economic system are in place and beginning to operate reasonably well, the program will shift to greater emphasis on direct results at the local level. Further, it envisages a geographic focus in selected areas including sites around Kutaisi and Zugdidi, the latter reaching right to the border of Abkhazia, the most serious area of conflict. The idea is to build upon the Mission's strategic initiative to move towards local development by concentrating on conflict border areas in order to help prevent spillover of unrest beyond the present areas, demonstrate the benefits of development to those inside Abkhazia, and be in a better position to launch activities into Abkhazia when future security permits. In the event a political solution is found and security conditions improve during this strategic planning period, an assessment will be conducted to set priorities and determine the nature and extent of a program for resettlement, rehabilitation and development. This Strategy does not include plans to expand activities directly in Abkhazia or South Ossetia. However, special program attention will be given to southern Georgia, an area of high potential unrest with a majority ethnic Armenian population and a prevalence of poverty.

Another potential conflict that will be carefully monitored is the possible return of up to 300,000 Turk Meskhetians to Georgia. Muslim Meskhs were deported in 1944 by Stalin, and remain stateless without Turkish citizenship. Georgia accepts the principle of Meskh repatriation despite likely domestic political repercussions. A Council of Europe (COE) recommendation to resettle Meskhs in Georgia, along with similar pressure from other international organizations, has been instrumental in creating a commitment to repatriate Meskhs over the coming years.

Deep-rooted cultural and ethnic identity lie at the center of the discord and disunity in the Georgian nation. It is this multi-ethnic divide to which the bulk of conflict and potential conflict can be traced. It intensified with the relatively quick transition to independence that started a decade ago. The shift in power and authority sparked an age-old struggle, fortified by cross-

border arms traffic, regional interests and outside forces. Issues such as economic inequality and population growth are *not* key factors in the genesis of Georgian civil conflicts.

By strategically concentrating development activities in selected local areas, and through cross-cutting efforts to devolve impact to the regions outside Tbilisi, USAID is positioning itself to help prevent the spread of conflict. Within this planning period it is anticipated that these areas will directly benefit from increased electricity availability through privatized distribution systems, land titling and registration, a greatly strengthened court and judicial system, local business development, access to credit, and a more responsive local government with greater accountability and improved transparency.

C. Corruption

Corruption directly impedes Georgia's transition to a democratic, market-based economy. It distorts growth and equity, prevents a free and fair political process and results in major costs to society in terms of effectiveness and efficiency. In a society where citizens typically see the government as unresponsive and corrupt, there is distrust and even opposition to acceptance of support to the central government. Police forces, tax police and customs officers that extort rather than enforce further diminish the government's ability to provide services. The combination of a Georgian judiciary noted for dishonesty together with feeble enforcement of laws gives license to widespread corruption by not applying disincentives and penalties. This is further exacerbated by low and unpaid wages among civil servants. Pervasive petty corruption, in a sense, may contribute to a degree of stability by income transfers and augmenting meager salaries. On the other hand, it undermines the ability of the state to properly function and deliver services to citizens. It runs counter to open democratic, market systems.

Talking openly about corruption is commonplace and the public accepts it as a fact of life in transactions that involve government, at all levels. There is a perception that corruption remains beyond the control of ordinary citizens and, consequently, is consciously factored into individual economic decisions. The ordinary Georgian has historically persevered in a culture of personal contacts, patronage and individual relationships as a means of obtaining services and social needs. In the absence of effective government services, getting things done has been accomplished through personal connections that involve favoritism, nepotism and corrupt practices. Moving from this system of personal relationships for obtaining services and conducting transactions to a system of good governance and transparency is an enormous task that involves creating appropriate government structures, public education and correct enforcement that together change individual attitudes about corruption.

With regard to the USAID program, nearly every element of the assistance program directly or indirectly mitigates dishonest practices. Some examples are assisting in bank supervision, tax administration, registering of land titles, judicial training, strengthening local NGOs, energy metering, assisting the electoral process and support in establishing international accounting standards. Each of these activities forces openness, transparency and discipline into the government and society at large.

Equally important is the impact of helping Georgia draw up a body of law that provides the framework for a legal system, which demands openness and accountability. Enhancing the rule-of-law will have an enormous influence on addressing and rooting out corrupt practices. Without the legal framework, administration and enforcement become hollow words. Further, by definition, the development of a market-oriented economy implies openness and choice as opposed to closed government decisions and shady practices resulting from control and singular authority. While a privatized, open market system does not eliminate corrupt practices, its inherent quest for efficiency through competition can reduce corruption if accompanied by proper accountability and, in some cases, regulation. Finally, all of the strategic objectives incorporate information and education components, which foster transparency and openness by advising the public on rights, obligations and duties of individuals and institutions. For a more detailed analysis on corruption, see Appendix E.

There is no solution to ridding the country of corruption that will succeed in the short-term. It is ingrained throughout Georgian society and cannot be eliminated or effectively mitigated by a separate, targeted activity. It needs to be persistently combated on all fronts. Therefore, USAID does not plan a stand-alone anti-corruption initiative. Rather, the approach is to deal with this issue in a cross-cutting manner throughout the entire program. Each Strategic Objective team will establish a knowledge-base of corrupt actions, known or probable, in its respective area and determine what actions are planned or being implemented to bring about greater integrity. A periodic progress report will be prepared on this subject that covers the portfolio Mission-wide.

4. The Setting

The exigencies related to Georgia's civil strife in the early 1990s not only delayed the startup of economic restructuring, but also seriously hampered creation of a post-Soviet political system. At the time of independence, the Government of Georgia was ill-equipped to govern. In 1995, four years after independence, Georgia's Constitution was promulgated. Presidential and Parliamentary elections were held in late 1995, and first-ever local elections in 1998. Only in the past two to three years has a stable political system been in place, with the capacity to establish and legitimize itself throughout society. This process is far from complete.

Typically, people feel removed, if not alienated, from government. They have seen few positive results from the Western model adopted by Georgia at independence. For the majority, material life may appear worse than it was in Soviet times. There are indications that the tide is just beginning to turn for the better, but cynicism is still a prevailing attitude.

Because of the newness of a democratically-based political system, of necessity, the early emphasis on development has been skewed toward assisting Georgia to create a body of law and commensurate economic and social policies and structures that provide the road map for nation-building. To a large extent, the entire donor community in Georgia has had a similar focus. The consolidation of democratic order and initiation of market-based reforms has made Georgia one of the most progressive nations in transition among the former Soviet states. The country is moving toward increasing international ties, having been granted membership in the Council of Europe in March 1999, and is expecting accession to the World Trade Organization (WTO) later

in 1999. Impressive as the reforms have been to date, they still have not created conditions for sustained growth, nor reached large portions of the population.

As a country of 5.4 million people in a geopolitically strategic location, Georgia has received extraordinary aid levels, measured on a per capita basis. This strong donor backing has sharply reduced inflation, generally stabilized the currency, brought a degree of fiscal discipline, decontrolled most prices, liberalized the trade regime, made strides in privatization of state enterprises, progressively strengthened the banking system, and brought positive economic growth to the economy.

The source of this growth is increased trade and small enterprise expansion, especially in the services sector. A significant amount of trade and business transactions are in the informal sector. Industrial capacity utilization has shrunk to around 30 percent, and industry's share of the GDP has declined from 30 percent to 10 percent over the past decade. The structural change away from industry towards services and informal activities has been pronounced. Such unbalanced growth is not conducive to macroeconomic stability.

Meanwhile, agriculture continues to be the backbone of the economy. It represents one-third of the GDP, half of the labor force and 80 percent of the self-employed. About 80 percent of agricultural output is produced by the private sector. There are virtually no direct price interventions in agricultural markets, which has facilitated a dynamic domestic informal private market for agricultural products. Bread and milk prices are not fully liberalized and a producer subsidy remains on water. Once a major agricultural food exporter, production and processing have severely declined to the point that Georgia is now a net importer of food. Using its comparative advantage, Georgia has the potential to become a significant agricultural exporter again.

Georgia has given highest priority to energy sector restructuring, and USAID along with the World Bank are the lead partners in this process. Georgia's trade deficit is enormous, representing three times the value of its exports, which arises primarily from energy-related imports. The first phase of privatization of electric power distribution has been completed, with the remaining two parts scheduled for completion in 1999. Hydropower plants are next to be privatized. Energy laws are passed and a regulatory body formed. Electricity tariffs are moving toward full cost recovery, and collection ratios have increased and financial discipline is being imposed.

Democratic transition is underway with significant success in creation of an independent judiciary, essential civil codes and nascent institutions. A newly instituted system of examination is upgrading the quality and competency of judges. Political parties have freedom to operate, and there is an independent media. Parliament is accessible by the public, and administers itself with transparency and openness. However, judicial reform and other democratic changes have been slow to reach local government and rural Georgia.

The social systems have suffered greatly in the transition process. The most vulnerable groups -- women, children and the elderly -- have been most affected by the deterioration in health and

welfare. In the long-term, progress will depend upon sustained economic growth that will improve living standards and permit recovery of consumption. As called for in the restructuring process, the government is shifting more resources to health and education. In 1997, 23 percent of government expenditures were allocated to social transfers, with an increase slated for 1998. The budget crisis of 1998, however, led to a general reduction in spending by Government, including the social sectors. Pensions were raised, but remain far below appropriate levels, and plans are being made to introduce private pension plans.

Against this backdrop, a number of constraints which impede the reform and restructuring of Georgia's economy and society need to be effectively surmounted for sustainable development to occur. Key among them are:

- The government remains fragile and is, in large part, imposing its domain at the national level while having minimal impact on local conditions.
- Structural adjustment and reform, so far, have offered little perceived benefit to ordinary citizens.
- There is a prevailing view that the Government and its inside circle are prospering at the expense of the majority.
- A contrast exists between the active, reform-minded Parliament, which is creating the framework for genuine transition, and the mixed political will of the Executive to effectively implement reform decisions.
- Endemic corruption undermines values and distorts the ability to have an effective market economy and participative democracy.
- Ethnic conflicts, which limit the ability to establish true nationhood, continue to resist settlement.
- High unemployment, low purchasing power and lack of opportunities characterize the conditions of a large portion of Georgia's citizens.

This Strategy seeks to contribute to rectification of these constraints, directly and indirectly. Significant gains have been made in creating national-level legal and institutional structures for democracy and a market economy. However, the majority of the population has yet to see the benefits from these changes. In this strategic planning period, USAID will focus on redressing this concentration of benefits by addressing the delivery of services to people in order to foster their increased participation as partners in the development process.

5. Program Direction

At the outset of the USAID assistance program to Georgia in FY92, the bulk of support was directed at humanitarian assistance, primarily for internally displaced people (IDPs) generated

from civil conflicts in South Ossetia and Abkhazia. Along with independence in 1991, Georgia experienced a major trade shock on energy imports and serious disruption of traditional payments and trade links. Together, these conditions resulted in a precipitous economic decline, seriously affecting living standards. However, due to the conflicts and priority given to the associated humanitarian crisis, donor support for creating a democratic society and economic restructuring got a late start in Georgia, as well as elsewhere in the Caucasus.

The Government and donor response was to embark upon a structural adjustment program in 1994, under the aegis of the International Monetary Fund (IMF) and the World Bank. By 1996, USAID had initiated a development-oriented program that emphasized democracy, rule-of-law, energy sector support, and macro-level economic restructuring. This program became operational in 1997 and 1998, with positive results just emerging over the past year.

USAID has been a key player in creating a vastly improved economic environment through support to monetary and fiscal reform measures. Among other initiatives, USAID support includes new reform legislation, creating regulatory bodies, tax reform, budget management, land tenure reform, privatization assistance and introduction of international accounting standards. This macro-level assistance is beginning to yield excellent results, but requires more time to set its roots. Energy sector policy and development of regulatory mechanisms, as well as privatization of the sector, are showing positive change.

Similarly, rule-of-law activities such as judicial education and training for an independent judiciary, strengthening the legal profession and promoting a framework for legislative and judicial transparency are exhibiting nascent successes. Importantly, these achievements are critical components that reinforce the advances on the economic restructuring side, through assured enforcement of private contracts and more accountable performance by governmental oversight institutions.

Similar to economic assistance, the democracy program has progressed well to include creating appropriate new legislation, organizing lawyers and judges, introducing quality and professionalism in the judiciary, strengthening legal institutions, and improving parliamentary procedures. At the local level, NGOs are more actively monitoring and engaging in rule-of-law activities, and political parties are becoming inculcated with democratic principles.

This country Strategy is designed to shift the primary program emphasis from establishing an enabling environment for a market economy through macro-level legal and institutional reform to increased attention on impact at the local and individual level. Clearly, the job of economic restructuring is far from complete, and USAID intends to stay the course toward reaching its established goals. As restructuring has taken hold, the austerity and bite at the household level has increased the size of the vulnerable population. Government services and increased income have not reached the majority of Georgians. Pensions and salary arrears of public sector workers are large problems that remain unmitigated. As energy is privatized and metered, its costs will rise to the consumer. Social services and real wages collapsed in the early 1990s, and have yet to recover. The combination of civil conflicts and transition to a market economy have brought hardship to large segments of the population, especially those outside the

Tbilisi environs. Per capita GDP gains in recent years have had minimal affect on the typical Georgian worker, and none on the large number of unemployed and underemployed. Crony capitalism and deep-rooted corruption have created an uneven pattern of growth that, so far, has not benefited the majority.

Of particular concern is the worsened situation for women. Social, political and economic upheaval devastates communities, and the most vulnerable people suffer the worst, especially women and children. For many women, such disruption leads to loss of employment, the burden of maintaining families in times of economic hardship. The number of families with women as the sole or major provider has increased sharply. Women's salaries are one-third less than men's. They are underrepresented and often disenfranchised. Women occupy only 3-5 percent of senior civil service positions.

As the focus of this Strategy increasingly supports civil society and small business development at the local level, there is expected to be a commensurate impact on improving the conditions of women. It has been demonstrated that one of the best means of empowerment and influence by women is through active engagement in civil society organizations (CSOs) and NGOs. Together with access to enterprise knowledge and support, and to a fairer judicial process, opportunities for greater participation in economic and political change should increase. To the extent feasible, this Strategy will disaggregate gender data in its results framework to monitor and ensure that gender concerns are addressed in each Strategic Objective. It will increase efforts through NGOs to directly reach and improve the lives of women.

USAID/Washington conducted a recent, thorough environmental assessment. The report recommends, and the Mission concurs, that a separate environmental Strategic Objective is unnecessary. Rather, USAID will include modest environmental activities integrated within other Strategic Objectives that have high environmental risk, are low-cost and rank high in National Environmental Action Plan (NEAP) priorities. A number of options were proffered, and selections will be made against these criteria. USAID believes the best options that fit neatly within the Strategy are in the energy sector, such as locally-managed conservation and public awareness activities.

While it is recognized that broad economic restructuring is a *sine qua non* for increased employment and income, Georgia is not in a position to await its trickle-down to the household level. Although economic reform has been actively supported by the USAID program only for 18 months, tremendous strides have been made in policy change, capacity-building and creating a body of new legislation. Getting the macro-environment "right" still leaves numerous distortions, and policy and institutional problems to be resolved at the sector and sub-sector level in terms of both democratic and economic development. Consequently, it is necessary to carry the program to the next logical step -- that is, an effort to enhance local development.

The Mission carefully reviewed its portfolio and sought external guidance from partners and stakeholders in order to find ways in which current activities can have greater local development impact, and to identify appropriate initiatives for the planning period that translate into an increased effort at the people level -- democratic, social and economic. The Strategy reflects this

next generation shift to a sub-national emphasis, while retaining its continuing, but targeted, priority in economic restructuring. Programs that touch people directly, quickly and tangibly will be given precedence. Humanitarian assistance will continue to serve the IDP population, albeit at a diminished level. There will be an increased emphasis on assisting vulnerable groups (including non-IDPs) in attaining greater self-sufficiency.

6. Strategic Priorities

A. Introduction

The USAID Mission in Georgia was officially established in July 1998. Prior to that, assistance to Georgia was managed through the Caucasus regional program headquartered in Yerevan. This is the first Georgia country Strategy to be reviewed by USAID/Washington. The above discussion of Program Direction is based on the current country development program that has evolved over the past two years in the absence of an approved Strategy. Changes in program emphasis are related to present conditions in Georgia, and the extent of program maturity and progress that permits it to extend onward for greater focus on reaching citizens.

Two overarching assumptions critical to the success of the strategy are that: (1) the political system will remain relatively stable, with reform-minded leadership; and (2) civil conflict will remain contained without spreading into new areas.

Georgia is scheduled to hold parliamentary elections in November 1999, and presidential elections in April 2000. It is imperative that these elections be free and fair. The present governing party has a somewhat weakened base of popular support, but continues to be strongly reform-oriented, despite the fact that the advantages derived from reform have reached the individual Georgian only minimally to date. This situation spurs the need for an intensified effort to roll out the reform benefits to the local and individual level with a degree of immediacy. An effective local development initiative can have a meaningful impact on maintenance of political stability.

The past year has seen a generally stable situation regarding outright conflict in Abkhazia, but negotiations still evade a permanent solution. Conditions in South Ossetia are quiet, but tense. Prospects for genuine peace in either of these areas are totally unpredictable. USAID assumes the conditions will not worsen to the point that the Georgian Government will be undermined in its quest for reform, and that physical access to the countryside will not further deteriorate.

In the event either of the above assumptions becomes invalid, USAID will need to reassess its strategy. Depending upon access to government, its political will for continued positive change, and security conditions, the country program would be downsized and redirected accordingly. In a worst-case scenario where USAID will no longer be able to work with the government, the program likely would shift toward a humanitarian response mode.

The USAID program envisaged in this strategy will play a pivotal role in Georgia's transition to a market economy and conversion to democracy. USAID is the lead bilateral donor in Georgia. It has provided intellectual and technical leadership to reformers at all levels. USAID is the largest donor of development and humanitarian assistance, and is looked to for advice in all sectors in which it is engaged. As the Mission has become staffed with a bilateral focus, there has been increasingly closer coordination between USAID, including its contractors, and the balance of the donor community. Appendix C details donor participation in respective development areas. Structural adjustment efforts and their related conditionalities are closely coordinated with USAID assistance to economic reform. The USAID program in a number of instances -- such as privatization, energy sector support, tax administration, bank supervision and introduction of international accounting standards -- provides technical assistance that directly complements the Georgian structural change program. Equally important to economic reform are judicial reform and establishment of the rule-of-law and democratic process throughout society. If the economic reform is to take hold, and if distrust and uncertainty are to be overcome, reform has to benefit the majority, and the majority must participate in the political, social and economic systems with voice and choice.

Common Strategic Themes

- Conflict Prevention
- Corruption Mitigation
- Gender Equity
- Citizen Participation
- Capacity Building
- Public Awareness
- Private Enterprise
- Legal Framework
- Local Development
- Institutional Strengthening

As the strategic shift of the country program moves toward more direct impact on the people, there will be renewed effort on local enterprise development. This focus will entail association building and strengthening, improved small and medium enterprise (SME) credit initiatives, and introduction of appropriate business practices. This effort will tie directly into democracy initiatives such as creating more responsive local government and governance, and strengthening local judicial systems. As stated earlier, the entire effort will involve broader participation, increased transparency and openness, and greater accountability.

Another aspect of the program that will change through this Strategic Plan is geographic focus. The Mission's approach is to build on the devolution of program emphasis outside Tbilisi by concentrating resources, as feasible, in potential areas of conflict spillover. This focus has the further advantage of aiming for near-term impact through resource concentration, while recognizing overall resource limitations. The areas tentatively identified, subject to further needs assessment, are Kutaisi and Zugdidi. Although these priority areas will get special attention, some elements of the country program will have nationwide impact, such as privatization of the electricity distribution system and judicial capacity-building.

An especially noteworthy aspect of the Strategy is its common themes across Strategic Objectives and the interrelated impacts and synergies among SOs in economic reform, democratic transition and humanitarian assistance. An illustrative list of common themes is shown in the box on the previous page. Refer to Appendix B for a matrix describing key linkages across Strategic Objectives. The Performance Monitoring Plan is presented in the Performance Data Tables in Appendix A.

B. Economic Reform

The most recent (third) Policy Framework Paper (PFP) of the World Bank, issued in July 1998, sets forth a medium-term strategy aimed at consolidating gains in macroeconomic stabilization, accelerating structural reforms, sustaining the country's growth path, and strengthening the social safety net. USAID has been an essential partner with the Bank and Fund in working with Georgia to achieve its bold stabilization program and structural reforms. The two primary areas of USAID support are in fiscal reform to improve tax administration and collection, and structural reform to reduce the role of the state in the economy.

Regarding fiscal reform, much headway has been made in streamlining the tax system with a new Tax Code (1997), training and administrative improvements. The collection rates still are low, but significant change is beginning to occur and should be reflected in 1999 revenues, well in excess of those collected in 1998.

Regarding structural reform, USAID is supporting a host of critical initiatives that weigh heavily in the basic reform process including land registration, privatization of public enterprises, energy sector restructuring, banking sector reform, creating capital markets, establishing international accounting standards, legal reform and sound public expenditure management. Each of these areas currently receives technical support that is closely coordinated with other donors. By the end of this strategy period, it is expected that the Government will not need to rely on significant donor assistance in these areas, but if so, other donors will pick up residual support needed for further reform measures. USAID will have successfully attained its objectives associated with fiscal and structural reform, with the exception of modest training and very limited technical support.

During this plan period, USAID objectives in economic restructuring will show a decrease in support to national reforms, with the exception of the energy sector, but give renewed and primary emphasis to the small and medium enterprise (SME) sector, including agriculture and agribusiness. This concentration on enterprise development will be directed toward selected geographic areas, with the view of consolidating the reforms achieved to date and bringing their benefits to Georgia's citizens. The focus reinforces the overall Strategic Objective (SO 1) to deliver development to the local level, and it links closely with other elements of the Strategy.

C. Democratic Transition

There are six components to the democracy assistance program: (1) rule-of-law, (2) Parliament strengthening, (3) political party development, (4) independent media, (5) civil society development, and (6) electoral support. The democracy program is implemented, in large part, by NGOs.

Over the first two years of the strategy period, it is planned that electoral and media assistance will be phased down, while support to political parties and institutions will continue into 2002 and beyond. Also, limited support to training parliamentarians will continue. The major thrust of the

democracy program will be in strengthening rule-of-law and in civil society development at the local level. It will work to empower communities, build partnerships between citizens and local government, and create more responsive local government institutions. These priorities will center on the Mission's strategic program extension to bring democratic and economic change directly to the citizenry. Democracy and economic enterprise development programs will converge at the community level with synergistic relationships.

D. Humanitarian Assistance

USAID anticipates continued humanitarian support to the 250,000 IDPs, primarily from Abkhazia and South Ossetia. In principle, the level of U. S. humanitarian assistance to IDPs is planned to decrease. At the same time, local development activities targeting vulnerable populations, including non-IDPs, will intensify, with greater support planned for small-scale development initiatives aimed at decreasing dependency. The primary objective of this portion of the Strategy is to assist vulnerable groups in making a transition from relief assistance to greater self-sufficiency. Not only is this tactic aimed at improving the livelihoods of the most vulnerable, it is an essential part of the conflict prevention aspect of the Strategy. Conflict prevention is one of the criteria to be used in selecting geographic locations and communities for assistance under this objective. Regarding the Abkhazia conflict, if there is a political settlement and the IDPs return home, humanitarian aid may be initially required, but it is intended to be reduced as local development support goes up in Abkhazia, a region receiving almost no support at present. The amount and time period for humanitarian assistance cannot be projected because of unpredictable external factors. It will be assessed annually, or more frequently, as required.

