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PROJECT PERFORMANCE ASSESSMENT REPORT

GEORGIA

JUDICIAL REFORM PROJECT
(CREDIT NO. C3263 GE)

STRUCTURAL ADJUSTMENT CREDIT 3
(CREDIT NO. C3265 GE)

REFORM SUPPORT CREDIT
(CREDIT NO. C3937 GE)

December 29, 2008

Country Evaluation and Regional Relations
Independent Evaluation Group (World Bank)

Currency Equivalents (annual averages)

Currency Unit =Lari (GEL)

2001	US$1.00	GEL 2.07
2002	US$1.00	GEL 2.19
2003	US$1.00	GEL 2.15
2004	US$1.00	GEL 1.92
2005	US$1.00	GEL 1.81
2006	US$1.00	GEL 1.78
2007	US$1.00	GEL 1.67

Abbreviations and Acronyms

ALPE	Association for Legal and Judicial Public Education
ASYCUDA	Automated Systems for Customs Data
BDD	Basic Data and Directions
BEEPS	Business Environment and Enterprise Performance Surveys
CAS	Country Assistance Strategy
CPAR	Country Procurement Assessment Report
DLS	Department for Logistical Support
EDPRP	Economic Development and Poverty Reduction Program
GORBI	Georgian Opinion Research Business International
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IEGWB	Independent Evaluation Group (World Bank)
IMF	International Monetary Fund
JTC	Judicial Training Center
MOJ	Ministry of Justice
NGO	Non-Government Organization
PAD	Project Appraisal Document
PPAR	Project Performance Assessment Report
SAC	Structural Adjustment Credit
SAESA	Social Assistance and Employment State Agency
STA	Single Treasury Account

Fiscal Year

Government: January 1 – December 31

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To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

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Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

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Principal Ratings

Judicial Reform Project (Credit No. 3263 GE)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Institutional Development Impact	**	**	—
Risk to Development Outcome	Substantial	Significant	Negligible
Sustainability	***	***	—
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory

Structural Adjustment Credit 3 (Credit No. C3265 GE)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Institutional Development Impact**	Modest	Modest	—
Risk to Development Outcome	—	—	High
Sustainability***	Unlikely	Unlikely	—
Bank Performance	Satisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Satisfactory	Unsatisfactory	Unsatisfactory

Reform Support Credit (Credit No. C3937 GE)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Institutional Development Impact**	Substantial	Substantial	—
Risk to Development Outcome	—	—	Moderate
Sustainability***	Likely	Likely	—
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.
**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.
***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

Key Staff Responsible

Judicial Reform Project (Credit No. 3263 GE)

Project	*Task Manager/*	*Sector Manager*	*Country Director*
Appraisal	Friedrich Peloschek	Sanjay Pradhan	Judy M. O'Connor
Completion	David S. Bernstein	Ronald E. Myers	D-M Dowsett-Coirolo

Structural Adjustment Credit 3 (Credit No. C3265 GE)

Project	*Task Manager/*	*Sector Manager*	*Country Manager*
Appraisal	Leila Zlaoui	M. Ataman Aksoy	Judy M. O'Connor
Completion	Rocio Castro	Samuel Otoo	D-M Dowsett-Coirolo

Reform Support Credit (Credit No. C3937 GE)

Project	*Task Manager/*	*Sector Manager*	*Country Director*
Appraisal	Su Yong Song	Samuel Otoo	D-M Dowsett-Coirolo
Completion	Su Yong Song	Samuel Otoo	D-M Dowsett-Coirolo

Preface

This is a Project Performance Assessment Report (PPAR) for three operations in Georgia: the Judicial Reform Project (FY99), the Third Structural Adjustment Credit (FY99), and the Reform Support Credit (FY05).

The three were chosen for a PPAR in support of the Georgia Country Assistance Evaluation (CAE) and to complement an earlier PPAR of seven projects carried out and issued in July 2003.

The Judicial Reform Project, costing $16.3 million, was supported by a credit of SDR 9.9 million ($13.4 million equivalent) from IDA. The credit was approved on June 30, 1999, and closed in June 30, 2006, three years after the original closing date.

The Third Structural Adjustment Credit (SDR 44.3 million, $60 million equivalent) was approved on June 30, 1999 and closed on October 30, 2002 - after three extensions and 22 months later than the original closing date of December 31, 2000. The credit was disbursed in three tranches.

The Reform Support Credit (SDR 16.6 million, $24 million equivalent) was approved on June 24, 2004, disbursed on August 19, 2004, and closed on December 31, 2004. It was disbursed in one tranche following effectiveness.

This PPAR is based on a review of relevant World Bank documents, including the Implementation Completion Reports (ICR) and the ICR Reviews for the three operations. It is also based on interviews conducted with Georgian officials, representatives of the private sector, academia, think-tanks, NGOs, other donor agencies, and Bank staff at headquarters and Tbilisi Resident Mission.

Comments from the Bank's Regional Management have been incorporated in the report. The draft PPAR was sent to the Government of Georgia for comments following standard IEG procedures and no comments were provided as presented in Annex B.

This report was prepared by Jorge Garcia-Garcia (consultant, IEGCR). Konstantin Atanesyan (IEGCR) was the task manager. Corky de Asis provided research and administrative support.

Summary

1. This PPAR reviewed three inter-related operations in Georgia over the 1999-2007 period, in support of institutional change. One operation was an investment credit for the judicial sector that sought to make the judiciary more effective, professional and independent. The two other operations were credits that sought to support economic adjustment and stability, better governance, better use of fiscal resources, and the growth of the private sector. The Judicial Reform Project (FY1999) was supported by an IDA credit of SDR 9.9 million ($13.4 million equivalent) that closed in June 30, 2006, three years after the original closing date. The Third Structural Adjustment Credit (SAC3, FY1999), an IDA credit of SDR 44.3 million ($60 million equivalent), was closed on October 30, 2002, 22 months after the original closing date of December 31, 2000. The credit was disbursed in three tranches. The Reform Support Credit (FY2004) - an IDA credit of SDR 16.6 million ($24 million equivalent) was closed as planned, in December 31, 2004. It was disbursed in one tranche following effectiveness.

2. Located on the southern flanks of the Caucasus Mountains, with a population of 4.6 million and land area of 69,700 square kilometers, Georgia became independent in April 1991. External shocks in the early 90s led to economic hardship and political instability. A far-reaching stabilization program, launched in September 1994, succeeded in ending hyperinflation and restoring growth, but a weak fiscal situation and the Russian financial crisis of 1998 disrupted the economy. In 1999 the Lari depreciated sharply, growth slowed, and inflation increased. Prudent monetary policy restored stability and growth recovered in 2002-2003 but by then the Georgian state was on the verge of collapse. The public had lost confidence in the government, the economy had become more dollarized, corruption was rampant, and the environment for businesses was dismal. In November 2003, after a peaceful mass uprising known as the "Rose Revolution," Eduard Shevardnadze, Georgia's president, resigned. His government was replaced by a group of reformers that took steps to reduce corruption, improve fiscal management, and deregulate the economy. The reforms set the stage for developing a market economy and making the private sector the main agent of growth. They led to faster growth, a sharp fall in petty corruption, and more public revenues and investment.

3. The credits sought to help solve some of the problems noted above. The credit for Judicial Reform sought to help develop an independent and professional judiciary, committed to high standards of judicial ethics and capable of efficient and effective dispute resolution. An independent and effective judicial system was expected to help the private sector, to uphold property and contract rights, and to reduce corruption. The third Structural Adjustment Credit (SAC3) sought to support the Government's program to reduce macroeconomic imbalances and to provide an adequate incentive structure for private sector development. The credit supported reform of legislation and regulations, liberalization of markets and privatization of state-owned companies, and stronger fiscal performance while lessening the adverse impact of stabilization on the poor. The Reform Support Credit sought to help define a bold program of economic, legal, and social reforms aimed at improving governance and anti-corruption and public financial management; and at resolving crucial issues in the energy sector. The credits supported

the objectives of Bank assistance of promoting private sector development, strengthening public finance, and improving governance and efficiency of public expenditure.

4. Two of the credits were approved in June 1999 (SAC3 and Judicial Reform), when the appetite for reform no longer existed. Following the defeat of hyperinflation and the return of growth, the government lost the urgency to reform, in part a casualty of the influence of former communist nomenklatura and the shadow 'economic elite' that sapped "the ability of the new state to reform itself" (Wheatley, 2005, 103.) With multiple and ambitious conditions seeking reform, SAC3 was predestined to fail in that environment. The second one, Judicial Reform, sought lofty goals, an independent, more effective judiciary, committed to high standards of judicial ethics, but lacked the means to achieve them. The third credit, Reform Support, approved in May 2004, found a favorable climate for reform and succeeded in achieving its goals. Although its conditions consisted mainly of action plans and could not guarantee results, the government met them; after the credit closed, the Government carried out the plans, delivering most of the results expected.

5. The government's reluctance to reform and the Bank's ambitious objectives marred the results for the Judicial Reform and SAC3 credits. In Judicial Reform, the overall objective of judicial independence, efficient and professional judiciary committed to high standards of judicial ethics was not achieved. In SAC3, the mismatch between the tools used and the objectives sought led to poor results; these could have been avoided if the government had carried out the reforms indicated in the action plans. The results of the Reform Support credit did not suffer the fate of SAC3 because the government was committed to sustaining the actions that the program document and the credit agreement sought. Based on these considerations, this review rates the outcome for Judicial Reform and SAC3 as *moderately unsatisfactory,* and for Reform Support as *moderately satisfactory*. The review rates as *negligible to low* the risk to development outcome for Judicial Reform (the buildings and hardware will remain), as *high* that for SAC3 (at the time of closing) and as *moderate* that for Reform Support (government unlikely to backtrack on changes already done).

6. The following lessons emerge from the three credits evaluated:

- The experience of SAC3 and Reform Support Credits reiterates that Bank support can be effective in promoting and supporting change when the authorities are ready for reform, but not otherwise. When the authorities are not ready it could be argued that financial support may weaken the need for change and strengthen the capacity to maintain the status quo.

- The experience of the Judicial Reform Project shows that making the judiciary more independent, effective, adherent to higher ethical standards and professional requires interventions that go beyond rehabilitating infrastructure, using information technology, and educating the public. Establishment of an independent and effective judiciary requires strong political will and continuous commitment of the country authorities, which a Bank operation can only complement, but not substitute for.

- The experience of the Reform Support Credit shows that simpler rules reduce opportunities for corruption. When the government simplified the rules and streamlined administrative procedures in organizations like the traffic police, customs, and tax administration their staff delivered better services and extorted fewer bribes.

Vinod Thomas
By Christine Wallich

1. Background

1.1 Located on the southern flanks of the Caucasus Mountains, with a population of 4.6 million and land area of 69,700 square kilometers, Georgia became independent in April 1991. External shocks, civil war movements, and policy mistakes led to economic hardships and political instability. By 1994 the wars and the economic policies had ravaged the economy (See Table 1). The appointment of E. Shevardnadze as president brought some stability to the country. As the conflicts abated and political instability declined it became easier to start a stabilization program in September 1994. The government liberalized prices and trade, increased revenues from taxes, curtailed its expenditure, and limited Central Bank financing of its deficit. The program succeeded, ending hyperinflation and restoring growth.

Table 1. Output and Prices, 1989-94

	1989	1990	1991	1992	1993	1994
GDP Indicators						
% Change in Real GDP	-4.8	-15	-20.1	-44.8	-25.4	-11.4
GDP index (1989=100)	100	95	76	42	31	27.8
Inflation Indicators (in percent change)						
GDP deflator	–	–	61	1,516	11,739	9,354
Retail/consumer prices in Tbilisi (year average)	0.9	4.8	79	810	3,126	15,607

Source: IMF Reports

1.2 Following this success, over the period 1997-2003 the government maintained macroeconomic stability and sustained reforms until 1997, albeit with difficulties. A weak fiscal situation and the Russian financial crisis of 1998 disrupted the economy. The Lari depreciated sharply, growth slowed, and inflation increased in 1999. Severe droughts in 1998 and 2000, price increases of imported energy in 2000, and the Turkish financial crisis of 2001 also contributed to the slowdown in growth. Prudent monetary policy restored stability and growth recovered in 2002-2003, but the public had lost confidence in the financial system and the economy became more dollarized. The Shevardnadze government became increasingly reluctant to deepen the reforms Georgia needed to foster a market economy and increase growth. Public finance did not strengthen as expected, corruption grew unchecked, and the environment for businesses deteriorated.

1.3 By 2002-03, the Georgian state was on the verge of collapse. In November 2003, after a peaceful mass uprising (the "Rose Revolution"), Mr. Shevardnadze resigned. His government was replaced by a group of reformers, under the leadership of Mikheil Saakashvili who was elected president in January 2004. The new government took steps to reduce corruption, improve fiscal management, and deregulate the economy, setting the stage for developing a market economy and making the private sector the main agent of growth. The wide ranging reforms led, among other results, to faster growth, much higher tax revenues and public investment in infrastructure, normal operation of the electricity service, elimination of pension arrears, and almost complete eradication of petty corruption.

1.4 Georgia's economy has advanced since 1994. GDP per capita more than doubled between 1994 and 2007 and poverty rates have declined. (See Table 2). Inequality has increased, though, probably affected by the changes the country had to carry out given how it started its independence: with war, political turmoil, large external shocks, a stock of physical capital inappropriate for its new market economy, and policy makers unprepared to handle a market economy.

Table 2. Poverty Indicators

	1994	1997	1998	1999	2000	2001	2002	2003	2004	2005
Poverty [a/]	85	42.9	45.2	45.7	49.1	51.2	45.4	50.7	51	36.1
Inequality [b/]	0.4 [c/]	0.52	0.52	0.58	0.56	0.54	0.55	0.56	0.53	0.53

Notes: [a/] Percentage of population below minimum subsistence poverty line

[b/] Gini coefficient: 1 implies high inequality, 0 implies no inequality

[c/] Data refers to 1993

Source: State Department of Statistics Yearbook.

1.5 The three credits this PPAR evaluates sought to help solve some of above problems. The Judicial Reform Project, approved in June 1999, sought to help develop an independent and professional judiciary, committed to high standards of judicial ethics and capable of efficient, effective dispute resolution. An independent and effective judicial system was expected to help the private sector to enforce property and contract rights. The third Structural Adjustment Credit (SAC3), approved in June 1999, sought to support the Government's program to reduce macroeconomic imbalances and to provide an adequate incentive structure for private sector development. The credit supported the reform of legislation and regulations, the liberalization of markets and privatization of state-owned companies, and a stronger fiscal performance while lessening the adverse impact of stabilization on the poor. The Reform Support Credit, approved in May 2004, sought to help define and launch a bold program of economic, legal, and social reforms aimed, in particular, at improving governance, reducing corruption, strengthening public financial management; and resolving crucial issues in the energy sector.

2. Judicial Reform Credit

Project Objective

2.1 The project sought "to assist in the development of an independent and professional judiciary, committed to high standards of judicial ethics and capable of efficient, effective dispute resolution." (Project Appraisal Document –PAD Report No. 19346-GE, June 7, 1999, p. 2).

Design and Implementation

2.2 *Components*. The project consisted of seven components with a total expected cost of US$16.3 million, of which the Bank financed US$13.4 million (See Table 3). The court administration and case management component (component A) assisted the judiciary in (i) establishing a court administration system; (ii) implementing a modern computerized system of case management; and (iii) acquiring a system for audio recording of court proceedings to ensure the integrity of court protocols. The infrastructure rehabilitation component (Component B) sought to help establish a system of court infrastructure that would reflect the new procedures of an independent and better functioning judiciary. It was expected that better infrastructure would improve the perception Georgians had of the judicial system; the PAD noted that the "improvement in public perception is directly related to physical condition, architectural design, and facilities management and maintenance" (p. 20). For the enforcement of court judgment component (Component C) the PAD did not specify an objective. From the text in the PAD the objective would seem to be improving the enforcement of judgments in civil cases, training of bailiffs (court executors) and better infrastructure (e.g., means of transport) for the bailiffs to discharge their duties; it was expected that better enforcement would increase the "low public acceptance of the court system as a venue for dispute resolution" (p. 22). The assistance to the Ministry of Justice (MOJ) component (Component D) sought to help MOJ become the leading entity in Georgia for legal drafting and legal harmonization. The Judicial Training Center (JTC) component (component E) sought to assist the JTC in organizing and carrying out the judicial training function. The training was expected to enhance the knowledge and judicial skills of new and sitting judges, assistant judges, chancery personnel and technical staff of the courts. The public information and education component (component F) sought to raise appreciation among the Georgian population about the importance of an independent, competent and equitable judiciary, and of the reform efforts being carried out at the time. Finally, the project management component paid for project coordination and implementation.

2.3 *Implementation*. The credit was disbursed fully and the project components had some minor revisions. In 2003 the government decided to drop the assistance to the MOJ (Component D) because the Ministry was unable to decide how and when to use the allocated funds. In July 2005, the government decided to not roll out the pilot case management system and wait until completing the ongoing court reorganization (i.e., consolidate 75 first instance courts into regional courts and magistrate courts); by that time, though, the funds allocated for that component had been disbursed almost in its entirety.

Also, the Bank and the government agreed to allocate the contingency of SDR 1 million as follows: 10 percent more funds for civil works to rehabilitate 15 courts instead of 11, to double the operating costs for the project implementation unit (PIU) and to the Association for Legal and Judicial Public Education, and to increase by 25 percent the budget for consultant services, training and workshops in most components. The changes did not affect the distribution of the funds to components in any significant way. The bulk of them (86 percent, planned and actual) went to the case management system (23 percent), infrastructure rehabilitation (51 percent), and to public information and education (12 percent). The largest reallocation went into increasing the funds for the project management unit from US$0.6 million to US$1.08 million.

Table 3. Components and Bank Financing – Planned and Actual Disbursement

Components	Planned (US$ million)	Actual (US$ million)
A. Court Administration and Case Management	3.1	3.09
B. Infrastructure Rehabilitation (court construction and rehabilitation)	7.0	6.83
C. Enforcement of Court Judgments	0.2	0.19
D. Assistance to the Ministry of Justice	0.3	0.04
E. Judicial Training Center	0.8	0.53
F. Public Information/Education	1.4	1.6
G. Project Management	0.6	1.08
Total	13.4	13.36

Source: Project Appraisal Document, Report No. 19346-GE
Note: Numbers have been rounded to the closest decimal

2.4 *Dates.* The credit closed on June 30, 2006, three years after the original closing date. The project took longer to be executed because reorganizing the court system required modifying the infrastructure and case management components. The project also needed to accommodate the interruption in implementation cause by the Rose Revolution (November 2003).

Monitoring and Evaluation

2.5 To measure success the PAD proposed to look at the extent to which the following key performance indicators were achieved (PAD, p. 2):

- degree to which the new court administration system has been established.
- introduction of a new case management system.
- improved public awareness of the judicial system including, among others, better appreciation of the reform program, awareness of their individual rights, and better understanding of alternative dispute resolutions; and
- increased trust in the judicial system by actual and potential users, including the business and legal community.

2.6 The PAD also proposed other group of performance indicators. Some gave a sense of direction of potential impact, such as reduced delays in enforcing court decisions, and others sought to establish if an output had been delivered, such as the number of court facilities rehabilitated (See Table 4). Most of the indicators lacked baseline and target values since these were not formal requirements at the time of project development.

2.7 *Design.* The PAD lacked a sound results framework.[1] It did not present a clear link between components and objectives, and lacked an adequate set of results indicators, let alone baseline and target values. Most indicators measured output (e.g., rehabilitating buildings), not results. The PAD failed to produce good results indicators because it did not probe into the consequences of the problems identified (e.g., what consequences did poor control of cases have?) or explored insufficiently the link between interventions and intended results (e.g., buildings and independent judiciary).[2] .

2.8 *Implementation.* The authorities and the Bank measured those indicators that could be measured easily (e.g. courts rehabilitated) but did not identify and resolved the weaknesses in their design. During project implementation neither the Bank nor the authorities made an effort to draw baseline values for indicators lacking them (e.g., improving court administration, improved enforcement of court decisions). Last, potential beneficiaries of the interventions were not involved in defining target indicators and assessing their achievements.

2.9 *Utilization.* The Bank did not gather M&E information, and the reallocation of the credit's funds was unrelated to M&E.

2.10 Summarizing, the PAD lacked a M&E framework. The PPAR rates the quality of monitoring and evaluation as *negligible.*

Outcomes

Relevance

2.11 The project tried to help deal with problems that affected Georgia: widespread corruption, legal uncertainty, poor enforcement of laws and regulations, and inadequate protection of contractual and property rights. Also, the credit responded to the government's request for assistance in the further definition and implementation of its judicial reform program. The credit supported the CAS (FY98) objective of deepening and diversifying the sources of growth through strengthening the rule of law. The idea that adherence to the rule of law would improve investor confidence and facilitate growth was supported by surveys carried out for the World Development Report of 1997, *The State in a Changing World.* The PAD quoted a study on public awareness and the rule of law showing that the majority of Georgians mistrusted the current legal system, perceived

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[1] An example of this type of results framework is presented in Jody Zall Kuzek and Ray Rist, *Ten Steps to a Results-Based Monitoring and Evaluation System* (Washington, D.C., The World Bank, 2004).

[2] To have independent judges a society must create the political and economic incentives to achieve that result, but the project did not deal with these critical factors. For judicial independence the fundamental positive question would be: "Under what circumstances will politicians maintain judges who are independents from themselves"? This question is discussed and evaluated for the Japanese judicial system in J. Mark Ramseyer and Eric B. Rasmusen, *Measuring Judicial Independence: The Political Economy of Judging in Japan* (Chicago, The University of Chicago Press, 2003), p. 4. The project also displayed a lack of knowledge of what institutional change means, as explained in Douglas North, *Institutions, Institutional Change and Economic Performance* (Cambridge, Cambridge University Press, 1990)

the judicial system as corrupt, and felt that the legal system did not provide a forum for obtaining justice. In summary, the project identified important problems in the judicial system and tried to tackle them by supporting actions spanning from court administration to training and public information about the judicial system.

