

## **Georgia: Poverty Reduction Strategy Paper Progress Report**

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# Progress Report

## Economic Development and Poverty Reduction Program

Tbilisi, 2006

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## 1. Preface

A Progress Report on Economic Development and Poverty Reduction Program (EDPRP) was discussed and adopted at the Government Meeting on February 23, 2005. The Report reflected implementation of reforms by new Government of Georgia in 2004 and planned reforms for a forthcoming medium term of 2005-2007.

This Report is based on the abovementioned document and illustrates progress of 2005 EDPRP reforms. It also highlights the status of particular measures which were intended for rapid and sustainable economic development in the country through further fine-tuning of administrative mechanisms, increase of transparency, improvement of business-climate, and liberalization of economy.

At the same time, this Report comprises the plan of measures to be implemented in a forthcoming medium-term period. The referred plan is based on the “basic data and directions document for 2007-2010” which was prepared by the Government of Georgia. This latter document represents a link with the medium-term expenditure framework initiated by the Government in 2004. Thus, it provides for an expediency of planned measures through the link with the state budget.

The 2005 EDPRP Report was prepared in collaboration with ministries, state bodies and various agencies. Besides, it shall be pointed out that during thematic seminars/workshops that took place in October last year, main trends of the Report were discussed together with representatives from the ministries, NGO’s and international organizations.

## 2. Main Trends of Economic Development

Economic processes in 2005 were developing positively that resulted in acceleration of economic growth rate in the country. According to the State Department of Statistics, GDP in 2005 prices amounted to GEL 11,591.9 million (USD 6,400.5 million) which, in real terms, is 9.3 percent higher than 2004 comparable performance. The 2005 growth rate was also 2.9 percent higher than the average growth rate in 2000-2005. A per-capita GDP amounted to GEL 2,563.7 (USD 1,415.6). Consideration shall be given to the fact that high growth rates of previous years were mainly attributed to investment injections from oil and gas pipeline construction and implementation of other large international projects in the country with consequent increase of aggregate income, while growth in 2005 is achieved mainly by expanding general economic activities.

It shall be noted that in 2005 high economic growth rate was observed in such sectors as financial intermediation (52.2 percent), communication (29.5 percent), construction (22.3 percent) agriculture, hunting, forestry and fishery (12.0 percent), industry (9.5 percent), transport and auxiliary transport services (5.7 percent), hotels and restaurants (5.7 percent), etc.

Financial intermediation still remains one of the main factors of economic growth, where the increase vis-à-vis 2004 was 52.2 percent. It is of a particular interest, that bank loans to the private sector have increased by 80 percent, while the average lending rates of commercial banks have decreased by 10 percentage points. Commercial banks have traditionally been financing 3 sectors of the economy: trade (38.3 percent total lending), industry (25.5 percent) and construction (11.6 percent).

As a result, construction sector and the processing industry in 2005 have grown, respectively, by 22 percent and 14.3 percent. Growth in these sectors was largely due to the bank loans.

Vis-à-vis the previous years, in 2005, the consolidated budget revenues of the country, including grants, have increased by 42.7 percent, out of which tax revenues have increased by 33.1 and non-tax revenues by 17.3 percent. Foreign grants have decreased by 16.0 percent. Due to progressive privatization activities in the country, the consolidated budget has collected GEL 419.4 million through privatization, which is 5.8 times higher than the previous year's performance.

In 2005, due to successful fiscal and monetary policies, increase of CPI was as low as 6.2 percent. Compare: the twelve month inflation in 2004 was 7.5 percent, while in 2003 it was 7.0 percent.

One of the most notable characteristics of the country's social and economic tendencies is the reduction of the poverty level starting from 2006. While there was a slight increase in poverty in 2005, the downward trend was observed in quarter 1, 2006.

According to the official statistics, in Q1, 2006 poverty level in Georgia comprised 33.6 percent, that is 6.1 percentage point lower than the respective indicator for Q1, 2005 (39.7 percent). The poverty indicators reduced in the urban as well as in the rural areas.