7. Customer and Partner Participation

The planning and preparation of the Georgia Strategy has depended heavily on the input of USAID partners. These partners will be regularly involved throughout the life of the Strategy.

Customer participation has been sought informally in the months leading up to actual preparation of the strategy. Their input has helped shape the concept and direction of the Strategy, and has been especially important in assessing the likelihood of achieving results. In addition, there has been a consistent exchange of views with USAID/Washington through numerous TDYs and other communications.

USAID has maintained close liaison with the Embassy throughout the process of conceptualizing and preparing the Strategy. It mirrors the U. S. foreign policy interests and basic objectives of the MPP. The program direction establishes the approaches necessary to attain the Strategy's Strategic Objectives, within the resource limitations.

Regular consultations have been held with senior Georgian partners in determining the focus, value, relative importance, U. S. interest and capacity of the USAID program. Government plans and priorities elicited in the budget process, the PFP and strategic documents of other donors

were reviewed. Programs and plans of the IMF, World Bank, EU and bilateral donors have been taken into account in the Results Framework set forth in Part II below.

USAID consulted and had numerous exchanges with NGOs, grantees and contractors in the strategic planning process. Biweekly meetings among all partners involved in economic reform not only provide knowledge of program status, but more importantly, identify lessons on what works and where constraints exist, which has greatly assisted the planning process. Although Georgian customers generally were less directly involved in discussions due to time constraints, every effort was made to incorporate their views and concerns in the strategic planning process through NGOs, contractors and staff who interface directly with them on a daily basis. In developing the Results Framework, there was strong participation of partners.

The USAID Georgia program is expected to continue to be affected by a number of stakeholders such as Congress, the State Department, U. S.-based Georgian interest groups and segments of the U. S. business community. About 40 percent of Freedom Support Act (FSA) funds allocated to Georgia are being transferred to other USG agencies for a variety of programs outside of USAID management. Most of these activities directly impact on achievement of the economic reform and democratic participation Strategic Objectives set forth in this plan. Implementors of the programs are regularly engaged in coordination and will be members of the Strategic Objective Teams in the plan period.

A Customer Service Plan will be prepared prior to inauguration of this strategy in FY00. It will include increased participation of Georgian customers and their representatives in implementation, monitoring and evaluation (as feasible) of the program and its objectives. Partners will be required to bring the customers more extensively into this process, and will include mechanisms to do so in their workplans. Each Strategic Objective will strive to better inform the customers -- Georgian citizens -- on the nature and purpose of activities, and solicit feedback on issues, progress and suggestions for improvements. As USAID becomes fully staffed, site visits will become more routine to assist with increased direct interchange between USAID and its customers. The Customer Service Plan will incorporate these and other actions into improved linkages with the ultimate beneficiaries of the Strategy -- the Georgian public.

Strategic Framework



PART II: STRATEGIC PLAN

STRATEGIC OBJECTIVE 1.3:

ACCELERATED DEVELOPMENT AND GROWTH OF PRIVATE ENTERPRISE

1. Statement of Strategic Objective

In recent years, with strong support from international donors, Georgia has been implementing a stabilization and structural reform program that has made significant progress in solving some of the nation's most pressing economic problems. It has cut inflation, improved fiscal discipline, liberalized prices, and established and stabilized a new currency. As a result, economic growth was relatively strong (over 10 percent) in 1996 and 1997. However, economic performance in 1998 was disappointing. Unemployment remains high (estimates range from 7 percent to 25 percent) and most Georgians have yet to experience the benefits of economic growth.

Business development in Georgia is essential to create jobs, generate income, expand services, increase tax revenues, and produce other economic benefits. Recent reforms are helping to establish an enabling environment for such growth, but have yet to overcome the many constraints to accelerated business development, including the historical lack of experience working in a private sector-driven environment. Furthermore, if the benefits of economic growth are to be felt outside of Tbilisi, agriculture must increase its contribution to the national economy. To address this situation, SO 1.3 intends to pursue enterprise-level interventions in selected geographic regions of the country, while continuing its support for reforms and restructuring at the central level. The objective is to achieve accelerated development and growth of private enterprise.

2. Problem Analysis

Two sectors with the potential to contribute to an accelerated growth of private enterprises are the small and medium enterprise (SME) sector and agriculture. The SME sector is growing (34 percent increase in output during 1997), but still accounts for only 14 percent of the GDP.

The Government of Georgia (GOG) defines a small business as having up to ten employees, and annual sales of less than 40,000 lari (US\$18,200). Over 24,000 such small enterprises are registered with the government. By contrast, only 61 private companies have more than 500 employees. In addition to the registered small businesses, there is an active informal sector of self-employed quasi-entrepreneurs scrambling to survive the disintegration of public sector enterprises and the remnants of a command economy. While the public sector economy remains largely stagnant, much of the economic activity in recent years has come from small and micro enterprises in the informal services sector.

Agriculture accounts for one-third of Georgia's GDP and provides for about fifty percent of employment. Georgia's temperate and semi-tropical climates, and strategic location should in the future, as they did in the past, provide opportunities for export of selected agricultural products,

including value-added processed goods. Despite agriculture's large share of GDP and employment, its strong endowments and historical significance, the agricultural sector has yet to contribute its potential to Georgia's post-independence economic growth.

While efforts continue to ensure implementation of economic reforms at the central level, many impediments to establishing and operating successful small businesses need to be confronted directly at the enterprise level. Entrepreneurs in Georgia are constrained by a lack of business skills, inhibiting their ability to grow. The lack of business skills is compounded by the lack of business service providers offering training, inadequate access to credit, and a policy/regulatory environment that impedes business development.

Access to finance, and the knowledge and experience in using it effectively, are other major constraints to business development. This problem is compounded by the fact that most Georgian enterprises are too small to attract or capture the attention of private investors and institutions with capital to lend. Georgian banks have yet to build the capacity to service the long-term credit needs of nascent enterprises. Lending periods usually do not exceed six months, with annual interest rates between 37 and 60 percent. As the banking sector has restructured, the number of banks has declined from a high of 247 in 1995 to only 46 today. It is anticipated that after the capital reserve requirements are raised again this year, a shake-out of 20 to 30 additional banks will occur, due to failure to qualify or by merging with the other financial institutions.

In other ENI countries, women are a key element in expanding the SME sector², but Georgia continues to place pre-Soviet restrictions on the economic activities of women. In order to achieve the necessary expansion of the sector in Georgia, these gender-based impediments need to be addressed.

In the agricultural sector, incomplete land privatization, the lack of title registration and a scarcity of agricultural credit severely limit the potential for accelerated growth. Even with the realization of the benefits of increased credit availability, land privatization and titling, Georgian farmers will need to learn how to operate their farms as businesses in a competitive economy. Access to business advisory services will enable acquisition of such knowledge.

The perception of many Georgians is that the substantial economic restructuring that has taken place has had little practical benefit for the great majority of people. This perception has led many to question the value of reforms, and has strengthened the hand of those forces opposed to market reform. Furthermore, what benefits that are seen to flow generally are believed to be limited to the capital city of Tbilisi, and concentrated in the hands of the *nomenklatura* and others whose success has not been based in competing on a level playing field. To address these and other similar concerns, USAID intends to pursue enterprise-level interventions in selected geographic regions outside of Tbilisi while continuing its support of reforms, rule-of-law and restructuring at the central level.

²For example, in Hungary, women have started 40 percent of all new businesses created since 1990. In Poland, 38 percent of all registered SMEs are women-owned. In Russia, 38 percent of 1998 EBRD small business fund loans went to women.

3. Results Framework

A. Causal Linkages

There is agreement that recent economic progress in Georgia has in large part been driven by private sector initiative. The SME sector has been the centerpiece of this achievement. There is also agreement that the prospects for continued growth in the SME sector are highly promising. Recognizing the importance and potential of SMEs in Georgia, particularly in terms of job creation and income generation, USAID will focus much of its attention under SO 1.3 on how to improve the performance of the Georgian economy through SME development.

When preparing a results framework for accelerated development and growth of private enterprises, a challenge for USAID was to select a number of necessary and sufficient conditions that will set in motion or accelerate changes needed to promote a sustainable SME sector. To identify those conditions, a range of factors was assessed for their potential contribution to SME growth in the Georgian context. Based on this assessment, four major intermediate results were selected: increased access to credit by SMEs and micro-entrepreneurs; reduced transaction costs for enterprises; functioning land and real estate markets to support SME growth; and identification and facilitation of selected agribusiness opportunities. The rationales for emphasizing each of these priorities are briefly discussed below.

IR 1.3.1: Increased Access to Credit by Domestic SMEs and Micro-entrepreneurs

There is consensus that SMEs in Georgia need credit both for short-term working capital and longer-term investment. The traditional banking structure continues to be ill-equipped to service SME credit needs. Thus, while continued assistance to modernize the banking sector will be important, alternative approaches to extending credit to SMEs need to be identified and promoted. This IR will make available a vital component required for private enterprise growth.

IR 1.3.2: Reduced Transactions Costs for Enterprises

High transactions costs for private businesses in Georgia have been a major constraint to accelerated economic growth. These transactions costs result from the registration in process and include: interaction with twenty agencies; notarization of numerous documents; and application to the local courts. Additional transactions costs arise out of an arbitrary and corrupt taxation system and a failure by the judicial system to provide speedy and honest dispute resolution. Since transactions costs are in large part determined by the policy, legal, and operating environment for private businesses, improving the legal and policy framework must be an integral part of any effort to reduce transactions costs. Even though Georgia has made significant progress in the establishment of a supportive legal and regulatory environment for private sector development, much remains to be done. An important result under this IR will be to strengthen this effort, including assistance in administering existing and future laws and regulations more effectively.

IR 1.3.3: Functioning Land and Real Estate Market to Support SME Growth

Private ownership of agricultural and enterprise land is critical in facilitating investment, allocating resources more efficiently, and seizing financing opportunities through the use of land as collateral and through real estate mortgages. In addition to continuing land titling and registration in both the industrial and agricultural sectors, the Mission plans to work with the nascent real estate brokers sector to develop Self-Regulating Organizations (SROs) in residential, industrial and agricultural real estate. These SROs will be voluntary and independent of government influence. This IR will add significantly to efficiency and productivity in SME operations.

IR 1.3.4: Selected Agribusiness Opportunities Identified and Facilitated

Although this IR supports activities in all sectors, including the manufacturing and service sectors, USAID believes that capitalizing on agribusiness opportunities in Georgia will pay higher dividends, given Georgia's traditionally strong agricultural sector, and assessment reports consistently indicating strong growth potential in this sector. Part of USAID assistance will be devoted to building agribusiness partnerships. It is expected that such an effort will not only strengthen U.S. and local interests, but it will also contribute to the long-term vitality of Georgia's private-sector and national economy.

B. Critical Assumptions

The following critical assumptions are made in assessing this SO:

- Basic security and political stability will be maintained.
- Development partners -- particularly the World Bank, IFC, EBRD, UNDP, the British Know-How Fund and World Vision -- will continue to support Georgia's increasing SME credit and training needs.
- SMEs are expected to be the fastest and least capital-intensive path to new jobs, but with the exception of agriculture, they are most likely to be in the service or non-tradables sector, which earns or saves only limited foreign exchange. While this bias potentially leads to unbalanced growth and chronic shortage of foreign exchange, it is assumed that growth in tradable agricultural commodities and the recovery of some large industrial units will provide the necessary foreign exchange to fuel growth in SME employment.
- SMEs, including agriculture, will pay their fair share of taxes.

The risk in each of these assumptions relative to achieving SO 1.3 has been taken into account in preparation of the results framework.

4. Progress to Date

A. Overall Progress

In the brief period of 18 months, during which USAID's market reform program has been operating, much progress has been made in Georgia in terms of the enactment of economic reform legislation in the areas of tax and fiscal policy, accounting, enterprise land privatization and registration, and securities and entrepreneurship law.

Although most of the broad policy and legal framework is now in place, much remains to be done regarding the development of the capacity and will of the Georgian administrative and judicial institutions to implement the new laws. Toward this end, USAID and its partners have initiated a range of training and demonstration activities including: training in international accounting standards; a major initiative to train the Tax Inspectorate; establishment and training for the Banking and Finance Academy of Georgia; the implementation of small, medium, and microenterprise credit activities; and demonstration projects for agricultural credit and other inputs.

USAID's comprehensive market reform program is about halfway through its currently projected period of implementation. The rapid progress made so far on an assortment of economic restructuring initiatives has contributed to the creation of a market-oriented economy. It is, however, a fragile foundation, built of laws still only partially implemented, and with enforcement limited by the embryonic capabilities of the appointed enforcement institutions.

B. Economic Policy and Fiscal Reforms

Progress Toward World Trade Organization Accession - USAID has been working with the GOG to bring various aspects of its tax code and other laws in line with WTO requirements. Despite a few problem areas, Georgia remains on the "fast track" for accession to WTO by the end of 1999.

Tax and Fiscal Reform - Georgia has one of the lowest tax compliance rates in the world, resulting in one of the world's lowest rates of tax revenue in relation to GDP. Consequently, the government has faced serious and chronic budget deficits, while the ease of tax evasion has encouraged corruption and cynicism regarding the rule of law and the official commitment to enforcement. USAID and its partners, including the U. S. Treasury Department, have mobilized tax and budget specialists to facilitate implementation of the country's revenue mobilization effort.

C. Privatization

Urban Land Privatization - Parliament has passed a land law declaring that all land associated with private enterprises automatically is owned by those enterprises. The government also has approved implementing regulations that authorize the registration of ownership of such land. Titles for urban enterprise land have been issued and a market for urban enterprise land has begun operating.

Agricultural Land Privatization - Beginning in 1993, residents of former state farms were allocated agricultural lands, in addition to their house plots. To date, titles have not been issued or registered in a way that allows these small-holder lands to be legally sold, leased or used as

collateral. USAID has demonstrated that it is possible to survey, title and register small-holder plots at a cost of about one dollar per parcel. Once an Executive decision is made, about 400,000 parcels can be titled and registered in eight months.

Privatization of Strategic Enterprises - USAID has worked closely with the working groups for several strategic privatization initiatives, assisting in the development of fair and transparent tender procedures and other conditions necessary to attract potential international investors. Of the three strategic enterprises targeted (Poti Port, state-owned telecommunications assets, and Telasi Electric Distribution Company), only Telasi has been successfully privatized. It was purchased in December 1998 by the American firm, AES. Privatization of Telasi, a company that supplies electricity to the capital of Tbilisi and its environs, has demonstrated that the government intends to seriously pursue its strategic privatization program.

D. Banking and Accounting

Accounting Reform - Momentum has been initiated regarding the consolidation of various professional associations of auditors, bookkeepers and accountants into a Self Regulation Organization (SRO) with increased professional standards of membership and service. International Accounting Standards (IAS) have been adopted. Intensive training has taken place to convert a broad spectrum of Georgian enterprises to IAS from Soviet-era accounting methods.

Commercial Bankers' Training - USAID has provided training, retraining, and education to banking executives, management, and technical staff. With USAID support, the Banking Finance Academy of Georgia has been established and operationalized through a training-of-trainers program. The academy provides a broad range of banking courses, including credit, accounting, and operations. A computer-based training program (Bank-Sim) has been licensed for use in Georgia. This simulation program adheres to best practices as determined by the American Banking Association.

Banking Supervision and Secure Electronic Payment Systems - Progress has been made in helping move the Georgian banking system into the electronic age so that it can respond effectively to the requirements of private-sector clients. USAID has assisted the National Bank of Georgia (central bank) to establish the information technology systems necessary to ensure its ability to interface with the commercial banking sector. Assistance from USAID's Information Resource Management Office (IRM) has provided the National Bank with computerized banking functions, data security, and participation in electronic transfer payments through systems such as SWIFT, a worldwide banking electronic payment system. Additionally, an integrated accounting system and electronic interbank payment system is being established to provide technical capacity for real-time settlements and payments within Georgia. A USAID banking sector assessment team carried out a banking sector review, and recommended the development of a banking supervision program to help restore public confidence in the banking system and improve its efficiency.

E. Support for Private Enterprise Development

Capital Markets - USAID supports the mobilization of financial resources for private enterprise by assisting in the development of a securities market. With USAID assistance, a new securities law was formulated, passed by Parliament and signed into law by the President. USAID's partner, the Barents Group, also has provided technical assistance for the professionalization of independent share registry management, and has carried out related extensive public education activities throughout Georgia. In addition, Barents conducted a successful tender to select a qualified entity to become the primary stock exchange in Georgia, and have developed a draft decree and enabling acts for establishing the securities commission.

Financial Services - USAID partners, Shorebank Advisory Services and FINCA International, have established models of successful lending to small, medium, and micro-enterprises. FINCA successfully has introduced micro-credit lending and has already established itself as the market leader in this area. During the fourth quarter of 1998, FINCA disbursed over \$450,000, lending at the rate of 1,000 new clients (75% women) per month with an average loan size of \$85. Arrearages stood at only 1 percent of the portfolio at the end of 1998. Shorebank, operating in Tbilisi and in the regions, is providing both capital and advisory services to Georgian commercial banks for onlending to small businesses, with loans in the range of \$1,000 to \$500,000. The success of these two credit programs provides a foundation for an expanded program to develop a broader capacity in Georgia for the provision of financial services to private enterprises.

Business Associations - Through its partner, ACDI/VOCA, USAID has established a successful program that is helping to transform agricultural cooperatives into modern associations providing business services and credit to members. Three associations are now providing agricultural credit and will soon provide assistance in securing agricultural inputs for their members. An important accomplishment is that loan repayment rates exceeded 98 percent even during a difficult agricultural season. Indicative of Georgia's agricultural potential, once appropriate services are in place, one group increased the amount of land under production by 35 percent and increased employment on their fields by 93 percent in comparison to previous years. Charging interest rates of 24 percent plus a 3 percent service fee for the association, these three associations are on track for financial sustainability.

Additionally, through the Eurasia Foundation, USAID has facilitated the development of business and professional associations by awarding grants to these nascent organizations. These organizations will provide services to their members as well as advocacy for issues important to their respective sectors.

5. Program Approaches

Beginning in FY 2000, USAID will move decisively to support those initiatives that can rapidly and directly demonstrate the practical, people-level benefits of a market-oriented economic system. By that time, most of the broad economic reform program will have been established. Although there certainly will be further work needed into the new century, especially regarding tax reform and privatization, it is imperative that the benefits of reform be experienced by a larger segment of the population. USAID's international donor partners -- especially the World Bank, EBRD, and the IMF -- are expected to keep up the pressure toward full implementation of

economic reforms. Although USAID will continue its current work in the areas of land privatization, banking supervision, financial services, and regulatory reform, it will focus such efforts under this SO to directly support the accelerated development of private enterprises.

Before the start of the new strategy, USAID will develop a broad SME program that is currently being defined. The approaches will build upon the experiences of the many NGO programs presently underway in Georgia, and will apply the lessons learned by USAID in other ENI countries. The program will include the general areas of credit and banking services, development of local capacity for business services and training, and creation of the enabling environment for business by working through associations and with local governments. Special attention will be focused on the participation of women entrepreneurs, expanded outreach to the regions, and opportunities in the agricultural sector.

IR 1.3.1: This component will include provision of loan funds as well as technical assistance to implement the program. An important element of the approach is that it will focus on providing credit to enterprises outside of Tbilisi -- especially, but not exclusively, in western Georgia.

IR 1.3.2: To reduce transactions costs for enterprises, USAID will focus its attention on three areas:

- Improving the laws and regulations governing the SME sector;
- Assisting the commercial banking sector to address enterprises' financial needs; and
- Helping businesspersons to form and manage business associations that are capable of provide services for their members and lobby for their sector's interests.

USAID plans to award a grant to a major non-profit organization working in SME support activities, that will take the lead in providing a range of technical assistance and training, as well as provide oversight to the credit portfolio. USAID and its partner will work closely with a number of newly established Georgian NGOs and international groups active in the field of small and medium enterprise support. The program will focus on three areas: (1) building capacity of indigenous organizations to overcome policy, legal and regulatory impediments that discourage private enterprise growth and development; (2) assist development of business associations and other local business support entities that can provide technical assistance, training, and technology transfer to SMEs on a sustainable and long-term basis; and (3) provide greater access to credit for microenterprises, which are the largest and fastest growing segment of the private enterprise economy, and the one least integrated into the formal financial sector. These complementary actions will result in a comprehensive SME program targeted on creating jobs and generating incomes for the average Georgian, both in Tbilisi and in the regions.

IR 1.3.3: Following on the achievements in privatizing and registering urban enterprise land, USAID will focus on implementing a program for agricultural land titling. USAID's partner, Booz Allen & Hamilton, will accelerate the issuance and registration of titles for small-holder plots, using a simplified survey and registration process that will be free to the farmer. This

activity is expected to proceed despite resistance to this approach by the State Department of Land Management, which favors a more elaborate and precise survey that would delay registration, greatly increase the cost to clients and slow rural enterprise growth. Land title registration will provide an incentive to farmers to use this asset more productively, including the possibility of using it as collateral for loans.

IR 1.3.4: Although the SME program will support activities in all sectors -- services, manufacturing, and processing -- USAID views agribusiness as the sector most likely to benefit from direct assistance to establish larger enterprises, including possible joint ventures, especially in areas outside of greater Tbilisi. USAID's approach will be to work directly with selected strategic agribusiness opportunities to facilitate the development of business plans, arrange for the required investment or credit, and negotiate the path through government approvals and licenses.

6. Development Partners

USAID will continue to coordinate its efforts with those of other multilateral and bilateral donor institutions. Overall, however, the World Bank, the IMF, and the EBRD have played a limited role in providing technical assistance at the enterprise level.

There are many Georgian organizations providing SME training and consulting support services, several of them offshoots of international organizations, including USAID-funded activities.