2.12 The project sought to deal with the following sector issues: court administration, judicial training, public information and education and rehabilitation of infrastructure. By supporting the new court administration system the project sought to make courts more accountable, responsible and responsive. By supporting judicial training the project sought to help the government to train judges, a cornerstone of the judicial reform program. By supporting public information and education the project sought to help the government increase demand for justice through "a public that is better informed and engaged with the system" (PAD, p. 6). Finally, by improving selected infrastructure in courts the project aimed to highlight the new role and importance of the judiciary and the services it provides. This said, while these components could lead to better judicial performance, they were unlikely to lead to judicial independence or to high standards of judicial ethics, which needed actions and changes beyond those the PAD envisaged. Project objectives were, therefore, highly ambitious for the interventions and this reduced their relevance.

2.13 This review rates the relevance of the project's objectives as *substantial.*

EFFICACY

2.14 In what follows, this PPAR discusses briefly the main output indicators associated with the project and then discusses in more detail whether the judicial system is independent, delivers better services to people and firms, and the public has a better perception of it.

Outputs

2.15 The PAD set output and performance indicators for some components (See Table 4), but in several cases it failed to specify baseline and target values and the outcomes (results) associated with them. The ICR made an effort to improve the quality of the indicators, but they were still insufficient to measure the results related to each objective. This review adds the ICR baseline and target values for outputs when analyzing the efficacy of achievement of project objectives.

Table 4. Outputs and Performance Indicators

Components	Output
A. Court Administration and Case Management	Improving court administration and case management procedures
B. Infrastructure Rehabilitation	Improving selected infrastructure in courts, reflecting the new role and importance of the judiciary and its service orientation
C. Enforcement of Court Judgments	Improved function of enforcement of court decisions
D. Assistance to the MOJ	NA
E. Judicial Training Center	Increased number of judges with improved judicial skill and current knowledge of legal system
F. Public Information/Education	Improvement of public awareness and trust in legal and judicial reform, and increased willingness to make use of the judicial system

Source: PAD, Annex 1 for output description; this review for mapping component to output and indicator

2.16 The project helped to improve some of the physical and technological infrastructure of the courts and to inform the public about the importance of the judiciary. The 15 courts rehabilitated exceed the number planned, 11, because of costs savings resulting from the good management of the General Department of Courts. The computers and other peripheral equipment were delivered but the case management system (Component B) was operational in 25 percent of cases, not the 100 percent expected at appraisal. The inputs for enforcing court judgments (develop master plan for an efficient court function, training for bailiffs, equipment for bailiffs –Component C) were delivered. The assistance to the MOJ (Component D) did not happen because the government dropped the component. Last, ALPE carried out a variety of public education and media campaigns and activities aimed at informing the public about judiciary (Component E).

Objectives

2.17 To determine the efficacy of achieving the project's objective this review looks at whether the project assisted in the development of (a) an independent judiciary; (b) a professional judiciary, committed to high standards of judicial ethics; and (c) a judiciary capable of efficient, effective dispute resolution. To create a results framework, using information in Annex 2 of the PAD this review maps component and outputs to objectives. It then examines if the project delivered the outputs the PAD listed and if the results were achieved. Because the PAD lacked results indicators, this review uses internal Bank and external opinion surveys to gather evidence on whether the project achieved its objectives.

Independent Judiciary

2.18 The PAD expected that "the entire population of Georgia, and in particular the business community and foreign investors, would benefit from the presence of an independent and competent judicial system leading to the enforcement of more secure property rights and contractual obligations." (PAD, p.6).

2.19 This review discusses independence in two steps. First, based on the text in the PAD it maps components to the objective and uses the performance indicators associated with the component to explore if there was an advance in the objective sought. Second, it brings together data from surveys and outside sources to understand better how judiciary independence changed over the period. Component B sought to produce a system of "court infrastructure wherein key elements reflect the new procedures of an independent and better functioning judiciary, with an improved public perception of the judicial system. This improvement in public perception is directly related to physical condition, architectural design, and facilities management and maintenance." (PAD, p. 20). Component F sought to "raise appreciation among the Georgian population about the importance of an independent, competent and equitable judiciary" (PAD, p. 24)

2.20 Table 5 presents output indicators for court infrastructure (component B) and public education (component F) that this review maps to the sub-objective of an independent judiciary. As a result of costs savings in construction, 15 courts were rehabilitated, four more than the 11 courts planned. The project also helped ALPE to inform the public about the importance of the judiciary (Component F). The ICR notes that there was an improvement in the public trust of courts because the BEEPS survey found that the percentage of firms reporting confidence in the legal system to uphold property and contract rights had increased from 29 percent to 71 percent between 1999 and 2005. While the findings from this survey may be accurate, the indicator shows that the courts can uphold property and contract rights, but it does not demonstrate that the judiciary is independent. In summary, the project delivered the intended outputs but, as the following paragraphs discuss, the evidence from surveys and reports of external observers (e.g., international NGOs) indicates that the judiciary in Georgia still lacks independence.

Table 5. Sub-Objective 1: To assist in the development of an independent judiciary – Output Indicators

Component supporting sub-objective	Performance indicator (Description)	Baseline value	Target Value	Actual Value	Achieved?	Note/Comment on Results Expected
B. Infrastructure Rehabilitation (court construction and rehabilitation)	Number of court facilities rehabilitated	0	11	15	Yes	Better perception of public
F. Public Information/ Education	Establishment of independent public information and outreach center	Little public information provided regarding the judicial system	ALPE fully functional and self-sustaining	ALPE fully functional and self-sustaining, although focus on legal public education has waned	Yes	To raise appreciation about the importance of an independent, competent and equitable judiciary

Source: ICR, Judicial Reform Project, Report No. ICR0000026, pp. iii-iv; May 17, 2007, and PAD, Annex 1.

2.21 The project did not succeed in insulating the judicial system from political pressure or to enhance legal protections to guarantee its independence. In its review of political freedom in the world, Freedom House concludes that the judiciary was less independent in 2007 than in 1999 (Table 6). Similarly, in its review of economic freedom in the world, the Heritage Foundation report notes that "Both foreigners and Georgians continue to doubt the judicial system's ability to protect private property and contracts".[3] The Heritage Foundation report finds that the protection of property rights in Georgia is low (with a rating of 30, where 100 measures the highest protection) and remained unchanged over the period. Moreover, an increasing number of firms find that contract violations constitute a problem for doing business (see Table 11). Other data, discussed in the following paragraphs, also point to a judiciary that lacks independence.

Table 6. Rating of Judiciary Independence – Result Indicators

	1999	2000	2001	2002	2003	2004	2005	2006	2007
A. Judicial Independence	4.0	n.a.	4.0	4.25	4.5	4.5	5	4.75	4.75

Source: Nations in Transit. 2007 Report, Freedom House, for Judiciary Independence.
Note: The ratings for judiciary independence go from 1 to 7, with 1 representing the highest level of independence.

2.22 Indirect evidence drawn from public opinion surveys about how people perceive their political rights indicates that the judiciary is not independent. The surveys show that Georgians were less afraid to express their political views in 2004 than in 2003 (See

[3] The Heritage Foundation, 2007 Index of Economic Freedom, p. 186

Table 7), but their fears increased since June 2004, a month when their fears had been the lowest since 2003. By 2007 Georgians were more afraid to express their political views than in 2003, before the Rose Revolution took place. The second line in Table 7 has only one observation, for 2007. It tells that 88 percent of Georgians felt their human rights were violated or partially respected by the government. Because there is not a baseline value this review cannot conclude that people felt their human rights had deteriorated. Even so, 88 percent is a large number, and it shows how people felt about their rights and their relation with the government in 2007. When people feel that they have few political and human rights, it indicates that the police, courts, prosecutors and the judicial system do not protect their rights. That normally happens when the judiciary lacks independence.

Table 7. Public Perceptions about Institutions

	2003	2004	2005	2006	2007
People not afraid to express their political views [a]	32	48; 53; 44 *	46; 35 *	29	21
Human rights are violated or partially respected by the government					88

*[a] An * means that more than one survey was conducted in that year; the first number shows the information from the earliest survey and the last number the information from the last survey*

Source: 1. IRI surveys several years; 3. GORBI surveys (several years)

2.23 Based on the above discussion this PPAR concludes that the assistance provided by the project did not achieve the objective of helping develop an independent judiciary.

A Professional Judiciary, Committed to High Standards of Judicial Ethics

2.24 This section reviews aspects of the project related to its goal of raising the professional and ethical standards of the judiciary. First, it looks at the outputs the project delivered. Second, it looks at indicators from surveys and studies to draw insights on whether the judiciary became more professional and had higher ethical standards.

2.25 Table 8 presents the information related to indicators, outputs, baseline and target values for the components that supported the goals of professionalism and ethical standards. The review associates components D and E with this objective. With Component D the Bank sought to assist the MOJ in "becoming the legal entity in Georgia for legal drafting and legal harmonization"; in achieving this objective the MOJ would develop "substantial capacities to provide for an adequate review of legislation and regulation prepared by the Government" (PAD, p. 23). With component E the Bank supported the Judicial Training Center " in organizing and carrying out the judicial training function to enhance the knowledge and judicial skills of new and sitting judges, assistance judges, chancery personnel and technical staff of the courts" (PAD, p. 23).

2.26 The judicial training component (Component E) supported the annual training of about 320 judges and 100 court personnel. The ICR (p. iv) notes that a systemic training plan was executed; it also notes that the PAD did not include a systemic (or systematic) plan. Because the PAD lacked indicators of any type (even of number of people trained) it is difficult to conclude that this component failed or succeeded in delivering its expected output; this review will give the benefit of the doubt to the project and conclude that component E most likely delivered its output. Component D was dropped and did not deliver the expected.

Table 8. Sub-Objective 2: Professional judiciary, committed to high standards of judicial ethics - Output Indicators

Component Supporting Objective	Description of Indicator	Baseline value	Target Value	Actual Value	Achieved?
D. Assistance to the Ministry of Justice	None	None	None	None	No; component dropped
E. Judicial Training Center	Number of judges trained	None	None	Systemic training plan executed for new judges, their assistants and other court support personnel	It delivered its output

Source: ICR, Judicial Reform Project, Report No. ICR0000026, pp. iii-iv; May 17, 2007, and PAD, Annex 1

2.27 After the project closed, did Georgia have a professional judiciary, committed to high standards of judicial ethics? To answer the question this review presents information in Table 9 on how the Georgian people perceive the judiciary. Table 9 presents the results of several surveys done over the years asking Georgians questions about their institutions, the quality of government and political freedoms. Panel A shows people's views in 2006 and 2007 on whether the judiciary should be reformed. Half of respondents think it should be reformed, indicating that the system has problems, although their nature is not spelled out in the surveys. Panel B summarizes the responses of people about which institutions they trust most and least. Their responses show two things. First, their confidence in courts and the prosecutor's office has declined but their trust for the police has increased (probably a result of the reforms carried out in the traffic police). Second, Georgians in 2007 placed the courts and the prosecutor's office close to the bottom quartile, while in 2004 they were in the third and second quartiles. These results show that component F (public education/information) did not achieve its goal of building trust in the judicial system and increasing the prestige of judges.[4] Panel C presents rankings of institutions for honesty and integrity. Again, the numbers show that Georgians ranked low the integrity of courts and the prosecutor's office and felt that the courts and the judiciary were less honest and had less integrity in 2007 than in 1998 and 2004. Panel D presents similar information for the years 1998-2004 and its message is the same: Georgians had low opinions of police, prosecutors, courts and judges.

2.28 Based on the above discussion, this PPAR concludes that the project did not achieve its objective of developing a professional judiciary, committed to high standards of judicial ethics.[5]

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[4] In a comment from the Region, there was disagreement with the interpretation of the survey results on this issue. It is asserted that the survey results point instead to "government intervention in some high profile cases and interjected itself into court procedures in violation of the separation of power".

[5] Elios Chabrava and Natia Kemertelidze of the Georgian Young Lawyers' Association (GYLA), after analyzing various aspects of the judicial system, also conclude that the judiciary is not independent. See Judiciary in Georgia (draft), December 10, 2005.

Table 9. Public Perceptions about Institutions and Organizations in the Judicial System

	1998	2002	2003	2004	2005	2006	2007
A. Percent of people who think government should make reforms in judiciary (From IRI Survey)							
						47	53
B. Confidence in institutions (From IRI surveys; 1 most trusted and 16 least trusted)							
Church			1	1	1	1	1
Police			not listed	7	4	4	4
Courts			not listed	10	11	13	14
Prosecutor's office			not listed	8	10	12	13
Mafia networks			not listed	16	15	16	16
C. Ranking of institutions for honesty and integrity (GORBI survey for 1998 and IRI surveys for other years) with 1 highest rank out of a total of 16.)							
Religious	1 out of 22			1 out of 16	1 out of 16	1 out of 16	1 out of 16
Judiciary	16						
Courts				10	11	13	14
Prosecutor's office				8	10	12	13
Mafia networks				16	15	16	16
D. GORBI surveys on households views of quality of government institutions or spread of corruption (1 highest opinion)							
Teachers/State educational institutions	1 out of 15	1 out of 20	2 out of 20	2 out of 20			
Police officers	12	20	20	19			
Investigating officers		n.a.	16	15			
Traffic police	13	n.a.	n.a.	n.a.			
Local and public prosecutors	14	17	16	16			
Local courts / Judges	15	15	14	14			

Source: 1. For 1998 from GORBI survey, as reported in WB's Corruption in Georgia: Survey Evidence, Report No. 19276, June 2000, Figure 7; 2. IRI surveys several years; 3. GORBI surveys (several years)

A Judiciary Capable of Efficient, Effective Dispute Resolution

2.29 This section looks at the third element of the objectives, a judiciary capable of efficient and effective dispute resolution. The components court administration (component A), enforcement of court judgment (component C), and court infrastructure (Component B) supported this sub-objective. The court administration component sought to assist the judiciary "in (i) the establishment of a court administration system under the leadership of bodies with adequate representation of the three instances of the court system; (ii) implementation of a modem computerized system of case management; and (iii) provision of a system for audio recording of court proceedings to ensure the integrity of court protocols." (PAD, p.17). Component B lacked an explicit link to efficiency, but by supporting a system of court infrastructure that reflected a better functioning judiciary (PAD, p. 22) it can be argued that the component also sought efficiency gains in the judiciary. Table 10 summarizes the information about the components and what they achieved. Component C did not have a specific objective, but reducing delays in the enforcement of court decisions was a key performance indicator for it.

Table 10. Sub-Objective 3: To assist in the development of a judiciary capable of efficient, effective dispute resolution – Output Indicators

Component supporting objective	Description of Indicator	Baseline value	Target Value	Actual Value	Achieved?
A. Court Administration and Case Management	Increased control over the flow of cases in the court system through automated case management practices	None	100%	25%	No
B. Infrastructure Rehabilitation (court construction and rehabilitation)	Number of court facilities rehabilitated	None	11	15	Yes
C. Enforcement of Court Judgments	Delays in the enforcement of court decisions reduced	None	None		Inconclusive
		In the 1999 Business Environment and Enterprise Performance Surveys (BEEPS) 35% of firms said courts were able to enforce decisions		In the 2005 BEEPS 62% of firms said courts were able to enforce decisions	Indicator does not refer to time

Source: ICR, Judicial Reform Project, Report No. ICR0000026, pp. iii-iv; May 17, 2007, and PAD, Annex

2.30 Looking at outputs, the project achieved 25 percent of the planned output in the court administration and case management system but exceeded its goals in infrastructure. The PAD did not define an output for component C, but the component financed a consulting contract for the organization of court enforcement (a sub-component of component A), a study tour to the US in 2001, training for bailiffs (delivered in 2006) and the purchase of equipment for the headquarters of the Enforcement Department and 12 regional bureaus. The high turnover in the Ministry of Justice leadership (six ministers during the credit's life) hindered implementation of the component (ICR, p. 8). The consultants produced a blueprint/master plan for improving court and case administration covering case management, case processing and chancery functions, human resources and integrity management, court proceedings and enforcement, budgeting and finance, and governance and administrative recommendations. The impact of component C is likely to be small because it depended on component A delivering its output, which was only 25 percent of its expected output. The ICR notes that firms' perception of the courts' ability to enforce decisions increased between 1999 and 2005, but at the same time acknowledges that these indicators do not measure actual delays. In fact, BEEPS data show that courts were slower in 2005 than in 1999.

2.31 From the outputs delivered it is difficult to conclude that the project helped make the judiciary more efficient and capable of efficient and effective dispute resolution. If the case management system is essential for raising efficiency, the impact on efficiency of rehabilitating buildings would be limited if the management system is not in place. A case for impact could be made by saying that the credit helped rehabilitate court buildings in important cities (among others in Tbilisi, Kutaisi, Telavi and Gori) and that the management system was operating in some of them.[6] Because the project did not collect information to determine impact this PPAR looks at evidence indicating whether the court system increased its efficiency during the years the project was active. The following paragraphs look at this by using information from various sources (e.g., surveys, NGO reports) to convey an idea of what happened with the operation of the courts. Most of the information is taken from BEEPS and deals with how businesses see the working of the courts. While not directly related to project components, the indicators presented below are relevant for understanding potential outcomes in case the project produced them.

2.32 The following paragraphs summarize the views of firms on the judiciary. Table 11 presents the responses of firms in the BEEPS surveys on whether the judiciary constrained doing business in Georgia. The numbers show that firms considered the judiciary more a problem for doing business in 2005 than in 1999, but fewer firms thought they had to use bribes to deal with courts. Firms also saw a sharp increase in contract violations between 1999 and 2005, pointing out towards increased inefficiency in the judicial system. Moreover, the large number of firms that in 2005 thought so (49 percent) indicates that this was a major problem and the judiciary was not dealing well with it.

Table 11. The Judiciary as a Problem for Enterprises

	1999	2002	2005
1. Percent of firms indicating that:			
a. Judiciary is a problem for doing business	20.5	28.4	30.4
b. Bribery is frequent in dealing with courts	13	14.7	7.1
c. Contract violations is a problem for doing business		28.2	49.2

Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) for 1999, 2002 and 2005

2.33 Other indicators from BEEPS show a mixed picture of judicial performance, with some advances but also some steps backwards (see Table 12). Panel A presents indicators on the cost and efficiency of courts. They show that of **all** the firms interviewed fewer felt courts were more affordable and faster in 2005 than in 1999 (lines 1 and 2), but more felt courts were less corrupt in 2005 than in 1999 (line 3); It is worth noting that only 28 percent of the firms interviewed thought courts were honest. Panel B presents information on fairness and ability to enforce the law. Firms feel there was some small improvement in the impartiality and fairness of courts (line 1); they also perceived a larger improvement in the courts implementing laws in a consistent and predictable way (line2), and a substantial one in their abilities to enforce their decisions (line 3). They also have more confidence that the legal system will uphold contract and property rights. On this latter point, two observations are worth doing. First, as noted above, an increasing number of firms find that contract violations constitute a problem for doing business (see Table 11). Second, the Heritage

[6] This case would assume that money was not fungible; that is, that without the Bank's funding the buildings would not have been rehabilitated at all. To conclude about potential impact (upper bound) this review assumes that is the case.

Foundation's report on economic freedom finds that the protection of property rights in Georgia is low, rating it with a value of 30, where 100 measures the highest protection; for the time the project was active the Foundation's rating on protection of property rights remained unchanged, except for 2001.[7]

Table 12. Judicial Performance - The View of Firms (percent of firms saying ...)

	1999	2002	2005
A. Costs and efficiency of courts			
1. Courts are affordable			
All firms	42	28	35
Firms using courts		52	45
2. Courts decisions are quick			
All firms	24	18	22
Firms using courts		30	22
3. Courts are honest/uncorrupted			
All firms	22	18	28
Firms using courts		27	32
B. Fairness and ability to enforce laws			
1. Courts are fair/impartial			
All firms	23	18	28
Firms using courts		29	32
2. Implementation of laws is consistent and predictable	25	26	39
3. Courts are able to enforce their decisions			
All firms	35	23	62
Firms using courts		30	70
4. Legal system will uphold contract and property rights	60	41	71

Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) for 1999, 2002 and 2005. Numbers rounded to closest decimal. For B4 in 1999 AND 2002 this PPAR adds the answers marked as fully agree (11.7%, 3.5%), agree in most cases (14.1%, 18.5%), and tend to agree (34.4%, 19.1%); the questionnaire did not separate The responses for all firms and those using courts. The numbers differ from the ones presented in the ICR and quoted in Table 3 above

2.34 Summarizing, although some aspects of the judiciary seem to have improved, the data from the surveys and the project's outputs indicate that the judiciary was not necessarily better or more efficient in resolving disputes at the end of the period than at the beginning. Even if courts are able to enforce their decisions they are not *faster* or affordable. Moreover, if the judiciary lacks independence, enhancing its ability to enforce decisions does not guarantee that its decisions produce good outcomes.

2.35 Based on the above discussion, this PPAR concludes that the project partially achieved its objective of developing a judiciary capable of effective and efficient dispute resolution.