In 2005 the FDI was diversified and its structure was improved. A 10 percent decrease was recorded on FDI's in the country and net inflows amounted to USD 449.8 million. However, it shall be noted hereby, that total investments in 2004 (USD 499.1 million) included a 72 percent share of British Petroleum, while in 2005, BP share has amounted to only 60 percent. The volume of other investments increased by USD 44.5 million (i.e. by 32 percent compared to the last year). In 2006 we anticipate sharp increase in FDI, so that the FDI will comprise USD 1.160 billion. This forecast is based on the realistic assumptions. In particular, in 2006 the USD 195 million investment is expected from BP, USD 65 million for the airport construction, USD 579 million from privatization (including USD 90 million from the sales of Georgian United Telecom, USD 92 million from Batumi Port, USD 317 million from energy enterprises, USD 30 million from sales of tourism enterprises and USD 50 million from privatization other assets); USD 90 million from Blumpin-Limited – new cellular connection operator (including USD 40 million for a license and USD 50 million for capital investment), USD 100 million of Kazakh investments, USD 45 million for Kulevi terminal construction, USD 20 million of other unidentified investments and USD 40 million of reinvestment.

According to data of integrated studies of labor and households, unemployment rate in 2005 increased by 1.2 percentage points and reached 13.8 percent, based on strict ILO criteria.

Georgia's foreign trade turnover in 2005 amounted to USD 3,357.7 million that is 34.6 percent higher than the 2004 level; Exports were USD 866.7 million (34.0 percent higher), and imports – USD 2,490.9 million (34.8 percent higher).

Reforms and initiatives during the period have provided for positive results which were acknowledged in international studies. In the 2005 IFC report on "Doing Business 2006" awarded Georgia a second place out of 12 most reformer countries for improving the business climate. According to the Heritage Foundation's Economic

Freedom Index 2006 report, Georgia has advanced by 28 steps forward vis-à-vis the 2005 and moved from “mainly non-free” position to the 68<sup>th</sup> place of the “mainly free” category.

### 3. Poverty Level

Before concentrating on poverty indicators itself, we shall point out those common principles, which lay a foundation for defining poverty level, as well as those modifications that an applicable methodology has undergone in Georgia. We will discuss some modifications below, which have had significant impact on defining the poverty indicators.

Basically, there are two components necessary to calculate poverty indicators – a poverty line and a so called “welfare indicator”. The welfare indicator is compared to the poverty line to define how “poor” the entity of study is (usually a household or an individual). If the entity is poor, the welfare indicator also demonstrates how poor it is: if the indicator is below the poverty line, then the household or the individual will be considered as poor. A welfare indicator could be linked to income, expenses, or other features of an entity under analysis.

Georgia uses a consumption expenditures of one equivalent adult of a household (incorporating the aggregate demand effect) to calculate the poverty level. Such indicator is awarded to a household, as well as to each of its member. For calculating official poverty line, Georgian uses official indicator – so called “living minimum”. Three indicators of poverty are being employed:

1. **Poverty level:** equals to the percentage of entities below the poverty line, out of total number of entities.
2. **Poverty depth:** In addition to the quantity of poor, it considers how remote the welfare indicator of an entity is from the poverty line, on average.
3. **Poverty Severity:** is an indicator, which awards more attention to distant (poorer) entities, when considering the remoteness of poor from the poverty line: reduction in this indicator suggests that life of the poorest has improved, or vice-versa.

Adjustments were made to the methodologies of determining both, official poverty line and the welfare indicator. Before going into discussions on those changes individually, one important modification of general approach shall be emphasized: **The previous poverty indicator analyzed households, while the new ones analyze individuals.** For “poverty level” this means following: **originally, the poverty level was defined as a share of poor households in total number of households, while the poverty level with the new approach is defined as a share of poor population in total number of population.** It shall be noted that such, rather accurate in essence and internationally approved approach, slightly increases the overall poverty level.

The computation of the official poverty line, i.e. the living minimum, is governed by the law of Georgia on “Rule of calculating the living minimum”. It is based on a minimum consumption basket for a healthy man established by the Ministry of Labor, Health and Social Protection of Georgia. The previous methodology used the minimum consumption basket, adopted in 1992. This basket was considering consumption of 2,500 kcal per day and was based on nutrition norms of the Soviet period, which was completely non-adequate vis-à-vis the actual consumption of population.

Changes in the methodology of calculating the **official poverty line** refer to two aspects:

1. **Minimum consumption basket:** The decree # 111/N of the Minister of Labor, Health and Social Protection from May 8, 2003, established a new recommended consumption basket. The new basket is based on consumption of 2,300 kcal per day and its composition is more adequate to reflect the actual consumption of population. Such a change made it necessary to adjust official living minimum in 2004 and 2005. Due to the new composition of the basket, official poverty line has decreased to some extent.