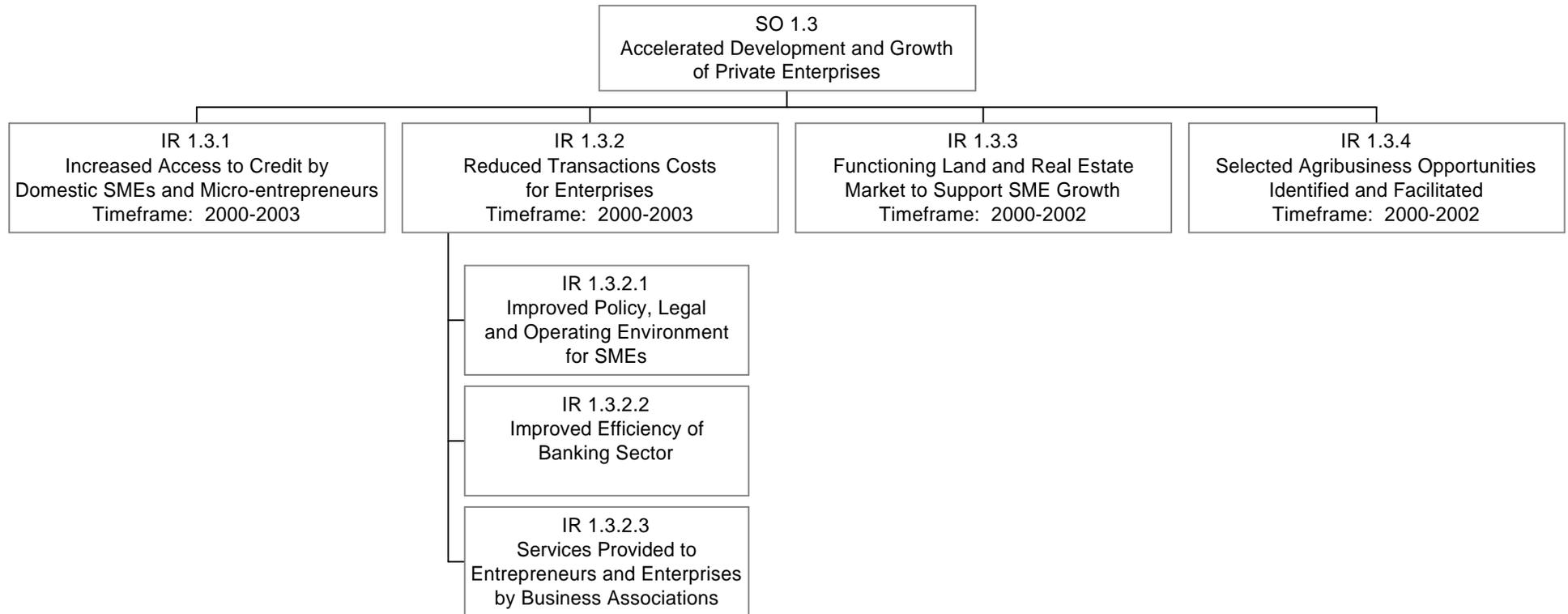
- The *Banking Finance Academy of Georgia*, created with USAID assistance, can be expected to continue to play a role in supporting increased efficiency of the banking sector.
- *Constanta*, an organization created by Save the Children, focuses on providing credit to women-run microenterprises.
- *Enki*, established by ACDI/VOCA, is a Georgian foundation that establishes rural credit unions, providing basic business training and credit.
- *The Georgian Federation of Professional Accountants and Auditors* is a newly created association (with assistance from USAID), which brings together the former Bookkeepers Club and Accounting Association. They conduct accounting seminars in 16 cities and towns for businesspersons and for Georgian NGOs.
- *Horizonti* conducts NGO management training programs, and has expressed interest in providing similar services to business associations.
- *Tbilisi State Institute of Economic Relations* and *Tbilisi Technical University* will join forces to develop an MBA Program, with support from Georgia State University and the Eurasia Foundation.
- *SMEDA*, established by EU/TACIS, is now a Georgian consulting organization that assists businesses to develop business plans.

Credit is scarce in Georgia, but a number of international organizations have stepped in to fill the gap, at least for the medium term. The World Bank has allocated US\$ 6.5 million to establish credit unions, with lending occurring exclusively through commercial banks. The World Bank also has made available US\$ 2.2 million for lending to agricultural industries. The International Finance Corporation (IFC) has established various lines of credit with local banks to finance loans to small and medium enterprises. The European Union's Regional Agricultural Reform Program uses counterpart funds from food aid to finance a loan program for farmers. And a number of NGOs provide credit to micro-entrepreneurs. The challenge facing the development of USAID's SME credit program will be to add its own unique value, maximizing the synergy among this large, yet still uncoordinated constellation of assistance providers.

7. Sustainability

Due to the many challenges facing the nascent SME sector in Georgia, sustainability is not expected to be achieved within the four-year timeframe of this Strategy. By the end of the Strategy period, a continued reliance on donor funds for SME credit will remain. Furthermore, a number of effective intermediate service organizations and Georgian NGOs still will be partially dependent on donor finance and assistance. However, it is anticipated that the expansion of business opportunities, especially outside of Tbilisi, will pave the way for future sustainable growth of institutions that support development and expansion in the SME sector.

Strategic Objective 1 Economic Restructuring



Partners

1.3.1: WB, IFC, NGOs, Parliament

1.3.2: EU/TACIS, Commercial Banks, Parliament

1.3.3: Min. of State Property, WB, Local Gov't.

1.3.4: Private Enterprises, Caucasus Fund, Comm'l Banks

***STRATEGIC OBJECTIVE 1.5:
A MORE ECONOMICALLY EFFICIENT AND ENVIRONMENTALLY SUSTAINABLE
ENERGY SECTOR***

1. Statement of Strategic Objective

While initial USAID energy assistance involved the provision of critical equipment and fuel supplies, future assistance will build upon more recent initiatives that have focused on economic and legal reform. It is expected that these efforts will lead to enhanced sector sustainability through: (a) increased private sector participation; (b) higher economic efficiency; and (c) greater attention to environmental considerations. USAID experience and continuing leadership has been instrumental in building up and increasing the efficiency of Georgia's energy sector. Along with further privatization of the supply side of energy and establishment of a market-oriented legal and regulatory system, USAID will begin to more directly address environmental aspects of the energy sector.

2. Problem Analysis

The Georgian energy sector has been weakened by: (a) the dissolution of the Former Soviet Union and its energy trading relationships; (b) civil disturbances that led to disruption of the energy and fuel supply network; and (c) historically low energy prices and low collection rates that have both promoted excessive energy use and resulted in low revenue collection. Revenues have been insufficient to cover maintenance and investment needs, as well as the cost of imported fuel.

The two energy sub-sectors with the greatest impact on the Georgian economy are the electric power and oil sub-sectors. While the electric power sub-sector provides vital services to private residences and industry, the oil sub-sector has geo-strategic importance due to the development of oil reserves in the Azerbaijan area of the Caspian Sea. Also, the natural gas sub-sector is key in the energy sector, especially for its use to generate electricity. Major features of the three sub-sectors, as they affect Georgia, are summarized below.

A. Electric Power

Since electricity is the major energy source both for lighting and for space and water heating, the constant disruptions and shortages of electricity adversely affect nearly all of Georgia's five million citizens. Without adequate and reliable supplies of electricity, households, businesses and government institutions endure economic loss and personal hardship. As a result, more expensive and environmentally harmful energy sources, such as kerosene, gasoline, and diesel fuel are used for power generation. In addition, predominant reliance on wood as an energy source in rural areas is leading to deforestation.

Although the country's installed capacity of 5,200 megawatts (MW) -- consisting of 2,800 MW of hydroelectric sources and 2,400 MW of gas or mazut (fuel oil)-fired thermal power sources --

is relatively large, Georgia's generation sources currently are producing at only 20 percent of installed capacity. This is due to the deterioration and cannibalization of thermal and hydro facilities as a result of poor maintenance and a lack of funds to upgrade the physical plants. The key Gardabani thermal power station has been plagued with mechanical and other problems over the past year. In December 1998, a recently refurbished 300 MW unit caught fire and was taken out of production temporarily. This major station currently is running at less than full capacity. However, start-up of a new 300 MW Unit will be commissioned in April 1999, which together with hydropower generation should bring 24 hour electricity to the entire Tbilisi area. Still, considering all sources of electricity -- domestic and imported -- there is insufficient supply to meet nationwide demand on a 24-hour basis.

The Georgian energy sector suffers from inefficient operation, inadequate planning, poor billing practices, low collection rates, and a rapidly deteriorating physical plant. The cost of upgrading these facilities to international standards is estimated at over \$1 billion.

The separation of the monolithic state electric enterprise (Sakenergo) into generation, transmission and distribution enterprises, as a step in the privatization of state property, has revealed the underlying inefficient cost structure of each segment. It also has created coordination problems and new inefficiencies resulting from rivalries among the new enterprises. The creation of 65 municipal electric distribution units produced enterprises that lack the benefit of economies of scale. Also, since electricity prices still are below long-run marginal cost and collection rates are very low, state enterprises do not have the necessary resources to upgrade or rehabilitate their infrastructure.

While rehabilitation of the physical plant, energy conservation measures, and collection improvement have lagged, progress in institutional, legal and regulatory reform has laid the groundwork for privatization. With passage of the Electricity Law in 1997, and establishment of the Georgian National Electric Regulatory Commission (GNERC), the legal and regulatory mechanisms are in place to facilitate privatization of the electricity sector.

Privatization of Telasi, the Tbilisi area municipal electric distribution enterprise, in December 1998 demonstrated that electricity sector enterprises can be attractive to international companies. To expedite the privatization process, the World Bank has made privatization of all electricity distribution and generation enterprises, except those in Abkhazia and Ajaria, a condition precedent to disbursement of a proposed \$25 million Energy Sector Adjustment Credit.

B. Natural Gas

Historically, natural gas has been the single most important energy source in Georgia, accounting for over 70 percent of the country's primary energy use in 1989. Gas was used for industrial, commercial and residential purposes. After the breakup of the Soviet Union, and beginning in 1992, the price of imported natural gas rose by 2,500 percent, with severe adverse effects on the Georgian economy. Domestic natural gas reserves are estimated at 98 billion cubic meters (bcm), with 0.3 bcm produced in 1998.

Due to mounting payment arrears of more than \$400 million, Turkmenistan stopped supplying gas to Georgia on credit. As a result, the gas transmission sector in Georgia has been underutilized and, in most areas, gas distribution to residential and small commercial customers has been totally discontinued. Since there is no effective metering or collection of bills from residential and small commercial customers, revenues are not sufficient to pay for gas imports from Russia and/or Turkmenistan or to rehabilitate the distribution system.

When funds are available, some natural gas still is imported, principally for power generation at the Gardabani thermal power plant and for major industrial facilities, such as the Rustavi metallurgical plant. However, annual natural gas consumption has dropped from a high of 6.2 bcm per year in 1989 to an estimated 0.8 bcm per year in 1998. The state-owned natural gas transportation enterprise, Saktransgasmretsvi, currently operates the transmission system. The newly created Georgian Gas International Company (GIC) has taken over pipeline ownership from Saktransgasmretsvi pursuant to a presidential decree. However, there is disagreement between these two entities over ownership transfer.

Similar to the power sector, the natural gas sector has been separated into transmission and distribution enterprises. This separation has exposed the sector's underlying inefficient cost structure. The gas distribution system was further segmented into seven large and several small municipal natural gas distribution enterprises, most of which are too small to operate efficiently.

Since the distribution and transmission system is in an advanced state of disrepair, investments of over \$250 million are needed for rehabilitation and upgrade. Present tariff rates for gas transmission and distribution services are too low to generate the revenues necessary to rehabilitate the system. Legislation is pending to regulate the gas industry according to cost-of-service principles.

Despite these constraints, distribution service now is being restored in some areas after seven of the largest distribution enterprises were privatized in 1998. However, privatization of these enterprises was not based on a transparent, well-advertised, international tender procedure, and the largest gas distribution enterprise covering the Tbilisi area recently had its privatization reversed for not meeting contract conditions.

C. Petroleum

Estimated proven oil reserves in Georgia are 12 million tons, and probable reserves are estimated at 580 million tons, comprising 383 million tons onshore and 197 million tons offshore. However, recent estimates by foreign companies indicate that reserves are likely to exceed these estimates. Current oil production amounts to about 130 thousand tons annually.

Questions related to all aspects of production-sharing agreements with foreign oil companies that were not fully consistent with the Georgian Constitution and other Georgian legislation have been resolved with the passage of the Georgian Law on Oil and Gas in April 1999. This law has provided legal clarity, together with the wide array of licensing and related requirements necessary to attract foreign investment. The law provides for the right of eminent domain to ensure that

petroleum production can be transported across private land with market compensation to owners, for access to existing pipelines for new crude oil and natural gas production, and for international arbitration of contract disputes. The new law also established a fully empowered single competent authority to negotiate contracts and sign agreements, issue licenses, and regulate the industry. Passage of this legislation validates existing production-sharing agreements.

Led by major western oil companies such as Chevron, Mobil, BP/Amoco, Shell and Exxon, the international oil industry has targeted the Caspian region as a potentially rich source of hydrocarbons. With ever-increasing production activity both onshore and offshore in the Caspian Sea, the surrounding countries, emerging from recent Soviet dominance, are being encouraged to harmonize their collective regulatory policies. Requirements include establishing new industry regulations and environmental protection of an ecosystem that remains under increasing pressure following a long history of neglect and abuse.

Georgia has an agreement with the Azerbaijan International Operating Company (AIOC), the international oil company consortium created to transport oil from the Caspian Sea area to world markets, to build a pipeline for transport of so-called “early oil” from Azerbaijan. The Georgian International Oil Company (GIOC) was created with the specific aim to serve as a counterpart to AIOC in early oil transportation. The early oil pipeline from Baku, Azerbaijan to Supsa, Georgia was completed and commissioned in April 1999. It is expected to carry about 200,000 tons per year.

AIOC is completing studies on the Main (oil) Export Pipeline (MEP) and is continuing to negotiate pipeline routes. The World Bank has provided financing for a feasibility study, including options for a line to Ceyhan, Turkey. The MEP route decision, originally expected in the fall of 1998, has been delayed due to record low crude-oil prices and high cost estimates for the U.S.-backed Baku-Ceyhan line. No final decision has been made yet on a pipeline route.

3. Results Framework

A. Causal Linkages

The Mission goal of creating a stable market economy depends, among other things, upon establishing an efficient energy sector, which includes reliable availability of market-priced oil, gas and electric power. Energy is one of the essential building blocks required for national development.

SO 1.5 has four Intermediate Results necessary to achieve the objective of economic efficiency and environmental sustainability in the sector. They are: (1) increased private sector participation; (2) a legal and regulatory climate conducive to private investment; (3) a sound set of environmental laws and regulations in place; and (4) increased efficiency.

IR 1.5.1: Increased Private Sector Participation in the Energy Sector

Only through privatization can the necessary investment funds be generated to bring about a full rehabilitation of the energy sector and create a viable, commercially sustainable industry. To

ensure that privatization of the Georgian energy sector is sustained, USAID will provide technical assistance to GOG ministries and regulatory bodies in evaluating bids and contract terms offered by international and domestic private investors. USAID will help ensure that an attractive investment climate is present in the petroleum and pipeline sectors for potential investors by assisting the government and state oil entities in preparing laws and regulations that facilitate transparency, are easy to understand and fairly administered.

IR 1.5.2: A Legal and Regulatory Environment More Conducive to Private Investment in the Energy Sector

Privatization and more efficient energy utilization will not occur without supporting legislation and regulations. It is, therefore, essential to continue to assist the GOG in drafting laws and regulations and to build the capacity of government ministries, Parliament, and regulatory bodies to achieve these results.

IR 1.5.3: Environmentally Sound Laws Adopted and Implemented in the Energy Sector

To improve air quality in Georgia, a phase-out of lead in gasoline will be required. This effort will improve the health of all citizens, especially children. Other environmental protection measures will be needed to protect the environment in proximity to oil and gas transit pipelines and the Georgian Black Sea coast if offshore oil and gas exploration and development are undertaken by international oil companies.

IR 1.5.4: Increased Efficiency in the Energy Sector

Increased efficiency in electricity generation and distribution, gas transmission and distribution, and in water and space heating will be major components of a sustainable energy sector in Georgia. To achieve this important result, technical assistance to GOG ministries, state-owned electricity and gas transmission enterprises, electricity and gas distribution enterprises, and the electricity and natural gas regulatory commission will be needed to facilitate conservation and industry rehabilitation. Energy efficiency also will be enhanced through regional cooperation among Georgia, Armenia and Azerbaijan to integrate their electricity transmission systems.

B. Critical Assumptions

Achievement of SO 1.5 is contingent upon the following assumptions:

- The GOG complies with World Bank Energy Sector Adjustment Credit conditions. These requirements consist of: (1) passing petroleum legislation that meets international investors' requirements; (2) amending the Electricity Law of 1997 to expand the regulatory authority of the Georgian National Electric Regulatory Commission to include gas supply, transmission and distribution; and (3) adopting wholesale electricity market rules that promote electricity generation competition.
- The GOG complies with World Bank Energy Sector Adjustment Credit conditions to privatize the electricity and gas distribution systems and the electricity generation facilities by the end of the year 2000. The GOG creates a fully functioning one-stop-shop entity with the authority to negotiate and sign contracts, issue licenses and regulate the industry based on international

petroleum industry standards and procedures. The GOG makes transit fees for the MEP and gas transit pipelines cost-based and consistent with international norms.

- The GOG adopts long-run marginal cost-based tariffs in the electricity and gas sectors, develops cost-effective energy conservation standards and programs, and authorizes the new Electricity and Gas Regulatory Commission to recover conservation program costs in customer rates.

4. Progress to Date

USAID's assistance has contributed to several important milestones in the restructuring of the Georgian energy sector. Significant legal and policy reforms have been implemented, a major part of the sector has been privatized, and a successful pilot program has provided a demonstration of the benefits and workability of privatization of energy distribution functions.

Reform of the Legal Framework - A modern electricity law was enacted in 1997, establishing the Georgian National Electricity Regulatory Commission. The Commission has developed regulations and rate methodologies that provide a stable and transparent regulatory climate, while raising rates to recover the costs of serving residential and industrial customers.

Privatization of the Telasi Electricity Distribution Enterprise - The newly established modern legal and regulatory framework was instrumental in making Georgia's electricity sector a good investment opportunity. An American investment-banking firm is under contract with the Government of Georgia to help privatize the electricity sector through a transparent international tender process. With assistance from a USAID technical partner, the Tbilisi area state-owned electricity distribution enterprise, Telasi, was successfully privatized.

Privatization of Telasi is a giant step in leading the electricity sector into the future. Although electricity supplies still are not available 24 hours per day, improvements in service continue to be made. International power purchases have added to supplies from domestic hydroelectric and thermal power plants. This privatization effort will bring a \$94 million infusion of capital needed to rehabilitate and upgrade the distribution system. Plans are underway to carry out the privatization of remaining state-owned distribution and generation enterprises through a transparent, international tender process based on the successful Telasi model.

Practical Demonstration Project - USAID funded a pilot electricity meter relocation, meter reading, billing and collection demonstration project in Rustavi, Georgia. The project demonstrated that appropriate management reforms, public education, modest equipment repairs and improvements, and political commitment to cut off non-paying customers can lead to bill collections of almost 100 percent in exchange for increased supply and reliability of electricity. Potential investors in Telasi visited this pilot project, and the data gathered by USAID factored heavily into bids they submitted. Privatization of the remaining distribution enterprises is scheduled for late 1999. These enterprises will be more difficult to privatize than Telasi because of their rural customer base.

Progress in Petroleum Sector - With USAID assistance, Georgian Law on Oil and Gas was enacted in April 1999. The law encompasses all of the key elements encouraged by USAID. This new legislation provides the legal basis to make Georgia attractive for future oil and gas investments.

The prospects for the petroleum sector have been improving steadily, indicating an improved environment for private investment. U.S. and British companies recently have reported that there is a significant potential for oil development in Georgia. They estimate reserves of two to three billion barrels.

Pipelines - Oil has started flowing through the Baku-Supsa Early Oil Pipeline at a rate of 115,000 barrels per day. However, the decision has yet to be made regarding the Main Export Pipeline route from Central Asia and the Caspian Sea to world markets. USAID and the World Bank will supply technical assistance to the Georgian International Oil Company (GIOC) to negotiate an equitable and internationally competitive pipeline transit agreement for the MEP.

Natural Gas Sector Still Faces Huge Constraints - In addition to poor physical plant condition, weaknesses in financial management and internationally acceptable accounting practices continue to plague the natural gas sector. Training in financial controls and training for enterprise accountants in International Accounting Standards (IAS) has begun so that acceptable audits can be performed to allow these enterprises to qualify for loans from international donors.

In summary, the energy sector now has the foundation of a modern legal and policy environment to justify receiving the level of private investment required to put the sector back on its feet again. The first major privatization has signaled that the task has begun in earnest. The Rustavi demonstration project of private electricity distribution provided a practical example of how meters and disciplined revenue collection work in a private system, and showed that consumers are willing to pay for electricity consumed in exchange for reliable service.

5. Program Approaches

Despite significant progress, much remains to be done to complete the legal framework, ensure that the new laws are fairly and fully enforced, assist with further privatization, and show the way toward energy conservation and environmentally sound practices.

IR 1.5.1: To ensure that the privatization of the energy sector in Georgia continues, USAID will provide technical assistance to GOG ministries and regulatory bodies to support the divestiture process. USAID also will assist investment-banking firms selected by the GOG to facilitate privatization. Investors will be assisted in determining asset values and bidding requirements. To improve the international investment climate for petroleum and transit pipeline privatization, USAID will provide technical assistance to ministries, parliament, the state oil company (Saknavtobi), Georgian International Oil Company, and the Georgian International Gas Company in order to draft appropriate laws and regulations.

IR 1.5.2: To ensure that the basic legislation and regulations are in place to fully privatize the electricity, natural gas, and petroleum sectors, and to provide incentives to conserve energy, USAID will continue to provide assistance to the GOG in drafting laws and regulations, and will provide training to build the capacity of Government ministerial, parliamentary, and regulatory bodies' management and staff to achieve these results. Regulatory agencies will receive support to build the capacity of management and staff through training, expert advice, and study tours, in order to build their capacity to function as professional, independent regulatory authorities in 2-5 years.

IR 1.5.3: USAID will assist the GOG with development of a leaded gasoline phase-out plan in cooperation with the Ministry of the Environment, the Ministry of Fuel and Energy and the oil companies.

To ensure that Caspian Basin oil flowing through the Caucasus transit pipelines and possible future offshore Black Sea exploration and development are conducted in an environmentally acceptable manner, USAID will work with the United States Energy Association (USEA) and the NGO, Horizonti, in support of the Caspian Environmental Partnership Program. The primary purpose of this program is to provide environmental regulatory assistance to local regulators via a partnership program with counterparts in the U.S. regulatory system. Through exposure to western experience and methodologies, local regulators will develop, implement, and administer effective and comprehensive environmental regulatory programs.

IR 1.5.4: USAID will provide technical assistance to GOG ministries, state-owned electricity and gas transmission enterprises, electricity and gas distribution enterprises, and the Electricity and Natural Gas Regulatory Commission to facilitate conservation and rehabilitation of electricity generation and distribution systems, and gas transmission and distribution systems. USAID also will encourage NGOs to develop information programs to promote end-user conservation in water and space heating. Technical assistance will concentrate on system evaluation and least-cost ways to achieve efficiency increases in the electricity and gas transmission systems, development of innovative rate structures to promote conservation of electricity and gas, and funding for information and conservation demonstration projects.

USAID also will explore the possibilities for reestablishing regional cooperation in electricity transmission systems. The first phase will be to carry out analyses to estimate the potential gains from reintegrating the regional systems. Depending on the results of this study, USAID may need to consider requesting a partial exception to the restrictions currently in place regarding assistance elsewhere in the Caucasus.

6. Development Partners

USAID staff is in nearly daily contact with various development partners, and has held detailed discussions with them in terms of priorities, their respective plans and assistance levels. Government agencies and bodies, NGOs, other donors and Georgian enterprises have been consulted on the development of this Strategy. This close cooperation in the energy sector has led to design of a results framework that reflects optimal synergy among partners.

At the government level, USAID will continue to work closely with the parliament, Ministry of Fuel and Energy, Ministry of Environment and Natural Resources, Ministry of State Property Management, Ministry of Justice, Oil and Natural Gas Regulation Agency, and State Department of Land Management. Two Georgian NGOs, Horizonti and the Georgia Greens, will be partners in promoting an environmentally sound energy sector, especially through the Caspian Environmental Partnership Program.

The energy sector is of very high priority in the programs of the international donors. USAID closely coordinates its efforts with those of major bilateral and multilateral donors such as the World Bank, the EBRD, EU/TACIS and UNDP. For example, USAID will assist the GOG in meeting the conditionalities of a proposed World Bank \$25 million Energy Sector Adjustment Credit. USAID will continue to work closely with the EBRD as it helps the GOG qualify for bank loans to upgrade the Enguri Hydroelectric Power Station, the main source of electricity in Georgia.