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[7] According to Transparency International Georgia "Property rights were first compromised shortly after the post-revolutionary government took office in early 2004" The note documents various instances where the authorities have trampled on these rights since then, and suggests that the problem comes from enforcement, not lack of laws to protect them. The note concludes that "... according to a number of lawyers and experts ... respect for existing laws would be sufficient for ensuring security". TI Georgia, *Property Rights in Post-Revolutionary Georgia* (2007)

2.36 Regarding efficacy for the entire project this review concludes that the government carried out most of the actions envisaged and delivered some of the outputs. It rehabilitated 15 court buildings, bought some computer hardware and software, some equipment for enforcing court judgments, and trained lawyers and court personnel. ALPE carried out its mass media campaigns and dissemination and outreach activities. Well defined results are not associated with these actions. It could be argued that the infrastructure and hardware is there, but that is not enough to conclude that the desired outcome has been achieved. This review rates efficacy as *modest.*

EFFICIENCY

2.37 Neither the PAD nor the ICR calculated net benefits or rates of return (economic or financial) for the project, and the limited indicators collected cannot be used for this purpose. The information gathered indicates that during project implementation the efficiency in rehabilitating court infrastructure was higher than planned (15 courts rehabilitated vs. 11 courts planned) but that for court administration was substantially lower than planned (only 25 percent of the case system was in place at the end of the project). Project management took a larger share of the financing than the original plan (8 percent vs. 4 percent) so efficiency was lower than expected. Little can be said about the efficiency of the other components because of the paucity of information. This review rates efficiency as *modest.*

OUTCOME RATING

2.38 The actions taken failed to make the judiciary independent, professional and committed to high ethical standards. At best they partially helped the judiciary to be more effective and efficient in resolving disputes. This review rates the project outcome as *moderately unsatisfactory.*

Table 13. Efficacy and Outcome Rating by Objective

Objective	Relevance	Efficacy	Outcome
I. Independent Judiciary		Negligible	
II. Professional Judiciary, Committed to High Standards of Judicial Ethics		Negligible	
III. Judiciary Capable of Efficient, Effective Dispute Resolution		Modest	
Summary rating	**Substantial**	**Modest**	**Moderately Unsatisfactory**

RISK TO DEVELOPMENT OUTCOME (SUSTAINABILITY)

2.39 The project achieved few results, so the risk of large losses is small. Whether the outputs delivered (buildings, computers) can help produce future benefits depends on the government's will to strengthen the judiciary, improve its performance and make it more independent. In the meantime, that is not the case but the situation is unlikely to deteriorate. First, the deterioration seems to have peaked in 2005. Second, the government has adopted a course geared towards European integration, which requires improvements in the rule-of-law. Based on these considerations, this report rates the risk to development outcome as *negligible.*

Bank Performance

2.40 The Judicial Reform Project responded in part to the Bank's strategy of 1997 but also to a request from the government for the Bank to help its efforts of improving the judicial system. When the credit was approved the government had little revenue to finance a larger budget for the judiciary. The project would fulfill that need and guarantee financing for certain activities (e.g., training, rehabilitating court buildings). Quality at entry was not satisfactory. Project objectives were ambitious and the interventions proposed were inadequate to achieve some of them (e.g. high ethical standards).

2.41 The Bank worked with the authorities, USAID, and GTZ, to design the project. It rated the project risk as modest, and expected the project would close in four years. The PAD pointed to some risk for the rehabilitation works but none for implementing the case management system. Such assessment turned out to be mistaken, because the design of the infrastructure and case management components, about 75 percent of the credit, had to be reallocated almost immediately after project effectiveness. During execution, because of the high-risk status of Georgia's procurement system, the Bank also had to reduce the procurement threshold for national competitive bidding of works from US$500,000 to US$200,000. The Bank did not address these risks, which existed at entry, in an adequate manner.

2.42 The Bank staffed the supervision missions properly, and met the requirements for appropriate reporting and record-keeping, but fell short of what could have been done. During the seven years of project implementation it did not seek to have better outcome indicators despite QAG reviews in 2000 and 2002 pointing out that the project lacked measureable performance indicators. All ISRs marked as satisfactory the achievement of development objectives and implementation progress, except the final two (6/27 and 6/28), which lowered both ratings to moderately satisfactory.

2.43 Based on these considerations this PPAR rates Bank performance *moderately satisfactory.*

Borrower Performance

2.44 Borrower commitment with the project's objective declined soon after the project became effective. It did not provide the needed counterpart funds, and the reforms it carried out after the Rose Revolution were not linked with the project components and outcomes. Despite these shortcomings, the General Department of Courts achieved cost savings that permitted to rehabilitate 15 courts instead of the 11 planned, the Judicial Training Center was established and delivered the training, and ALPE delivered the public education campaign and the training for the media. Based on these considerations this PPAR rates Borrower performance *moderately satisfactory.*

Conclusions

2.45 Bank support was effective in delivering most of the inputs planned but did not achieve its goal of making the judiciary independent and professional, committed to high standards of judicial ethics and capable of efficient, effective dispute. The project delivered some of the outputs planned but these efforts did not lead to the expected results for, at least, two reasons. First, building infrastructure (court buildings, computers, others), while important, does not lead to better judicial decisions or a more independent judiciary. Second, since 2001, while enforcement seems to have improved, the executive branch continued controlling the judiciary and the existing system of checks and balances to limit its power was weak. Information gathered during field visits supports the data from opinion surveys showing that the judicial system does not enjoy credibility with the general public and that its reputation is low and declining.

3. Third Structural Adjustment Credit (SAC3)

Project Objectives and Their Relevance

3.1 *Objectives*. The SAC3 supported "the implementation of the Government's reform program to reduce macroeconomic imbalances, and to provide an adequate incentive structure for the private sector development." Table 14 shows the objectives in detail.

Table 14. SAC 3 – Objectives and Sub-Objectives

I. General Objective: Satisfactory Macroeconomic Framework
II. Reduce Macroeconomic Imbalances
Improve revenue mobilization
Strengthen expenditure management
Ensure the provision of basic social services
III. Creating an Environment Favorable to Private Sector Development
Introduce a simplified and transparent licensing regime
Introduce a transparent regime to regulate state procurement, control procurement expenditures, and enable private companies to compete for Government orders
Reduce cost of entry, especially for small business
IV. Reform Land Ownership
Stimulate agricultural production and the development of real estate and financial markets
V. Divestiture from Productive Activities
Promoting private participation in infrastructure
Facilitating overall privatization program (To provide adequate coordination and encouragement for potential investors)

Source: PAD SAC3, Report No P-7316-GE (June 4, 1999), Annex 3

3.2 *Relevance*. The objectives were relevant given Georgia's problems in 1999 and the Bank's strategy (CAS of September 1997). In 1998 weak public finances and the shocks from the Russian economic crisis portended an economic crisis for Georgia. In early 1999, the fiscal outlook deteriorated, in part a result of its small tax base but also of a weak and corrupt tax administration. Low revenues affected the level and composition of expenditures, with social expenditure falling as part of the retrenchment in government expenditure. Poverty was widespread. Pensions and government salaries were paid late, and their real purchasing power was minimal. Unable to pay for the expenditure, the government built large arrears, in particular to the health sector. Georgia continued being an overregulated state, creating large costs and impeding the entry and growth of firms. Last, a large group of enterprises continued under government ownership and delivered poor services. Privatizing them, it was expected, would benefit consumers and make the enterprises more productive.

3.3 The credit objectives and its components fitted into the priorities of the Bank's FY98 strategy. The objectives correspond to those of the strategy, which had more optimistic projections of medium-to-long-term growth than the project document

(See Table 12). When discussing relevance, the President's report said that "The policy reforms supported by SAC III are also *necessary* (emphasis added) to the success of Bank investment operations", and listed six operations whose results depended on the SAC3. (par. 59, Report No. 7316-GE).[8]

3.4 *Conditions and Dates.* The program consisted of 18 core conditions that had to be met to disburse the second and third tranches.[9] Most of them consisted of preparing action plans, issuing reports, adopting and amending laws and legal codes, preparing and establishing a regulatory report for the port sub-sector, and preparing and executing an action plan to address problems identified in a report on the business environment carried out by the Enlarged Investment Council. Some conditions sought to have more immediate impact. One established that the budget executed in 1999 and 2000 meet the standards agreed upon with IDA. Another requested submitting evidence satisfactory to IDA showing that public procurement for state orders had been carried out in substantive compliance with the Law on State Procurement.

3.5 The credit, approved in June 29, 1999 was to be disbursed in three tranches, and was expected to close by December 31, 2000. Because of delays in meeting the conditions, the closing date was extended three times and the credit closed on October 30, 2002. The first tranche was disbursed on August 2, 1999, the second one on December 26, 2001, and the third one on October 17, 2002.

Outcomes

3.6 The project document did not present indicators of results associated with the conditions. Despite this shortcoming, because the credit closed three years later than planned, it is possible to look at some plausible results the credit might have contributed to during 1999-2002. Because the credit's structure reflects that of the CAS FY98, this report uses some of the CAS results indicators to establish whether the credit's objectives were met. This report looks at results. The formal conditions, like preparing action plans, were met, and Annex Table 1 presents them together with their status and output/outcome indicators.

GENERAL OBJECTIVE: SATISFACTORY MACROECONOMIC FRAMEWORK

3.7 The project document left undefined what constitutes a satisfactory macroeconomic framework. To obviate this problem, this report compares the values for the indicators listed in the CAS FY98 and the projections for economic aggregates in the President's Report with their actual values in 1999-2002 (See Table 15).[10]

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[8] The projects were Health (FY96), Agricultural Development (FY97), Municipal Development and Decentralization (FY98), Power Rehabilitation (FY97), Oil Institution Building (FY98) and Transport LIL (FY99).

[9] The legal credit agreement lists 18 actions (Schedule 2) for tranches 2 and 3. Maintaining a satisfactory macroeconomic framework is a general condition for this type of credits (Section 2.01.d of Article II of credit agreement) as well as carrying out the actions described in Recital A of the preamble.

[10] Values projected as a percent of GDP are adjusted to take account of the large discrepancy between the actual and projected values for GDP in these years. The values in the CAS FY98 and in the project

Table 15. Georgia: Main Economic Indicators - Goals, Projections and Results during 1999-2002

	Baseline values			Results	Met/Up?
	CAS FY98 Goal, Projection Adj. (1)	Projection in President's Report (PR)[a/] (2)	Adjusted Projection[a/] (3)	(4)	CAS/Credit[b/] (5)
1. Growth and Inflation					No; Yes
GDP	8-10%	3.5	3.5	3.7	No; Yes
Inflation (end of period)	< 10%	7.0	7.0	6.1	Yes
2. Public Sector Accounts (percent of GDP)					No; Yes
Government Revenue	21.0 +	13.0	21.6	15.5	No
Of which tax revenue	na	11.4	19.1	14.2	No
Government Expenditure	22.6 +	14.9	24.9	18.4	No
Of which investment	2.3 +	1.5	2.5	1.0	No
Tax Revenue/Current (or Total) Expenditure	> 100 by 2000			82	No
Fiscal Deficit (Incl. grants - cash basis)	< 5.1%	-2.0	-3.3	-2.2	Yes
NBG (Central Bank) credit	0.0	n.a.		0.7	No
3. External Sector (percent of GDP)	1998				No; Yes
Resource Balance	-10.5 +	-11.0	-18.2	-12.9	No; Yes
Current Account (Incl. Transfers)	-9.2 +	-4.9	-8.2	-7.5	Yes
Current Account (Excl. Transfers)	-10.6 +	-8.8	-14.5	-13.0	No; Yes
Gross International Reserves (months of imports)	2.5-2.9	2.7	2.7	1.3	No
4. Debt Indicators (US$ million; percent)	1998				Yes; No
Total Debt Outstanding and Disbursed –DOD	1,683	2,147	2,147	1715	No; Yes
Debt Service due	129	227	227	108	Yes
Total Debt/GDP	47 +	41	69	55	No; Yes
Debt Service/GDP	10.2. +	4.4	7.3	3.5	Yes
Debt Service/Total Exports	18.3	21.2	21.2	10.7	Yes
DOD/Exports	239	202	202	170	Yes

Note: [a/] When the values in columns 2 and 3 are equal it means that no adjustment was done to that value.
[b/] In column 5 {Yes-No} in a cell means that the goal set in the CAS was met but the goal set in the credit was no met. {No-Yes} in a cell means that the goal set in the CAS was not met but the projection set in the credit was met. Yes means that the CAS projection and the adjusted projection of the project were met;, and No means that neither of the two projections were met.
Source: CAS September 1997 and data presented in Annex Table 2

3.8 To evaluate impact this report compares baseline values with results. Table 12 shows baseline values in columns 1-3 and the values of results in column 4. Column 5 summarizes whether the results were achieved. The information shown and the assessment of column 5 show that some results were met. GDP growth exceeded by a small margin the low growth projections of the President's Report. Tax revenues, a

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document exceed by more than 65 percent the values of the State Department of Statistics (Annex Table 2 shows the annual values of these variables).

major concern of the Bank's support, did not reach the levels expected, affecting government expenditure, which fell by about 3 percentage points of GDP. The deficit also fell, but the government borrowed from the central bank an amount equivalent to 0.7 percent of GDP per year. The President's Report mentions credit to the government from the central bank and the banking system as condition of effectiveness but neglected to set a target value for the second and third tranches. Other conditions for the macroeconomic framework were treated in the same casual manner as domestic credit.

OBJECTIVE I: REDUCE MACROECONOMIC IMBALANCES

3.9 This objective consisted of three sub-objectives: improve revenue mobilization, strengthen expenditure management, and ensure the provision of basic social services.

3.10 *Improve revenue mobilization.* Government revenue changed little over this period, as the numbers in Table 16 show. Tax revenues edged up a bit but non-tax revenues declined. The authorities stopped collecting more taxes in 2002, and reduced their collection in 2003. Because tax collection and, more generally, revenue mobilization does not show an increasing trend, this review concludes that the credit did not achieve the objective.

Table 16. Government Revenue 1999-2003 (percent of GDP)

	1999	2000	2001	2002	2003
Total revenue	15.9	15.3	15.3	15.6	15.9
Tax revenues	13.9	14.1	14.4	14.4	14.1
Indirect taxes	6.7	6.8	7.2	7.6	6.9
Direct taxes	5.3	5.3	5.2	5.1	5.1
Taxes on wages	1.9	2.1	2.0	1.7	2.1
Non-tax revenues	2.0	1.1	0.9	1.2	1.8

Source: Ministry of Finance

3.11 *Strengthen expenditure management.* The actions the credit supported sought to reorganize the Ministry of Finance (MOF), establish job definitions for each post, establish three coordinating groups, and carry out other measures of the same tenor. While some of these actions may have been carried out, little was achieved in terms of expenditure management. Important measures such as establishing a Single Treasury Account (STA), happened only in early 2006, and the Medium-Term Expenditure Framework (MTEF) was produced in 2005. Although government expenditure declined as percent of GDP, probably leading to a better use of fiscal resources, this reflects a large decline in government employment in the budgetary sector (about 120,000 jobs), not necessarily a better administration.

3.12 *Ensure the provision of basic social services.* The credit sought to protect expenditures on health and education and poverty benefits, setting as condition that the government would allocate 13 and 7.3 percent of the overall consolidated budget to the education and health sectors in 1999 and 2000. For poverty benefits it set as condition that the budget should be 14.3 million Lari in 1999 and at least constant in real terms (relative to 1999) for 2000. Table 17 show that the credit did not achieve its objective. The minutes of negotiations of the credit detail how the condition was met. For health it gathered expenditures from different organizations (Ministry of Health, Ministry of Defense, Ministry of Internal Affairs, Ministry of Security, Academy of the Ministry of Security, Department of Veterans, Department of Invalids, State Medical Insurance Company, and local budgets). While this creative accounting made it possible to meet the condition in 1999, it did not solve the fundamental problem of the budget for health (ICR, p. 7): the main provider of health services in Georgia, the Ministry of Health, received a small budget allocation. Accepting such accounting standards undermined the purpose of the condition. The IMF followed different standards and it reports the same level of expenditure as this PPAR does in Table 15.[11]

Table 17. Allocation of Expenditure to Health, Education and Poverty Reduction Activities: 1999-2002

	1999	2000	2001	2002
I. Percent of budget allocated to health and education				
A. Goals of credit				
Education	13.0	13.0	13.0	13.0
Health	7.3	7.3	7.3	7.3
B. Results				
Education	3.9	3.2	3.7	3.9
Health	2.1	2.4	3.9	4.2
II. Poverty Benefit - Allocate to budget, inflation adjusted				
A. Goal of credit (in million lari)	14.3	17.1	17.7	18.6
B. Results				
Budgeted (in million lari)		10.0	n.a.	n.a.
Spent (in million lari)	5.7	5.0	n.a.	n.a.
Spent (percent of GDP)	0.1	0.1	n.a.	n.a.
Memo items				
Total government expenditure (million lari)	763.2	841.5	839.0	956.8
Transfers and subsidies (million lari)	142.2	166.7	136.9	132.5
Net change in arrears for subsidies and transfers (million lari)	13.5	20.5	12.7	-29.8
Inflation (CPI average)	19.3	4.1	4.7	5.6
Nominal GDP - IMF estimate (million lari)	5,665.3	5,955.1	6,637.8	7,448.0

Source: 1. For expenditure on education and health, Ministry of Finance of Georgia (information provided by Resident Mission); 2. For poverty benefits, IMF, Georgia: Recent Economic Developments and Selected Issues, November 2001, Country Report No. 211, p. 47, footnote 36 and par. 92. Report says expenditures on family allowances/poverty benefits have been stable at 0.1 percent of GDP. The budget for poverty benefits for year T equals the budget of the year (T-1) multiplied by the rate of inflation in year (T-1). 3. For inflation, State Department of Statistics.

Note: The expenditure arrears in subsidies and transfers includes those for poverty benefits and refugee allowances

[11] See Georgia: Recent Economic Developments and Selected Issues, IMF Country Report No. 211, November 11, 2001, pp. 41-47.

OBJECTIVE II: CREATING AN ENVIRONMENT FAVORABLE TO PRIVATE SECTOR DEVELOPMENT

3.13 This objective consisted of three sub-objectives: (a) introducing a simplified and transparent licensing regime; (b) reducing the cost of entry, especially for small business; and (c) introducing a transparent regime to regulate state procurement, control procurement expenditures, and enable private companies to compete for Government orders. Because sub-objectives (a) and (b) are closely linked, this report treats them in the section on licensing and cost of entry.

3.14 *Simplifying licensing and reducing cost of entry.* The credit asked for drafting and approving new laws and regulations, and changing and simplifying existing ones. Perhaps more important, the conditions demanded abolishing the requirement of obtaining a stamp or seal from the local police, eliminating the active role of the Department of Statistics in the registration process, and eliminating the requirement that any new business had to obtain a seal from the Central Bank to open a new bank account. The matrix of conditions in the President's Report required follow-up surveys in December 1999 and every three months thereafter to measure the impact of licensing reform. No information is available on whether the quarterly surveys were carried out. The ICR and the project status reports (PSR) are silent on this issue, and the Bank did not know what impact the credit had at the time of closing. This report, therefore, uses information from opinion surveys (done by GORBI) and World Bank surveys (BEEPS and Doing Business) to determine if the environment for businesses improved.

3.15 Table 18 indicates that the situation related to business licensing deteriorated in 1996-99 but improved by 2002; still, 26 percent of firms believed that business licensing was a problem. About 45 percent of firms answered in 1999 that bribery was frequent, but only 20 percent did so in 2002. Regarding customs regulations firms thought the situation deteriorated between 1996 and 2002, but the frequency of bribery declined. Firms saw tax administration as a major problem over the period; by 2002, 85 percent of them felt that tax administration was a problem. Besides suffering the tax administration, about 25 percent of firms had to pay bribes in 2002, although less than the 40 percent they paid in 1999. Summarizing, between 1999 and 2002 the burden from licensing decreased but that from customs and tax administration rose.

3.16 Regulations had a relatively high cost for firms, as senior management spent much of its time dealing with the authorities rather than managing the companies. Over time this burden on managers declined. In 1999 managers spent up to 50 percent of their time negotiating with officials about changes and interpretation of laws and regulations, but in 2002 they spent only 12 percent of their time.

3.17 Despite these improvements the regime for business licensing did not improve. When the government tried to simplify regulations and licensing, like in 1999, the proliferation of new requirements at the local level undermined the laws passed. As a result, in 2002 the burden of regulation was pervasive. A study documenting the 2005 reforms to the licensing and regulatory regime says that "the 2002 Law on Grounds for Issuance of Licenses and Permits for Entrepreneurial Activities made some cosmetic changes to bring the regime in line with European principles. But the law did not simplify any of the licensing hurdles facing entrepreneurs. More than 900 business activities still required a license."[12] In 2005, according to Doing Business, Georgia ranked 152 out of 155 countries on dealing with licenses.

Table 18. Regulation and Licensing as Problems for Enterprises: 1996, 1999, 2002

	1996	1999	2002
1. Licensing, customs, taxes and judiciary (Percent of firms indicating ...)			
a. Business licensing			
i. Is a problem for doing business	16	35.9	26.3
ii. Bribery is frequent		44.5	20
b. Customs regulations			
i. Is a problem for doing business	29	35.1	39.8
ii. Bribery is frequent		39.6	24.3
c. Tax Administration			
i. Tax administration (or regulation) is a problem	64	74.2	84.4
ii. Bribery is frequent for tax collection purposes		46.7	43.8
2. Regulations: Costs, Uncertainty and Policy Instability (Percent of ...)			
Senior management time spent negotiating with officials about changes and interpretation of laws and regulations	25-50	47.1	11.60
3. Attitude of national/central government towards business. Percent of firms responding mildly unhelpful to very unhelpful			
a. Now		66.1	
b. Three Years Ago		50.4	

Sources: 1. For 1996/97 data are from Guy P. Pfeffermann (IFC) and Gregory Kisunko (World Bank), Perceived Obstacles to Doing Business: Worldwide Survey Results, (Washington, D.C., mimeo, July 1999), based on survey prepared for WDR 1997, The State in a Changing World
2. EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) for 1999, 2002 and 2005

3.18 *Procurement.* The credit sought to support the establishment of a transparent regime to regulate state procurement, control procurement expenditure, and enable private companies to compete for government orders on a level playing field. To achieve this objective the credit required the government to enact a new law on state procurement (adopted in December 1998, enacted by Parliament in July 1999, and amended in March 2001), issue regulations to implement the law, staff the new procurement agency, train its personnel, prepare bidding documents, and, not later than December 1999, carry out a bidding with the new procedures in the three largest procuring agencies at central and local levels.

3.19 This effort achieved little. The first Country Procurement Assessment Report (CPAR, 2002) found that "With the notable exception of enforcement provisions, the scope of existing Georgian legal instruments would be adequate to control the procurement process in Georgia, if they were widely followed. The main issue is not the lack of legislation but rather the effective application of the legislation that is already in place."