2. **“A bargaining effect”:** cost of minimum consumption basket in old methodology was evaluated by the information obtained through a statistical survey of prices. Due to nature of a price survey, which is oriented at calculating the consumer price indices, it doesn't consider a possibility to have prices discounted by bargaining, which plays significant role in the Georgian reality. Due to above mentioned, and considering the results of household surveys, the households, on average, pay 13.5 percent less in products than it is recorded in the statistical survey on prices. Taking the bargaining effect into account, the cost of consumption basket is being discounted by 13.5 percent.

Changes in calculation of **welfare indicator** attend to two points:

1. **In-kind (non-cash) consumption** of households under the old methodology was evaluated in so-called producer prices therefore the household survey prices for such products was reduced by 20percent in order to account for the price raise when these products enter the market. In-kind consumption is mostly observed in rural households, where consumption is dominated by own products and services. Such an adjustment of non-cash consumption is necessary for estimating the national accounts; however it gives a non-adequate picture when calculating the poverty indicators because it artificially reduces the welfare level of households where non-cash consumption constitutes a certain share of total consumption. New methodology has abolished the 20percent discount. Such an approach has, on average, increased the level of welfare indicator and consequently decreased the poverty indicators.

2. **Aggregate consumption, or so-called “scale” effect.** For calculating the consumption of one equivalent adult by considering the aggregate consumption effect, total consumption of a household is divided not by N but by  $n = N^\theta$ , where N represents number of equivalent adults in a household, and  $\theta$  is the aggregate consumption effect factor.

For example, let's assume that this factor equals 0.6; household consists of 5 members and composition of such household equals to 3.7 equivalent adults. To calculate number of equivalent adults by considering the aggregate consumption effect, 3.7 shall be brought in power of 0.6 and the product is 2.19. Aggregate consumption effect factor under the old methodology was established at 0.6, which was overstating the aggregate consumption effect and was artificially rising welfare level of large families. By the new recommended methodology this factor is set at 0.8. By applying new methodology into the above example, number of equivalent adults will become 2.85. Application of new aggregate consumption effect factor significantly decreases welfare indicator (in the example it is reduced by 1.3 times, i.e. 2.85/2.19) and increases the poverty indicators, however it reflects the reality far better.



With active support and recommendations from the World Bank, the SDS plans to switch to a contemporary methodology for calculating the poverty level in the near future. The new methodology is essentially different from the current one and is applied in many developed countries in the world. The new methodology will no more be associated with consumption basket. It will rely on an average price of one kilocalorie, which will be calculated by the State Statistical Department on the basis of integrated analysis of labor-force and households.

By considering all abovementioned factors, the SDS has recalculated the poverty level in 2004 and 2005 vis-à-vis the adjusted poverty line (or living minimum):

*Table 1.*

<b>Poverty Level in 2004 and 2005</b>			
	<b>Poverty level</b>	<b>Poverty depth</b>	<b>Poverty severity</b>
<b>2004</b>			
City	34.3	10.9	5.0
Rural community	37.1	13.5	7.1
Country	35.7	12.2	6.1
<b>2005</b>			
City	37.1	12.1	5.7
Rural community	41.7	14.8	7.5
Country	39.4	13.5	6.6

Based on the recalculations we can conclude that the poverty level has an increasing tendency from 2004 to 2005. This indicator is rising by 3.7 percentage points in the city and by 4.6 percentage points in rural community.

As it was noted above, poverty level decreased in Q1, 2006, while there was increase in poverty level in 2005.

In Q1, 2006 the poverty level in Georgia was 33.6 percent, i.e. 6.1 percentage point less than in Q1, 2005 (39.7 percent). The poverty level decreased in urban as well as in rural areas.

While 41.1 percent of the rural population in Georgia was below the poverty level in 2005, only 31.2 percent of the rural population is poor in 2006. Among the urban population, the poverty level decreased from 38.1 percent in Q1, 2005 to 36.0 percent in Q1, 2006.

*Table 2.*

<b>Poverty Level in 2004 and 2005</b>		
	<b>Q1, 2005</b>	<b>Q1, 2006</b>
Urban	38.1	36.0
Rural	41.1	31.2
Georgia	39.7	33.6

To describe the level of living, it is interesting to observe and analyze poverty level of families with different number of members. In 2004 the poorest families consisted of 6 or more members. More than 42.9 percent of such families live below the poverty line. Welfare level is high in the families with single member, with only 26 percent of such families being poor. In 2005, the families with 6 or more members were the

poorest. 47.9 percent of such families live below the poverty line. The welfare level is high in the families with two members, with only 28.8 percent of such families being poor.

Table 3.