Private energy enterprises, including American companies, play an increasingly important role as investors and developers of Georgia's energy sector. Contact and liaison will be maintained with them, since their corporate decisions have an impact on achievement of SO 1.5 planned results.

7. Sustainability

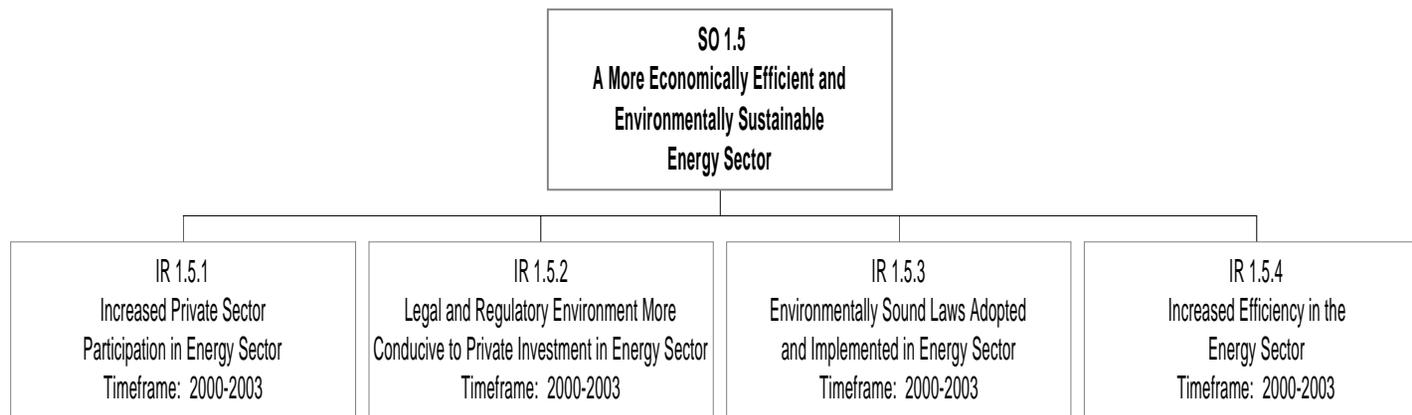
While it is not expected that Georgia will have a sustainable energy sector at the end of this strategic planning period, all elements of the results framework are designed to move this sector toward more economically sound and environmentally sustainable conditions. The legal and regulatory framework established for the energy industry provides the foundation for a system of private ownership that will attract private foreign and domestic investment that will help to develop sustainability in the energy sector over the long-term. The creation of a modern electricity and natural gas regulatory commission and the establishment of a one-stop-shop competent authority for the petroleum industry will create favorable conditions for attracting the international investment in the energy sector needed to help transform Georgia into a modern economy.

In addition, privatization of state-owned energy enterprises will allow an efficient commercial approach to providing energy to Georgia's citizens. The elimination of subsidized energy rates through the adoption of long-run marginal cost principles for distribution, transmission and generation will ensure that energy is used efficiently by consumers, and that rates are high enough to maintain and upgrade infrastructure.

Adoption of cost-based rates also will ensure that energy is used efficiently, thereby reducing greenhouse gas emissions and natural gas and electricity imports. Scarce foreign exchange used for energy imports instead will be used to build other sectors of the national economy. Adoption of stricter environmental liability laws, participation in the Caspian Environmental Partnership Program, the International Institute for Energy Conservation (IIEC) conservation program with

the Georgia Green Movement and the phase-out of lead in gasoline will significantly contribute toward making Georgia's environmental protection efforts sustainable.

Strategic Objective 1 Economic Restructuring



Partners

- 1.5.1: Parliament, Min. of Fuel & Energy
- 1.5.2: WB, Parliament, Regulatory Comm.
- 1.5.3: Min. of Env. & NR, Min. of Energy, NGOs, Enterprises
- 1.5.4: Min. of Energy, Enterprises, WB, Regulatory Comm.

***STRATEGIC OBJECTIVE 2.2:
LEGAL SYSTEMS THAT BETTER SUPPORT
IMPLEMENTATION OF DEMOCRATIC PROCESSES AND MARKET REFORM***

1. Statement of Strategic Objective

The frequently heard complaint that "Georgia is law rich and implementation poor" reflects the gap between legality and reality that Georgian citizens face every day. Building a civil society based on the rule of law (ROL) requires narrowing this gap. SO 2.2 "Legal Systems that Better Support Implementation of Democratic Processes and Market Reform" supports overall Mission objectives by empowering citizens through public awareness of their legal rights and by supporting legal access mechanisms to enable them to pursue these rights. Also, increasing the capacity of legal institutions for the effective, transparent, and fair implementation and enforcement of laws and regulations will lead to a more prosperous market-oriented democracy. Building a solid basis for ROL is a necessary component of economic growth. IR 2.2.3, in particular, is a critical component for the success of the Mission's overall goals, in that it provides a legal framework that serves as the foundation for all reform.

This Strategy entails both supply and demand components. The ROL approach to date has focused on the supply-side by working with government reformers. This approach will continue at a slower pace, to meet a still existing need and to maintain influence and consolidate investments made at the national level. However, demand-side activities that foster responsiveness to citizens will increase as private sector capacity grows. Such activities must be applied with careful balance, so as not to create unmet demands. To ensure the greater Georgian public directly benefits from reform laws, the Strategy also targets regions outside of Tbilisi.

2. Problem Analysis

On the positive side, much of the legal framework to establish democratic processes and market reform is in place. Laws supporting human rights, democratic institutions, a market economy, and Criminal and Civil Procedure Codes have been passed. The 1995 Constitution guarantees democracy, separation of powers, and an independent judiciary. The Council of Justice (COJ), created in 1997 with representatives from the Executive, Legislative, and Judicial branches, guides the judicial reform process. The judiciary's role in the COJ should increase as the judiciary becomes increasingly competent, honest, and independent.

The current Parliament represents a force for positive change and is relatively transparent and accessible. However, the Parliament needs to assume a stronger role in conducting oversight of the Executive branch and ensuring the implementation of laws. In light of the upcoming parliamentary elections this area will require strengthening. The Executive branch has proven less transparent and effective than the Parliament. The Judiciary is in a state of flux. The USAID-initiated judicial qualification examinations help ensure that competent judges are appointed to the bench based on merit, but this process will take time and sustained political will to reach its ultimate objective. Nevertheless, judicial reform is already widely recognized as among the most

successful of the reform efforts.

The legal education system is in disarray. A plethora of unregulated law schools exist. Tbilisi State University, the main law school in the country, is noted for its corruption. Indeed, one of the most serious problems facing legal reform is the pervasive and systemic corruption in government. Human rights abuses represent another serious problem. While the GOG has made some improvements, police and security forces continue to torture, beat, and abuse prisoners and detainees, force confessions, and routinely fabricate or plant evidence.

Full and equitable access to justice does not exist. The judicial system fails to provide either a forum in which to seek and receive justice or a framework to resolve business and personal disputes. There are several reasons why people do not use the courts. Most citizens see the legal system as inequitable and favoring those with greater income, higher education, and personal connections. In particular, they distrust the legal system, are unfamiliar with laws and the legal system, cannot afford or access counsel, and are faced with high costs in filing claims.

The challenge now lies in building citizen confidence in the legal system through the implementation and enforcement of laws and regulations. Meeting this challenge will help change the mind-set from the rules of the game to the rule-of-law.

3. Results Framework

A. Causal Linkages

USAID's new ROL Strategic Objective addresses the need to continue strengthening key public and private sector institutions, such as the Judiciary, the Council of Justice, and the legal profession, and will initiate a new generation of legal reform measures that will reach beyond Tbilisi to targeted outlying regions. Over the course of the strategic planning period, this SO will focus on building the customer-demand-side of the ROL scale, producing a stronger balance between supply and demand that will ultimately lead to a sustainable legal sector -- a goal that USAID expects to achieve in the long-term, beyond the life of this SO. At the end of this strategic period, USAID intends to help achieve a greater balance in this equation, improving access to avenues for justice and enhancing the institutions that oversee justice. Intermediate Results represent three key interdependent components of the framework, all of which are necessary conditions for accomplishment of the SO. All three key IRs have direct links to the other four mission SOs and several IRs within those SOs.

IR 2.2.1: Access to Administration of Justice

This IR will develop the demand component of the framework by addressing the need to fill the gap between establishment of a legal framework (IR 2.2.3) and full use of that framework by all Georgians. ROL, by definition, cannot exist without equitable access to the legal mechanisms that are in place. This IR aims to increase citizens' access to legal mechanisms, mostly through the support of private sector organizations on the cutting edge of legal reform, empowering citizens to seek redress and pursue justice. Achievement of this IR will directly support accomplishment of the "implementation" element of the SO. Human rights issues will constitute an important

component of this IR.

IR 2.2.2: Effective, Transparent, and Fair Public and Private Legal Sector Institutions

This IR, along with the third IR, addresses the supply-side of the ROL equation by focusing on support of legal institutions, such as the judiciary, the Parliament, the Executive branch, and the legal profession. Strengthening and improving these institutions will help ensure that the demand for rule of law is met in an effective, transparent, and fair way. Achievement of this IR will directly support the SO by: (1) strengthening institutions; and (2) improving implementation and enforcement of existing laws.

IR 2.2.3: Policies, Laws, and Regulations Promoting Democratic Processes and a Market-based Economy

This IR addresses the continuing need for critical laws and implementing regulations that stakeholders help formulate. A functioning market economy cannot exist without confidence in the prompt and efficient enforcement of judgments. This IR can be viewed as the backbone of the entire Mission Strategy -- a solid legal framework serves as the foundation for economic growth, and is a necessary condition for all Strategic Objectives.

Corruption is an important cross-cutting theme in the Mission's Strategy. This SO addresses corruption by supporting results that aim to limit opportunities for corruption and provide incentives for honest and transparent behavior among officials (e.g., a more independent judiciary, court monitoring, and increased public awareness). Gender, another important cross-cutting issue also is addressed, primarily through work that will attempt to decrease human rights violations against women and by measuring, where possible, the SO's impact on women through gender-disaggregated indicators.

B. Critical Assumptions

The following critical assumptions are made in assessing this SO:

- Supporters of reform will have continued influence in the Legislative and Executive branches, and reformers will pass and implement needed legislation.
- The GOG will demonstrate the political will to support change within the legal and political culture that enables corruption to flourish.
- The GOG will provide sufficient resources to the Judiciary, continue the merit selection process for judges, and develop similar accreditation procedures for other legal professionals.
- The economy will remain reasonably stable. If the economy further deteriorates, the prospects for legal reform will diminish.
- USAID's ROL partners will follow through with relevant programs.

The level of risk associated with these critical assumptions was carefully considered in developing

the results framework. In addition, critical assumptions will be monitored as part of the performance monitoring plan.

4. Progress to Date

Significant results have been achieved in developing the framework for a ROL-oriented society. Progress is due largely to the political will and reformist orientation of the Georgian partners. USAID and other implementing donors have worked in close collaboration with Georgians to facilitate the reform process.

USAID has contributed extensively to development of the legal framework, including a new Constitution and several important laws, in particular the Civil Code and the Criminal Procedure Code. Significant resources have been devoted to the drafting of a modern Administrative Code and a Criminal Code. These efforts are expected to come to fruition before or during 2000.

USAID has provided assistance for the development and implementation of a groundbreaking judicial qualification examination system, as well as limited judicial training. Significant progress can be seen in the 31 judges newly appointed to the bench and the 247 candidates who have passed the exam. Having achieved progress toward establishing a competent judiciary, USAID now will place increased emphasis on ensuring the honesty and independence of the judiciary.

USAID also has provided technical and financial support to the Georgian Young Lawyers Association (GYLA), Georgia's most progressive and independent lawyers' association, in the provision of training and enhancing the legal profession. The work with GYLA demonstrates the validity of delivering legal training through a private bar association, rather than law schools, and similarly highlights the need for a private judges' association to enhance judicial professionalism.

USAID – funded NGO public education campaigns have facilitated the implementation of the Civil Code and human rights provisions in various laws. Lessons learned from these activities demonstrate the need to generate greater public awareness of the law, develop mechanisms for easier access to legal institutions, and focus on implementation and enforcement.

Accomplishments achieved by USAID and its partners to date lay the groundwork for future focus in the three key areas outlined in the IRs. Most of the work to date has addressed the supply side of the ROL equation, by building a legal framework and bolstering institutions. By the year 2000, USAID's Strategy will require a more balanced approach to the problem. By increasing demand for ROL, past results will be tested and the supply-side will continue to be strengthened.

5. Program Approaches

Overall, USAID will focus assistance during the strategic planning period on the three areas represented by the key IRs. Numerous activities are contemplated, and priorities will be set during the planning phase. Illustrative program approaches include the following:

IR 2.2.1: The focus of this IR is to ensure more widespread justice for Georgians. This objective will be achieved through support to NGOs that advocate for legal rights and implement public awareness campaigns. Professional associations that represent small businesses and other under-protected groups also will be assisted. Organizations outside of Tbilisi will be especially targeted, since one of the key goals of this program is to enhance utilization of the justice system in outlying areas. Support for legal services to indigent citizens in targeted areas is an important component of this program. USAID also envisages the opportunity to assist advocates in bringing test cases that would help establish important legal precedent. Human rights abuses should decline as a result of activities in this assistance area, as NGOs and other advocacy groups develop legal skills and as public awareness campaigns are deployed. Anticipated impact at this level will be broad-based and especially significant for women.

IR 2.2.2: To achieve this IR, USAID anticipates several approaches to implementation. A court monitoring program that will serve to enforce standards of transparency and fairness throughout the judiciary and a poll for legal professionals that will further test the effectiveness of the judiciary will be introduced. Continued assistance in enhancing the independence of the judiciary is contemplated through a variety of possible activities, including support for a private judges' association that will provide both advocacy and self-monitoring functions.

Increased institutional capacity will be addressed through support to the Council of Justice; continued judicial training in ethics and discipline; and continued support to organizations charged with vetting judicial candidates and investigating judicial ethics complaints. The Executive branch will receive support for a number of activities, in particular the implementation of the Administrative Code. Parliament will continue to receive USAID support for oversight and constituent outreach activities that will benefit particularly local governments and citizens in outlying areas.

Assistance will be provided to develop a private, voluntary bar association. Direct support for law schools is not contemplated unless the political will is manifested to reform the management structure and administration at law schools. Selected students, however, will receive training and clinical legal experience. Assistance will be provided for developing and implementing law school accreditation standards.

IR 2.2.3: To facilitate passage of critically-needed laws, USAID will sponsor conferences and workshops on draft legislation for Georgian lawyers from the private and public sectors to ensure their input in the drafting process, familiarize the attorneys with proposed laws, and strengthen the political will for enacting and implementing reform laws. An illustrative list of possible laws, includes a Judicial Disciplinary Law, Judicial Ethics Code, Law on the Supreme Court, Law on the Bar, a Freedom of Information Law, and amendments to the Law on Courts of General Jurisdiction.

6. Development Partners

As part of the planning process for the 2000-2003 Strategy, USAID facilitated an intensive consultation with other ROL providers and partners in Georgia and received critical input on a

preliminary results framework. This consultative approach has led to the development of a results framework that fully optimizes the synergies and cooperation among relevant partners.

Primary Georgian counterparts for this SO include the Ministry of Justice, the Parliament, the Council of Justice, the Supreme Court, the Constitutional Court and selected lower courts. These organizations represent the supply-side of USAID assistance. USAID plans to work with a private judges' association and the Conference of Judges, neither of which have been established formally. Illustrative Georgian NGO partners are GYLA, Article 42, the Center for the Protection of Constitutional Rights and similar organizations. These NGOs and associations play a critical role in the framework, as they will provide the critical link to achieving IR 2.2.1, access to justice.

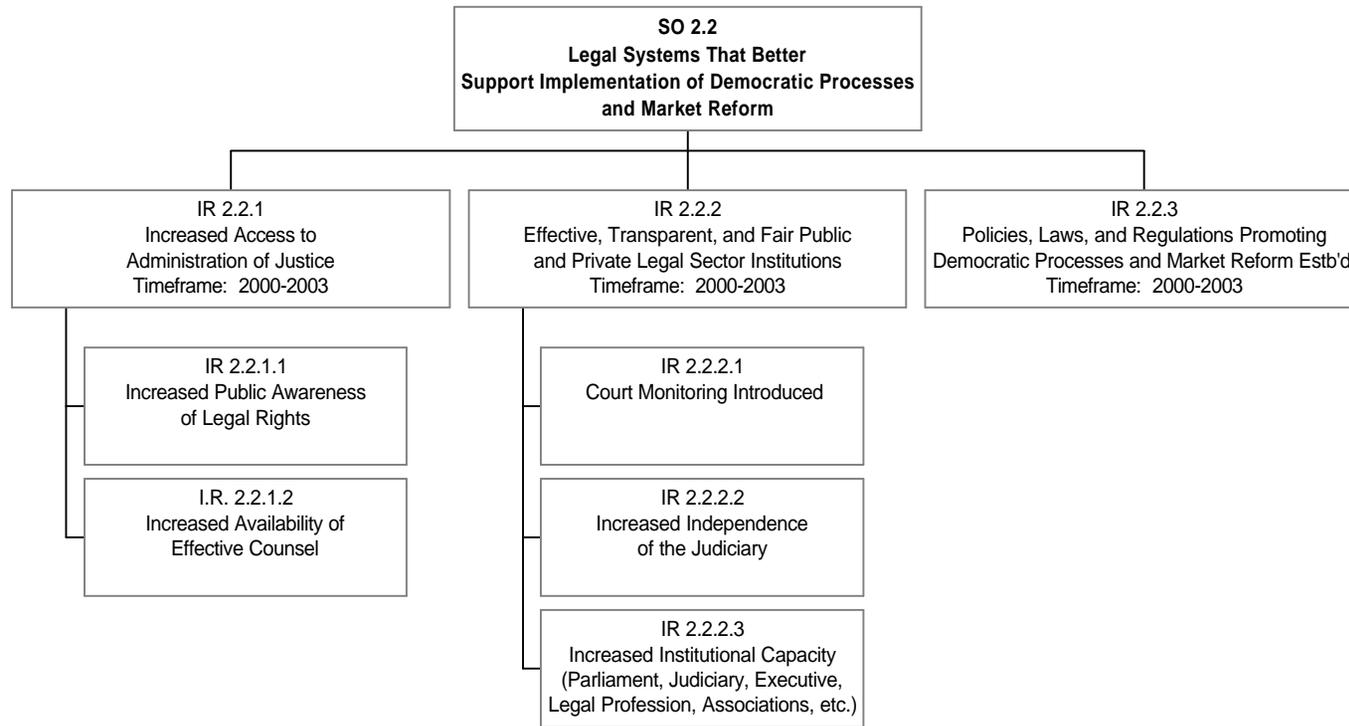
Key donors working towards this SO along with USAID include the World Bank, EU, Soros, GTZ, UNDP, and the Council of Europe. The World Bank has taken the lead in providing assistance for court administration. The EU, Soros and the World Bank have extensive judicial training programs. Soros also plans to establish a masters of law program. UNDP provides assistance to the Ombudsman (an organization similar to a public defender), Parliament's anti-corruption committee and the Constitutional Court's public outreach program. The COE and Soros will provide assistance for the transfer of the penal system from the Ministry of Interior to the Ministry of Justice. The EU and UNDP have a variety of gender legal activities.

USAID recognizes that law enforcement constitutes an important component in any anti-corruption effort. Working with prosecutors and the police, however, goes beyond the Mission's manageable interest. The U. S. Department of Justice (DOJ) recently began activities in Georgia and will provide technical assistance to prosecutors. USAID plans to work with DOJ on a variety of issues. The extent of cooperation is expected to increase over the strategic plan period.

7. Sustainability

As noted earlier, USAID does not believe it possible to achieve a balanced and sustainable ROL-oriented society within the timeframe of this SO. However, USAID expects to make progress towards that goal by building demand and bolstering the capacity of institutions to respond to that demand. If this SO is accomplished, much progress will have been made. Within the life of this Strategy, meaningful results can be achieved. Once the public better understands the benefits of legal reform, they will expect and demand more from their legal institutions. These institutions, when strengthened, will prove to be more responsive and accountable. With market-oriented laws and regulations in place, the pieces of the framework begin to connect, and the result will be a society more firmly grounded in rule-of-law principles.

Strategic Objective 2 Democratic Transition



Partners

2.2.1: Soros, EU, NGOs, GOG

2.2.2: WB, Soros, EU, GOG

2.2.3: GtZ, WB, EU, UNDP, GOG

***STRATEGIC OBJECTIVE 2.3:
MORE EFFICIENT AND RESPONSIVE LOCAL GOVERNANCE***

1. Statement of Strategic Objective

Decentralization is critical to USAID's efforts to foster democracy and economic development in Georgia. It will place political and economic decision-making where it is most appropriate, effective and responsive to citizens' needs and priorities for services. Devolution should lessen the burden on the national government, increase citizen oversight and local government accountability, and provide expanded business opportunities that capitalize on each region's unique resources.

The Strategic Objective "More Efficient and Responsive Local Governance" sets a modest goal, in keeping with the newness and fluidity of the situation and with the incomplete devolution of authorities and limited resources that will prevail for most of the planning period. The standard test of local government -- i.e., its ability to manage resources and effectively deliver services -- appears overly ambitious at present. The dynamic environment, the lack of authorities and resources, and the tensions inherent in the current mix of appointed and elected local and regional officials, argue for a more limited and appropriate goal. USAID therefore will focus its assistance on improving local government efficiency, empowering communities, and building productive partnerships between local, regional and national stakeholders.

2. Problem Analysis

In the wake of civil and ethnic wars in the early nineties, Georgia succeeded in curbing lawlessness and establishing political and economic stability, albeit with certain uneasy compromises reached to defuse conflicts in Abkhazia and South Ossetia. Other significant advances have been achieved in judicial reform, and in the creation of a vibrant civil society and enhanced governance. However, the overwhelming majority of these advances in the first phase of democratic transition have been Tbilisi-based and Tbilisi-centered. Thus, life in the provinces remains more or less the same as it always has been, with little citizen participation or positive interaction between the community and local government.

Major legal and institutional reforms achieved over the past five years have had little, if any, immediate and positive impact on the majority of Georgia's population, which lives in the regions. There is a growing public perception that the democratic transition is, in fact, responsible for a dramatic decrease in Georgians' quality of life when compared with Soviet times. This is partially due to the fact that the country's economic growth and democratic gains have not yet penetrated the informal systems of intertwined political, social and economic incentives and disincentives inherited from the past. Local officials, appointed by the central government, function in isolation, ruling with few resources together with near-total authority and impunity, a prescription for corruption and abuse.

A range of problems needs to be addressed in order to improve the capability of local government

and to facilitate the partnerships between local authorities, business and communities to achieve sustainable results.

Inadequate Legislation - The 1997 Law on Local Self-Governance is unwieldy, internally inconsistent, and vague concerning local council responsibilities and authorities. The Law on *Sakrebulo* (Local Council) Functions is equally ambiguous about members' responsibilities, and is restricted in scope. Draft legislation, prepared with USAID and Treasury assistance, on local budgets, local audits, municipal finance, the formula for intra-governmental transfers, and other matters are deemed unlikely to pass during the impending 15-month electoral period. USAID consultations with local council members and parliamentarians identified reform of existing legislation and enactment of new laws concerning local budget and finance as a top priority.

Weak Capacity - Both appointed and elected local government officials are ill-equipped to deal with the new responsibilities that have been transferred to the local level, e.g. health services and education. In fact, most have had no training in modern administrative or financial management. Those with experience are using antiquated and non-transparent Soviet models of behavior and management. Local governments need to obtain skills in strategic planning, improved administration, public outreach and media relations.