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[12] Bagaudinova, Svetlana, Dana Omran and Umar Shavurov, "Licensing 159 Activities—Not 909." In World Bank, *Celebrating Reform*. Washington, D.C.: World Bank Group and USAID, 2007, pp. 23-30

The World Bank, *Georgia, Country Procurement Assessment Report*, Operations Policy and Services Unit, Europe and Central Asia Region, Report No. 26660-GE, June 2002, p. iii

(Executive summary, par. 2).[13] The report also notes that: "The GOG is aware of the implementation problems, and in response to pressure to meet SAC III conditionalities, has made substantive changes to the legislative instruments to improve monitoring of the operations and enforcement by the executive. But satisfying the SAC conditionalities will not be enough" (CPAR, page 38). The report ranked Georgia as a "high-risk (emphasis added) country in respect of its public procurement system" (Ibid.). A second CPAR (2007) concludes that "Progress towards improving public procurement has been limited for the past few years. [2002-2007]".[14] The *high-risk* ranking still stands.

OBJECTIVE III: REFORM LAND OWNERSHIP

3.20 The credit sought to reform land ownership with the purpose of stimulating agricultural production and the development of real estate and financial markets. It sought to achieve this objective by supporting the registration of privatized agricultural and enterprise land, by amending laws (to promote privatization over leasing), delimiting the roles of the relevant public bodies, and the issuing of regulations and operating procedures for agricultural land titling registration system.

3.21 The ICR for the SAC3 rates the outcome for this component as highly satisfactory because, among other things, land registration was carried out for 3,000 enterprises. This PPAR looks at agricultural production and the development of financial markets, which the credit expected to influence. Table 19 shows that during 1999-2002, total agricultural output (Panel I) declined about six percent, a combination of a 20 percent decline in crop output and an 11 percent increase in livestock production. The volume of crop harvested (Panel II) declined from 2.5 million tons to about 2.1 million tons. The credit did not achieve its objective of increasing agricultural production. This was an ambitious goal for what the project supported. A good monitoring and evaluation framework might have helped produce more realistic goals and to connect them better to the interventions the credit supported.

Table 19. Agricultural Production

	1999	2000	2001	2002
I. Indices of Agricultural Output Volume 1999=100				
Total	**100**	**88**	**95**	**94**
Crop output (Plant Growing)	100	79	87	81
Livestock (Animal Husbandry)	100	100	106	111
II. Gross Harvest of Agricultural Crops (farms of all types; thousand tons)				
Total	**2,553**	**1,739**	**2,253**	**2,098**
Grains and legumes – total	781	421	714	672
Potatoes	443	302	422	415
Vegetables	417	354	396	406
Fruit	296	250	200	173
Grapes	220	210	150	90
Melons	108	80	84	125
Others	288	123	287	217

Source: SDS, Yearbook 2003, agriculture chapter. Other crops consist of perennial grass, tea leaves, citruses, annual grass, sunflower seed, tobacco, soybean, maize for forage, roods). Indices derived from information in the Yearbook

[13] The World Bank, Georgia, Country Procurement Assessment Report, Operations Policy and Services Unit, Europe and Central Asia Region, Report No. 26660-GE, June 2002, p. iii
[14] The World Bank, Georgia - Country Procurement Assessment (Based on OECD-DAC /World Bank indicators), Operational Policy and Services, Europe and Central Asia Region, June 2007, p. 6.

3.22 Well defined property rights and developed real estate markets may contribute in providing good collateral and security to banks. Registering the land for 3000 enterprises could give companies some security over their land, but its overall impact was probably small. First small companies constituted the bulk of privatized companies. Second, in Georgia a title to a piece of land does not guarantee that the property rights of the owner are or will be respected.[15] In sum, although registering the land to 3000 enterprises might be a worthy goal in itself, in the Georgian context the link between land registration and financial sector growth seems to have been weak at best.[16]

3.23 The project document also failed to specify the expected impact on financial markets. Most likely, this impact, if any, was negligible given the relatively small number of enterprises for which land was to be registered. Table 20 presents standard indicators of financial sector development which this PPAR presents and discusses for completeness. Normally, the growth of broad money (M2) and credit to the private sector –both expressed as a proportion of GDP - depends mostly on economic growth, level of income, inflation and confidence in the domestic currency. During 1999-2002 Georgia controlled inflation and addressed external shocks to provide stability to the Lari relative to the US dollar and euro. As economic stability took hold, people's confidence in the Lari increased and their demand for money increased, driving M2/GDP up. The increase in deposits allowed the banks to expand credit to the private sector and increase their asset base. As banks strengthened, competition increased, and confidence returned, real and nominal interest rates decreased as well as the banks' intermediation margin (lending rates minus savings rate). These developments explain to a large extent the performance of the financial sector during 1999-2002.

Table 20. Financial Sector Indicators

	1999	2000	2001	2002	2003
General Indicators					
Credit to the private sector (percent of GDP)	5.8	8.6	8.6	9.6	10.2
M2 to GDP (percentage)	5.1	6.4	6.1	6.2	6.2
Banking System					
Number	37	30	27	25	25
Total Assets to GDP (percentage)	10.5	12.7	13.3	15.	15.8
Nominal Interest Rates on Lari (percent)					
Loans	33	27	21	27	26
Deposits	12.7	11.7	9.6	10.2	9.0
Real Interest Rates on Lari (percent)					
Loans	22.7	21.4	17.0	20.8	17.8
Deposits	3.9	6.8	5.9	4.5	1.9
Inflation (percent)	8.4	4.6	3.4	5.4	7.0

Source: State Department of Statistics, Georgia; National Bank of Georgia; Ministry of Finance, Georgia

[15] The International Crisis Group (ICG) discusses, among other issues, the problem of respect for property rights in its report *Georgia: Sliding Towards Authoritarianism*, Europe Report No. 189, December 19, 2007. Among the people the mission interviewed in Georgia there was wide consensus about insecure property rights, arbitrary behavior of the authorities and, in some cases, fear of registering property held by families for generations because they might lose it. Moreover, the rapid growth of the financial sector since 2004 despite weak property rights undermines the idea that registering land was essential for its growth.

[16] A report accompanying a BTOR of June 18, 1998, for the SAC3 identification mission discusses the financial sector as one of the constraints to private sector growth. The report discusses the factors that influence the availability of finance, but does not mention specifically the issue of land rights of enterprises as a constraint; it does mention, though, "the ability to use business assets to finance growth". See Georgia: Constraints to Sustained Private Sector-Led Growth, Volume 1, pp. 16-17

OBJECTIVE IV: DIVESTITURE FROM PRODUCTIVE ACTIVITIES

3.24 The credit sought to promote the privatization of companies and activities owned or managed by the state. It tried to do it by: (a) promoting private participation in infrastructure; (b) facilitating the overall privatization program (to provide adequate coordination and encouragement for potential investors); and (c) completing privatization of medium/large enterprises (non-infrastructure). The credit expected to complete the transfer of viable enterprises and productive assets to private-sector owners and managers as rapidly, transparently, and profitably as possible. In addition, the credit also sought to improve the efficiency and quality of health infrastructure and services by optimizing the use of existing resources.

3.25 *Promoting private participation in infrastructure and facilitating the overall privatization program.* The credit achieved its immediate objectives of creating the legal conditions to permit the privatization of companies in telecommunications and ports. The government prepared the strategy and regulatory framework to restructure Poti Port and the telecommunications sector. Despite changes in legislation and regulatory framework, the business climate deteriorated.

3.26 *Completing privatization of medium and large enterprises.* The credit achieved its objective of having the government privatize about 270 companies slated in the program as well as liquidate or start bankruptcy procedures for 14 others. It is unlikely that the objective of privatizing medium and large enterprises, as the credit sought, was achieved. First, although the program had closed in October 2002, the 761 companies privatized in 2003 were all small companies, which somewhat indicates the government's reluctance to divest of medium-to-large size companies. Second, total revenues from the sales of the 270 companies reached $1.5 million, 3.3 percent of the revenues collected from privatization during 1999-2002 (See Table 21). The average price per company sold was US$5,555 (US$1.5 million/270), below the price of $12,180 paid on average for each of the 3,835 companies sold during 1999-2002; therefore, it is quite unlikely that the companies sold under the Bank's program were larger than those sold outside it. During this period the government did not pursue privatization of medium-to-large companies forcefully judging by what happened in 2004-2005: in two years the government sold about half of the number of companies sold in 1999-2002 and the dollar revenues from it were six times higher (last column).

3.27 Two reasons explain the failure to sell large companies during 1999-2002. First, the absence of political will. Second, the appalling business climate the government created, with widespread corruption, disregard for the rule of law and the harassment of firms and their managers. Few investors were willing to invest in Georgia because of the large risks involved. As an example, the government issued international tenders for the sale of shares in Georgia Telecommunications and Georgia Electro Communications, but no one applied to purchase them. The government only sold one large company: Telasi, the Tbilisi electricity distribution company, to AES, an American company. Later, AES had to sell Telasi because the government did not support its efforts to collect the electricity bills nor obliged the generating companies to supply it with electricity.

Table 21. Number of privatized enterprises and revenue from privatization

	1999	2000	2001	2002	1999-02	2004-05
1. Number of privatized enterprises	1,492	1,009	661	673	3,835	1,804
of which small enterprises	1,450	883	614	655	3,602	264 *
2. Revenues from privatization						
a. In million lari	52.7	12.8	5.6	24.5	95.6	516
b. In million US dollars	26	6	3	11	47	280
c. Percent of GDP	0.9	0.2	0.1	0.3	1.6	4.6
3. Price per company (US$)	17,680	6,423	4,077	16,576	12,180	155,327

Source: Ministry of Economic Development of Georgia; Ministry of Finance of Georgia for 1 and 2a. The information appears in SDS, Yearbook 2004 and 2005, in the chapter on privatization. The other information is derived from the original data and from data provided by the Resident Mission on GDP and exchange rate.

* Applies to 2004 only

3.28 *Health infrastructure.* The credit sought a government action plan to restructure hospitals in Tbilisi and the satisfactory implementation of a hospital restructuring program. Neither the President's Report, nor the credit agreement nor the ICR specify if the restructuring program was national or restricted to Tbilisi. The government closed 12 hospitals in Tbilisi in the first phase of the hospital restructuring plan but legal and political challenges prevented restructuring as planned. First, a court decision rescinded the second phase of restructuring in Tbilisi. Second, the number of hospitals in Georgia increased at a time when the government was laying-off medical personnel (physicians and paramedics) and reducing the supply of beds (See Table 22). Government efforts to privatize hospitals at the time did not succeed. The ICR notes that "Four facilities were selected for privatization, but none has attracted interest"[17]. The number of beds declined by some 4,200 of which about 1,000 (24 percent) the credit supported. Medical personnel also declined, by about 6,500, of which about 900 (some 14 percent) the credit supported. In summary, the credit seems to have been effective in reducing some elements of the physical and technical infrastructure of the system. It did not succeed in the hospital restructuring program because the number of hospitals increased.

Table 22. Public Health System: Characteristic and SAC3 Achievements

	1999	2000	2001	2002	Change 1999-2002
Health System - Basic Data					
Physicians (thousands)	21.5	21.1	19.5	20.2	-1.3
Paramedic personnel (thousands)	29	26	23	23	-5.2
Hospitals	246	229	251	251	5.0
Hospital beds (thousands)	23	21	20	18	-4.2
Utilization of one hospital bed (days)	10.7	10.1	9.7	9.7	-1.0
SAC 3 achievements at closing date					
Medical personnel (thousands)					-0.9
Hospitals in Tbilisi					-12
Bed capacity (thousands)					-0.99

Source: Ministry of Labour, Health and Social Affairs of Georgia as it appears in State Department of Statistics, Yearbook 2005, health chapter; and ICR, Report No. 25545, May 7, 2003, p. 9 for SAC3 achievements

Decimals have been rounded to closest integer

[17] The World Bank, ICR for Third Structural Adjustment Credit, Report No. 25545 (May 7, 2003), p. 9

3.29 Summarizing, the project helped the government maintain a satisfactory macroeconomic framework. The project also helped the government to carry out some reforms in land ownership and divest from some small state-owned enterprises but it failed in achieving its objective of creating an environment favorable to the private sector. The overall efficacy of the credit is negligible and its outcome *unsatisfactory*.

Monitoring and Evaluation

3.30 The credit lacked a monitoring and evaluation framework, and its matrix of actions in Annex 1 of the program document (Report No. P-7316-GE) did not present outcome indicators associated with them. This PPAR rates the quality of monitoring and evaluation as *negligible*.

Ratings

3.31 *Relevance*. The project sought to help solve important problems Georgia faced at the time. These were relevant for the country and consistent with the Bank's CAS. This report rates the relevance of project objectives as *substantial*.

3.32 *Efficacy and Outcome*. The government carried out most of the actions envisaged in the program but they failed to produce results because most of them consisted of procedural conditions (e.g., preparing action plans, submitting laws to Parliament). The government failed to implement the actions that could have produced results (e.g., allocate and execute the budget for health and education). When the government put for sale Georgia Telecommunications no one applied to buy it because the country had a bad business climate. In summary, the credit did not achieve the benefits sought by the credit: "to maintain the momentum of reforms and deepen the reform process in key areas essential to the sustainability of growth." The PPAR rates the efficacy as *modest*, and the outcome associated with the credit as *moderately unsatisfactory*. Table 23 summarizes the ratings for efficacy and outcome.

Table 23. Efficacy and Outcome Rating by Objective

Objective	Relevance	Efficacy	Outcome
I. Satisfactory Macroeconomic Framework		Modest	
II. Reduce Macroeconomic Imbalances		Negligible	
III. Creating Environment Favorable to Private Sector		Negligible	
IV. Reform Land Ownership		Modest	
V. Divestiture from Productive Activities		Modest	
Summary rating	**Substantial**	**Modest**	**Moderately Unsatisfactory**

Note. Efficacy has four rating categories: high, substantial, modest and negligible
IEG does not rate efficiency for adjustment loans

3.33 *Risk to Development Outcome (Sustainability)*. The government's interest in structural reform diminished in 1999, the year the credit was approved. The weak conditionality shows the Bank's impotence in getting the government to accept conditions tied to results. The government maintained, up to a point, a reasonable macroeconomic policy. It prevented a surge in inflation, dealt with the external crisis swiftly, and cut expenditures to prevent the fiscal deficit from exploding. It also accumulated arrears of about 0.7 percent of GDP per year and borrowed from the NBG 0.7 percent of GDP per year, which increased the monetary base (B) by about 12 percent per year, forcing NBG to keep a tight monetary policy to check the expansion of credit.[18] Over the period the money multiplier for M2 and M3 (M2/B, M3/B) averaged 0.94 and 1.6, indicating how tight monetary policy was. The tight policy kept inflation low but caused the high real lending rates that contributed to the slow growth. The government showed its determination to keep inflation in check but also its weakness in coming to grips with its fiscal problems, in part a result of the vested interests within the administration that profited from the fisc.[19] The risk to development outcome at the time of credit closure is rated as *high*.

3.34 *Bank Performance*. The Bank diagnosed the situation well in a document that set the basis for the credit, benefiting from analytical work done up to that moment.[20] The conditions of the credit portended the course of the reforms and the credit's eventual failure. The credit imposed a large number of conditions that lacked substantive impact and results indicator tied to them (See Annex Table 1). The authorities could meet the conditions and maintain the status quo. Even with such benign treatment, the government did not meet the conditions on time and the Bank extended the closing date of the credit three times, from December 31, 2000 to October 30, 2002. Despite these problems, the Bank rated satisfactory the project development objectives every time it supervised it. Despite evidence that corruption was growing and the respect for the rule of law dwindling, the Bank designed a credit that missed the essential condition for success: enforcement, for which the government had no appetite. Despite its knowledge of the country the Bank failed to produce a sensible group of indicators that could help monitor performance and evaluate impact. With the conditions agreed to, the Bank took a gamble on reform and lost it. Bank performance is rated *unsatisfactory*.

3.35 *Borrower Performance.* The government wanted the funds from the Bank but not the results that Bank lending was seeking. The government met the conditions of the credit but did not follow through to produce the results that Bank support sought. Most conditions were procedural but to meet them it took the government two years beyond the original closing date. The government either opposed reform or had lost control of the state apparatus. Whichever is correct, the government ceased being a reliable partner, and its performance has to be rated *unsatisfactory*.

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[18] This is calculated by dividing credit from NBG (0.7 percent of GDP) by the monetization coefficient (M2/GDP) of 5.9 percent of GDP; this division gives the number 11.8 percent

[19] The President's Report had identified as one potential risk of the credit the "special interest groups benefiting from the status-quo could succeed in delaying implementation of key fiscal or private sector development", Report P-7316-GE, June 4, 1999, credit and project summary page

[20] The document Georgia: Constraints to Sustained Private Sector-Led Growth, in two volumes, can be found in the project files (LEAP files-hard copy)

4. Reform Support Credit

Project Objectives and Their Relevance

4.1 *Objectives.* The Reform Support Credit (Credit No.3937-GE, July 1, 2004) provided assistance to the government in a first phase of efforts "to define and launch a bold program of economic, legal, and social reforms" (President Report No. 28548-GE, May 27, 2004, p. i). The credit supported actions to (i) improve governance and anti-corruption; (ii) improve public financial management; and (iii) resolve crucial issues in the energy sector. Although not stated explicitly, the credit also supported the government's efforts at protecting the vulnerable (Annexes 1 and 2 of the President Report); this objective was part of the structural reform agenda pertinent to the credit and to IDA's subsequent adjustment operations (par. 16 of Report).

4.2 *Relevance.* The objectives were relevant in view of the problems Georgia had in 2004. Corruption was rampant and governance low. Tax collection had stagnated, the Ministry of Finance had inadequate control over revenues and expenditures; mechanisms of control and audit of financial flows were ineffective. Pensions were paid late, and their real purchasing power minimal. Electricity was a major problem: customers did not pay their bills, blackouts were long and frequent, and the debt of the power sector was large and growing. Poverty was widespread, with estimates ranging from 27 to 51 percent. The credit pursued objectives in line with the CAS FY98 and with the CPS FY06. The objectives were also coherent with the government's agenda, stated in the Economic Development and Poverty Reduction Program (EDPRP, June 2003) and the poverty reduction strategy papers.

4.3 *Components and Conditions.* The credit was approved in June 24, 2004, disbursed in August 19, 2004 and closed in December 31, 2004. The program consisted of nine core conditions and other non-core conditions expected to help achieve the credit's objectives and sub-objectives (See Table 24).[21] Most of the core conditions consisted of preparing action plans, issuing reports, adopting laws and legal codes, and establishing a commission with the mandate to promote improvements in the business environment (See Annex Table 3). Two conditions sought to have more immediate impact. The first asked for the Customs Department to eliminate requirements for (a) the internal transit document and (b) the non-excise consignment to travel in convoy. The second one asked for the government to put into operation the automated systems for customs data (ASYCUDA).

[21] The legal credit agreement lists 10 actions (Schedule 2) and the ICR lists 10 core actions. Maintaining a satisfactory macroeconomic framework is a general condition for this type of credits (Recital B of the Preamble to the credit agreement) as well as carrying out the actions described in Recital A of the preamble.

Table 24. Reform Support Credit: Objectives and Sub-objectives

I. General Objective: Satisfactory Macroeconomic Framework
II. Strengthening Governance/Anti-Corruption and Public Sector Management
Formulating, Implementing, and Monitoring an Anti-Corruption Strategy
Improving Governance through Administrative/Civil Service Reform
Improving Governance to Promote Private Sector Development
III. Improving Public Finance Management and Financial Accountability
Public Expenditure Management
Financial Accountability
IV. Taking Steps to Resolve Critical Issues of the Energy Sector
V. Protecting the Vulnerable

Source: Program Document, Report No. 28548-GE

4.4 The credit lacked an adequate results framework. In most cases the indicators corresponded to inputs and outputs, and in others the results were not well defined or the logic linking actions and results was unclear. For example, in the adoption of the ASYCUDA system the program document selected as the outcome indicator the simplification of customs requirements but did not go beyond this (e.g., processing time or losses of merchandise in customs). In the case of electricity, the outcome associated with the action plan was an improved financial situation of the power companies, but the report did not specify what that situation could be or when it could be achieved. In what follows, this report presents information that gives a better idea of the credit's potential impact.

Outcomes

General Objective: Satisfactory Macroeconomic Framework

4.5 The credit seems to have accepted the PRGF program [agreed between the IMF and the government] for 2004-2008 as a satisfactory macroeconomic framework. Its main elements were:

- Annual GDP growth: 6 percent for 2004 and 5 percent afterwards
- CPI inflation: 5.8 percent for 2004 and 5 percent afterwards
- Annual tax revenue increase: 1.6 percentage points of GDP for 2004 and 1 percentage points annually afterwards
- Expenditure and net lending: gradual increase from 20.5 percent of GDP to about 25 percent o f GDP during 2004-08
- Broad money growth: gradual decrease from 19.5 percent to 13.9 percent during 2004-08.

4.6 Overall, this objective can be considered met based on these criteria (see Table 25). The results for growth, tax collection, and external debt exceeded the goals of the program. Arrears to pensioners and government employees fell by more than three percent of GDP. The authorities failed to meet their goals in inflation and money growth, and met their goals for fiscal balance and current account balance in 2004 but not in 2005-06. The growth in tax revenues financed more expenditure than the program envisioned; whether surpassing the goal is a good result depends, ultimately, on whether that expenditure produces more benefits than if the private sector had done it.