Lack of Access to Information - According to a recent print media assessment, local governments and the public have limited access to information. Because of the scarcity of electricity in the outlying areas, many Georgians are unable to rely on independent TV for objective news, and the print media, which operate sporadically due to financial constraints, and lack of professionalism and marketing skills. A new Freedom of Information Act is scheduled for debate in Parliament in FY 1999; however, it is unclear whether it will pass this session.

Lack of Participation - There are few precedents for citizen engagement in the policy-making and oversight process of local government. Non-governmental organizations (NGOs) and community-based organizations (CBOs) outside of the capital lack experience and skills in advocacy. The media, especially the local print media, are sometimes excluded from covering public or local government events, and harassed when they try to obtain information. All parties need to accustom themselves to the practices associated with transparency and responsibility, and to the way each relates to the other in a democracy. On the political side, parties need to focus on public outreach and issues that concern voters at the local level. Voters need to understand the stakes of their choices and believe that their vote counts.

Poor Communication - Based on past relations and systems, economic distress, and the local authorities' inability to provide services, dialogue and contact between the population and the governing parties is a serious problem. NGOs and CBOs can help civil society bridge the gap, but government officials must first commit to engage in a dialogue with the community.

Unclear Roles and Authorities - Central government institutions are themselves not clear about their new roles in a democratic society, much less how they should interact with local governments. Although new and amended laws should clarify these rights and obligations to some extent, action is needed now, offering an opportunity to develop mixed working groups of

national, regional and local officials to develop input to the legislative process.

3. Results Framework

A. Causal Linkages

USAID determined that the most effective use of its assistance will be to expand and integrate existing support for civil society, i.e., the demand-side, with that of local, regional and selected portions of national government, i.e., the supply-side. There also must be a vertical balance between supply and demand to ensure a smooth transition. The purpose is to build a flexible, multi-level partnership that will ease the transfer of authorities and responsibilities from the center to quickly produce tangible benefits at the local level. An integrated program to improve the capacity of local government and expand civil society activity in the regions will lead to more efficient and responsive local governance and more active community participation. In conjunction with the SME activity planned under SO 1 (IR 1.3.1) and the activities contemplated under SO 3 (IR 3.1.2), these program directions should lead to better governance and accelerated economic development in targeted areas.

USAID will continue to monitor events in Abkhazia and South Ossetia with a view to identifying initiatives that can serve as incentives towards a settlement package or elements of a post-conflict program. This effort will be part of a larger qualitative monitoring program of social, political and other indicators that point to potential increases in diverse types of conflict or violence, including ethnic divisions among the population. The monitoring system, to be initiated in 1999, will be used to inform the full range of democracy and governance activities, including technical assistance to resolve specific problems, provide training and other conflict mitigation initiatives.

The Mission debated the relative importance of enhancing information flows vs. media strengthening, with the latter deemed to have priority. Geographic criteria for target locations also were discussed at length. Illustrative criteria include: (1) economic development potential; (2) collaborative relationships between local government authorities and the community; and (3) synergy and/or co-location with previous or current USAID activities in democracy and governance, SME development and/or humanitarian assistance. Other donor programs will be carefully considered and discussed to ensure complementarity and maximum impact.

Corruption will be addressed, as with all USAID's assistance in Georgia, via activities and practices woven throughout the local government portfolio, with a major emphasis on oversight by the community, watchdog NGOs and the media. Gender issues are primarily addressed under the rule-of-law SO; however, an upcoming gender assessment will determine whether additional focus is needed under SO 2.3.

IR 2.3.1: Increased Community Participation in Local Government Oversight and Political Processes

Citizens' and media monitoring of local government activities will produce a higher demand for performance, more accountability and greater commitment from the community. Increased

involvement in political processes will enable more Georgians to better understand and voice their decisions effectively on local government and elected representatives' performance.

IR 2.3.2: Increased Capacity to Plan and Manage Resources Efficiently

With increased understanding and skills training, local officials will perform their jobs more efficiently. In so doing, they will make the limited resources at their disposal go further and produce more services for their communities.

IR 2.3.3: Increased Partnerships between Local Government, Business and Communities to Provide Services

Once all parties learn and buy into the advantages and compromises of cooperation, they will seek opportunities to collaborate to resolve local problems and meet local needs. At a later stage, this dynamic process could open up opportunities for more advanced partnerships in which local governments reach out across national borders to facilitate and promote expanded business opportunities that will bring jobs to their regions.

B. Critical Assumptions

The government will continue to support decentralization, and will enact legislation necessary to devolve fiscal authorities to the local level. The Council of Europe requirement for direct election of mayors and governors in 2001 will be met.

4. Progress to Date

The first phase of democratic institution-building began with the creation of Georgia's Constitution, followed by parliamentary and presidential elections in 1995. Since then, with substantial donor assistance, significant progress has been made at the national level to establish an enabling environment for democratic institutions and economic growth. The reformist Parliament has been the primary agent for change, passing 482 major laws and amendments, e.g., a new civil code, new criminal and civil procedures codes, a new tax code, anti-corruption legislation and privatization laws. This reform legislation has replaced the Soviet legal framework with one better-suited to Georgia's formal movement into the western community of nations, starting with its accession to the Council of Europe and to the World Trade Organization in 1999.

Of the three branches of government, the Parliament and the judiciary have led the way in implementing internal reforms, with support from USAID and other donors, including the World Bank, the UNDP, the European Union, and GTZ. The executive branch lags far behind, but is scheduled to receive substantial support from the World Bank and the UNDP for civil service reform and other improvements aimed at eliminating the permissive climate and opportunities for corruption.

Civil society organizations have registered remarkable growth both in numbers and in effectiveness, with considerable assistance from USAID and other international donors. From a starting total of four NGOs in 1995, Georgia's "Third Sector" has grown to more than three thousand NGOs. There currently are over 100 NGOs active in public policy debate at the

national level, and the NGO community is represented in consultative groups recently established with USAID assistance within the leadership ranks of the Parliament and the State Chancellery. Associations also have flourished, becoming strong advocates for business, accounting, law and other key professions. A recent NGO assessment found that at the grassroots level, CBOs have become increasingly active and effective, and are considered to be a unifying force in their communities because they bridge the gap between citizens and local government. Independent television, which formerly did not exist, now numbers 34 stations, 15 of which are linked in a national network, though print media lag far behind. Political parties are stronger, and have begun to modernize their organizational structures and to develop platforms.

Based on the advances in election administration, civil society strengthening and media development, in this second phase of democracy-building, it is time to consolidate the gains at the center but move the emphasis to implementation out in the regions. The November 1998 elections of the first local councils since enactment of the 1995 Constitution have dramatically altered the playing field for civil society and government at all levels throughout Georgia. The newly-elected local councils offer a promise of increased grassroots citizen participation and the beginning of a true political and fiscal devolution of power.

In the area of local government, USAID has been the most active donor, assisting with the development of legislation on self-governance and local budgets, supporting the local elections, and providing handbooks and training to the newly elected officials, as well as modest grant programs for local initiatives. The Mission is thus uniquely positioned to help shape Georgia's understanding and development of good local governance.

5. Program Approaches

Overall, from FY 2000-2001, USAID will focus intensive assistance on the elected local councils at the town and district level. Following the anticipated first election of mayors and governors in late 2001, assistance will be expanded to provide immediate orientation and training. Throughout the strategy period, USAID also will provide assistance to appointed local authorities in order to promote understanding and cooperation and defuse concerns that self-governance could lead to additional or intensified separatist or ethnic conflict.

The three IRs under SO 2.3 will provide support for the following main elements: (1) legislative reform; (2) development of local governance associations; (3) planning for service delivery; (4) management and financial training; (5) partnership-building; (6) NGO strengthening; (7) media strengthening; and (8) political processes. Support for elections will be eliminated, followed by the beginning of an orderly phase-out of civil society activities in 2002. To ensure that this plan continues to be appropriate two years from now, an assessment of the subsectors to be affected will be conducted in 2001 and reported in the subsequent R4.

6. Development Partners

USAID consulted widely with its partners during the development of this strategy, particularly with senior Georgian counterparts in the public and private sectors. Of particular importance

were the extensive consultations conducted with 50 NGOs and with 88 newly elected local council members from all of Georgia's 65 district councils regarding their training needs and their communities' priorities.

In the field of local governance development as well as civil society strengthening, USAID has played the lead role due to its broad and comprehensive approach to the entire environment. The World Bank focuses on municipal infrastructure development, which should improve economic conditions in key municipalities over the strategy period. Other donors fill equally valuable niches, such as the UNDP's prominence in support of Georgian think-tank publications that enrich current political analysis, and Great Britain's support for tailored journalism skills training.

The European Union (EU), UNDP, Great Britain, Germany, the British Know-How Fund, the Soros Foundation and other private foundations have been active in support of civil society and citizen participation. USAID has taken the broadest approach, including technical assistance, training and small grants to NGOs, associations, independent media and political parties, as well as support for administration and the domestic monitoring of elections.

Local government strengthening is a new area for most donors in Georgia. USAID has been working toward this end for two years, helping to develop the legislative framework, providing fora for Georgian debates on the model to pursue, how to plan and structure local budgets, and how to involve local communities in the governance process and provide incentives for local initiatives. The World Bank has a large municipal infrastructure project, which is still in the audit/assessment stage, i.e., local activities have not begun. The EU and the UNDP have announced plans to design local government programs, and the Soros Foundation will add local governance grants to its portfolio later in 1999.

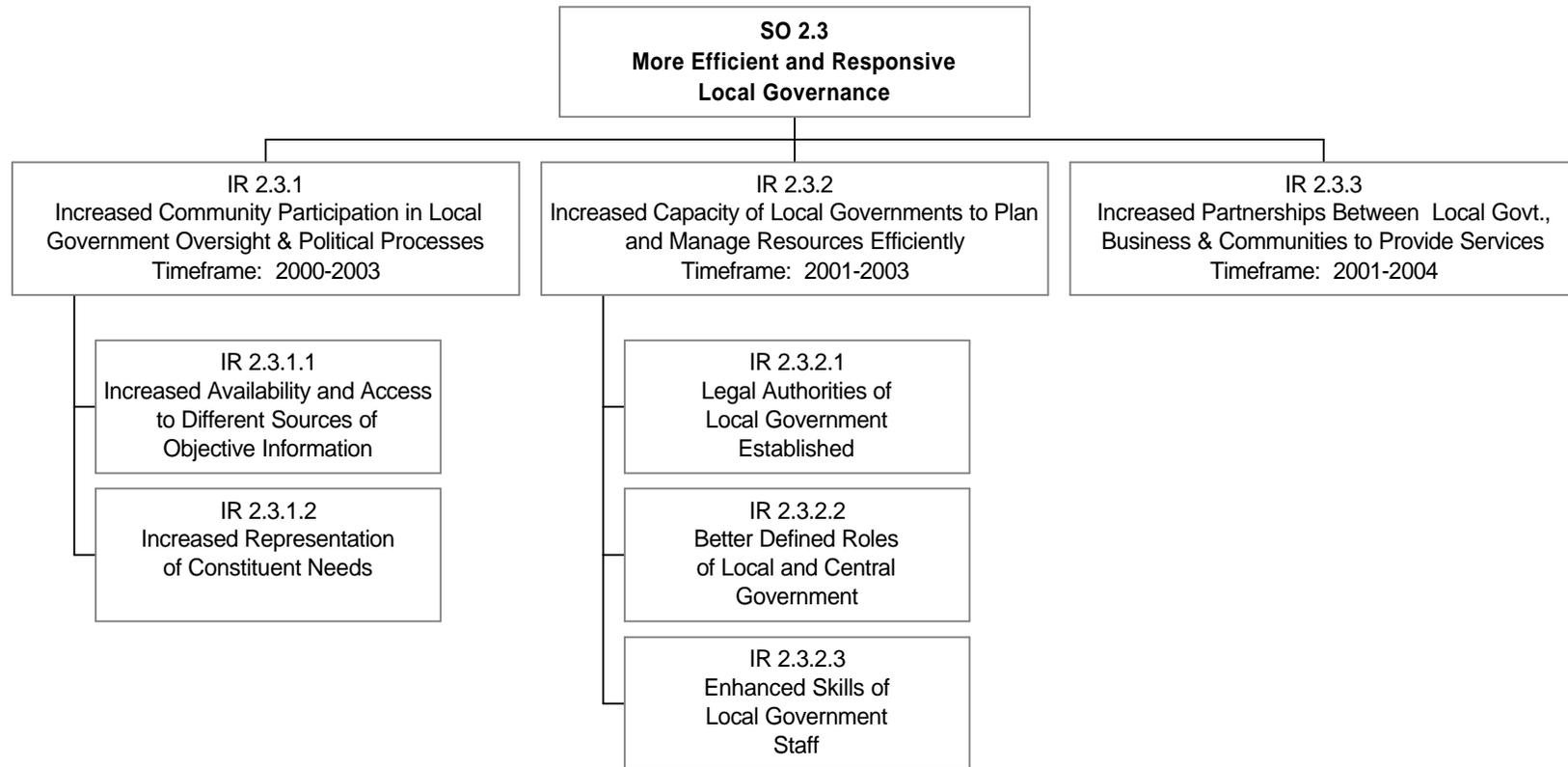
7. Sustainability

The program's proposed strategy to build capacity in both the supply and demand sides of Georgian municipalities, and to foster multi-level partnerships will have met its target if local governments manage resources more efficiently, with increased community participation in the policy and oversight process, as well as political processes; and if tripartite partnerships emerge between local government, the community and business to address needs and resolve problems.

Integrating the local governance and legal systems strategies through reciprocal linkages with Parliament and the regional court centers should help build a rule of law environment at the local level that will promote confidence in the government and encourage investment.

In the long-term, however, local governance will require a strong economy to be sustainable. Services require funding as well as capacity, and citizens require effective service delivery as well as participation to believe that democracy can make a positive difference in their lives. Targeted support at the local level from SO 1's SME initiatives and SO 3's community development activities, and continued engagement at all levels regarding the legal framework and policy direction will contribute to sustainability.

Strategic Objective 2 Democratic Transition



Partners

2.3.1: Soros, EU, NGOs, Media

2.3.2: WB, Soros, EU, Local/Regl. Governments, Min. of Finance, Parliament, Chancellery

2.3.3: CSOs, UNDP

STRATEGIC OBJECTIVE 3.1
REDUCED HUMAN SUFFERING IN TARGETED COMMUNITIES

1. Statement of Strategic Objective

USAID's strategy to reduce human suffering focuses on vulnerable communities, and consists of two primary components. The first component will focus on assisting communities in transitioning from relief to longer-term development by encouraging self-sufficiency, especially in potentially volatile regions of the country where reforms have not been visible to most citizens. In addition, the Mission will continue to maintain the capacity to respond to new challenges, if they emerge. Such challenges could be positive, such as the need to respond to a peace settlement and assist IDPs in returning home. However, the Mission must also maintain the capacity to respond to negative developments such as new outbreaks of ethnic conflict. The Mission's Strategy addresses the underpinnings of conflict by meeting urgent needs and supporting the capacity for communities to meet their own needs over the longer term. In turn, this approach is central in supporting the overall U. S. foreign policy objective to promote stability.

2. Problem Analysis

Shortly after achieving independence in 1991, Georgia found itself immersed in civil and ethnic conflict. The international community reacted by pouring massive amounts of humanitarian assistance into Georgia and the rest of the South Caucasus. International organizations marshaled the resources of countries large and small, in an urgent effort to address the problems of Georgia. This timely and coordinated response brought Georgia back from the brink of starvation and gave the forces of reform a chance to fight back the growing chaos and to re-establish control over the country.

A Fragile Environment - In 1996 and 1997, the economy showed sustained growth and a dynamic Parliament was proving to be an independent source of support for continued reforms. IDPs were beginning to move back to districts of Abkhazia and South Ossetia and a peace settlement seemed within grasp, which would allow all to return home. The rapidity with which these hopes were dashed showed how fragile this initial progress had been. In May 1998, the Abkhaz militia forced the ethnic Georgians who had returned to the Gali district of Abkhazia once again to flee from their homes.

Weak Central Government - There is a high degree of unsustainable dependency on government and international assistance. Persistently high but continuously frustrated expectations among the population towards their government or international aid may trigger more dramatic expressions of resentment and discontent, beyond the pervasive disaffection and alienation which most of the population feels. An extremely low level of financial resources and lack of institutional traditions, structures and skills with which to administer and coordinate humanitarian aid contribute to these problems.

Economic Crisis - The current economic crisis intensifies the suffering of those groups least able to help themselves. It also makes clear the need to make assistance programs visible to ordinary Georgian citizens, to further the democratization process. Job creation and real income growth have not been realized as the benefits of economic reform are at best only beginning to trickle down. There is wide belief that macro-reform in the presence of such wide disparities is necessary but insufficient. Extreme economic stress at the household level preventing access to minimum living standards (health, education, water/sanitation, housing, heating) still exists, which further alienates the public from the reform process.

Vulnerable Populations - A key problem is that the most vulnerable populations have not been identified and tracked. A methodology must be developed to identify vulnerable households differently from that done under the former Soviet social categories. Soviet categories such as pensioners or multi-children families have proven unreliable for targeting assistance. A second problem is that of the IDPs. This group is well-organized and politically influential. Although many IDPs in fact are extremely vulnerable, many others are doing reasonably well. A recent World Bank assessment showed IDPs living outside of collective centers to be less vulnerable to poverty than the average Georgian. These data show clearly that some IDPs can lift themselves out of poverty.

3. Results Framework

A. Causal Linkages

The Mission's strategy to reduce human suffering is predicated on linking relief to development and addressing the root causes of conflict. USAID will focus its efforts on transitioning communities out of emergency circumstances by starting vulnerable groups on the road toward longer-term development. Conflict prevention is addressed by directly treating one of the root causes of conflict, namely a lack of economic opportunity. In addition, this type of approach will necessarily draw on a broad group of community representatives and will be instrumental in building bridges between various groups within the community.

The achievement of this SO is dependent primarily upon the ability to support a basic level of capacity-building within local communities to meet their own needs. However, in the event of a crisis, the Mission's priority will shift from community development toward meeting basic emergency needs, such as food, shelter and immediate health requirements. Health is an important aspect of the program, which has been integrated into the Mission's Strategy. When asked, Georgians consistently point out that employment is their foremost concern, followed by health-related issues. For example, indicators for SO-level achievement include two health-related indicators -- immunization rates, and maternal and child mortality.

Corruption is a cross-cutting Mission concern that will be addressed through working with a range of actors at the community level, including Civil Society Organizations (CSOs) as well as local governments. The Strategy will maximize opportunities to work with organizations that incorporate and promote citizen participation and transparency.

Gender will be incorporated in the strategy in a number of ways. First, the Mission will consider whether CSOs have broad community representation -- including women -- in determining which CSOs to support. Furthermore, female roles in decision-making processes at the community level and within CSO organizations also will be examined. Second, several of the health programs focus on gender-related issues, such as reductions in maternal and child mortality or the provision of micro-credit, which targets female beneficiaries. Third, indicator data will be disaggregated, where possible.

The Mission will ensure that resources are concentrated where they will have the most impact. Criteria for the selection of communities are as follows:

- *Need:* Need is based on communities that have emergency-induced requirements or which have the heaviest concentrations of vulnerable citizens. In addition, to meet objectives in community development, USAID will attempt to fill assistance gaps in communities where other donors are not active. (IR 3.1.1 and IR 3.1.2)
- *Areas for Potential Unrest:* The program will be concentrated in areas where potential unrest is greatest; yet at the same time, there must be a minimal level of stability to allow access. (IR 3.1.1 and IR 3.1.2)
- *Enabling Environment:* The presence of an enabling environment implies that basic conditions are met, which allows a community to become more self-sufficient. Needed conditions include an economic environment where micro-business can succeed, access to land and/or productive inputs such as fertilizer is present.
- *Local Governments:* Preferably, USAID will work with local governments which are willing to cooperate with other civic organizations. However, at a minimum, there must be non-interference.
- *Community Activism:* Citizens must be interested in working together toward a common goal (as evidenced by requests for assistance which are pluralistically supported or where the local community is willing to commit its own resources).

IR 3.1.1: Urgent Needs Met During Crises

The focus of this IR is to maintain the capacity to meet urgent needs in the event of a crisis. This capacity still is crucial for Georgia because the country faces continued economic hardship and declining volumes of international assistance from most donors and PVOs. USAID will coordinate with other donors to fill in gaps where the most vulnerable are without assistance. However, unless local resource development is further encouraged and communities mobilized to understand mutual obligations, rights and responsibilities (under IR 3.1.2), there will be increased dependency on international aid in Georgia.

IR 3.1.2: Vulnerable Communities Better Able to Meet Own Needs

This objective focuses on assisting communities in building the capacity to organize themselves to

meet their own basic needs. By mobilizing resources and managing projects, community groups gain hands-on experience in local governance and also identify problems for resolution at the policy level. Each community will likely identify slightly different priority needs, but experience has shown that health care will be a high priority for most communities. USAID will look for opportunities to create partnerships with alternative local service providers (e.g. through CSOs).

USAID would target the areas of Georgia which are not yet ripe for implementation of significant SME programs under SO 1.3. Still, a continuing problem within Georgia is the inclusion of vulnerable groups, especially IDPs, into the legal economy (IR 3.1.2.2). A combination of communities discovering new ways to deliver services themselves and the self-sufficiency of greater numbers of vulnerable groups will result in vulnerable communities better able to meet their own needs.

Cross-cutting IR: Vulnerable Groups Identified

This IR supports both IRs under this SO and is viewed as a first step in achieving the Strategic Objective. With reduced resources, identifying vulnerable groups will make possible better targeting of programs. Additionally, it will increase the capacity of the GOG to implement its own social safety net programs and lay a foundation for a possible transition to SO 3.2 at some time in the future.

B. Critical Assumptions:

The following critical assumptions have been incorporated in assessing the Strategic Objective:

- A minimal level of stability must exist in order to ship commodities or implement development activities in local communities.
- Conflict could occur at any time. When the level of conflict is low, resources will be concentrated on attaining self-sufficiency. Additional resources would be allocated only to relief activities in times of crisis.
- There must be adequate resources for the capacity-building component of the SO, as represented in IR 3.1.2, to achieve impact at the SO level. An emergency would require resources to be concentrated on IR 3.1.1 so that immediate humanitarian needs could be met.
- The GOG is supportive of efforts to define vulnerable groups by need as opposed to by historic categories.

The level of risk associated with these critical assumptions was carefully considered in developing the results framework. In addition, critical assumptions will be monitored as a part of the performance monitoring system.

4. Progress to Date

USAID has been the largest bilateral donor in Georgia, meeting more than half of the country's emergency needs. USAID regularly has provided assistance to over 750,000 Georgians since 1992, directly reducing human suffering. USAID assistance has financed the importation of fuel oil and natural gas to help meet Georgia's emergency winter fuel requirements. USAID grants to international humanitarian organizations such as UNICEF, UNHCR, WFP, and IFRC have benefited 93,000 IDPs, while 65,000 more have participated in Food for Work opportunities. In addition, USDA provided wheat and other food commodities to PVOs for monetization under the PL-480 program. WFP's Caucasus Logistics Advisory Unit (CLAU) is an example of a regional logistical project that was partially funded by USAID to support the humanitarian operations in all three Caucasus countries and maintain essential transportation links and services.

The stabilization program already has brought positive results, which allowed USAID to diminish its humanitarian assistance in favor of transitional programs, as is emphasized in the new Mission Strategy. USAID primarily focused its resources on continued provision of humanitarian assistance for the most urgent basic needs to vulnerable households at steadily decreasing levels, while simultaneously creating greater income-earning and employment opportunities through one-time infusions of cash or materials; small business development; and training and technical assistance for micro- and small businesses and farmers. USAID has supported creation of small businesses, generating and maintaining income and creation of sustainable employment for vulnerable households to meet their own basic needs in various regions throughout Georgia.

USAID's future self-sufficiency approaches may be built on the successes USAID has achieved through supporting such programs as IFRC community development activities in Western and Eastern Georgia, designed to assist the internally displaced population and other vulnerable elements of the society, and the FY99 Winter Heating Assistance Program, which provided electricity subsidies to the most vulnerable in Tbilisi. The latter also can serve as an example of improved targeting.

5. Program Approaches

IR 3.1.1: Assistance to meet urgent needs can be rendered through support to NGOs targeting income generation, health, and shelter services to vulnerable groups in potentially volatile regions of Georgia. Programs designed to comply with Congressional earmarks for victims of the Abkhazia conflict likely would fall under this IR as well.

IR 3.1.2: USAID will focus on assisting communities in increasing their capacity to deliver basic services (IR 3.1.2.1) and will integrate community development with the piloting of healthy community initiatives to address infectious diseases and reproductive health.

Income generation and micro-credit activities concentrated in potentially volatile areas can start this process and prepare the ground for future SO 1.3 programs.

Cross-cutting IR: A database of vulnerable groups is currently under development in partnership with the GOG.

6. Development Partners

The international community's role in addressing social problems has allowed the GOG to stabilize and concentrate on economic reforms. Working in concert with the GOG, international donors and relief agencies have concentrated on meeting essential needs for the most vulnerable. The GOG's approach to addressing humanitarian needs has been to allow donors and relief agencies wide operating discretion, an approach that has led to household stabilization within the vulnerable population.

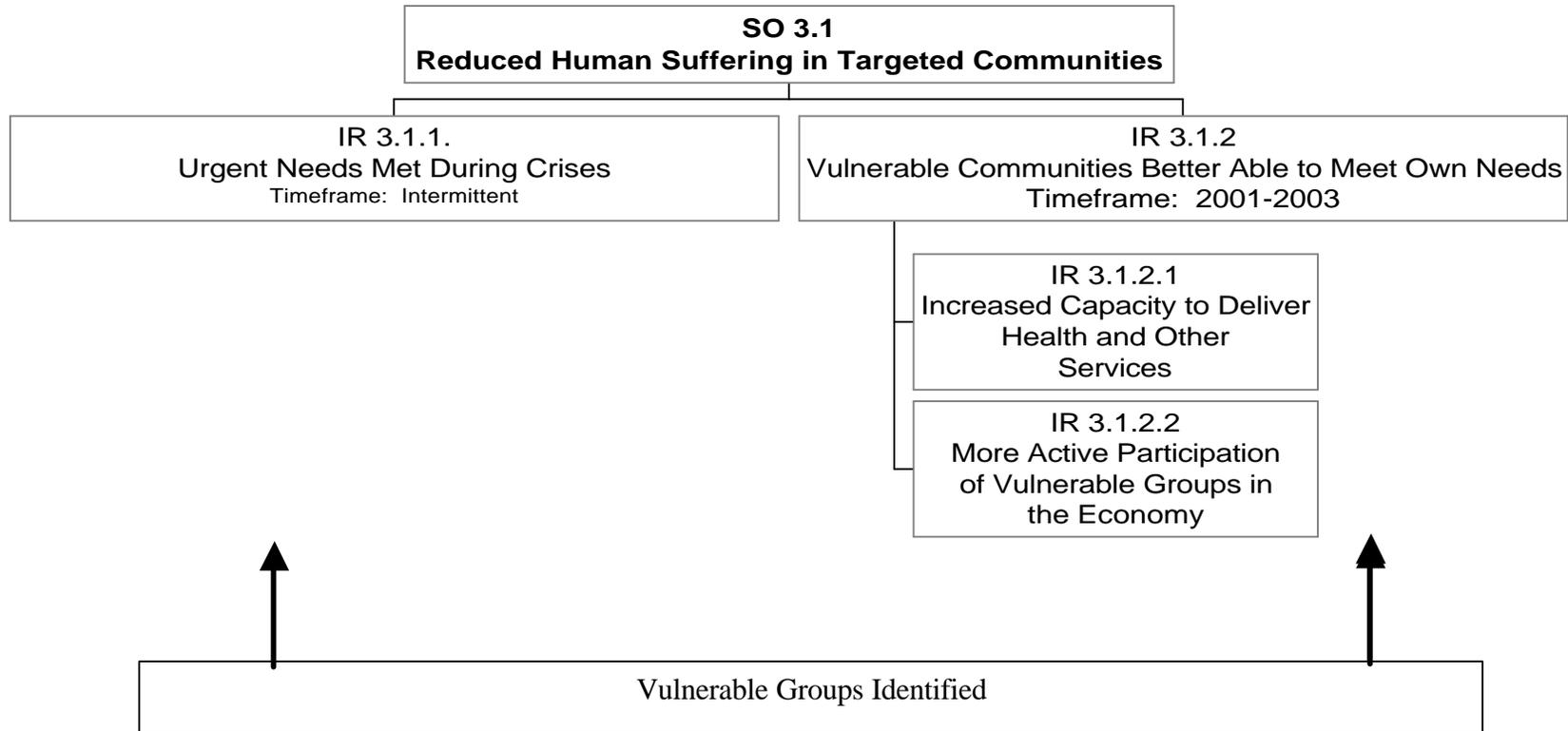
The World Bank, IMF, and EBRD have been working on the macro environment in areas such as economic restructuring, the policy and institutional reform needs of the social safety net, health reform and education. The UN, EU and a number of bilateral donors (such as USAID, Germany, Great Britain, the Netherlands and Italy) have worked on various aspects of local community development. However, there is a complementary relationship between USAID and other donors, as the others often work in areas of conflict where USAID is prohibited from working. In addition, one of the criteria for selecting vulnerable communities will be that other donors are not active in them.

Within the USG, the State/PRM focuses on promoting the legal rights of refugees, commodity transport, and support to international organizations. The U. S. Department of Defense contributes excess medical equipment and other humanitarian commodities. USDA provides food to International Orthodox Christian Charities (IOCC) and other NGOs for direct distribution, concessional wheat sales to GOG, and agricultural commodities for monetization to some U. S. PVOs.

7. Sustainability

Emergency response does not lend itself to sustainability. Rather it places the priority on meeting immediate human needs. However, over the long-term, the Mission's priority is to focus on capacity-building within communities so that they can become more self-sufficient over time. In addition, as broader economic and democratic reforms become entrenched and yield results, there will be a diminishing need for this SO. During this period of time, the approach presented in achieving SO 3.1 will also support the activities of the other SOs by laying the groundwork for development and through encouraging the participation of citizens in local activities designed to identify and address local problems.

Strategic Objective 3 Social Sector Reform



Partners

3.1.1: ECHO, USDA, State/PRM, NGOs

3.1.2: ECHO, USDA, WB, GOG, NGOs

***SPECIAL INITIATIVE:
TARGETED PRIVATIZATION ACTIVITIES***

1. Background

Georgia's small-scale privatization program, which began in 1993, has been comprehensive. To date, more than 10,000 enterprises engaged in trade and service activities have been transferred to the private sector by auction, tender, or direct sale. Privatization of medium and large enterprises has been much slower. A new privatization law was passed in May 1997, to speed up the pace of the privatization effort. Since August 1997, privatization has included a number of strategic enterprises in areas such as energy and metal mining. In addition, a comprehensive program of privatization for 1998-2000 was initiated. The program included certain energy enterprises, airports, large manufacturing units, and non-energy infrastructure units. However, despite these apparent progressive steps, results have been below expectations.

USAID activities related to privatization have been carried out under SO 1.1. SO 1.1 has concentrated on developing a model for privatizing strategic enterprises, and on land privatization. Due to the critical importance of land privatization to the development of the SME sector -- and more particularly agriculture -- USAID has determined that land privatization and titling activities should be an integral part of SO 1.3, Accelerated Development and Growth of Private Enterprise.

Privatization of medium and large enterprises, the second component of SO. 1.1, will be transferred to this Special Initiative.

2. Rationale

In substituting this Special Initiative for SO 1.1, several factors were considered. First, as previously mentioned, land privatization and titling (a major component of SO 1.1) will be implemented under SO 1.3. Second, as detailed below, USAID's activities related to privatization of medium and large enterprises will be limited in scope and funding. Third, the timeframe contemplated for this effort -- two years -- also will be limited.

It should be noted, however, that the expected impact of this Special Initiative will be much greater than implied by its size, scope, and timeframe. Equally important, this Special Initiative will enable USAID to respond to unplanned initiatives (see below), should the need to seize a strategic opportunity arise in the strategic planning period.

3. Targets

USAID will focus its privatization effort on two strategic targets, Poti Port and telecommunications. Beyond assistance in the privatization of telecommunications assets and Poti Port, USAID may aid the Ministry of State Property Management to reshape about fifty non-energy enterprises and help in finding a strategic partner who will bring appropriate management, capital and market opportunities to them. This support would involve limited inputs directed

toward building the GOG's capacity to complete the privatization of its remaining assets. Such assistance will be of short duration. Part of the rationale for this effort is that without successful reshaping and strategic privatization, the GOG will have little in the way of potentially successful industrial equities for the nascent stock market. Also, demonstrably successful initiatives in larger enterprise privatization will create a more attractive overall investment environment.

Poti Port

Since the beginning of FY 1998, USAID has sought GOG approval for the inclusion of Poti Port as a target for privatization. To date, the GOG is deferring a final decision while it considers the merits of other port restructuring proposals, and while it works out policy conflicts with the local government officials concerning local versus central oversight of the privatization process.

The role of Poti Port is expected to expand as activities under the EU/TACIS-financed transportation corridor initiative gain momentum. It is USAID's belief that successful privatization of Poti Port will build support for privatizing other strategic industries such as energy (see SO 1.5), transport, and telecommunications. It is important to note that EU/TACIS has advanced an alternative to the USAID-preferred approach for privatization of Poti Port, in which the port would be structured more like European parastatal ports. In the final analysis, the structure of a privatized Poti Port is something which requires a political decision by Georgians. Once that decision is made, and if both the anticipated structure of the port and the modalities of privatization -- e.g. transparency and competitiveness -- are consistent with USAID's policy framework, USAID will provide limited technical assistance.

Telecommunications

The GOG owns two telecommunications properties that may be considered for immediate privatization: 51 percent of Georgia Telecom (long-distance and international lines), and all of Georgian Elektrokavshiri (local lines). USAID stands ready to support a transparent tendering process that could be conducted by an international investment bank and a tender evaluation committee. USAID will work closely with the World Bank to ensure that the results of privatization are consistent with the development of a telecommunications sector that serves the interests of ordinary Georgians and promotes economic growth through competition. In particular, USAID contemplates technical assistance in the formulation of a competition policy and establishment of a regulatory body for the telecommunications sector. USAID also will assist in public education activities to promote widespread understanding and acceptance of the costs and benefits of privatization. If legislation is considered as a prerequisite to privatization or to the establishment of a regulatory body, USAID will assist in developing the necessary law.

4. Expected Results

If successful, privatization of Poti Port and the state's remaining telecommunications assets will place two important, but declining, elements of the nation's infrastructure in private hands, where they can attract international investment and management skills necessary to improve their efficiency and promote national economic growth. If USAID assumes a larger role in assisting

the Ministry of State Property Management to reshape -- and find strategic partners for -- about fifty large state-owned enterprises scheduled for privatization in the next two years, the expected result will be a resuscitation of an important element of Georgia's former industrial capacity, together with cumulative benefits in terms of employment, foreign exchange earnings and tax revenues. Further, privatization of these assets by means of a transparent and competitive tendering process will signal -- both to the Georgian people and the international business community -- Georgia's intention to allocate resources by means of a competitive market economy. Finally, the prospects of the Georgian stock exchange will be improved if the GOG reserves some shares of these enterprises for placement at the exchange.

***CROSS-CUTTING PROGRAMS:
TRAINING AND SMALL GRANTS PROGRAMS***

1. Introduction

The Georgia Mission's cross-cutting program is comprised of two components directly involved with bolstering implementation of the Strategy. They are: (1) training and (2) small grants assistance to selected local organizations. These activities complement needs and fill implementation requirements in support of the five Mission Strategic Objectives. Both programs are expected to make demonstrable contributions toward achievement of the Strategy. Currently, training and small grants programs are being carried out by two U. S. NGOs. Training supports all SOs across the entire country program, and the small grants assistance to local groups is an ideal fit as the Strategy initiates a more community-focused program. Since both NGOs have been working throughout the Caucasus, their experience and perspectives have demonstrated the value of these programs in helping to achieve the results sought in this Strategy.

2. Training

USAID supports a regional participant training program in the Caucasus through a U. S. NGO, the Academy for Educational Development (AED), which set up a field office in Georgia in 1997. Participant training programs have been carried out in the United States and third countries, as well as through in-country training activities. As citizens of a former Soviet Republic, even the most educated Georgians lack many of the skills, attitudes and knowledge on which democracy and free market economies are based, e.g., the roles prices and markets play in market systems; sound private business management and practices; the rights and responsibilities of individual citizens or groups within a democracy; and the role of elected local governments in promoting private sector development. While an enabling environment for economic reform and a more democratic society has been created at the national level, the benefits of these reforms have not trickled down to society as a whole, leaving citizens skeptical and suspicious of the positive impact these reforms can have on improving the overall quality of life. Education and training will have a central role in implementing the reform process.

The purpose of the participant training program is to support each of the Strategic Objectives, as necessary, to achieve their respective results. Training will supplement technical assistance activities and equip host country leaders and professionals with the skills and knowledge needed to guide their country's transition to a free market economy and democratic government. Training support contributes to each of the following strategic assistance areas: private enterprise development (SO 1.3); an efficient energy sector (SO 1.5); a legal system that supports democracy and market reform (SO 2.2); efficient responsive local government (SO 2.3); and reduced human suffering (SO 3.1).

3. Small Grants Program

A small grants program will be implemented by a non-profit, grant making organization that provides financial support to local organizations for programs promoting economic and democratic reform in Georgia. Currently, this function is being carried out by a U.S. NGO, the Eurasia Foundation, which has had a successful program in Georgia since 1995.

As the Mission's Strategy moves to consolidate the gains made through various reforms at the macro level and to funnel them to society as a whole, the small grants program will serve as a valuable component in fostering association-building and organizational development at the local and community levels. The implementing NGO's activities will be especially supportive of SOs 1.3, 2.2, 2.3 and 3.1.

This activity is expected to concentrate on specific geographic sites and organizations that directly impact on achievement of SO results. Illustrative of areas of activity key to the reform process are business development; business education; management training; NGO advocacy; public administration and local government reform; NGO development; rule-of-law; media; and electronic communications. In supporting these topical areas the small grants program will bring synergistic benefits among the Mission's Strategic Objectives.

PERFORMANCE DATA TABLE
Baseline, Targets, and Actual Results
SO 1.3 Accelerated Development and Growth of Private Enterprise

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT ³			2000		2001		2002		2003	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		1. Private Sector Share of GDP.	Definition: Private sector share of GDP Unit: % of GDP	1999									
IR 1.3.1	Increased Access to Credit by Domestic SMEs and Micro-Entrepreneurs	1. Real Value of Loans to SMEs. 2. Increase of numbers of new and graduated borrowers w/ USAID-assisted organizations 3. Mortgages Using Land as a Collateral	Definition: Real value of loans to SMEs by commercial banks and non-banking institutions Unit: \$US million Definition: # of new and graduated borrowers Unit: # (disaggregated by gender; Tbilisi/outside Tbilisi) Definition: Unit: #	1999									
IR 1.3.2	Reduced Transaction Costs for Enterprises	1. Average Length of Time Required to Establish a New Business	Definition: To be operationally defined in survey instrument (disaggregated by gender; Tbilisi/outside Tbilisi) Unit: Weeks	1999									
IR 1.3.2.1	Improved Policy, Legal and Operating Environment for SMEs	1. Number of restrictive provisions of laws and regulations reduced	Definition: Specific restrictive provisions to be identified and targeted Unit: #	1999	TBD	TBD							

³ When possible and appropriate, indicators will be gender disaggregated.

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IR 1.3.2.2	Improved Efficiency of Banking Sector	1. Real Value of Bank Accounts	Definition: (disaggregated by gender; Tbilisi/outside Tbilisi) Unit: \$US million	1999	“	“							
		2. Real Value of Loans by Commercial Banks	Definition: (disaggregated by gender; Tbilisi/outside Tbilisi) Unit: \$US million	1999	“	“							
IR 1.3.2.3	Business Associations Rendering Services to Entrepreneurs and Enterprises	1. Number of clients (including association members) paying for business services from USAID-assisted business associations	Definition: (data disaggregated by gender; Tbilisi/outside Tbilisi) Unit: #	1999	“	“							
IR 1.3.3	Functioning Land and Real Estate Market to Support SME growth	1. Number of Land Parcels Traded	Definition: (data disaggregated by agricultural/non-agric) Unit: #	1999	TBD	TBD							
		1. Mortgages Using Land as Collateral	Definition: Unit: # (data disaggregated by agricultural/non-agric)	1999	“	“							
IR 1.3.4	Selected Agribusiness Opportunities Identified and Facilitated	1. Number of New Agribusiness Opportunities Initiated	Definition: Unit: #	1999	“	“							

PERFORMANCE DATA TABLE
Baseline, Targets, and Actual Results

SO 1.5 A More Economically Efficient and Environmentally Sustainable Energy Sector

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	SOURCE OF DATA	PARTNERS	BASELINE DATA		TARGETS AND ACTUALS							
								2000		2001		2002		2003	
						Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.5	A More Economically Efficient and Environmentally Sustainable Energy Sector	1. Energy provided on an economic basis.	Definition: Unit: Total cost of energy divided by total energy sector revenues collected Unit: %	GOG statistics	WB, EU, UNDP, TACIS, MoFE, GNERC, Parliament, Sakenergo, Contractor		40%	45%		55%		70%		80%	
IR 1.5.1	Increased Private Sector Participation in the Energy Sector	1. Number of customers being served by a privatized electric distribution company.	Definition: Unit: #	Electric Regulatory Commission; GOG statistics	WB, EU, UNDP, TACIS, MoFE, GNERC, Parliament, Sakenergo, Contractor	340,000	340,000		800,000		1mln		1.2mln		
			Definition: Unit: #			340,000	340,000		800,000		1mln	1.2mln			
			Definition: Unit: %			5%	10%		25%		30%	50%			
		2. Number of customers being served by a privatized gas distribution company.													
		3. Percentage of total electric energy provided by private generation companies.													

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IR 1.5.2	Legal and Regulatory Environment More Conducive to Private Investment in the Energy Sector	<ol style="list-style-type: none"> Number of relevant energy sector (gas, electric, and petroleum) laws and implementing rules and regulations adopted by the appropriate regulatory bodies. Law in place enabling private sector participation in the establishment of the Main Export Pipeline and gas transit lines. 	<p>Definition: <i>Relevant:</i> Conducive to private investment Unit: #</p> <p>Definition: Unit: yes/no</p>	Gas and Electric Regulatory Commission; Competent authority for petroleum regulation as specified by law	WB, EU, UNDP, TACIS, MoFE, GNERC, Parliament, Sakenergo, Contractor	1 No	5 No		10 Yes		20 Yes		25 Yes		
IR 1.5.3	Environmentally Sound Laws, Regulations are Adopted and Implemented in the Energy Sector	<ol style="list-style-type: none"> Number of environmentally sound energy related laws and implementing rules and regulations adopted by the appropriate regulatory bodies. 	<p>Definition: Unit: #</p>	GOG statistics	WB, EU, UNDP, TACIS, MoFE, MoE, GNERC, Parliament, Sakenergo, Contractor	1	5		10		20		25		
IR 1.5.4	Increased Efficiency in the Energy Sector	<ol style="list-style-type: none"> Actual use of electricity on a per capita GDP basis has been reduced. 	<p>Definition: Unit: kWh/per capita GDP</p>	World Bank; GOG statistics	WB, EU, UNDP, TACIS, MoFE, GNERC, Parliament, Sakenergo, Contractor	100x	95x		90x		80x		70x		

PERFORMANCE DATA TABLE

Baseline, Targets, and Actual Results

SO 2.2 Legal Systems That Better Support More Effective Implementation of Laws

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT ¹	SOURCE OF DATA	PARTNERS	BASELINE DATA		TARGETS AND ACTUALS										
						Year	V a l u e	2000		2001		2002		2003				
								Target	Actual	Target	Actual	Target	Actual	Target	Actual			
SO 2.2	Legal Systems That Better Support More Effective Implementation of Laws	1. Percentage increase of civil (commercial and non-commercial) court decisions based on select laws enforced in accordance with international practices. 2. Human rights better enforced in accordance with international standards.	Definition: International standards must be defined Unit: Definition: Increased # of pre-trial detainees released Unit:	USAID court monitoring activities Domestic and international NGOs	EU, WB, DOJ, MOJ DOJ, UNDP, Soros, COE, Ombudsman MOJ													
I.R. 2.2.1	Increased Access to Administration of Justice	1. Percentage increase in number of judicial decisions. 2. Increase with test cases with broad impact.	Definition: Judicial decisions reached for those organizations receiving USAID support. Qualitative assesment determined by focus group. Unit:	Legal aid clinics														

¹ When possible and appropriate, indicators will be gender disaggregated.

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						BASELINE DATA		TARGETS AND ACTUALS								
IR 2.2.2	Effective, Transparent, and Fair Public and Private Legal Sector Institutions	1. Increased percentage of lawyers or other legal professionals who report more effective, transparent, and fair court systems and other targeted institutions.	Definition: Qualitative: must define effective, transparent, and fair Unit:	Bar Poll	WB, EU, Soros											
IR 2.2.2.2	Increased Independence of the Judiciary	1. Establishment of independent judges' association.	Definition: Unit:													
IR 2.2.3	Policies, Laws, and Regulations Promoting Democratic Processes and Market Reform Established	1. # increase in relevant laws and implementing regulations established.	Definition: Qualitative: must define relevance and quality of laws Unit:		GTZ, WB, EU, UNDP											

PERFORMANCE DATA TABLE
Baseline, Targets, and Actual Results

SO 2.3 More Efficient and Responsive Local Governance

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT ¹	SOURCE OF DATA	PARTNERS	BASELINE DATA		TARGETS AND ACTUALS										
						Year	V a l u e	2000		2001		2002		2003				
								Target	Actual	Target	Actual	Target	Actual	Target	Actual			
SO 2.3	More Efficient and Responsive Local Governance	1. # Increase of decisions influenced by citizen input. 2. Percentage increase in targeted local govt. budgets that support public services.	Definition: Can include policy or budgetary decisions; does not include elections Unit:	Nat/local budgets from MOF and local govts.	EU, WB, Soros													
IR 2.3.1	Increased Community Participation in Local Government Oversight and Political Processes	1. Voter participation in local elections. 2. # Increase of citizens attending local govt meetings	Definition: Unit: Definition: Unit:	Georgian Central Election Commission USAID grantee	Soros, EU, NGOs	1998: 35%												
IR 2.3.1.1	Increased Availability and Access to Different Sources of Objective Information	1. # Increase of media outlets at the local level covering news.	Definition: Unit:	USIS, USAID grantees	Great Britain													

						BASELINE DATA		TARGETS AND ACTUALS								
IR 2.3.1.2	Increased Representation of Constituent Needs	1. # Increase in CSOs with mechanisms in place to get constituent feedback.	Definition: Could include open meetings, surveys, consultations, etc. Unit:	USAID Grantees, NGOs	Georgian NGOs											
IR 2.3.2	Increased Capacity of local governments to Plan and Manage Resources Efficiently	1. Budgets and financial plans are prepared annually and made available to the public ²	Definition: Unit:	Local govts., USAID grantees	WB, Soros, EU, Local govt.											
IR 2.3.3	Increased Partnerships Between Local Govt, Business & Communities to Provide Services	1. # Increase in partnerships created to address a community issue.	Definition: Partnership consists of 2 or more groups; a minimum of 2 groups must be representative of 2 different categories; groups can provide financial or other support (logistical, expertise, information dissemination, etc.) Unit:		CSOs, NGOs, associations, local govts.											