Table 25. Indicators of results for economic performance and stabilization

Indicators	IMF Program Baseline		Results	Met?
	Period	Value		
GDP growth rate (% per year)	2004	6.0	5.9	No
	2005-06	5.0	9.5	Yes
Inflation (% change in CPI per year)	2004	5.8	5.7	Yes
	2005-06	5.0	8.7	No
Broad money (M2) growth (percent increase)	2004	19.5	42.6	No
	2005-06	17.6	32.8	No
Annual tax revenues increase (% of GDP)	2004	1.6	4.4	Yes
	2005-06	0.9	1.2	Yes
Expenditure and net lending (% of GDP)	2004	20.5	19.7	No
	2005-06	20.8	28.7	Yes
Overall balance (cash basis - % of GDP)	2004	-2.6	0.4	Yes
	2005-2006	-1.0	-2.4	No
Current account balance (% of GDP)	2004	-9.5	-6.8	Yes
	2005-06	-8.9	-11.8	No
External debt, public and guaranteed (million US dollars)	2004	1,902	1,858	Yes
	2007	2,223	1,697	Yes
Net change in arrears (decrease; percent of GDP)	2004		-2.6	Yes
	2005-06		-0.6	Yes

Source: 1. Workbook provided by the Resident Mission in Georgia with general economic data; 2. IMF, Country Reports No. 06/175 (May 2006) and 07/299 (August 2007) for M3 and public sector debt; 3. Report No. 28548-GE, Table 2 for baseline values for IMF program

OBJECTIVE I: STRENGTHENING GOVERNANCE, ANTI-CORRUPTION AND PUBLIC SECTOR MANAGEMENT

4.7 This objective consisted of three sub-objectives:

- Formulating, Implementing, and Monitoring an Anti-Corruption Strategy;
- Improving Governance through Administrative/Civil Service Reform; and
- Improving Governance to Promote Private Sector Development

4.8 *Formulating, Implementing, and Monitoring an Anti-Corruption Strategy.* The credit required the government to design an anti-corruption strategy and implement its recommendations, after submitting a report on the actions taken regarding anti-corruption. Submitting the report was a condition of the credit while preparing the strategy was one indicator the Bank would monitor. The government approved the anti-corruption strategy on June 24, 2005 and the action plan in September 2005.[22] On this

[22] Presidential Decree No. 550, June 24, 2005, Tbilisi, on the Approval of Georgia's National Anti-corruption Strategy; Government Ordinance #377, September 12, 2005, Tbilisi, on the approval of Georgia's National Anti-Corruption Strategy Implementation Action Plan.

score, the credit met its immediate objective. The credit also supported actions to reduce corruption and improve the functioning of Customs, as well as revisions to the Law on Conflict of Interests in Public Service. Did subsequent actions reduce corruption?[23] To answer, this report looks at the status of anti-corruption institutions and legislation, at the regulations and practices on conflict of interests, and at the perceptions of business people and the public at-large about the extent and practice of corruption in the country. Table 26 presents data on anti-corruption institutions and conflicts of interest, from survey conducted by *Global Integrity*, an NGO, and from BEEPs on how corruption affects businesses.

4.9 Anti-corruption and conflicts of interest. Panels A and B of Table 24 inform about the quality of institutions and of organizations that deal with corruption and conflicts of interests.[24] The ratings and scores in Panel A show weakening anti-corruption institutions and organizations because three of the four components of the index deteriorated. Georgia has good anti-corruption laws but weak enforcement by the anti-corruption agency, the judiciary and the police. The anti-corruption agency lacks independence and resources to conduct its tasks. The judiciary also lacks independence, and in practice neither the judiciary nor the law enforcement agencies are protected from political interference.[25] As regards conflict of interest the situation deteriorated between 2006 and 2007. The regulations governing conflict of interest weakened because they are not effective in practice. In its survey on Georgia, Global Integrity considers that the regulations governing gifts and hospitality offered to members of the executive branch were not applied in 2007 and were partially applied in 2006. It also finds that the asset disclosure records of the executive branch (ministers and above) were not audited in 2007. Citizens can access the records of the heads of the state and government, and it can take from 10 days to one month to get the information requested.

4.10 Anti-corruption and its impact on business. Panels C and D present indicators that show the practical impact on businesses of government actions to streamline regulations and improve the operations of customs and the tax offices. The information compares the views of firms in 2002 and 2005 reported in BEEPS. Firms feel that business licensing improved, as the percent of those reporting it as a problem fell from 26 percent to 23 percent. Regarding regulations on customs and taxes fewer firms believe they were a problem in 2005 than in 2002. That should be expected, because in June 2005 Parliament approved a new law on Licensing and Permits that reduced their number from 950 to 150. For customs the percent of firms that see them as a problem fell from 40 to 29 and for tax administration the numbers fell from 84 to 23 percent. Because of fewer regulations senior management spends less time negotiating changes and interpretation of laws and regulations, 12 percent of their time in 2002 and 5 percent in 2005.

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[23] TI Georgia reviews the elaboration and implementation of the strategy and action plan. See Tamuna Karosanidze, National Anti-corruption Strategy and Action Plan: Elaboration and Implementation (Tbilisi, 2007)

[24] The index started with 25 countries included in a pilot report in 2004; but Georgia was not part of it. The indices started in full in 2006. See http://www.globalintegrity.org/aboutus/numbers.cfm.

[25] For details for 2007 see Global Integrity, Global Integrity Score Card : Georgia

Table 26. Indicators of performance - Formulating, Implementing and Monitoring an Anti-Corruption Strategy

	2006[a]	2007[a]
A. Anticorruption institutions and organizations - Ratings (Scores 1-100)	**Strong (85)**	**Very Weak (54)**
1. Anti-corruption law -	Very Strong (100)	Very Strong (100)
2. Anti-corruption agency	Strong (82)	Very weak (5)
3. Rule of law	Moderate (80)	Very Weak (59)
4. Law enforcement	Moderate (77)	Very Weak (52)
B. Conflict of Interests – Ratings and Scores (1-100)		
1. Are there regulations governing conflicts of interest by the executive branch?	Very Weak (50)	Very Weak (38)
2. Can citizens access the asset disclosure records of the heads of state and government?	Very Strong (92)	Strong (83)
C. General anti-corruption steps affecting businesses	**2002**	**2005**
1. Problems for doing business (Percent of firms indicating so for ...)		
a. Business licensing	26.3	22.6
b. Customs regulations	39.8	28.7
c. Tax administration (or regulation)	84.4	22.9
2. Regulations - Percent of senior management time spent with officials negotiating changes and interpretation of laws and regulations	11.6	4.6
D. Bribes		
1. Percent of firms saying unofficial payments are frequent	37.8	7.3
2. Percent of firms saying bribery is frequent		
a. To obtain business licenses and permits	20.0	7.0
b. In customs	24.3	10
c. For tax collection purposes	43.8	10.7
3. Bribes as a share of annual sales (percent)	2.74	0.46

Note: [a] Indicators are scored along an ordinal scale of zero to 100 with possible scores at 0, 25, 50, 75 and 100. The index groups countries into five performance "tiers" according to a country's overall aggregated score: • Very strong (90-100) • Strong (80-89) • Moderate (70-79) • Weak (60-69) • Very Weak (< 60)

Source:

1. Global Integrity, country report for Georgia (http://www.globalintegrity.org).

2. EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) for 2002, 2005

4.11 Better regulations and simplified procedures reduced the incidence of bribery. The percentage of firms responding that unofficial payments were frequent fell from 38 to 7 between 2002 and 2005, and from 24 to 10 for customs, from 44 to 11 for tax collection and from 20 to 7 to obtain business licenses and permits. Last, firms estimated that the share of annual sales paid in bribes fell from 2.7 percent in 2002 to about 0.5 percent in 2005. Although businesses note a reduction in corruption, the public at large believes that corruption is still a problem. In a poll conducted in June 2006 on behalf of the EU, 39 percent of those polled believed that the money collected by tax officials goes into their pockets and not the state budget, and only 19 percent believed that Georgian tax officials are **not** corrupted.[26]

4.12 Summarizing, corruption declined after 2004, despite the deterioration of the anti-corruption agency and the weak enforcement capacity of the state. Such result suggests the need to streamline and simplify regulations, having the desire to fight corruption and creating the capacity to do it. It is not clear that establishing organizations will reduce it.[27]

4.13 *Administrative and Civil Service Reform.* The Bank had identified civil service reform as a second element to improve governance. Again, the approach consisted of supporting legislation to define the structure, functions and responsibilities of the new agency, and asking the government to designate an administrative agency in charge of oversight and implementing civil service reform. The program also requested a report from the Development and Reform Fund, an entity established at the initiative of the President of Georgia to promote reforms in public administration, and manage the reforms and the civil servants' and students' re-training. Resources from the Foundation would complement the salaries of civil servants while the government increased its revenues and could pay better salaries.

4.14 After the new president took over in January 2004 the government carried out reforms to the civil service and to the structure of the public sector. It presented to Parliament a law on the *Structure, Functions and Responsibilities of Government* that Parliament approved. The government created the Civil Service Bureau in October 2004, and its main functions consisted of doing research on civil service, implementing relevant legislative acts, coordinating human resource management and training. As part of the reform the government abolished four of the 18 ministries and abolished or merged 18 agencies of the central government. Between January 2004 and July 2005, the staff of 10 representative agencies fell 18 percent.[28] The number of reorganizations per agency averaged 2, varying from six in the customs department to one in the Ministries of Labor and Education and in the Department of Customs. Total employment in the public administration declined from 87400 in 2004 to 78600 in 2006. The reforms were accompanied by frequent reshuffles of personnel and ministers, changes whose impact on the integrity of civil service reform is hard to assess.

4.15 Improving the civil service requires patience and perseverance. Despite the changes reported, the integrity of the civil service is still weak. Global Integrity, an NGO, rated as very weak the regulations governing the civil service and weak those related to whistle-blowing (See Table 27). Global Integrity rates as very weak the elements it included in its analysis of civil service regulations in 2007: (a) national regulations for civil service (score of 50 over 100); (b) how effective is the law governing the administration and civil service (score of 39 over 100); (c) regulations addressing

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[26] GORBI, Georgian Citizens' Awareness of their Rights and Obligations under the Tax Code of Georgia and their Perception of the Tax Administration Opinion poll conducted by GORBI on behalf of the Europe Aid Programme, "Support of the Tax Administration in Georgia", poll conducted in June 2006
[27] See OED, *Mainstreaming Anti-Corruption Activities in World Bank Assistance: A Review of Progress Since 1997*, OED Review. Report No. 29620. Washington, D.C.: The World Bank, July 14, 2004.
[28] See TI, Reforming the Georgia Civil Service: Grand Corporation or a Competitive Market? October 2006

conflicts of interest (score of 33 over 100); and (d) access to disclosure records of senior civil servants (score of 67 over 100). Global Integrity rates as weak the measures related to whistle-blowing, and finds large disparities in the quality of its elements: (a) protecting employees who report corruption; (b) establishing in the law an internal mechanism (e.g., phone line) to report corruption; and (c) making the mechanism effective.

Table 27. Indicators of performance - Improving Governance through Administrative and Civil Service Reform

	2004	2005	2006	2007
1. Streamlining the public sector				
a. Ministries abolished	4 of 18	1 out of 14		
b. State departments abolished and merged with ministers	18			
c. Staff reduction at representative central government agencies January 2004-July 2005 (percent)		18		
d. Employment in public administration ('000)	87.4	82	78.6	
e. Employed in public administration/Total employment (%)	4.9	4.7	4.5	
2. Integrity of civil service rating (score, 0-100)				
a. Civil Service Regulations			Very Weak (60)	Very Weak (47)
b. Whistle-blowing Measures			Very Weak (44)	Weak (63)
3. Adequate salaries for civil servants				
a. Number of civil servants receiving additional salary	120,605	34,251	337	0
b. Additional amounts paid (US million dollars)	13.67	5.21	0.08	0

Source:
1. For 1a-b, ICR for Reform Support Credit, Report 32781-GE, June 29, 2005;
2. For1c Transparency International Georgia, Reforming the Georgian Civil Service: Grand Corporation or a competitive market? Report prepared by Koba Turmanidze, October 2006, Annex 1;
3. For 1d and 1e, State Department of Statistics, Quarterly Bulletin 2007 II, pp. 86, 88; public employment derived from information on total employment and distribution of employment by economic activity.
4. For 2, Global Integrity, country report for Georgia, 2006 and 2007 [see footnote a/ in Table 26]
5. For 3, Development and Reform Foundation, http://www.drf.org.ge/

4.16 The government made an effort to improve the remuneration of civil servants while it was reducing employment in the public sector. It created a quasi-fiscal fund, the Reform and Development Fund, capitalized with donations from the private sector. In 2004 the Fund complemented the salaries of about 120,000 civil servants for a total of US$14 million. The contribution fell in 2005, when extra payments to 34,000 civil servants reached US$5 million and ended in 2006 when the Fund complemented the salary of 337 civil servants for a total of 80,000 dollars. The Fund is now an NGO and its website has reports on revenues and expenditures in 2004-2006, as the credit expected.[29]

4.17 Summarizing, in its immediate and most basic aspects the assistance contributed to streamline the public sector and set the basis for the development of a professional civil service. Only time will tell if the ultimate goal of the assistance was achieved.

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[29] For more information about what the Fund does go to http://www.drf.org.ge/about_drf.html

4.18 *Governance and Private Sector Development.* The credit sought to strengthen governance to promote private sector development. This sub-objective was part of a circular reasoning saying that the way to improve governance was to improve governance. Leaving this point of inconsistency aside, this report evaluates if the actions the government took in 2004-2006 improved conditions for the private sector.

4.19 The government met the procedural conditions for this objective. It established a cross-ministerial commission with a mandate of promoting improvements in the business environment and of issuing orders to eliminate the requirement for internal transit documents and non-excise consignment to travel in convoy. The credit expected that the costs to establish and operate a business would fall, and transit traffic and customs revenue would increase. Table 28 presents indicators related to these results. Group 1 shows that the government has taken steps to reduce the cost (in theory) of doing business as measured by the Bank's Doing Business reports. The associated costs fell in four of the six indicators listed: starting a business, dealing with licenses, registering property and enforcing contracts. Firms still spend the same amount of time to pay taxes and close a business.

Table 28. Indicators of Performance - Improving Governance to Promote Private Sector Development

	2004	2005	2006	2007
1. Regulation and Licensing				
a. Starting a Business (cost as percent of income per capita)	14	14	11	10
b. Dealing with Licenses (cost as percent of income per capita)	..	32	30	29
c. Registering Property (time in days)	39	9	9	5
d. Paying Taxes (time spent in hours)	..	387	387	387
e. Enforcing Contracts (time in days)	375	375	285	285
f. Closing a Business (time in years)	3.3	3.3	3.3	3.3
2. Transport costs				
a. Poti Port - Azerbaijan border (US dollars)	300			50
b. Poti Port - Azerbaijan border (US dollars per vehicle km)	3.78			0.63
3 Customs Revenues (Taxes on imports- percent of GDP)	6.0	8.3	9.5	
a. VAT	3.7	5.4	6.7	
b. Excise	1.2	1.9	1.8	
c. Customs duties	1.0	1.1	1.0	

Source:

1. World Bank, Doing Business Indicators database
2. Consultant Report for CAE on Transportation (October 15, 2007, par. 31)
3. Ministry of Finance of Georgia for tax revenues; numbers have been rounded to the closest integer or decimal

4.20 Transport costs have fallen, both for the elimination of travel documents and the government's attack on corruption in the transit police. Transit police stopped extorting drivers after the government fired all the officers in the force, hired new ones, and monitored their performance. The credit did not support actions on the transit police, but fighting corruption in that group had a large impact on transport costs. It is estimated that transport costs between Poti port and the border with Azerbaijan fell from US$300 to US$50, the saving owing to the disappearance of bribes.[30]

4.21 Reforms in customs have reduced the incentive for corruption and increased revenues from foreign trade (Table 4, line 3). Customs revenues increased from 6 percent of GDP in 2004 to 9.5 percent of GDP, a result of the increase in VAT revenues (3 percent of GDP) and in excise taxes (0.6 percent of GDP). Firms say that corruption in customs has diminished, but the public at large still feels that customs is a problem. In a survey carried out in June 2006 for the EU, GORBI, a polling firm, found that 44 percent of those interviewed rated the performance of the department of customs as "good" or "neither good nor poor".[31] While customs may have improved more than what the general public believes, the customs department still has a reputational problem.[32]

4.22 Summarizing, the changes the credit supported helped to improve governance and create better conditions for private sector growth. While all the changes cannot be attributed to the credit, the credit supported actions that went in the right direction.

OBJECTIVE II: IMPROVING FINANCE MANAGEMENT AND FINANCIAL ACCOUNTABILITY

4.23 This objective consisted of two sub-objectives, one dealing with public expenditure management and the other with financial accountability. To achieve its goals for public expenditure management the credit set as core condition to "prepare an action plan acceptable to IDA for implementing reforms in the Budget Systems Law"; for financial accountability, the core condition was to "adopt amendments on Administration Violations Code to make procurement fraud punishable" and to launch the State Procurement Agency website and improve the format and content of procurement related information. As in previous sections, the report looks at what happened beyond 2004 using indicators related directly or indirectly to the ultimate results the credit sought.

4.24 *Public Expenditure Management.* The restructuring of the public sector carried out in 2004 improved governmental functions, especially revenue collection. Tax revenues increased 7.7 percentage points of GDP, and revenue from privatizations jumped from 0.3 percent of GDP in 2003 to 4.1 percent of GDP in 2006 (see Table 29). The improvements made it possible to undertake some fiscal initiatives like increasing pensions, upgrading defense capacity and clearing arrears. In 2004 pensions increased to 20 Lari per month (about 10.4 US dollars); and since 2005 the minimum pensions has been doubled.

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[30] Tom Kennedy, Consultant's report on Transport prepared for the Georgia CAE

[31] GORBI, Georgian Citizens' Awareness of their Rights and Obligations under the Tax Code of Georgia and their Perception of the Tax Administration Opinion poll conducted by GORBI on behalf of the Europe Aid Programme, "Support of the Tax Administration in Georgia", poll conducted in June 2006.

[32] During the visit to Georgia the mission was told that importers processing their papers using firms with connections in customs would have the merchandise out faster than if they used firms without the connections.

Table 29. Indicators of performance - Improving Public Finance Management (percent of GDP)

	2003	2004	2005	2006
1. Tax revenues	14.1	18.4	19.7	21.8
2. Privatization revenues	0.3	0.7	3.6	4.1
3. Current expenditure	16.5	15.6	18.9	20.7
4. Balance -incl. grants (cash basis)	-0.8	0.4	-2.6	-2.2
5. Net change in arrears (- decrease)	1.1	-2.6	-0.8	-0.3

Source: Workbook provided by the Resident Mission in Georgia with general economic data

4.25 The government also continued its reforms in other areas. The Single Treasury Account (STA) became fully operational in early 2006, and the first Medium-Term Expenditure Framework (MTEF) was produced in 2005. The STA has helped raise the timeliness and transparency of fiscal performance. The authorities also sought to improve their Basic Data and Directions (BDD) document, their equivalent of an MTEF; the most recent BDD covers the period 2007-2010. The 2006 budget had a fiscal framework in line with the PRSP and MTEF, and its social spending reflected expected increases in minimum pensions as well as the targeted poverty benefit program launched in late 2006.

4.26 *Financial Accountability*. Since 2004 the authorities have made an effort to improve fiscal transparency, but they also operated quasi-fiscal funds outside the budget and without oversight. Most of the Georgian ministries and some institutions of control (e.g., Chamber of Control) have functioning websites, but they are slow and difficult to access; more important, their information is scanty and of variable quality. For over two years the authorities operated two quasi-fiscal funds –the Armed Forces Fund and the Law Enforcement Fund outside the control of Parliament; the authorities closed them in March 2006. A third one, the Reform Development Fund became an NGO.[33]

4.27 The credit supported several actions that should lead to better financial accountability, but the indicators selected measure outputs and inputs. Part of the difficulty of finding good indicators comes from looking at problems in terms of processes and of associating a desirable action with a good outcome (e.g., reduce procurement offices and costs of purchases will fall). This report uses indicators from Global Integrity for 2006 and 2007 to gain insights on what happened with financial accountability. Although the indicators pay attention to processes and regulations, their compilers try to establish what happens in practice and rate it accordingly. Table 30 presents the indicators.

4.28 The information in A and B shows weaker accountability in 2007 than in 2006 for all categories listed but one. Although the legislation protecting the right of access is good in practice people cannot exert that right. As for government accountability, the

[33] TI discusses these funds in Reform of Government Administration in Georgia, (Tbilisi, November 21, 2005). Also, see IMF Country Report No. 06/175, May 2006, p. 15 and Attachment II, Memorandum of Economic and Financial Policies, paras. 29, 30

executive became less accountable, in part because of weak regulations governing conflicts of interests, but also because the chief executive can hardly be held accountable. Budget processes are very weak because the legislature has little impact on the national budget and citizens have limited access to the budgetary process. Procurement is also very weak, to an important extent because its processes are not effective. Last, Georgia's Supreme Audit Institution has a good legal foundation to do its job, but in practice it cannot initiate its own investigations, and citizens cannot access audit reports within a reasonable time or at a reasonable cost. Moreover, the government can remove its head without relevant justification and does not act on the findings of the agency. In a recent review (2007) the Bank found that Georgia's procurement system made little progress since 2002 and rates the procurement environment as "high risk". In summary, progress in financial accountability seems to have been negligible.[34]

Table 30. Indicators of performance - Improving Financial Accountability

	2006	2007
A. Access to information (0 no access, 100 full access)	Strong (83)	Moderate (75)
1. Do citizens have a legal right of access to information?	Very strong (100)	Very strong (100)
2. Is the right of access to information effective?	Weak (65)	Very weak (50)
B. Government accountability		
1. Executive accountability rating (score 1-100)	Moderate (73)	Weak (62)
2. Budget processes	Weak (66)	Very Weak (41)
3. Procurement	Moderate (75)	Very Weak (45)
4. Supreme Audit Institution	Strong (85)	Moderate (73)

Source: Global Integrity Scorecard: Georgia, 2006 and 2007 from Global Integrity Index, http://www.globalintegrity.org. Indicators are scored along an ordinal scale of zero to 100 with possible scores at 0, 25, 50, 75 and 100. The index groups countries into five performance "tiers" according to a country's overall aggregated score: Very strong (90-100); Strong (80-89); Moderate (70-79); Weak (60-69); Very Weak (< 60). The categories used here from the index are: For section A, category I-3; for section B1, category III-1; for section B2, category III-4; for section B3, category IV-3; for section B4, category V-2.

OBJECTIVE III: TAKING STEPS TO RESOLVE CRITICAL ISSUES OF THE ENERGY SECTOR

4.29 This objective sought to improve performance in the electricity sector. Its main instrument was to request from the government a time-bound action plan for electricity satisfactory to IDA and adopting legislation to address the insolvency of the electric utilities. Both conditions were met, but their ultimate success depended on the government improving the sector's performance. The 2003 Rose Revolution constituted a turning point in the Government's commitment to energy sector reform. Budgetary institutions began to pay their bills, the government ceased interfering in the dispatch of electricity, and endorsed disconnection for non-payment of bills.