¹ When possible and appropriate, indicators will be gender disaggregated.

² In the future, the following elements might also be considered to develop an index to capture organizational development of the local govt.: organizational roles/objectives defined; organizational procedures in place; management structure identified and operationalized; staff hired; staff training conducted.

PERFORMANCE DATA TABLE

Baseline, Targets, and Actual Results

SO 3.1 Reduced Human Suffering in Targeted Communities

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT ¹	SOURCE OF DATA	PARTNERS	BASELINE DATA		TARGETS AND ACTUALS											
						Year	V a l u e	2000		2001		2002		2003					
								Target	Actual	Target	Actual	Target	Actual	Target	Actual				
SO 3.1	Reduced Human Suffering in Targeted Communities	1. # Increase of people above the poverty line in targeted communities. 2. Increase in immunization rates. 3. Decrease in child and maternal mortality rates.	Definition: By 2000, data will be available by community; currently, data is available by region, broken down by urban and rural Unit:	WB UNICEF UNICEF	WB, GOG	1999 43%	%												
IR 3.1.1	Urgent Needs Met During Crises	1. Percentage of people in need during a given crisis who are assisted by USAID emergency relief programs, broken down by people fed, sheltered, etc.	Definition: The type of crisis will vary, and the level of assistance provided by other organizations will vary Unit:	USAID Grantees	ECHO, USDA, State/PRM, NGOs														

¹ When possible and appropriate, indicators will be gender disaggregated.

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						BASELINE DATA		TARGETS AND ACTUALS								
IR 3.1.2	Vulnerable Communities Meet Own Needs	<p>Index:</p> <ol style="list-style-type: none"> 1. Community groups organized to assess own needs. 2. Projects identified and resources mobilized. 3. Project successfully concluded. 4. Community groups undertake own initiative. 	<p>Definition:</p> <p>Unit:</p>	USAID Grantees	ECHO,USDA, WB, GOG, NGOs											
IR 3.1.2.1	Increased Capacity to Deliver Health and Other Services	<ol style="list-style-type: none"> 2. # Increase of citizens receiving/benefiting from projects. 3. Percentage of Community contribution to project (20% minimum). 4. Financial value of services delivered. 	<p>Definition:</p> <p>Unit:</p> <p>Disaggregated by type of service</p>	USAID Grantees												
IR 3.1.2.2	More Active Participation of Vulnerable Groups in the Economy	<ol style="list-style-type: none"> 1. # Increase in jobs created by USAID programs. 	<p>Definition:</p> <p>Unit:</p>	USAID Grantees												

KEY LINKAGES ACROSS STRATEGIC OBJECTIVES¹

RESULT	LINKAGE
SO 1.3 Accelerated Development and Growth of Private Enterprises	
IR 1.3.1 Increased Access to Credit by Domestic SMEs and Microentrepreneurs	<p>IR 2.3.3 Increasing access to credit by SMEs and microentrepreneurs will strengthen the business sector and better enable it to forge partnerships with local governments and communities.</p> <p>IR 3.1.2.2 While vulnerable groups are defined differently than SMEs and microentrepreneurs, there could be overlap; thus, increasing access to credit could help vulnerable groups be more active in local economies.</p>
IR 1.3.2 Reduced Transactions Costs	IR 2.3.3 Reducing the transactions costs for private enterprises will contribute to a stronger business sector, thereby enabling businesses to be more active partners with local governments and communities.
IR 1.3. 2. 1. Improved Policy, Legal, and Operating Environment for SMEs	<p>IR 2.2.1.1 A more suitable enabling environment for SMEs will help open up access to legal mechanisms for the business sector by contributing to increased public awareness of legal rights.</p> <p>IR 2.3.3 A more suitable enabling environment for SMEs will support the active participation of vulnerable groups in the economy, to the extent that the vulnerable groups overlap in definition with SMEs.</p> <p>IR 3.1.2.2 A more suitable enabling environment for SMEs will help vulnerable groups be more active in local economies, to the extent that SMEs and microentrepreneurs identified in SO 3.1 overlap.</p>

¹ The analysis explains linkages identified across Strategic Objectives at the IR and sub-IR levels. It does not show linkages within SOs. It highlights key strategic linkages, and is not intended to be inclusive of all potential linkages. Special initiatives are not represented.

RESULT	LINKAGE
<p>IR 1.3.2.2 Improved Efficiency of the Banking Sector</p>	<p>IR 2.3.3 Improving the quality, transparency, and efficiency of the banking sector could enable increased partnerships among local government, business, and communities to provide services at the local level by creating more opportunities for transactions to be successfully implemented.</p> <p>IR 3.1.2.2 To the extent that banking reform measures extend to outlying regions, improvement of the banking sector could help vulnerable groups become more active participants in the economy through improved access to lending mechanisms and other forms of financial assistance.</p>
<p>IR 1.3.2.3 Services Provided to Entrepreneurs and Enterprises by Business Associations</p>	<p>IR 2.2.1.1 Increased use of effective business associations will support increased public awareness of legal rights within the private enterprise sector, since advocacy and education are primary functions of associations, and thus help create access to the administration of justice for the business sector.</p> <p>IR 2.3.1.2 Increasing the number of entrepreneurs and enterprises represented by business associations will help provide increased representation of constituent needs at the local level since one function of associations is advocacy and representation of member interests.</p> <p>IR 2.3.3 More active business associations can contribute to increased partnerships between business, community, and government by allowing the private enterprise sector to be more organized and coherent participants in community service activities.</p>
<p>IR 1.3.3 Functioning Land and Real Estate Market to Support SME Growth</p>	<p>IR 3.1.2.2 Privatization of land and real estate could help vulnerable groups become more integrated in the economy.</p>
<p>IR 1.3.4 Selected Agribusiness Opportunities Identified and Facilitated</p>	<p>IR 2.3.3 Strengthening agribusiness could support stronger partnerships among business, local government and communities.</p> <p>IR 3.1.2.2 Strengthening agribusiness could support increased participation of vulnerable groups in the economy, to the extent that the assisted targeted groups intersect.</p>

RESULT	LINKAGE
SO 1.5 A More Economically Efficient & Environmentally Sustainable Energy Sector	
IR 1.5.1 Increased Private Sector Participation in Energy Sector	Overall, supports SO 1.3
IR 1.5.2 Legal and Regulatory Environment More Conducive to Private Investment in Energy Sector	Overall, supports SO 1.3 and SO 2.2
IR 1.5.3 Environmentally Sound Laws Adopted and Implemented in the Energy Sector	Overall, supports SO 2.2
IR 1.5.4 Increased Efficiency in the Energy Sector	IR 1.3.2 Increased efficiency in the energy sector will help private sector enterprises reduce transaction costs.
SO 2.2 Legal Systems that Better Support Implementation of Democratic Processes and Market Reform	
IR 2.2.1 Increased Access to Administration of Justice	<p>IR 1.3.2 Increasing access to counsel and courts could support reduced transaction costs for private enterprises by empowering enterprises and entrepreneurs to enforce judgments and contracts.</p> <p>IR 1.3.3 Increasing access to administration of justice could support a functioning land and real estate market to support SME growth by giving landowners access to legal tools needed to enforce</p>

RESULT	LINKAGE
	<p>titling and registration.</p> <p>IR 1.5.3 Increasing access to legal systems could help establish more laws directed at environmental protection by enabling interested citizens to be more involved in legislative and political processes, and to bring test cases that could establish legal precedent.</p> <p>I.R. 2.3.1 Increasing access to legal systems could help provide the means for citizens to become more active participants in local government oversight and political processes.</p> <p>IR 3.1.2.2 Increasing access to courts and other legal mechanisms could help vulnerable groups have fundamental legal rights met, thereby strengthening their ability to participate in local economies.</p>
<p>IR 2.2.1.1 Increased Public Awareness of Legal Rights</p>	<p>IR 1.3.1 Increased public awareness of legal rights could increase access to credit by generating demand on the part of constituents for greater access to credit.</p> <p>IR 1.3.2.3 Increased public awareness of legal rights could motivate constituents to demand more business associations that advocate on behalf of the private enterprise sector.</p> <p>IR 2.3.1.2 Increased public awareness of legal rights could support increased representation of constituent needs by generating demand on the part of constituents for more information and responsiveness on the part of local government representatives.</p>
<p>IR 2.2.1.2 Increased Availability of Effective Counsel</p>	<p>IR 1.3.2 Greater access to effective legal counsel could help reduce commercial transaction costs by enabling formerly under-represented entrepreneurs or enterprises to more effectively enforce contracts and to more effectively seek other means of redress.</p> <p>IR 3.1.2.2 Increased access to effective legal counsel could help vulnerable groups be more active participants in the economy by providing them with the means to obtain basic human and legal rights, thus strengthening their capacity to participate in society.</p>
<p>IR 2.2.2 Effective,</p>	<p>Building the capacity of legal institutions supports nearly all other IRs and sub-IRs in the Mission</p>

RESULT	LINKAGE
Transparent, and Fair Public and Private Legal Sector Institutions	framework because it seeks to strengthen the underlying institutional framework responsible for implementation of all policies, laws, and regulations across all sectors of society.
IR 2.2.2.1 Introduce Court Monitoring	IR 1.3.2 Court monitoring could contribute to reduced transaction costs for the private enterprise sector by helping to ensure that court cases related to commercial transactions are being appropriately handled.
IR 2.2.2.2 Increased Independence of the Judiciary	IR 1.3.2 Independent judges will be more likely to enforce contracts and other legal mechanisms without undue influence, thereby helping to reduce transaction costs associated with corruption, legal delays, and unfair court decisions.
IR 2.2.2.3 Increased Institutional Capacity (of legal sector institutions)	This sub-IR has the potential to create impact across nearly all results, because increasing the capacity of legal sector institutions will help strengthen the underlying institutional framework upon which all sectors of society rely.
IR 2.2.3 Policies, Laws, and Regulations Promoting Democratic Processes and Market Reform Established	This IR underpins the entire Mission strategic framework. Without a solid foundation of policies, laws, and regulations – development cannot occur. Therefore, this IR is a necessary condition for all other SOs.
SO 2.3 More Efficient and Responsive Local Governance	
IR 2.3.1 Increased Community Participation in Local Government Oversight and Political Processes	<p>IR 2.2.3 Increased citizen participation could lead to the establishment of policies, laws, and regulations needed for democratic processes and market reform by strengthening the role of citizen advocacy in legislative processes.</p> <p>IR 3.1.2 Increased citizen participation in oversight processes at the local level could help vulnerable communities better meet their own needs by generating demand for more effective representation of citizen needs by communities, to the extent that there is an overlap between targeted communities.</p>
IR 2.3.1.1 Increased Availability and Access to Different Sources of Objective	This IR has broad cross-cutting implications for numerous other IRs and sub-IRs, because a more informed public empowers the citizenry to take action and participate in the development of society across all sectors.

RESULT	LINKAGE
Information	
IR 2.3.1.2 Increased Representation of Constituent Needs	<p>IR 1.3.2.3 Increasing the number of Civil Society Organizations that effectively represent community and constituent needs could lead to an increase in the number of effective business associations, to the extent that that the target communities overlap, because one of the functions that CSOs might serve is to help establish mechanisms for effective representation of the private enterprise sector.</p> <p>IR 3.1.2.2 Increasing the number of Community Service Organizations that effectively represent community and constituent needs could lead to more active participation of vulnerable groups in the economy, to the extent that target communities overlap, since one of the functions of CSOs could be to help support vulnerable groups in a number of ways.</p>
IR 2.3.2 Increased Capacity to Plan and Manage Resources Efficiently (by local governments)	IR 3.1.2 To the extent that target communities overlap, increased local government capacity to manage resources more efficiently could help vulnerable communities meet their own needs by strengthening the public sector prong of the government-community-business triangle that will strengthen vulnerable communities.
IR 2.3.2.1 Legal Authorities of Local Government Established	IR 1.3.2.1 Enhanced local government legal authority could support an improved enabling environment for SMEs, to the extent that local governments have responsibility for overseeing policies that might affect private sector enterprise development.
IR 2.3.2.2 Better Defined Roles of Local and Central Government	IR 3.1.2.1 To the extent that target communities overlap, better defined roles for local government could contribute to an increased capacity to deliver health and other services for vulnerable communities.
IR 2.3.3 Increased Partnerships Between Local Government, Business, and Communities to Provide Services	<p>IR 1.3.2.1 Increased government-business-community partnerships could improve the operating environment for SMEs.</p> <p>IR 3.1.2 Increased government-business-community partnerships could help vulnerable communities better meet their own needs, to the extent that the target communities overlap.</p>
SO 3.1 Reduced Human Suffering in Targeted Communities	
IR 3.1.1 Urgent Needs Met in	This IR is specific to SO 3.1

RESULT	LINKAGE
the Event of Crisis	
IR 3.1.2 Vulnerable Communities Better Able to Meet Own Needs	<p>IR 2.3.2 To the extent that target communities overlap, more self-sufficient vulnerable communities could lead to increased capacity of local governments to plan and manage resources efficiently.</p> <p>IR 2.3.3 To the extent that target communities overlap, more self-sufficient vulnerable communities could lead to increased government-business-community partnerships for provision of services.</p>
IR 3.1.2.1 Increased Capacity to Deliver Health and Other Services	This sub-IR is specific to IR 3.1.2
IR 3.1.2.2 More Active Participation of Vulnerable Groups in the Economy	IR 2.3.3 To the extent that target communities overlap, more economically active vulnerable groups could contribute to increased government-business-community partnerships.

DONOR MATRIX

Development Area	WB/ IFC	IMF	EBRD	UN Agencies	EU (TACIS/ ECHO)	CoE OSCE	British Aid/ Know- How Fund	GTZ/ KfW	Soros	USG (State/ PRM, USDA, Treasury, DOJ)
Economic Restructuring										
Macroeconomic Policy Reform Stabilization, Structural Adjustment	X	X	X							
Energy	X		X	X	X			X		X
Private Sector	X		X		X			X		X
Privatization	X	X			X			X		X
SME	X		X	X	X		X	X		X
Agriculture	X			X	X			X		X
Infrastructure	X				X					
Increased Institutional Capacity for More Effective Policy Implementation	X			X	X					X
Civil Service Reform	X				X					

Development Area	WB/ IFC	IMF	CILC	UN Agencies	EU (TACIS/ ECHO)	CoE OSCE	British Aid/ Know- How Fund	GTZ/ KfW	Soros	USG (State/ PRM, USDA, Treasury, DOJ)
Democracy & Governance										
Elections				X	X	X	X			X
Local Government	X			X	X				X	X
Parliament				X	X				X	X
Executive Branch				X	X			X		X
Judiciary	X			X	X	X		X	X	X
Rule of Law	X		X	X	X			X		X
Civil Society				X	X					X
Human Rights				X	X	X				X

Development Area	WB/ IFC	IMF	EBRD	UN Agencies	EU (TACIS/ ECHO)	CoE OSCE	British Aid/ Know- How Fund	GTZ/ KfW	Soros	USG (State/ PRM, USDA, Treasury, DOJ)
Social Sector										
Emergency Assistance	X			X	X (ECHO)				X	X
Local Community Development								X		
Social Safety Net (Policy & Institutional Reform)				X	X (ECHO)					
Early Warning Systems					X					X
Health	X			X	X (ECHO)					X

Development Area	WB/ IFC	IMF	EBRD	UN Agencies	EU (TACIS/ ECHO)	CoE OSCE	British Aid/ Know-How Fund	GTZ/ KfW	Soros	USG (State/ PRM, USDA, Treasury, DOJ)
Conflict Prevention										
Community Development for Communities in Conflict				X	X					
Civil Participation in Developing CP Solutions				X	X					
Assisting GOG Planning				X	X					X
Cross Cutting										
Training/Education	X			X	X					X
Anti-Corruption	X			X						X

CONFLICT VULNERABILITY ASSESSMENT OF GEORGIA

Georgia has a number of natural advantages. It is a country with a well-educated population; a good climate and agricultural resources; modest but important mineral resources (including petroleum); a potentially viable industrial sector with outdated equipment, but trained industrial workers; a location which gives Georgia easy access to European and world markets as well as an opportunity to be a transportation corridor between Europe and Central Asia. So far, Georgia has not been able to take proper advantage of its natural and human resources. The USAID Mission is addressing the structural causes of the shortfalls in performance by Georgia in the social, economic and political spheres. While much has been achieved in the last several years, there are factors beyond USAID's capabilities that can adversely affect, and even derail, the progressive development of Georgia. Some of these factors can be influenced by USAID, but outcomes cannot be guaranteed by an agency whose area of action is social and economic development. The Mission's only practical option is to build political and economic stability through its programs to assist Georgia. Nevertheless, it is important to understand the vulnerabilities, which relate to armed conflict and the threat of armed conflict. Following is a brief description of the major conflict vulnerabilities that expose Georgian development to risk, and an assessment of the Mission's ability to respond.

1. Abkhazia The Abkhaz conflict currently is the most dramatic problem faced by Georgia. Although a distinct ethnic group, the Abkhaz have been associated with Georgia with varying degrees of independence since ancient times. In the Soviet period, Abkhazia was an autonomous republic (an "*oblast*") within the Soviet Socialist Republic of Georgia. Since the 19th Century, the Abkhaz have been frustrated to find themselves an increasingly smaller minority in their homeland. Shortly after the dissolution of the Soviet Union, Abkhazia declared its independence from Georgia. Beginning in 1992, in a series of military maneuvers and with Russian assistance, the Abkhaz expelled ethnic Georgians and have since maintained their state of rebellion. The estimated 280,000 ethnic Georgians who fled Abkhazia represent a potentially destabilizing force in western Georgia. Many of the IDPs supported the rebels in the 1992-93 Georgian Civil War, and are a continuing source of discontent on the political scene in Georgia, as well as a critical element in any attempted settlement of the conflict by the Minsk Group, five countries assisting in negotiating a settlement. A Russian force, under the aegis of the CIS, has been present in Abkhazia since the war ended.

Among the long-term costs to Georgia from the Abkhaz conflict are:

- the presence of a continual threat of destabilization from long-term, discontented IDPs who represent 6 percent of the population of Georgia;
- the unrelenting drain on public resources to provide assistance to the IDPs;

- the continual distraction of attention, energy and diversion of funds from the country's other critical problems to deal with the military and political problems created by the conflict; and
- the ever-present threat of renewed and costly armed conflict precipitated by either the Abkhaz, with Russian assistance, or by discontented groups in Georgia.

The Mission's strategy for the victims of the Abkhaz conflict in western Georgia is to use its programs to provide humanitarian assistance to the most vulnerable, to help Georgian institutions (both governmental, on national and local levels, and NGOs) increase their capacity to provide assistance to IDPs, and to help the IDPs become more economically self-sufficient. The Mission also has a number of projects to provide humanitarian assistance inside Abkhazia and conflict resolution among the warring parties. However, some are not in an active status. They are constrained by policy considerations imposed by the Minsk Group and security concerns related to the armed conflict. The thrust of the Mission's efforts to address the Abkhaz conflict is to create conditions that will promote economic and social stability among the IDPs as a means of lessening the threats of destabilization and the costs of assisting long-term IDPs, while increasing the capacity of the government on all levels to manage the situation without distracting it from the routine tasks of governance and development. The intent is to help the vulnerable populations move from relief to a degree of economic self-sufficiency. The USAID strategy, with its emphasis on local development and specific orientation to working in and nearby potential conflict areas, also presents a strong prevention approach to spread of conflicts.

A modest increase in the Mission's humanitarian assistance within Abkhazia would contribute to decreasing the sense of isolation among the people there. The Abkhaz receive almost all information about the outside world from the self-styled "Government of Abkhazia." The information permitted to be disseminated within Abkhazia is geared toward reinforcing the political position of the "Government" and is presented in a manner designed to increase ethnic tensions. Resentment among the Abkhaz has increased when they see that the vast majority of international humanitarian assistance for victims of the conflict has been given to ethnic Georgian IDPs. Some parties believe that a more equitable distribution of humanitarian assistance would help dissipate the resentment and stimulate interaction with outsiders, including humanitarian PVOs, and that such contact could contribute to a more critical attitude toward officially controlled information.

2. Alkhalkalaki There has been concern about the potential for conflict in the Alkhalkalaki areas near the border with Armenia. The majority population of the area is ethnic Armenian. A Russian base there is suspected of providing arms to members of the Armenian Djavakhk organization and Georgian Armenian separatists who desire autonomy for this region. In August 1998, the Georgian Army was prevented from conducting military exercises in this region when it was confronted by a group of heavily armed ethnic Armenians. The situation was resolved peacefully, and since that time tensions have eased considerably. However, this relatively isolated, poor, and ethnically distinct population remains tinder for a major conflagration. In September 1998, the Mission had the Office of Transition Initiatives (BHR/OTI) assess the situation in Alkhalkalaki. OTI determined that the major difficulty was both the physical isolation and the sense of political

distance from the mainstream. Since that time the Mission has taken advantage of opportunities to include this region in its programs, and efforts will be directed there under the new Strategy. The thrust of the activities is to promote economic and social stability by creating participation by stakeholders in the political and economic development of Georgia. It should be noted that there is no apparent ethnic rivalry or particular animosity between ethnic Armenians and ethnic Georgians living in the region.

There is an underlying assumption that Armenia or extremist groups in Armenia, like the Djavakhk, will not seek to destabilize areas bordering on Armenia, which appears to be borne out at the present time.

3. Adjara Adjara is an “Autonomous Republic” within the Republic of Georgia. The majority of people are ethnic Georgian and Muslim. After nearly a century as a province of the Ottoman Empire, Adjara was returned to Georgia after the Second Turkish-Russian War in 1878. The Autonomous Republic of Adjara is administered by an authoritarian, locally-elected governor, Aslan Abashidze, whose title is Chairman of the Supreme Council of Adjara. Adjara has a fairly strong economic base supported by the agriculture of the warmer climate of the Black Sea and the important sea and land port of Batumi, through which many goods enter and leave Georgia. Chairman Abashidze, is considered by some as a potential candidate for the Georgian Presidency. The sources of his power are a controlled political base in Adjara, a Russian military base, the perception of an administration effective in providing local services, and alleged financing from Russian sources. Occasionally, Abashidze makes overtures to the Armenians in Alkhalkalaki to join Adjara in some sort of a larger autonomous republic within which they would have more control and freedom. A political joint venture between Christian Armenians and Muslim Adjarans is not likely. Nevertheless, Abashidze is believed to have the power to be a spoiler in the national scene, although, it is unlikely that he would receive sufficient political support to win any important national office himself. Over time, as the situation in Georgia stabilizes economically and politically, Adjara likely will lose its importance as an independent power base.