4.30 Since 2004 the sector has improved its performance (See Table 31). The long black outs have disappeared and paying consumers get 24-hour service. Collection rates from final consumers increased from 50 percent in 2004 to 90 percent at the end of 2007; and from transmission services from less than 40 percent in 2005 to 90 percent at the end

[34] The World Bank, Georgia - Country Procurement Assessment (Based on OECD-DAC /World Bank indicators), Operational Policy and Services, Europe and Central Asia Region, , June 2007

of 2006. Within Tbilisi, a privatized distribution company provides 24-hour electricity service and notifies customers in advance of planned outages. Better collection rates, fewer losses, and tariff rates set to recover costs have eliminated the quasi-fiscal deficit in the energy sector, which as recently as 2005 reached 4 percent of GDP. Despite these gains, the government had to transfer resources to the sector for about 3 percent of GDP in 2004 and 1.74 percent of GDP in 2006. Also, in 2005the sector's debts, including tax arrears, reached 2.1 billion Lari, about 18 percent of GDP.

Table 31. Indicators of Performance: Taking Steps to Resolve Critical Issues of the Energy Sector

	2003	2004	2005	2006	2007 end
1. Electricity service (hours per day)					
a. Average for country	7				n.a.
b. For paying customers				appr. 24	24
2. Transmission and distribution losses (percent of power produced)	16.2	15.6	0.0	0.0	
3. Collection rates (percent of billed amount)					
a. From end-consumers of UEDC	30	50	70	85	90
b. For transmission services			< 40	90 year-end	
c. As percent of power sold	28	40	68	95	
4. Budget allocations to electricity sector (million GEL)		290	230	240	
Percent of GDP		2.95	1.98	1.74	
5. Quasi-fiscal deficit of sector (% of GDP)	4.7	4.5	4.0		
6. Power sector debt including tax arrears- end of year (billion GEL)		1.3	2.1		
of which to private sector		0.32	0.26		

Source:

1. PRSO III program document, May 2007, page 9 of Annex I for collection rates from end-consumers, par. 121 for budget allocations, and par. 123 for collection from transmission services

2. PRSO II program document, September 14, 2006, par. 112, and PRSO III program document, May 2007, par. 128 for debt amounts

3. PRSO IV program document, October 2007, Annex III for electricity service

4. IMF, Georgia: 2006 Article IV Consultation, Third Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria, IMF Country Report No. 06/175, May 2006 for quasi-fiscal deficit

5. Georgia Country Assistance Evaluation: Energy Sector, Report to the World Bank Independent Evaluation Group, December 2007 (statistical information) for transmission losses and collection rate as percent of power sold

6. IMF, Georgia Selected Issues and Statistical Appendix, IMF country report '03/347, November 2003, Table II-1 for quasi-fiscal losses in 2003

4.31 In summary, the sector improved its financial situation and the quality of its service to consumers since 2004. Government policy and political will to carry out the changes led to the improvements noted. The credit contributed to these changes as it supported the action plan that the government prepared to meet its conditions.

OBJECTIVE IV: PROTECTING THE VULNERABLE[35]

4.32 Bank support sought an increased poverty focus of health expenditures and greater connection between the EDPRP, the indicative plans and the budgets. The

[35] For details see Transparency International, Reforming Georgia's Social Welfare System, (Tbilisi, December 2006)

government started its reform of the social protection system in March 2005 when it issued an order outlining the new concept for protecting the poor.[36] To target benefits the new system was based on needs (poverty) rather than categories (e.g., pensioner, war veteran). The new system was based on self-assessment that the Social Assistance and Employment State Agency (SAESA) checks and monitors via social agents who visit the families applying for the benefits. After verifying the applications and the needs of each family, the agents enter the information in a database that establishes the ranking score of the family. The ranking determines which of the three assistance packages the family receives: (a) electricity subsidy; (b) electricity subsidy and health insurance for all family members; and (c) electricity subsidy, health insurance and cash transfer for subsistence. By the end of 2006 about 500,000 families had applied, and after SAESA cleaned the rolls the number of families in the database stood at 430,000.

4.33 The government outlined its policies for social protection in its Basic Data and Directions (BDD) document of 2006. The document presents the expenditure plans for 2007-2010 and announces the formation of a residual system of social assistance that monetizes benefits, creates reliable mechanisms to identify beneficiaries and checks their eligibility.[37] In executing the program, it increased transfers and subsidies from 7.6 percent of GDP in 2004 to 11 percent of GDP in 2006 (See Table 32). For social assistance, by 2006 about 90,000 extreme poor families had been targeted to receive benefits and about 25 percent of poor benefited from the medical assistance card program. Also, the coverage of health for infants increased; by 2006 about 86 percent of them received the immunization (DPT3) on time, compared with 79 percent in 2004.

Table 32. Indicators of Performance - Protecting the Vulnerable

	2004	2005	2006
A. Transfers and subsidies (percent of GDP)	7.6	9.1	11.0
a. Subsidies	3.2	3.7	4.1
b. Transfers	4.5	5.4	6.8
Of which for social assistance programs	0.0	0.0	0.4
B. Coverage of social programs			
1. Numbers of extreme poor targeted to receive poverty benefits	0	0	90,000
2. Percent of poor benefiting from Medical Assistance Card program	0	0	25
3. Percent of infants receiving immunization (DPT3) on time	79	82	86

Source: 1. Ministry of Finance of Georgia for data on subsidies and transfers (A); data classified according to IMF standards. Numbers cover State Budget and budgets of local territorial units. The number for social assistance programs in Data in A. come from the MOF's Basic Data and Directions 2007-2010; the report can be downloaded from www.mof.ge.
2. World Bank, Report No. 41037-GE, Proposed Fourth Poverty Reduction Support Operation, October 19, 2007, Annex IV, Table 1, for coverage of social programs (B)

4.34 Summarizing for this objective, the government improved the delivery of benefits to the needy. Bank support cannot be credited with the steps the government took, but its support in 2004 helped in launching the strategy that followed.

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[36] Government Order No. 51, On Poverty Reduction and Improving Measures for Social Protection of the Population

[37] Government of Georgia - Basic Data and Directions for 2007-2010, downloaded from www.mof.ge

4.35 In summary, the credit consisted of procedural conditions that if the government acted on them would lead to measureable positive outcomes. The government acted on these conditions after the project closed, and the objectives of the credit related to a satisfactory macroeconomic framework, resolving critical issues in the energy sector and protecting the vulnerable were substantially achieved. The credit succeeded less in achieving the objectives of strengthening governance and public sector management and improving public finance management and accountability.

Monitoring and Evaluation

4.36 *Design*. The credit lacked a monitoring and evaluation framework, but the matrix of actions in the program document (Annex 1 of Report) had one column titled "Outcome/monitorable indicators" mapping the outcomes to the actions. The outcomes did not come out of a well argued, thoughtful, results-based framework, and the results referred more to outputs, intermediate inputs, or further actions the government would take to achieve the objective.

4.37 The changes in customs exemplify the approach in the program document. The changes were part of the anti-corruption strategy the credit supported. The policy matrix said the government would take "initial measures to reduce corruption in Customs and key public enterprises", and the expected result would be "improved functioning of Customs as reflected in periodic surveys". The document did not identify the specific actions the government would take (e.g., reduce tariffs, eliminate red tape, and fire personnel). Second, the indicator lacked precision in identifying where customs would improve (e.g., collecting duties, operating costs, processing time) and the extent to which an improvement would be acceptable (e.g., time merchandise spends in warehouses decreases from 90 to 89 days or from 90 to 3 days). The problems described result from the project document failing to identify the causes behind the corruption and poor performance in customs. Lacking that framework (problems-causes-solutions) led to a weak results chain and to inadequate baseline and final indicators.

4.38 This review rates the quality of design *modest.*

4.39 *Implementation*. The PAD did not specify the indicators to be gathered nor a plan to gather them. This review rates the quality of implementation *negligible.*

4.40 *Utilization*. The PAD presented a mix of output, input and results indicators in the matrix that summarized the actions the credit supported. The information to be gathered was not intended to have an impact on the program because the credit was designed as a single tranche operation. This review rates the quality of utilization *negligible.*

4.41 Summarizing, this review rates the overall quality of monitoring and evaluation as *negligible.*

Ratings

4.42 *Relevance.* The project sought to help create the foundations to solve important problems in Georgia and this report rates the relevance of project objectives as *substantial.*

4.43 *Efficacy and Outcome.* The government carried out the actions envisaged in the program. In subsequent years it executed the action plans agreed to in the credit or carried out actions that contributed to achieve, partially or fully, the results sought (e.g., strengthen governance and reduce corruption). Efficacy was modest for two objectives and substantial for three others. Table 33 summarizes the ratings for efficacy and outcome.

4.44 *Risk to Development Outcome (Sustainability).* The risk to development outcome is rated as *moderate.* The government has taken steps to improve governance and public financial management, to solve critical issues in the electricity sector and to protect the vulnerable. In its actions the government has shown its political will and administrative capacity to carry out the reforms it embarks upon. The evidence presented covers three years beyond the closing date of the credit, and it shows that conditions have improved. The authorities have been more effective in improving economic management and carrying out economic reforms than in carrying out reforms in organizations (e.g., civil service reform) and institutions (e.g., procurement systems). The new administration is likely to continue the economic reforms started in 2004, but it also runs the risk of maintaining its authoritarian streak. Were that to happen, the risks to the advances made in 2004-2007 could increase.[38]

Table 33. Efficacy and Outcome Rating by Objective

Objective	Relevance	Efficacy	Outcome
I. Satisfactory macroeconomic framework		Substantial	
II. Strengthening governance/anti-corruption and public sector management		Modest	
III. Improving public finance management and financial accountability		Modest	
IV. Taking steps to resolve critical issues of the energy sector		Substantial	
V. Protecting the vulnerable		Substantial	
Summary outcome rating	**Substantial**	**Modest**	**Moderately Satisfactory**

Note. Efficacy has four rating categories: high, substantial, modest and negligible
IEG does not rate efficiency for adjustment loans

4.45 *Bank Performance.* The Bank built up its knowledge about Georgia during the 1990s and early 2000s. That knowledge and the ensuing policy dialogue helped it prepare the credit, and identify the right problems. The actions it proposed to deal with them (e.g., action plans) may have been correct for the six-months when the credit was

[38] The International Crisis Group makes an excellent analysis of the developments in Georgia in Georgia: Sliding Towards Authoritarianism? , Europe Report No. 189, 19 December 2007

active. Despite its knowledge of the country, the Bank failed to produce indicators that could help monitor performance and evaluate impact. With the conditions set in the credit, the Bank took a calculated risk that has paid off. Bank performance is rated as *satisfactory.*

4.46 *Borrower Performance.* The government knew what it wanted to achieve and how to achieve it, and acted in consequence. The government met all the conditions, most of them procedural (e.g., amend law, submit report to IDA). After project closing the government and its different agencies acted on the action plans or enforced the laws and regulations that led to achieving what the credit was pursuing. Borrower performance is rated as *satisfactory.*

5. Findings and Lessons

5.1 Georgia's experience with reform shows again that Bank's support can be effective in promoting and supporting change if the authorities are committed. Providing support when the will is absent may retard rather than accelerate reform, as the authorities can muddle through their problems. When countries need serious reform the Bank should focus on the fundamental problems and make sure that its conditions lead to results, not to promises of future reform. If there is no will or commitment to tackle the difficult problems, the Bank should consider discontinuing lending.

5.2 The judicial reform project delivered most of its inputs but did not achieve the higher level objectives it sought, putting into question the validity of its design. Two lessons emerge from this. First, changing institutions in the judiciary demands interventions beyond those that the project supported. In particular, the goal of an independent judiciary requires continuous political will and commitment from the highest level of country authorities. Second, projects that support upgrading infrastructure (court buildings, computer hardware and software), and training judiciary staff could serve a useful purpose. In order to evaluate them it is necessary to define the "problem" properly, to identify the interventions that deal with it, and to design performance indicators tailored to evaluate if the interventions have solved the problem.

5.3 Complex regulations make it difficult to bring change to organizations and reduce corruption. They increase the power of discretion, encourage corruption, and strengthen the opposition to change. Customs and tax administrations in Georgia exemplify this problem. After the authorities simplified the tax system and customs procedures it became easier to deal with the administrative problems in customs and taxes because inspectors had lost some of their discretionary power. Before embarking on plans to improve the administration of organizations where discretion reigns, the Bank should assess how to weaken that power by simplifying regulations and legislations.

5.4 Bank support fails when it uses the wrong instrument (and theory) to solve a problem. The fight against corruption exemplifies this lesson. The Bank demanded from the government an anti-corruption plan and the establishment of an anti-corruption commission. The government complied but corruption thrived in 1998-2003. In 2004, a new government took effective actions to eradicate corruption (e.g., traffic police) and slashed regulations. This experience suggests that (a) creating an agency does not guarantee that the government will fight corruption and succeed; and (b) streamlining and simplifying regulations can be more powerful to fight corruption than creating organizations and commissions.

5.5 More lessons on fighting corruption are the following. First, Georgia eliminated egregious cases of corruption with simple measures, not with an anti-corruption watchdog or an anti-corruption plan. Second, enforcement is fundamental to fight corruption. The Georgian government has done extremely well on this front. As a by-product it has shown that it did not need specific anti-corruption legislation to succeed.

Annex A. Basic Data Sheet

JUDICIAL REFORM PROJECT (CREDIT NO. 3263 GE)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	16.2	16.2	100%
Loan amount	13.4	13.4	100%
Cofinancing	2.8	2.8	100%
Cancellation			
Institutional performance			

Project Dates

	Original	*Actual*
Initiating memorandum		09/08/1998
Negotiations		
Board approval		06/29/1999
Signing		06/30/1999
Effectiveness	09/22/1999	09/22/1999
Closing date	006/30/2003	06/30/2006

Staff Inputs (staff weeks)

	Staff Time and Cost (Bank Budget Only)	
Stage of Project Cycle	***No. Staff Weeks***	***US$ Thousands (including travel and consultant costs)***
Lending		
FY98		28.91
FY99		195.90
FY00	2	15.49
FY01	1	1.28
FY02		0.00
FY03		0.00
FY04		0.00
FY05		0.79
FY06		0.00
FY07		0.00
Total	3	242.37
Supervision/ICR		
FY98		0.00
FY99		0.00
FY00	39	114.09
FY01	26	102.00
FY02	35	148.36
FY03	26	122.03
FY04	21	152.64
FY05	4	56.11
FY06	9	46.39
FY07	8	37.75
Total	168	779.37

STRUCTURAL ADJUSTMENT CREDIT 3 (CREDIT NO. C3265 GE)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	60	60	100%
Loan amount	60	60	100%
Cofinancing			
Cancellation			
Institutional performance			

Project Dates

	Original	***Actual***
Initiating memorandum		09/29/1998
Negotiations		
Board approval		06/29/1999
Signing		6/30/1999
Effectiveness	06/30/2003	08/02/2003
Closing date	12/31/2003	10/30/2002

Staff Inputs (staff weeks)

	No. Staff Weeks	***US$ ('000)***
Identification/Preparation	49.0	198.9
Appraisal/Negotiation	14.1	43.9
Supervision	116.6	570.8
ICR	10.4	29.2
Total	190.1	842.9

Mission Data

	Date (month/year)	No. of persons	Specializations represented	Performance Rating: Implementation Progress	Performance Rating: Development Objective
Identification/ Preparation	1997-1998	1	Task Team Leader		
Appraisal	5-17-99	1	Task Team Leader	S	S
		1	Urban Planned		
		2	Consultants		
		1	Sr. Telecom Engineer		
		1	Lead Country Officer		
		1	Lead Private Sector Devp. Spl.		
		1	Sr. Public Sector Mgmt. Spl.		
Supervision	1999-2000	1	Task Team Leader		
		3	Sr. Public Sector Specialist		
		7	Consultants		
		1	Program Assistant		
		2	Lead Technical Specialist		
		2	Sr. Country Economists		
		1	Lead Country Officer		
	Second Tranche	1	Task Team Leader		
		1	Senior Advisor		
		2	Sr. Public Sector Mgmt. Spcl.		
		1	Program Coordinator		
	April 17 to April 24, 2001	1	Sector Manager		
		1	Task Team Leader		
		1	Program Coordinator		
		1	Public Sector Management Spl.		
		3	Consultants		
	Jul 30 to Aug 3, 2001	1	Task Team Leader		
		1	Program Coordinator		
		1	Public Sector Management Spl.		
	Feb 15 to 26, 2002	1	Task Team Leader	S	U
		1	Public Sector Specialist		
		1	Health Specialist		
		1	Economists		
		2	Consultants		
Completion	FY2003	1	Task Team Leader	S	S
		1	Consultant (E)		

REFORM SUPPORT CREDIT (CREDIT NO. C3937 GE)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	24	24	100%
Loan amount	24	24	100%
Cofinancing	Euros 3	Euros 3.6	
Cancellation			
Institutional performance			

Project Dates

	Original	Actual
Initiating memorandum		03/25/2004
Negotiations		
Board approval		06/24/2004
Signing		07/01/2004
Effectiveness	08/19/2004	08/19/2004
Closing date	12/31/2004	12/31/2004

Staff Inputs (staff weeks)

	No. Staff Weeks	US$ ('000)
Identification/Preparation	37.07	197,759
Appraisal/Negotiation	23.05	158,655
Supervision		
ICR	6.71	25,862
Total	66.83	382,276

Mission Data

	Date (month/year)	No. of persons	Specializations represented	Performance rating: Implementation Progress	Performance rating: Development Objective
Identification/ Preparation	03/29/2004	16	1 Task Team Leader, 1 Anti-Corruption Spec., 1 Energy Sector Spec., 2 Admin/Civil Service Reform Spec., 2 Procurement Spec., 1 Private Sec. Dev. Spec., 1 Investment Climate Spec., 3 Consultants, 4 Social Protection, Pensions Reform and Poverty Monitoring Spec.	S	S
Appraisal	05/09/2004	9	1 Task Team Leader, 1 Anti-Corruption Spec., 1 Energy Sector Spec., 2 Admin/Civil Service Reform Spec., 1 Private Sector Dev. Spec., 1 Lawyer, 2 Consultants	S	S
Supervision	02/28/2005	1	1 Economist	S	S
Completion	02/28/2005	1	1 Economist	S	S

Annex B. Borrower Comments

საქართველოს
ფინანსთა სამინისტრო

MINISTRY OF FINANCE
OF GEORGIA

№ 07-02/12113

" 8 " 12 2008

თქვენს №

Mr. James Sackey
Acting Manager
Country Evaluation and Regional Relations Group
Independent Evaluation Group

Re: Judical Reform Project (Credit No 3263-GE)
Reform Support Credit (Credit No C3937-GE)
Structural Adjustment Credit (Credit No C3265-GE)

Dear Mr. James,

Please be informed that we have no comments on the Draft Project Performance Assessment Report for the above referenced projects that was submitted by your letter dated November 17, 2008.

Sincerely,

Dimitri Gvindadze
Deputy Minister

Annex C. List of Persons and Organization Met

A. Government and Ex-Government Officials

Name	**Title**
Abdushelishvili, George	Deputy Minister of Energy
Alavidze, David	Deputy Mayor of Tbilisi
Aleksishvili, Aleksi	Member of the Council, National Bank of Georgia, former Minister of Finance and Economic Development
Amaglobeli, Davit	Vice President, National Bank of Georgia
Aslamazishvili, Nana	Head, Monetary Statistics Division, National Bank of Georgia
Basiashvili, Georgi	Head of Database Unit, Roads Department, Ministry of Economic Development
Bendukidze, Kakha	State Minister on Reforms Coordination
Bereziani, Migzar	Forestry Advisor, Forestry Department
Chanturidze, Tata	Deputy Minister, Ministry of Labor, Health and Social Affairs
Chkadua, Lasha	Head Forester, Forestry Department
Corbett, Joe	General Director/Rehabilitation Manager, Georgian State Electrosystem
Dalakishvili, Roman	Head of Roads Department, Ministry of Economic Development
Durmishidze, Lali	Manager, Agriculture PIU
Dzneladze, Levan	Former Minister of State Revenues; General Director, GMC Group
Fatladze, Zaur	Advisor to the Mayor of Batumi
Gabelia, David	Deputy Head of Poti Waterworks, Municipality of Poti
Gamkrelidze, Amiran	First Deputy Minister of Labor, Health and Social Affairs
Gasviani, Nugzar	Head of Administration Division, Roads Department, Ministry of Economic Development
Gegelia, Dimitri	Head, Common Courts Department, High Council of Justice
Gilauri, Nick	Minister of Finance
Goglidze, Guranda	First Deputy Chairman, National Agency of Public Registry, Ministry of Justice
Gorgodze, Sopo	Head of Teachers' Professional Development Center, Ministry of Education
Gotsiridze, Lasha	Executive Director, Municipal Development Fund
Gotsiridze, Roman	President, National Bank of Georgia
Gugava, Goga	Main Specialist, Budget Department, Ministry of Finance
Gvindadze, Dimitri	Deputy Minister of Finance
Jakeli, Beka	Head, Division of Planning and Development, Tourism Department, Ministry of Economic Development
Janashia, Simon	Head of Curriculum and Assessment Center, Ministry of Education
Jangidze, Genadi	Head of International Projects and External Relations Department, Ministry of Finance
Jaoshvili, George	First Deputy Head, The Center for Monitoring, Ministry of Environment
Japaridze, Mamuka	Georgia Health and Social Projects' Implementation Center (GHSPIC)
Javakhishvili, Nodar	Former President, National Bank of Georgia
Kajaia, Zurab	Deputy Head, Irrigation Policy Department, Ministry of Agriculture