4. South Ossetia Following the 1991 violence created by demands for independence, South Ossetia accepted the presence of a United Nations observation group, the United Nations Observation Mission in Georgia (UNOMIG). Many of the issues that led to armed conflict with the Ossets are on the path to resolution. At times the path is rocky, but there is dialogue between the central government and the government of Ossetia. Critical issues relate to national security, control of national borders, autonomy within the framework of the Republic of Georgia and the return of the 30,000 IDPs displaced by the conflict. In the near term, South Ossetia does not appear to represent a threat to the stability and development of Georgia.

South Ossetia has been associated with Georgia for many centuries, and the favorable resolution of the 1992-93 Civil War lowered nationalist extremism. The current instability in North Ossetia (which is part of the Russian Federation) may increase, but is not expected in itself to affect South Ossetia and its dialogue with the GOG or affect the development of Georgia. In any case, the Mission's programs to increase opportunities for participation in the economy and in democratic governance will create stakeholders in a stable Georgia.

5. North Caucasus Potential threats of destabilization in Georgia due to events in other areas of the Northern Caucasus are difficult to assess. There are constant rumors of a Chechnya-type rebellion or independence movement in Ingushetia and Dagestan. Even if there is active warfare in Ingushetia or Dagestan areas bordering Georgia, it is not likely that fighting, refugees or other conflict-related concerns would destabilize Georgia. During the Chechen conflict, Georgia was not affected directly. Although Chechens were involved in the last assassination attempt on President Shevardnadze, it is thought that others hired their services.

6. Armenia-Azerbaijan Renewed fighting in the state of no war/no peace existing between Armenia and Azerbaijan could create problems for Georgia. For example, the sudden death of President Aliiev of Azerbaijan, who is thought by the general public to be in ill health, can create an opportunity for Armenia to increase the area of Azerbaijan that it occupies. In the event succession does not take place quickly and smoothly because of confusion or a contest for power, a renewed war could force refugees to flow into Georgia, could precipitate fighting among the two ethnic groups within Georgia, and could cause borders to be closed limiting the flow of goods and commerce or other dislocations. Any involvement by other states would be to Georgia's detriment since it would expand the conflict. It is not clear what the Russians -- allies and suppliers of military assistance to Armenia -- would do in such a conflict. There is also the possibility that Central Asian states, fearful of having their land bridge to Europe cut off, would enter the fray. Neighboring countries like Iran or Turkey also have motives to see that Russian involvement in Azerbaijan is kept to a minimum. The Mission has been active in using its programs to promote regional cooperation among the three South Caucasus countries as a means of contributing to economic stability and conflict resolution. It is hoped that over time the benefits of an uncertain peace outweigh the incentives and presumed gains of war for Georgia's two neighbors.

7. Russia Russia represents vulnerability for Georgia in a number of different ways. Russia has five military bases in Georgia, which it has been reluctant to leave. The Russians have been critical to the success of the Abkhaz separatists, through the supply of arms and, at times, combat units. They have provided support, militarily and financially, to Adjara and to groups in Alkhalkalaki. The conventional wisdom is that the Russians are reluctant to give up the South Caucasus, including Georgia and Azerbaijan, which had been part of the Russian Empire for over 200 years. These countries have real value as buffer zones for Russia, and equally important, their independence is a constant reminder of lost imperial greatness.

For the Russians, the South Caucasus is a buffer in particular against Turkey and Iran, both of which have been competitors in war and peace for many centuries. To maintain its independence, Georgia, a small country, has sought alliances with distant countries as a means of protecting itself. All regional parties hope the uneasiness of relations between Russia and Georgia will diminish over time. In the meantime, the Mission can deal with these issues only by helping the Georgians build a strong economic base and a viable democracy.

APPENDIX E

ASSESSMENT OF ANTI-CORRUPTION IN GEORGIA

Attitudinal change and changes in the manner in which the public and private sector interact are key to combating corruption in Former Soviet Union (FSU) countries. The ingrained habits of seventy years of private deals and abuse of power cannot be successfully counteracted by stand-alone activities which crusade against corruption. A strong emphasis on transparency, accountability, rule of law, level playing fields, and access to information -- across the board in all assistance activities -- is the most effective approach. By promoting anti-corruption actions every day, in every strategic assistance area, USAID/Caucasus is sending a strong message that the fight against corruption is not limited to special occasions or specific circumstances but requires daily vigilance. By making anti-corruption activities an integral part of our assistance programs, we demonstrate our intolerance of corruption in any form and our commitment to its abatement.

Strategic Assistance Area 1: Economic Restructuring

Comprehensive Market Reform

The Comprehensive Market Reform program addresses corruption by supporting the creation of laws and practices which promote transparency and consistency in the development of private enterprise in Georgia.

Through the Tax and Fiscal Reform activity, USAID/Caucasus is providing extensive technical assistance to create a central, automated tax information-gathering and reporting system to ensure uniform application of the laws and to enhance the integrity and efficiency of the system. Georgia has one of the lowest tax compliance rates in the world. Tax avoidance is endemic, denying the Government critical revenues needed to provide public services and to pay salaries and pensions. The Tax and Fiscal Reform activity is currently being refocused to address the need for an effective internal audit function in the Large Taxpayer Unit of the Tax Inspectorate. Addressing this very visible example of corruption will demonstrate a new level of commitment to stamping out corruption on the part of the Government of Georgia (GOG). The Tax and Fiscal activity is also addressing the issue of excise taxes. It is estimated that only 9% of excise taxes were collected in 1998. The creation and enforcement of an excise stamp program also will demonstrate renewed attention to the fight against corruption on the part of the GOG.

An important success in the fight against corruption has been one product of the Land Privatization activity. In the face of concerted opposition from the State Department of Land Management, USAID/Caucasus, in partnership with Georgia's reform-minded Parliament, supported the passage and implementation of the strongest enterprise land privatization legislation in the FSU. The new enterprise (urban) land privatization law is simple, highly transparent and free from loopholes that would have permitted corrupt bureaucrats to solicit or extort extra-legal

payments from entrepreneurs. Key elements in the strategy to prevent corruption include the following:

- requiring only the use of existing sketch maps of property boundaries, not new surveys, to be certified by a government office;
- eliminating the need for a formal land registration application form that could have been sold for many times its cost or withheld pending a bribe;
- eliminating wide administrative discretion of officials in the determination of the level of a one-time payment by using an already published measurement; and
- requiring that a registrar who denies the registration of a parcel state the reasons in writing.

Less than three months after the promulgation of the law, more than 3,000 commercial enterprises have qualified to receive titles. There have been no substantiated complaints of corruption to date.

A second land law was enacted to administer the lease and sale of non-agricultural land not in use by private and privatized enterprises. This law, the Law on Administration, created a great number of loopholes for bureaucratic misbehavior and corruption. USAID/Caucasus and the World Bank have joined forces to draft revisions to the law to improve transparency in the allocation of leases and in sales. In addition, USAID/Caucasus is turning its attention to agricultural (rural) land privatization both to bring the benefits of privatization to rural areas and to more widely demonstrate the benefits of transparency and accountability.

USAID/Caucasus has agreed to place a consultant in the Ministry of State Property Management (MSPM) for a limited period to assist in the orderly and transparent placement of residual shares of previously privatized enterprises. In the case of enterprises in which the MSPM holds a majority position, the consultant will help to assess options for stock sales, including the placement of controlling blocks with strategic investors who stand ready to bring new capital and technology to Georgian firms. USAID's support to the MSPM has both technical and anti-corruption content. The Minister of State Property Management has a reputation for honesty and has declared that he wants the sale of state-owned-enterprises to be both transparent and consistent with national economic priorities.

Other Market Reform activities aimed at combating corruption are Enterprise Accounting Reform and Capital Market Infrastructure Development. Reliable accounting and audit information is critical to efficient management. It is also critical to reducing fraud and mismanagement and promoting transparency and accountability. The Accounting activity continues to make progress on adoption of International Accounting Standards (IAS) as the accounting standards for private enterprise in Georgia, and on GOG agreement that the accounting standards be interpreted by professional practicing accountants, not the Ministry of Finance. Use of IAS is critical to fair valuation of goods and services. It is a transparent system, which does not lend itself to hiding costs or assets. The Ministry of Finance continues to use Soviet-style accounting which is not

cost-or-value-driven. USAID/Caucasus is engaged in dialogue with the Ministry to convince them of the benefits of adopting IAS for the Government.

The Capital Markets Infrastructure Development activity will create a securities trading mechanism and independent registry system with high degrees of systemic integrity and transparency. Only an open, transparent and efficient system will gain investor confidence.

Other Economic Restructuring Reform Programs

- USAID/Caucasus is assisting the GOG in developing a legal and regulatory environment conducive to free trade and investment in Georgia. The primary activity is to facilitate Georgia's accession to the World Trade Organization (WTO). Membership in the WTO requires that Georgia conform many of its laws and practices to international standards, helping to eliminate favoritism. Georgia is making excellent progress and likely will become a WTO member by the end of 1999.
- The Mission is implementing a Commercial Bankers' Training activity, which provides finance education, and retraining for bank executives, management and technical staff. Important results of this activity are transparency in access to credit and delivery of loan services, as well as the undermining of crony capitalism.
- A new activity -- Banking Supervision -- has just begun. Through this activity, bankers will be trained in modern supervisory techniques, on-site and off-site supervision and problem bank resolution leading to a more accountable private banking system in which the public can have confidence.
- In a related activity, USAID/Caucasus provides information technology services to the National Bank of Georgia. This activity has put Georgia on the path to having a secure electronic payment transfer system and the ability to protect against the electronic theft of domestic and international financial assets.

Energy Sector Restructuring

In the Energy Sector, USAID/Caucasus combats corruption by supporting systemic reform.

USAID/Caucasus was instrumental in the development and passage of an Electricity Law which separated policy-making, the creation of regulations such as a tariff system and market rules, and electricity system operations, breaking the monopoly of the state power company and improving accountability of operating units. Another anti-corruption achievement is the creation of Georgia's first independent regulatory body -- the Georgian National Electricity Regulatory Commission (GNERC).

However, much remains to be done. Georgia's generation, distribution and transmission entities are notorious for their lack of financial controls and accurate reporting. Due to inefficient operations and poor cost accounting, the state is losing significant tax revenue.

USAID/Caucasus will continue to support GNERC as it undertakes the difficult task of bringing transparency to the sector through the development and implementation of new tariff structures and market rules.

Bill collection remains a serious problem. It is estimated that collections hover at around 50 %, of which 17% is a direct transfer made by the GOG for pensioners and GOG employees. The provision of electricity is haphazard at best -- especially during the winter months. Currently in Georgia, the meter reader is also the bill collector. This process leads to corruption. Most meters are inside customers' homes. The customer reaches a financial agreement with the collector who reports lower-than-actual usage while pocketing a portion of the reduced payment. Some collections include a barter arrangement, which does not accrue to the benefit of the electricity distribution company. Through the Rustavi pilot project, USAID/Caucasus has successfully demonstrated that corruption in electricity metering, meter reading, collections and billing can be eliminated through the adoption of individual, outside-the-home metering, and separation of meter reading from billing and collections. Over 96% of customers are paying their bills in the pilot project, demonstrating that people are willing to pay when they believe that payments are properly recorded and used. The Rustavi project is being expanded by popular demand. In addition, AES, the American company that recently purchased Telasi, the largest power distribution company in Georgia, has begun a program to follow the Rustavi model.

In the oil and gas sector, the physical delivery of energy products is poorly tracked and reported by the GOG. Lack of an adequate legal and regulatory framework and the existence of a Government monopoly body compound the problem. Building on its success in the electric power sector, USAID/Caucasus is promoting a Petroleum Law, regulatory system and regulatory entity in the oil and gas sector.

Strategic Assistance Area 2: Democracy

Rule-of-Law

USAID/Caucasus has worked closely with other donor organizations and reform-minded counterparts who have demonstrated the political will to tackle the problems that facilitate corruption. The rule-of-law (ROL) strategy consists of coordinated, sequenced initiatives that mainstream anti-corruption initiatives. The ROL strategy facilitates the movement away from a society that practices the Soviet-era rules-of-the-game to one based on the rule-of-law. The institutional reforms respond to the internal pressure for reform. In 1999, USAID proposes to expand its activities to work with professional associations through NGOs, monitor court proceedings.

A significant component of the ROL assistance supports the establishment of a competent, honest and independent judiciary. The 1997 Law on Courts of General Jurisdiction formally increased the independence of the courts by transferring the responsibility for implementing judicial reform from the Ministry of Justice to a newly established Council of Justice. The Council is composed of reform-minded representatives from the executive, legislative and judicial branches.

The Law on Courts mandates that judicial candidates pass a judicial qualification exam. USAID/Caucasus provides technical assistance for administering the exams. The public views the qualification exams as fair and transparent, owing to the extensive media coverage the exams receive. The exams are starting to change peoples' negative attitudes about Georgian capacity to conduct an honest examination process and has helped galvanize political will for judicial reform. Subsequent amendments to the Law on Courts further refined and professionalized the selection and removal process for judges. USAID/Caucasus provides assistance for judicial capacity-building through training. In addition to developing judicial skills, the training activities inculcate the new judges with the spirit of a competent, honest and independent judiciary. The new judges receive a great deal of public recognition and are determined to maintain their reputations for honesty and integrity.

The Law on Courts mandates the establishment of a Conference of Judges and specifies that the Conference meet twice a year and implement the judicial ethics code. All sitting judges are members of the Conference of Judges. Assistance for drafting a judicial ethics code, on which the Conference will vote, has been provided. In addition, USAID/Caucasus is supporting the first organizational meeting for the Conference. In the event that the old judges come to dominate the Conference -- a possibility since they currently outnumber the new judges -- the assistance will shift to the establishment of a private Judges Association with membership limited to sitting judges that have passed the qualification exam. USAID/Caucasus-supported judicial ethics training is on-going.

The failure to provide a living wage constitutes one of the root causes of judicial corruption. In this regard, the GOG has undertaken the single most important initiative to fight judicial corruption. The judges who pass the qualification exam will receive a dramatic salary increase. Assuring the financial independence of judges is no small matter, considering the country's severe economic problems.

USAID/Caucasus has and will continue to provide technical assistance to Parliament and the Executive Branch for drafting and implementing the key laws that provide the legal framework for fighting corruption. USAID sponsors conferences and workshops for Georgian lawyers from the private and public sectors to ensure their input in the drafting process, familiarize the attorneys with proposed laws and strengthen the political will for enacting and implementing reform laws. Finally, USAID/Caucasus funds Georgian lawyers, usually the primary drafters of the reform laws, to write commentaries and practical how-to manuals on the new laws. Parliament's Legal Reform Committee and the Ministry of Justice have been the principal counterparts for the reform laws discussed below.

The Civil Code was one of the first pieces of reform legislation. Six books constitute the Civil Code, two of which are the Law on Obligations and the Intellectual Property Law. These two laws clarify property rights and the commercial relationship between parties and reduce opportunities for corruption. On another front, the recently passed Criminal Procedure Code, and the Criminal Code which is, expected to pass in Spring 1999, will provide important weapons to prosecute corrupt acts.

In order to increase honesty, efficiency and fairness in the government, significant assistance has been provided for the development of an Administrative Code, expected to pass in 1999. The Administrative Code will provide fair and transparent processes and procedures for individuals and businesses to interact with their Government and afford an opportunity for the courts to review the legality of executive branch actions. Furthermore, the Administrative Code will provide a mechanism for the newly elected local government counsels to seek redress for arbitrary central government decisions. Support for a Freedom of Information Law will further ensure transparency within administrative bodies.

A Business Licensing Law will prove particularly important. Currently, businesses must obtain a plethora of licenses from several government agencies. Limiting license requirements to a few sectors that directly impact public health and safety will strip government officials of rent-seeking opportunities. Furthermore, the proposed law will reduce transaction costs, eliminate bottlenecks and foster competition.

In FY 1999, USAID will initiate new activities for Non-governmental Organizations (NGOs) and business professional associations. The work with professional associations will enhance the effectiveness of the proposed Administrative Code. In many cases, a small or medium-size business cannot afford the time or expense of challenging over-intrusive laws and regulations and corrupt government actions. A professional association, however, can undertake such actions. Furthermore, a professional association can develop codes of conduct for its members.

A court watch program will send Georgian observers into the courts to monitor the performance of judges and prosecutors. The information gathered will be published with the objective of stimulating reform and improvements in court performance. Violations of judicial ethics and procedure will be reported to the Supreme Court.

A third key activity will carry out a poll of legal professionals on how to improve the judicial system and rate judges. The poll will provide a powerful tool for capturing the attention of government authorities and elevating judicial issues in the mind of the public. Findings will be published and a conference held to discuss the results and make recommendations. The poll will provide base line information, against which subsequent polls will show indicators of success.

The court watch and court poll activities will shine light on the judges' court performance and help deter and remedy corruption. Furthermore, the new activities will enable production of a systematic record of what really happens in the courts. Such factual information will inform the public of anti-corruption efforts and prove far more useful than the anecdotal information that now circulates. An informed and involved civil society will help guarantee proper judicial process.

Civil Society

Since 1995, with USAID/Caucasus assistance, Georgian NGOs have played a crucial role in demanding reform and an end to corrupt practices. USAID/Caucasus also has worked to facilitate better and more regular consultations between the reformist Georgian Parliament and

NGOs on issues of public interest. Such external assistance recognizes that reform programs must be owned and driven by the internal actors.

Financial support and training enable Georgian NGOs to actively monitor and report on cases of misuse of power and authority by government officials. For instance, in 1998, the Liberty Institute investigated the financial dealings of the well-connected and powerful Minister of Communications and launched a vigorous public information program, which led to parliamentary hearings and his subsequent resignation.

USAID/Caucasus provides funding which assists Citizen Advisory Councils (CAC). To date, CACs have organized public budget hearings in five regions of Georgia. The budget hearings have led to more accountability by local officials to the public.

Decentralization

A recent change with far-reaching consequences took place on November 15, 1998, when, with substantial USAID/Caucasus assistance, the first elections were held for councils at the local, municipal and district levels. A broad range of activities to support devolved governance is already underway.

In addition to providing technical assistance which produced a local budget law, USAID/Caucasus is sponsoring a year long series of training events for the newly elected local, municipal and district-level council members. These are the first locally elected officials in Georgia's history. The first conference, held in February 1999 provided two members from each of the 65 districts with training and reference materials and a procedures manual on their functions and responsibilities, budget and tax planning, relations with the executive branch and Parliament, oversight and constituent relations. This inaugural effort will be followed by a month-long USIS Community Connections program in the U.S., which will provide more advanced exposure to the basics of local governance, especially budget planning and monitoring, for 40 council members. In spring 1999, a grant competition for local council initiatives will be launched. It is anticipated that this series of activities will energize the councils to quickly become effective counterweights to the appointed authorities who have governed the majority of the country for many years with little accountability to the local citizenry in their respective districts. The power of the purse should make a significant difference in the political and economic environment, empower local communities and provide average citizens with the means to identify and resolve their problems, while holding the government to account for its management of public resources.

Political Process

USAID/Caucasus efforts to reform the political process and empower the average Georgian citizen operate on multiple levels.

In the area of elections, training and commodities provide the means to amend Soviet-era election laws and reform electoral institutions, procedures and practices. On the demand side, through assistance from USAID/Caucasus-supported grantees, NGOs and the Georgian public learn the

political process, debate the stakes, question candidates and monitor the outcome. The media, also with USAID/Caucasus support, are actively involved in the campaign and electoral process -- hosting candidate roundtables and call-in shows, tracking campaigns and reporting on the conduct and results of elections. Political parties receive training on message and platform development, constituent outreach, and the nuts and bolts of electoral competition, including get-out-the-vote techniques, requirements for candidate registration, electoral processes and how to file complaints. These diverse groups have changed the environment for elections. Though many improvements are needed to further level the playing field, continuous and vigilant monitoring of the electoral process has changed the Georgian political environment, ensuring that attempts to manipulate the process and the results will be publicly identified, protested and pursued in the courts.

USAID/Caucasus works with the Georgian Parliament to streamline and modernize its operations, provide oversight of the executive branch and focus attention on responding to constituent and advocacy group demands for consultation and performance. In less than four years, led by a dynamic group of forward-thinking Members, the Parliament has passed more than 300 laws including major reforms such as privatization, reform of the judiciary and procuracy, a new tax code, and many others. The process now features regular public consultation with NGOs, the private sector and other advocacy groups, thus increasing citizen oversight of their representatives' actions. Within the Parliament, an ad-hoc Anti-Corruption Commission, as well as sectoral committees, have become increasingly aggressive in their oversight of the executive branch, conducting investigations and hearings that have led to resignations of several ministers accused of corruption and abuse of power.

Media

The Georgian mass media have been among the most influential and outspoken sources of information on corruption. USAID/Caucasus support for the development of independent television stations has considerably improved the objectivity of news programming, the professional level of journalists and investigative journalism. The reputation, economic viability and influence of the independent broadcast media grow steadily.

Public policy and watchdog NGOs cooperate closely with the independent media. USAID/Caucasus-supported grantees arranged televised round-table discussions with independent stations before local council elections in Telavi, Kareli and Batumi. In Kareli, after the program was aired, regional authorities seized the station's files, ostensibly for audit purposes, and threatened the station director. NGOs provided legal assistance and publicity, and the regional authorities subsequently dropped the case. The weekly news exchange program, *Kvira*, also prepared several stories on improper actions at Sakenergo, the State Electricity Transmission and Dispatch Company. The investigation prompted the Tbilisi City Council to hold hearings. By exposing these improper acts, the media generated popular indignation and prompted the Government to take appropriate action.

Kvira also featured a story on the Tbilisi police chief, who was building several private houses in the capital region. The police chief, who was not required to file financial disclosure documents

based on his rank, subsequently was forced to do so and to explain his activities on television. This type of media spotlight is turning corruption from a low-risk, high-profit activity to a high-risk, low-profit activity.

Strategic Assistance Area 3: Quality of Life

Humanitarian Assistance

USAID-funded humanitarian assistance is mostly provided through international organizations.

The USAID Georgia Winter Heating Assistance Program, initiated in January 1999, is a vulnerable population registration project which will be used to better target humanitarian assistance and eventually to target social safety-net services. An important component of this activity is to increase transparency in how beneficiaries are selected for humanitarian assistance, reducing the possibility of corruption in their selection.

FIREWALLS

All USAID technical assistance programs have built-in safeguards to ensure that the funds are used for the purpose for which they were intended. These include detailed internal planning documents, regular financial reports, audits, site visits and close-out reports.

The majority of USAID funds are obligated through grants, contracts and cooperative agreements. USAID holds the contractors and grantees responsible for the correct use of these funds. USAID staff is required to interact frequently with contractors and grantees in order to assure themselves that implementation activities are proceeding properly.

The small amount of commodities which are purchased as part of program implementation (e.g. computers for Parliament) are always purchased by USAID/Caucasus' contractors and grantees, and their correct use monitored throughout the life of the program. Used commodities are disposed of in accordance with applicable U.S. regulations.

Commodity programs involving the GOG are prepared with specific provisions to increase accountability and transparency. USAID routinely insists that existing discrepancies be resolved before commencing new programs. An example of this rigor is found in the new Georgia Winter Heating Assistance Program (GWHAP). The GOG has been informed verbally and in writing that the GWHAP did not commence until it fully reimburses the U.S. Government for humanitarian winter fuel diverted during the winter of 1997/1998.

All USAID/Caucasus program activities are carried out through contractors or grantees. There are no direct payments made to the GOG.