Name	Title
Kakulia, Roman	Former Head of Foreign Affairs Department, Ministry of Agriculture
Kapanadze, Nodar	Former Head of Division of Social Statistics, Department of Statistics
Kavtaradze, Irma	Commissioner, Georgian National Energy Regulatory Commission (GNERC)
Khatashvili, Mevlud	Chairman, Khashuri District Court
Khonelidze, Irma	Georgia Health and Social Projects' Implementation Center (GHSPIC)
Kirvalidze, Davit	Former Minister of Agriculture
Kokochashvili, Shalva	Deputy Director, Georgia Social Investment Fund and MDF PIU
Kvashilava, Irakli	General Director, Sustainable Development Implementation Agency, Forest Department
Lezhava, Vakhtang	First Deputy State Minister for Reforms Coordination
Liluashvili, Tamuna	Director, Georgian National Investment Agency
Litanishvili, Irakli	Deputy Head of Roads Department, Ministry of Economic Development
Malashkhia, Sophie	Education PIU, Ministry of Education
Meskhidze, Ekaterine	Head, International Relations Dept, National Agency of Public Registry, Ministry of Justice
Meskhishvili, George	Head of Internal Audit Service, Municipal Development Fund
Mgeladze, Koka	Manager – Irrigation Department, Municipal Development Fund
Miminoshvili, Maya	Head, National Examination Center
Minashvili, Nika	Head of Unit, Center for Monitoring, Ministry of Environment
Moistsrapishvili, Lia	Deputy Head, Dept of Protected Areas, Ministry of Environment
Mosulishvili, Klara	MDF PIU staff
Mskhaladze, Vladimer	General Director, Water Authority of Poti, Municipality of Poti
Museliani, Nino	Manager, Mentally Handicapped Children's Rehabilitation (GSIF)
Murvanidze, Ioseb	Technical Manager, ARET Project
Murtazi, Kezdzoia	Head of Noziri Headwork, Municipality of Poti
Onoprishvili, Davit	Former Minister of Finance; President, DG Investments
Pantsulaia, Grigol	Director, State Department of Statistics
Papava, Vladimer	Member of the Parliament, former Minister of Economy
Paztsvaria, Merab	Construction Supervisor, Municipal Development Fund
Peradze, Levan	Director, Georgian Social Assistance and Employment Agency
Pkhakadze, Vakhtang	Head, Balance of Payments Division
Samadashvili, Temur	Deputy Minister of Education
Shakhnazarova, Marina	Director, Center for Disease Control
Shevardnadze, Eduard	Former President of Georgia
Shonvadze, Giorgi	Head of Unit, Ministry of Environment
Teodradze, Leri	Chairman, Tskhaltubo District Court
Tepnadze, Mzia	Head of Unit, Supervision Department, National Bank
Tsekvava, Tengiz	Head, Social and Demographic Division, State Department of Statistics
Tsereteli, Gogi	Deputy Head, Roads Department, Ministry of Economic Development
Tsagareli, George	Director, Transport Reform and Rehabilitation Center, Ministry of Economic Development
Turnava, Natia	Former Deputy Minister of Economy; Executive Director, Georgian Industrial Group

Name	Title
Vatsadze, Mamuka	Head of Transport Department, Ministry of Economy
Zoidze, Akaki	Former Deputy Minister of Health; Consultant, Curatio International Foundation

B. Civil Society, Academia and Private Sector

Abashishvili, George	Director, Young Republican Institute
Abulashvili, George	Director, Energy Efficiency Centre Georgia
Bakuradze, Archil	Special Advisor to the Secretary General, International Association of Business and Parliament
Bazadze, Irakli	Corporate Loan Expert, Bazis Bank
Beradze, David	General Director, ITERA-Georgia JSC
Chirakadze, Giorgi	President, UTG (Telecom Company)
Chkheidze, Alexander	President, Georgian International Road Carriers Association
Chkheidze, Giorgi	Chairman, Georgian Young Lawyers Association (GYLA)
Darchiashvili, Davit	Executive Director, Open Society Institute (OSI) Georgia
Didebulidze, Marika	Former PIU staff, Fund for Preservation of Cultural Heritage of Georgia
Dvali, Nana	Real Estate Agent
Giorgadze, David	Director, Association for Protection of Landowners' Rights
Guntsadze, Zura	Director, Association for Legal and Public Education (ALPE)
Halpin, Mark	Senior Consultant, Engineering and Facility Management Ltd. (ESBI)
Japharidze, Irina	Staff Attorney for Georgia, ABA CEELI
Jervalidze, Liana	Caspian Region Energy Policy Specialist, Orbeliani Centre for Advanced Strategic and National Security Policy Studies
Jugeli, Teimuraz	Director, Electricity System Commercial Operator Ltd.
Karosanidze, Tamuna	Executive Director, Transparency International - Georgia
Khechinashvil, Devi	President, Georgian Insurance Association/Partnership for Social Initiatives
Khidasheli, Tinatin	Lawyer, Republican Party Member
Khutsishvili, Kety	Former Director, Eurasia Foundation
Kiknadze, Guram	Associate Professor, State Medical College
Kochladze, Manana	Regional Coordinator, CEE Bankwatch Network
Lebanidze, Levan	General Manager, Constanta Foundation
Linhardt, Daniel	Legal Specialist for Georgia, ABA CEELI
Mamatsashvili, Mamuka	Staff Attorney for Georgia, ABA CEELI
Margvelashvili, Giorgi	Rector, GIPA
Melikadze, Archil	Chief Operating Officer, Populi Retail Chain
Milorava, Irina	Deputy General Director, Electricity System Commercial Operator Ltd. (ESCO)
Mumladze, Davit	Professor of Law, Tbilisi State University
Murgulia, Gia	Director, Tbilisi Public School #24
Oganesian, Edward	Director, Economic and Finance Dept, JSC "Telasi"
Orvelashvili, Nikoloz	President, Georgian Economic Development Institute
Pertatia, Giorgi	Customs Expert, American Chamber of Commerce in Georgia

Name	Title
Pimonov, Yuri	General Director, JSC "Telasi"
Rondeli, Alexander	President, Georgian Foundation for Strategic and International Studies
Shengelia, Zurab	Secretary General, Association of Freight Forwarders of Georgia
Shikhashvili, Marina	Director, Tbilisi Polyclinic #9
Slisbarashvili, Nino	President, Women's Association for Business
Sulaberidze, David	Project Officer, Curatio International Foundation
Tevzadze, Gigi	Rector, Ilia Chavchavadze University
Tsipuria, Gia	Secretary General, Georgian International Road Carriers Association
Usupashvili, David	Chairman, Republican Party of Georgia
Vardosanidze, Lado	Urban Planner
Vashakmadze, Vano	Vice President, GOPA Consulting
Williamson, Sarah	Vice President, UGT (Telecom Company)
White, Dean	General Director, JSC United Energy Distribution Co. (UDC) and Chief of Party for PA Consulting
Wright, Donna	Country Director for Georgia, ABA CEELI
Yakobashvili, Temuri	Executive Vice President, Georgian Foundation for Strategic and International Studies

C. Donors and International Organizations

Alberda, Janet	Deputy Head of Mission, Embassy of the Kingdom of Netherlands
Bakradze, Keti	Project Management Specialist, USAID
Barberis, Giovanna	Representative, UNICEF
Boehringer, Gabriele	Regional Director, South Office Caucasus, GTZ
Calov, Christian	Director, South Caucasus Regional Office, Kreditanstalt für Wiederaufbau (KFW)
Chkhubianishvili, Rusiko	Development Officer, DFID
Christiansen, Robert	Resident Representative, IMF
Davey, Michael	Director for the Caucasus, Moldova and Belarus, European Bank of Reconstruction and Development (EBRD)
Denman, Amy	Executive Director, American Chamber of Commerce in Georgia
Eklund, Per	Ambassador, Head of Delegation of the European Commission to Georgia
Gogelia, Tengiz	Project Director, Millennium Challenge Georgia Fund
Gosney, David	Director, Office of Economic Growth, USAID
Hansen, Catarina	Project Preparation Committee Officer, European Bank of Reconstruction and Development (EBRD)
Hansen, John	Director, Office of Energy and Environment, USAID
Okreshidze, Nicholas	Senior Engineer, Office of Energy and Environment, USAID
Osepashvili, Ilia	Director, WWF Georgia
Jambou, Michel	Project Manager, European Union
Japaridze, Goga	Principal Banker, European Bank of Reconstruction and Development (EBRD)
Kakachia, Media	Education Specialist, USAID
Katcharava, George	Head of DFID Georgia Program, DFID
Kenney, Dana	Senior Energy Advisor, USAID

Name	Title
Khechinashvili, Giorgi	Heath Specialist, USAID
Kimshiashvili, Kakha	National Program Officer for South Caucasus, SIDA
Klaucke, Martin	Second Secretary, Delegation of the European Commission to Georgia
Klimiashvili, Rusiko	Head, WHO in Georgia
Kraus, Bill	Chief of Party, Urban Institute, USAID
Kutateladze, Marina	Coordinator, Millennium Challenge Corporation
Managadze, David	Associate Banker, European Bank of Reconstruction and Development (EBRD)
Mouravidze, Nataly	Principal Banker, European Bank of Reconstruction and Development (EBRD)
Natsvlishvili, Natia	Governance Team Leader, UNDP Georgia
Neidhardt, Rainer	Project Director, GTZ
Rijnders, Frank	Project Manager, European Commission (EC)
Schulzke, Rolf	Senior Forest Officer, WWF
Shanidze, Nino	Local Project Coordinator, Kreditanstalt für Wiederaufbau (KFW)
Tsiklauri, David	Project Manager, USAID
Tsitskishvili, Levan	Local Project Coordinator, Kreditanstalt für Wiederaufbau (KfW)
Tvalabeshvili, David	Energy Specialist, Millennium Challenge Fund Georgia
Ugulava, Tako	Health Specialist, UNICEF
Watkins, Robert	UN Resident Coordinator
Yates, Andrea	Acting Director, USAID Mission in Georgia

D. World Bank Resident Mission

Dolidze, Mariam	Economist, ECSPE
Gigiberia, Thea	Program Coordinator, IFC (Tbilisi Office)
Gotsadze, Tamar	Health Specialist, ECSHD
Imnadze, Elene	Senior Public Sector Specialist, ECSPE
Kandelaki, Tatyana	Financial Specialist, ECSPF
Kapanadze, Darejan	Operations Officer, ECSSD
Kutateladze, Nino	Operations Analyst, ECSHD
Kvitaishvili, Ilia	Rural Development Specialist, ECSSD
Melitauri, Joseph	Operations Officer, ECSSD
Southworth, V. Roy	Country Manager, Georgia

E. World Bank and IMF (Washington D.C.) – current and former staff

Name	Title
Castro, Rocio	Lead Economist, CFPVP
Cholst, Anthony	Lead Country Officer, ECCU3
Craig, David	Country Director, MNCO4
Dowsett-Coirolo, Donna	Country Director, ECCU3
D'Hoore, Alain	IMF
Eiweida, Ahmed	Sr. Urban Management Specialist
Fadeyeva, Yelena	Operations Officer, SECPS

Name	Title
Gray, Cheryl	Director, IEGWB
Gvenetadze, Koba	IMF
Hamso, Bjorn	Sr. Energy Economist, ECSSD
Hegarty, John	Head, ECCAT
Kavalsky, Basil	Consultant, IEGCR
Konishi, Motoo	Sector Manager, ECCSD
Kreacic, Vladimir	former Bank staff (Sr. PSD Specialist, ECSPF)
Kushlin, Andrei	Sr. Forestry Specialist, ECSSD
Kvintradze, Eteri	IMF
Monroe, Hunter	Senior Economist, IMF
Muller, Cyril	Special Representative, Europe, EXTEU
Mukherjee, Amitabha	Lead Public Sector Specialist, ECSPE
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Owen, Joseph	Country Manager, LCCNI
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Schiavo-Campo, Salvatore	Consultant, MNSED
Sedghi, Afsaneh	Economist, ECSPE
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Stoutjesdijk, Joop	Lead Irrigation Engineer, SASDA
Thomson, Peter D.	Director, ECSSD
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Walters, Jonathan	Sector Manager, MNSSD
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Annex D. Annex Tables

ANNEX TABLE 1 - STRUCTURAL ADJUSTMENT CREDIT 3 - POLICY MATRIX

Objectives	SAC 3 Measures	Outcome Monitorable indicators	Current Status (from ICR)
A. Reduce Macroeconomic Imbalances		None	
Improve revenue mobilization	Launch tender process to hire private company to take over significant customs functions Establish steering committee headed by STDG to coordinate and monitor TA Restructure STDG and introduce new management structure All employees from tax administration to submit their declarations of income and assets Strengthen the Large Taxpayers Inspectorate (LTI) to function as a full serve tax office for the largest taxpayers Expand the coverage of LTI to cover 50 percent of STDG revenues Audit list of outstanding debts, and prioritize by size and likelihood of quick recovery Implement the program of work to expand the tax base and reduce tax arrears Identify and undertake actions against worst tax offenders and provide IDA with periodic reports on progress in dealing with delinquent taxpayers		
Strengthen expenditure management	Institutional strengthening of MOF Complete reorganization of MOF Establish job definitions for each post Treasury and MOF staff to work together to establish lines of accountability Establish three coordinating groups Establish and strengthen the Personal Office of the Minister of Finance Complete staff recruitment and training Prepare a global strategy and action plan with defined benchmarks on use of new technology for financial management		
Ensure the provision of basic social services	Complete implementation of action plan Include health, education and poverty benefit within the primary core allocation category. Allocate 7.3 percent of the consolidated 1999 budget to the health sector and 13 percent to education. Allocate 14.3 million lari to the poverty benefit Apply the same ratio to health and education for the allocations in 2000 Budget and ensure that allocation for poverty benefit remains constant in real terms Implement special monitoring mechanism for social expenditures Remain current in budgetary execution of the health, education and poverty benefit expenditures		

Objectives	SAC 3 Measures	Outcome Monitorable indicators	Current Status (from ICR)
B. Creating and Environment Favorable to Private Sector Development		None	
1. Enhance business environment			
a. Introduce a simplified and transparent licensing regime	Submit Law on Fees to Parliament Promulgate procedures to implement the Law on licensing Develop interim regulations for formerly licensed activities Ministries to submit draft licensing regulations to the MOJ Draft procedures for maintaining Licensing Registry Conduct baseline surveys to measure existing burden of licensing Promulgate requirements for form and content of annual reports Adopt annual reporting requirements Complete training of MOJ and other MOJ personnel in new law and regulations Follow-up survey to measure impact of licensing reform Develop principles on which to base laws and regulations on Certification and Accreditation Enact laws on Fees Certification and Accreditation		
b. Introduce a transparent regime to regulate state procurement, control procurement expenditures, and enable private companies to compete for Government orders on a level playing field	Enact new law on State Procurement satisfactory to IDA Issue implementing regulations satisfactory to IDA Issue presidential Decree appointing the Director of the new Department of State Procurement Complete competitive recruitment of Department's other staff Complete staff training for Dep of St Procurement Develop and promulgate country-specific bidding documents Identify and train staff of implementing ministries and regional/local procuring agencies Establish and apply other benchmarks to ministries with large procurement budgets		
c. Reduce cost of entry, especially for small business	Eliminate requirement to obtain stamp/seal from the local police Eliminate regulation of NBG prohibiting commercial banks to open new account for new businesses without a seal Eliminate the active role of the Department of Statistics in the registration process		
C. Reform Land Ownership		None	
1. Stimulate agricultural production and the development of real estate and financial markets	Start registration of privatized agricultural and enterprise land Amend the law "On Administration and Disposition of State-owned Non-agricultural land" to promote privatization over leasing, provide for .... Issue regulations and operating procedures for agricultural land titling registration system		
D. Divestiture from Productive Activities		None	
1. Promoting private participation in infrastructure	Amend privatization law to permit privatization of: telecommunications, postal service, radio and television broadcasting, railways, water and sanitation systems, airports, gas distribution pipelines, ports, roads (with parallel state roads) Amend relevant laws or regulations to eliminate maximum lease terms and minimum payments		

Objectives	SAC 3 Measures	Outcome Monitorable indicators	Current Status (from ICR)
2. Facilitating overall privatization program a. To provide adequate coordination and encouragement for potential investors	Create a Permanent Oversight Committee -including MINSPM, MOF, ...-to secure cooperation and support from all official bodies Amend tender procedures for major enterprises likely to be of interest to foreign investors Expand public information, marketing efforts to include regular advertisements in national newspapers, press, and others Prepare privatization strategies with adequate treatment of regulatory and privatization policies for all infrastructure sub-sectors Hire financial and legal advisors to assist in the privatization of telecommunications enterprises Submit to IDA non-objection a satisfactory privatization strategy and timetable and a regulatory framework for the telecoms sector Submit to IDA non-objection a satisfactory development strategy and timetable and a regulatory framework for Poti Port. Recruit financial/legal advisors for the implementation of the development strategy for Poti Port including structuring concessions arrangements for port operations		
3. Completing privatization of Medium/Large (non-infrastructure) Enterprises			
a. To complete the transfer of viable enterprises and productive assets to private-sector owners and managers as rapidly, transparently, and profitably as possible	Complete "zero price" bidding for 244 companies Announce and provide results to share registrars Complete "zero price" bidding for an additional 60 companies (32 are already completed) Announce and provide results to share registrars NINSPM and MOF will (a) limit an enterprise's maximum liabilities to those known at the time of the privatization transaction; (b) assume responsibility for hidden or excess liabilities; and (c) act to control creation of additional liabilities and asset stripping of enterprises MINSPM will create a Resolution Unit within MINSP to sell assets and settle liabilities for companies that are not viable or for which there is no investor interest MINSPM commitment to a time-bound schedule for privatizing Tier I companies: (a) assess and categorize; (b) for viable-suitable companies, issue tenders to pre-identified; (c) (h) MINSPM commitment to a time-bound schedule for privatizing Tier II companies: (a) special auctions announced; (b) bidding begins ; (c); (d) ; (e) The Ministry will submit a quarterly implementation report detailing the progress made o the program through that date		
4. Improve the efficiency and quality of health infrastructure and services by optimizing the use of existing resources	Submit a statement of intent satisfactory to IDA describing the Hospital Restructuring Program for Tbilisi Satisfactory Implementation of the Hospital Restructuring Program		

ANNEX TABLE 2 GEORGIA: MAIN ECONOMIC INDICATORS - STRUCTURAL ADJUSTMENT CREDIT 3

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
I. Projections from President's Report for SAC3											
1. Growth and Inflation											
GDP	2.4	10.5	11.0	2.9	2.0	3.5	4.0	4.5	4.5	4.5	4.5
Inflation (average)	162.7	39.4	7.1	3.6	22.0	8.0	6.0	4.0	4.0	4.0	4.0
Inflation (end of period)	57.4	13.7	7.3	10.6	13.0	7.0	4.0	4.0	4.0	4.0	4.0
2. *Public Sector Accounts* (percent of GDP)											
Government Revenue	7.1	9.4	9.8	10.9	11.2	12.2	13.7	14.7	15.5	16.7	17.9
o/w: Tax Revenue	4.7	7.3	8.6	8.9	9.6	11.0	12.0	13.0	13.8	15.1	16.3
Government Expenditure	12.3	13.9	14.5	15.2	13.0	14.3	15.7	16.7	17.3	18.2	19.1
Current Expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Government investment	1.1	1.2	1.1	0.9	1.2	1.4	1.5	1.8	2.2	2.8	3.0
Tax Revenue/Current Expenditure (or Government Expenditure)	57.7	67.6	67.6								
Fiscal Deficit (Incl. Grants)	-5.2	-4.5	-4.6	-4.3	-1.8	-2.1	-2.0	-2.0	-1.8	-1.5	-1.2
Fiscal Deficit (Excl. Grants)	-7.2	-5.7	-4.8	-4.9	-2.8	-2.6	-2.4	-2.3	-2.0	-1.6	-1.3
3. *External Sector* (percent of GDP)											
Resource Balance	-11.1	-7.8	-13.5	-14.3	-12.9	-11.2	-10.5	-9.4	-8.3	-7.2	-6.2
Current Account (Incl. Transfers)	-7.5	-6.0	-7.2	-7.9	-5.3	-5.3	-4.9	-4.2	-3.3	-2.4	-1.6
Current Account (Excl. Transfers)	-14.0	-9.1	-10.9	-12.0	-10.4	-9.0	-8.4	-7.3	-6.1	-5.0	-4.0
Gross International Reserves (months of imports)	2.7	2.5	2.0	1.2	2.5	2.6	2.7	2.8	2.9	3.1	3.3
4. Debt Indicators											
Total Debt Outstanding and Disbursed -DOD- (US$M)	1,222	1,369	1,542	1,682	1,909	2,084	2,238	2,355	2,430	2,459	2,452
Debt Service due after rescheduling (US$M)	171	78	99	128	179	216	239	274	206	215	209
Total Debt/GDP (percent)	42.3	29.9	29.4	32.8	43.7	40.5	40.8	40.0	38.6	36.4	33.9
Debt Service after rescheduling/GDP (percent)	5.9	1.7	1.9	2.5	4.1	4.2	4.4	4.7	3.3	3.2	2.9
Debt Service after rescheduling/Total Exports (percent)	35.1	15.0	11.6	14.2	19.2	21.6	21.7	22.4	15.1	14.1	12.4
DOD/Export (percent)	251.6	265.4	181.9	187.2	204.5	209.1	203.3	192.4	177.8	161.9	145.4

II. Adjusted Projections from PR. Only the Ratios of Variable/GDP have been adjusted (adjusted based on new data for GDP from Department of Statistics - Data provided by Resident Mission showing a lower level og GDP than the SAC3)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1. Growth and Inflation											
GDP	2.4	10.5	11.0	2.9	2.0	3.5	4.0	4.5	4.5	4.5	4.5
Inflation (average)	162.7	39.4	7.1	3.6	22.0	8.0	6.0	4.0	4.0	4.0	4.0
Inflation (end of period)	57.4	13.7	7.3	10.6	13.0	7.0	4.0	4.0	4.0	4.0	4.0
2. *Public Sector Accounts* (percent of GDP)											
Government Revenue	7.2	14.1	14.6	15.5	17.2	20.5	23.4	25.4	24.4	21.8	20.2
o/w: Tax Revenue	4.7	10.9	12.8	12.7	14.8	18.5	20.5	22.5	21.8	19.7	18.4
Government Expenditure	12.4	20.8	21.7	21.6	20.0	24.0	26.8	28.9	27.3	23.8	21.6
Current Expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Government investment	1.1	1.8	1.6	1.3	1.8	2.4	2.6	3.1	3.5	3.7	3.4
Tax Revenue/Current Expenditure (or Government Expenditure)	57.7	67.6	67.6								
Fiscal Deficit (Incl. Grants)	-5.2	-6.7	-6.9	-6.1	-2.8	-3.5	-3.4	-3.5	-2.8	-2.0	-1.4
Fiscal Deficit (Excl. Grants)	-7.3	-8.5	-7.2	-7.0	-4.3	-4.4	-4.1	-4.0	-3.2	-2.1	-1.5
3. *External Sector* (percent of GDP)											
Resource Balance	-11.2	-11.7	-20.2	-20.3	-19.9	-18.8	-17.9	-16.3	-13.1	-9.4	-7.0
Current Account (Incl. Transfers)	-7.6	-9.0	-10.8	-11.2	-8.2	-8.9	-8.4	-7.3	-5.2	-3.1	-1.8
Current Account (Excl. Transfers)	-14.1	-13.6	-16.3	-17.1	-16.0	-15.1	-14.3	-12.6	-9.6	-6.5	-4.5
Gross International Reserves (months of imports)	2.7	2.5	2.0	1.2	2.5	2.6	2.7	2.8	2.9	3.1	3.3
4. Debt Indicators											
Total Debt Outstanding and Disbursed -DOD- (US$M)	1,222	1,369	1,542	1,682	1,909	2,084	2,238	2,355	2,430	2,459	2,452
Debt Service due after rescheduling (US$M)	171	78	99	128	179	216	239	274	206	215	209
Total Debt/GDP (percent)	42.6	44.7	43.9	46.6	67.3	68.0	69.6	69.2	60.9	47.5	38.3
Debt Service after rescheduling/GDP (percent)	5.9	2.5	2.8	3.6	6.3	7.1	7.5	8.1	5.2	4.2	3.3
Debt Service after rescheduling/Total Exports (percent)	35.1	15.0	11.6	14.2	19.2	21.6	21.7	22.4	15.1	14.1	12.4
DOD/Export (percent)	251.6	265.4	181.9	187.2	204.5	209.1	203.3	192.4	177.8	161.9	145.4

III. Results

1. Growth and Inflation

Growth of GDP at market prices	2.6	11.2	10.5	3.1	2.9	1.8	4.8	5.5	11.1	5.9	9.6

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
CPI (average)	n.a.	41.6	7.1	3.6	19.3	4.1	4.7	5.6	4.8	5.7	8.3
CPI (eop)	n.a.	13.8	7.3	10.7	10.9	4.6	3.4	5.4	7.0	7.5	6.2
2. Public Sector Accounts - Actual (percent of GDP)											
Total revenue	5.1	10.8	15.4	14.7	15.9	15.3	15.3	15.6	15.9	21.4	22.4
Tax revenues	4.7	10.0	12.9	12.9	13.9	14.1	14.4	14.4	14.1	18.4	19.7
Expenditure and Net Lending	11.5	19.9	23.6	22.9	21.1	19.0	18.5	17.3	18.3	19.7	25.1
Total Expenditure	10.8	19.8	23.2	22.2	19.9	18.6	17.9	17.2	17.7	19.1	24.7
Current expenditure	9.7	18.0	21.6	20.9	19.0	18.1	16.8	15.8	16.5	15.6	18.9
investment expenditure	1.1	1.8	1.6	1.3	0.9	0.5	1.1	1.5	1.2	3.5	5.8
Grants	1.9	1.8	0.5	0.6	0.9	0.2	0.7	0.3	0.6	1.3	0.9
Total Balance (cash basis)	-3.8	-7.0	-7.1	-6.3	-2.6	-2.1	-2.2	-1.8	-0.8	0.4	-2.6
Total Balance (commitment basis)	-4.5	-7.2	-7.7	-7.6	-4.3	-3.5	-2.4	-1.4	-1.8	3.0	-1.8
Net change in Arrears (+ increase)	0.7	0.2	0.6	1.3	1.7	1.4	0.2	-0.4	1.1	-2.6	-0.8
External Debt Arrears	0.3	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal arrears	0.4	0.3	0.8	1.4	1.7	1.4	0.2	-0.4	1.1	-2.6	-0.8
3. External Sector (percent of GDP)											
Resource Balance	na	na	na	-19.8	-18.6	-11.2	-12.1	-9.8	-12.4	-13.7	-12.6
Current Account (Incld Transfers)	na	na	na	-12.8	-10.0	-7.9	-6.4	-5.9	-7.3	-8.4	-5.4
Current Account (Excld Transfers)	na	na	na	-16.5	-14.1	-13.0	-13.5	-11.4	-13.9	-15.1	-13.4
Gross international reserves 3/	na	na	na	118.4	132.4	109	161	198	191	383	474
(In months of imports of goods and services)	na	na	na	1.0	1.3	1.0	1.4	1.7	1.3	1.7	1.7
4. Debt Indicators											
External debt, total (DOD, current US$) Source: WB	1,240.36	1,361.32	1,465.77	1,648.14	1,653.46	1,637.95	1,728.57	1,838.71	1,934.71	2,064.32	1,910.74
Debt Service due after rescheduling (US$M)	20.04	12.92	46.41	212.55	108.51	117.72	77.42	128.85	180.72	233.73	187.26
Total Debt/GDP (percent)	0	0	0	0	0	0	0	0	0	0	0
Debt Service after rescheduling/GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service after rescheduling/Total Exports			5.4	20.3	12.0	12.5	7.8	10.5	11.9	12.0	7.4
DOD/Export			169.6	157.6	182.3	174.5	173.7	149.4	127.7	106.0	75.6
Total debt (EDT)/Exports of goods and services (XGS) (%) GDF	..	..	169.6	157.6	182.3	174.5	173.7	149.4	127.7	106.0	75.6

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Debt service (TDS)/Exports of goods and services (XGS) (%) [GDF]	..	..	5.4	20.3	12.0	12.5	7.8	10.5	11.9	12.0	7.4
Total debt service paid (TDS, US$) [GDF]	20.04	12.92	46.41	212.55	108.51	117.72	77.42	128.85	180.72	233.73	187.26
Memo Items											
1. Nominal GDP from SAC3 Annex 1, page 2 (million US$)	2,886	4,579	5,241	5,129	4,370	5,141	5,490	5,881	6,300	6,748	7,229
2. GDP in market prices from Resident Mission Statistics Sheet on Fiscal Accounts (million laris)	3,693.5	3,868.5	4,554.9	5,022.1	5,668.7	6,043.1	6,688.5	7,467.0	8,582.5	9,824.3	11,621.0
3. Nominal GDP from State Department of Statistics as it appears in Resident Mission data in Balance of Payments (US$million)	2,863	3,062	3,509	3,608	2,837	3,060	3,219	3,400	3,995	5,166	6,401
4. Nominal GDP from CAS FY 1996, Annex B6 (million US$)	2,886	4,581	5,425	6,276							
5. Implicit exchange rate in GDP estimates [2/3] (lari per US$)	1.29	1.26	1.30	1.39	2.00	1.97	2.08	2.20	2.15	1.90	1.82
6. Average exchange rate (Lari/US$) from SAC3 Annex 1, page 2	1.28	1.25	1.30	1.41	2.00	1.90	1.96	1.99	2.02	2.05	2.08
GDP SAC3/GDP Department of Statistics	1.008	1.496	1.494	1.422	1.540	1.680	1.705	1.730	1.577	1.306	1.129
GDP CAS FY98/GDP Department of Statistics	1.01	1.50	1.55	1.74				1.705			

Source

1. PAD for SAC3, Report No. P-7316-GE, Annex 1, Pages 1-4 for variables in Panel I

2. Ministry of Finance of Georgia for Panel III results on growth, inflation, public sector accounts, and external sector (ext. sector comes from IMF information)

3. World Bank, Global Development Finance (GDF) for Panel III indicators for debt indicators of the results section; the ratios to GDP for these indicators have been computed using the revised value of GDP from the State Department of Statistics

ANNEX TABLE 3 - REFORM SUPPORT CREDIT - ACTIONS, OUTCOME AND STATUS AT ICR

Actions taken by the Government	IDA Reference/Background	Outcome / Monitorable Indicators	Current Status (from ICR)
I. Strengthening Governance/Anti-Corruption and Public Sector Management			
(a) Formulating, Implementing, and Monitoring an Anti-Corruption Strategy			
Initial measures to reduce corruption in Customs and key public enterprises have been taken	Integrated Trade Development Strategy	Improved functioning of Customs as reflected in periodic surveys	
The Government upgraded the information systems, through implementation of the ASYCUDA system (except for Adjara) to harmonize procedures and reduce the scope of personal interface between customs officials and traders which sometimes results in illegal practices.	Integrated Trade Development Strategy; Trade Facilitation Dialogue (NO MENTION OF REFORM SUPPORT CREDIT)	Simplification of Customs Requirements as evidenced by surveys and other monitoring mechanisms.	Government adopted a new Customs System Development Strategy with a new regulation and structure of the Customs Department which entered into force in August 2004. As part of anti-corruption agenda, new law on Customs Service is being drafted and a customs data network is under construction to automate system
Law on conflict of Interests in Public Service was amended to provide for improved reporting and validation of assets and income declared by high level officials, and Bureau for Declaration of Assets and Income was shifted to the Ministry of Justice	PHRD Grant for Public Sector Reform Project	Regular reporting of assets by high officials.	On going. Declarations are to be submitted soon.
The Government submitted to IDA a report on the government's actions so far taken regarding anti-corruption, including the identification of the mandates of core agencies, their roles and strategies and identification of overlaps and gaps	Business Enterprise Performance Survey; Reform Support Credit	Greater focus on preventive anti-corruption measures and coordinated government approach	President created a working group including representatives from Anti-Corruption Policy Department (ACPD) and members of civil society; the Group has initiated discussion with other departments and is expected to finalize its strategy in June 2005.
		Upon preparation of the report, draft anti-corruption strategy reflecting the Government's report prepared and presented for public discussion	
		Periodic reporting of performance against anti-corruption indicators prepared by the Government, including recommendations for future action, and presented and disseminated to public	Reporting continues. Further progress would need capacity building and will be closely followed up under upcoming PRSC.
(b) Improving Governance through Administrative/Civil Service Reform			
The Parliament adopted a new Law on Structure, Functions and Responsibilities of the Government providing for reduction of a number of line ministries as well as consolidation of a large number of previously semi-independent state departments within the respective ministries.	PHRD Grant for Public Sector Reform Management	Simplified and streamlined structure of the Government, clear definition of responsibilities for Ministries and departments.	Number of ministries reduced from 18 to 14 and 18 state departments were abolished and their functions assimilated under the relevant ministry.

Actions taken by the Government	IDA Reference/Background	Outcome / Monitorable Indicators	Current Status (from ICR)
The Government completed restructuring of law enforcement ministries (including Ministry of Interior and the Ministry of State Security) to enhance their ability to address the problem of smuggling and to eliminate harassment practices that have been damaging the investment environment.	FIAS Study of Administrative Barriers to Investment	Decriminalization of economy and improved business/ investment environment. Less smuggling as reflected by more tax collections. Less frequency of inspections to businesses as evidenced by surveys.	Complete re-shape of traffic police force to reduce corruption and bribery. Approval of a draft law on tax and financial amnesty and legalization of undeclared property and finances. Tax and customs departments downsized and their structure optimized to combat tax evasion and smuggling. Tax collection increased by 64 % in one year alone. No surveys yet conducted to monitor the outcome
Judicial reforms have accelerated (publication of Supreme Court decisions and initiation of publishing decisions of other courts, elimination of the supervisory power of prosecutors, training of Judges and court employees, and measures to modernize Judiciary operations such as computerization).	Judicial Reform Project	Improved functioning of the Judiciary with better access of public and businesses to judicial information.	Courts are accessible to all users. All court decision are being published and are available to general public. The development of an information system to link all courts is underway. The Association for Legal and Judicial Public Education (ALPE) has made many significant interventions in the promotion, education and dissemination of legal awareness.
Draft law providing for all public information on individuals and their property to be gathered into a single computerized database within the Ministry of Justice has been submitted to Parliament.	n/a	Submission of Draft Law to Parliament	Law on Unified State Registry was adopted in July 2004
The Government designated an administrative agency with the responsibility of oversight and implementation of the civil service reform	PHRD Grant for Public Sector Reform Project Reform Support Credit	Administrative entity (ies) with responsibility and authority for reform oversight and implementation identified, legally established, adequately staffed and operational Two pilot ministries (Ministries of Health and Education) commenced with implementation of civil service reform guidelines	A Civil Service Council (CSC) and a Civil Service Bureau (CSB) were legally established and mandated to promote creation of an efficient public service. Slow progress to date on the development of guidelines for civil service reform as CSB is not adequately staffed yet and there is not enough capacity to function effectively. In regard to pilot ministries, only some limited action has been taken in the Ministry of Education, but not with support from the CSB, as intended.
The Government implemented the new Law on Structure, Functions and Responsibilities of Government in accordance with the schedule.	Reform Support Credit	Revised ministry statutes submitted to Ministry of Justice	The first round was completed. The mandates of the line ministries are being reviewed again in the context of the State Minister led Governance reform initiative.
The report by the Development and Reform Fund on its first three months of operations was issued	Reform Support Credit	Transparent operations of the Fund	Quarterly reports on operations of Fund are being prepared, are audited, and are on the web-site. [Quarterly reports were not available]
[c] Improving Governance to Promote Private Sector Development			
The Government developed a customs reform strategy paper	Public Expenditure Review	Increased Customs revenues. Improved transparency in dealing with Customs reflected in periodic surveys	Customs revenues increased by 46 percent between 2003 and 2004 as a result of restructuring of tax and customs administration. MOF is preparing new Custom Code. Although no periodic surveys yet,

Actions taken by the Government	IDA Reference/Background	Outcome / Monitorable Indicators	Current Status (from ICR)
			increased custom revenues is an indication of improved transparency.
To facilitate the consolidation of the banking sector, the National Bank approved a timetable to increase the minimum capital requirements of commercial banks.	Financial Sector Assessment Program	Balance sheets of banks to show increased capital (or capital above the minimum required).	NBG issued the new minimum Supervisory capital requirement - 12 million GEL, that on gradual basis Commercial banks should comply by 2008 The requirement of capital increase portion by end of 2004 was fulfilled by all banks (6.4 million GEL).
The Government established a cross-ministerial commission, including representatives of the private sector and supported by a technical secretariat, with the mandate to promote improvements in the business environment	FIAS Study on Administrative Barriers to Investment Reform Support Credit	Increased private sector participation in policy making and enhanced awareness of policy agenda that affects private sector as evidenced by surveys.	The Commission was established in 2004 under leadership of former Prime Minister. This commission has never functioned. Currently some activities are performed by National Investment Agency under MOE. The Foreign Investment Advisory council was recently established under the Parliament.
The Government organized periodic commission meetings for developing a new action plan for removing administrative barriers to investment based on the results of FIAS/Government Assessment of Administrative Procedures for Doing Business in Georgia	FIAS Study on Administrative Barriers to Investment Reform Support Credit	Reduced costs for establishing and operating business in Georgia as evidenced by surveys.	According to survey of "Doing Business in 2005" the time and cost of registering a new business is reduced, minimum capital requirements are lowered, and property registration takes less time. The number of licenses are to be reduced from 909 to 150 and the new legislative initiative is being proposed to introduce a so called 'one stop' principle.
The Government issued orders eliminating the requirements for (i) the internal transit document; and (ii) non-excise consignment to travel in convoy (except for vehicles that are unsecured).	Integrated Trade Development Strategy Reform Support Credit Trade Facilitation Dialogue	Increased transit traffic and related economic activity (data available from Border Control) Reduced processing time at border crossings and clearance facilities (information available from Customs)	Transit traffic has increased in 2004 compared with 2003. Border crossing and clearance processing time have been reduced.
II. Improving Public Finance Management and Financial Accountability			
(a), Public Expenditure Management			
The Government has started implementation of the fiscal stabilization package of measures as a first step towards salary and pension arrears reduction	Public Expenditure Review Poverty Update	Tax collections improved pensions and salaries paid on time, arrears reduced	There was an unprecedented increase of 64 percent in tax collection in just one year, which permitted a sizable reduction in domestic wage and pension arrears.
Some tax responsibilities have been transferred to regions	Public Expenditure Review	Increased amount of land taxes collected by local offices.	Local government have authority to impose land tax, but collection and administration remain the responsibilities of central government. As only a few local governments currently exercise this new responsibility, no increase in land tax collection detected yet.

Actions taken by the Government	IDA Reference/Background	Outcome / Monitorable Indicators	Current Status (from ICR)
Reports on progress in budget implementation are submitted to Parliament on quarterly basis.	Public Expenditure Review	Commission of Finance of Parliament receives quarterly budget progress reports and comments on them.	Ongoing
Single Treasury Account has been established and is operating	Public Expenditure Review	Improved fiscal transparency/accountability	Fiscal transparency has improved.
The Government prepared an action plan, acceptable to IDA, for implementing reforms in the Budget Systems Law.	Public Expenditure Review Reform Support Credit	2005 Budget presented to Parliament by October lst 2004 (as per the Budget Systems Law): with description of EDPRP-budget links in annual budget; with EDPRP priorities adequately reflected in the 2005 Budget (in particular in Health and Education); incorporating initial attempt at medium-term fiscal framework, and with specific reference to commitments to budget ceilings	Draft 2005 budget has been prepared on time as per BSL. Given the low institutional and technical capacity, it was not feasible to reflect the close link between budget and EDPRP priorities in time in 2005 budget. There has been progress towards a medium term fiscal framework and a EDPRP-budget link which will be reflected in 2006 budget.
The Government formed a working group co-chaired by the Ministries of Finance and Economy for, inter alia, establishing processes to link the EDPRP to the budget through budgetary ceilings and activity classifications.	Reform Support Credit	EDPRP-budget working group formed and regular meetings held. Greater EDPRP content in the 2005 budget process, as evidenced in the initial budget strategy statement and described in Appendix to 2005 budget document.	Working group was formed and later subsumed under the MTEF working group to ensure a closer link between the budget process and the EDPRP; meetings are taking place. There has been greater EDPRP content in 2005 budget process. The recent Budget Data and Directions (BDD) for 2006 budget is reflective of a much more strategically prepared budget.
(b) Financial Accountability			
The Government adopted amendments on Administrative Violations Code to make procurement fraud punishable	Country Procurement Assessment Report	Law enforcement agencies and general attorney acting on alleged procurement frauds	In process. A number of cases (involving officials both at central and local levels) were investigated and respective measures taken.
The Government launched the State Procurement Agency website and improved the format and content of the procurement-related information and published on website to make it more user-friendly and complete, and started publishing tender announcements for procurements by the central state entities	Country Procurement Assessment Report Reform Support Credit	Government procurement website operational, with relevant information published All open-tender announcements from central Government entities are announced on Government procurement website	Web-site was developed and information is published, but there are concerns on the completeness of the published information. Total of 429 open tenders were announced on the SPA website since January, 2005, of which almost 50% are central government announcements.
The number of procuring entities was reduced from an initial 8000 to 3000 and permanent procurement units were introduced as part of the structure within each procuring entity. A system to accredit procurement officers has been developed in consultations with the Ministry of Education.	Country Procurement Assessment Report	Law enforcement agencies and general attorney acting on alleged procurement frauds.	In process. A number of cases (involving officials both at central and local levels) were investigated and respective measures taken.
Draft Law on Inspector General has been prepared.	n/a	Draft sent to Parliament for consideration	Deliberations of the draft law are pending
Law on Financial Police has been passed and	n/a	Increased public revenues	Government revenues increased substantially from 16

Actions taken by the Government	IDA Reference/Background	Outcome / Monitorable Indicators	Current Status (from ICR)
Financial Police is operating.			percent of GDP in 2003 to 22 percent in 2004.
The Government is auditing the accounts of three major state enterprises –SOEs-(Georgian Railways, Poti Port, and Madneuli Mining Company). The audit reports are expected be certified by end-July 2004 and published within one month of their completion. Based on the experience gained, the coverage of international audits is expected to be broadened to the ten largest SOEs. All SOEs with a turnover of 100,000 GEL and above have been instructed to initiate their audit procedures.	Public Expenditure Review Country Financial Accountability Assessment	Audits underway; State Enterprise Management Agency (SEMA) takes actions based on the result of audits.	Audits underway, although new deadline of July 2005 could not be met and expected to be completed by September 2005. The coverage of international audits extended to 11 large enterprises.
The reorganization of the State Enterprise Management Agency (SEMA) has started. The aim of the reorganization is to strengthen the SEMA to develop and implement state policy for SOE management and privatization.	Country Procurement Assessment Report Reform Support Credit	Program for privatization and/or management of SOEs designed	Government procurement website operational, with relevant information published. All open-tender announcements from central government entities are announced on Government procurement website.
III. Taking Steps to Resolve Critical Issues of the Energy Sector			
Nine unregistered refineries were closed recently and the government launched tax investigations on eight registered refineries.	Energy Sector Policy Dialogue Energy Market Support Credit	Reduction in tax evasion. Better governance in energy sector evidenced by surveys.	Progress was made in stronger enforcement of utility collections and thus reducing quasi fiscal losses.
The Government submitted a time-bound action plan for electricity satisfactory to IDA and adopted a legislation to address insolvency of electricity utilities	Energy Sector Policy Dialogue Reform Support Credit	Improved financial situation of the power companies leading to better services (e.g., increased bill collections, more stable services)	The 2004 energy sector strategic Action Plan for 2004-05 was prepared. Payment collections from end consumers outside Tbilisi increased. However, since a large share of the sector revenues was used to finance electricity imports, the funds flow from power distribution to power transmission and hydropower generation was not significantly improved.
IV. Protecting the Vulnerable			
	No mention of reform support credit		
The Government has started the design of a basic health benefit package.	Health Sector Note	Increased poverty focus of health expenditures.	Draft of the revised basic health benefit package to meet the priority public health goals and provide financial protection to the population is developed and ready to be submitted to the Ministerial Board for discussion.
Institutional realignment of EDPRP into the Ministry of Economy was underway.	PRSP Trust Fund Support and continuing dialogue	Greater connection between the EDPRP, indicative plans and budgets.	Ongoing and will be further strengthened under the upcoming PRSC

Note: Actions Supported by the Reform Support Credit (Core Actions in Bold)

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