**Poverty level by number of members in households in city-rural spectrum in 2004-2005**

	Poverty level			Poverty depth			<i>In percent</i> Poverty severity		
	City	Rural community	country	City	Rural community	country	City	Rural community	country
	<b>2004</b>								
One member	24.0	27.7	26.0	9.2	12.1	10.8	4.7	7.2	6.1
Two members	29.7	27.6	28.6	9.5	10.8	10.2	4.5	5.9	5.2
Three members	28.6	27.2	28.1	8.3	10.0	9.0	3.5	5.5	4.3
Four members	29.4	33.6	31.2	8.4	11.1	9.6	3.8	5.5	4.5
Five members	39.0	38.9	38.9	12.1	13.4	12.8	5.3	6.8	6.1
Six or more members	43.9	43.9	42.9	16.8	16.8	15.9	9.0	9.0	8.2
<b>total</b>	34.3	37.1	35.7	10.9	13.5	12.2	5.0	7.1	6.1
	<b>2005</b>								
One member	31.0	32.4	31.8	11.9	13.1	12.6	6.5	7.4	7.0
Two members	28.2	29.3	28.8	8.9	11.7	10.4	4.0	6.5	5.3
Three members	31.8	28.6	30.5	9.1	9.9	9.4	3.8	5.1	4.3
Four members	31.8	40.3	35.3	10.2	13.2	11.4	4.7	6.4	5.4
Five members	42.1	41.4	41.7	12.9	15.1	14.1	5.6	7.9	6.9
Six or more members	49.7	49.7	47.9	17.5	17.5	17.1	8.7	8.7	8.5
<b>total</b>	37.1	41.7	39.4	12.1	14.8	13.5	5.7	7.5	6.6

For evaluating the level of living, it is interesting to determine poverty level in households according to number of children below 15. Based on such indicator, the poorest families are those with 3 or more children. 66.2 percent of such families lived below the poverty line in 2004, and 60.1 percent lived below the poverty line in 2005.

*Table 4.*

**Poverty level in households by number of children below 15 in city-rural spectrum  
in 2004-2005**

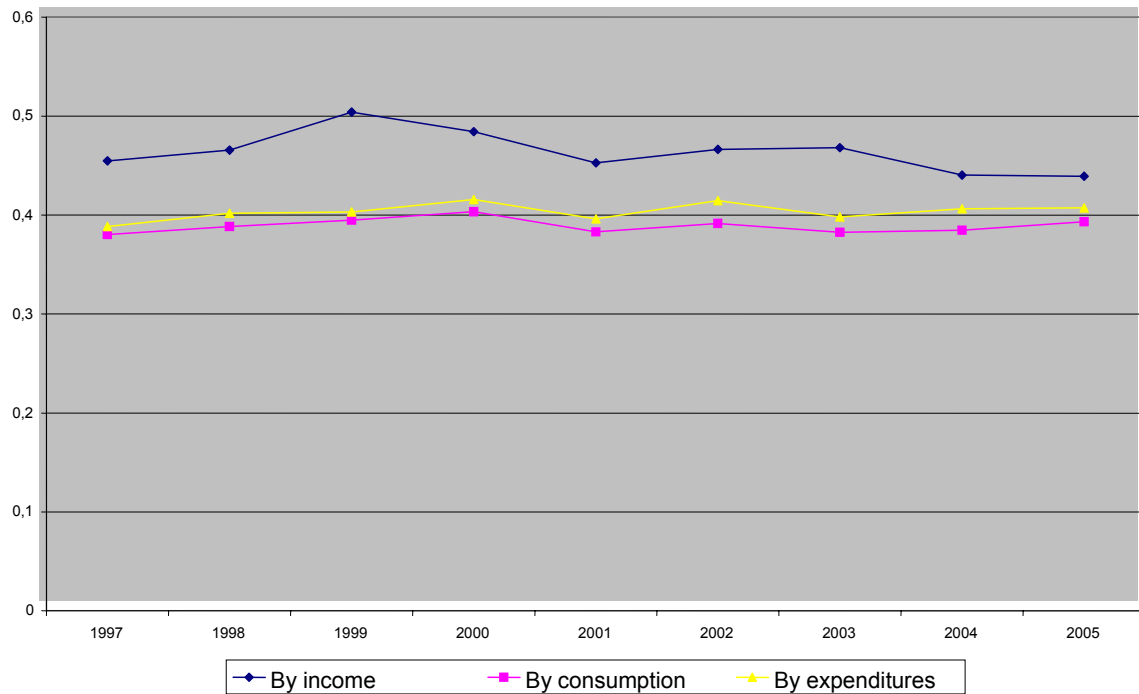
	<i>In percent</i>								
	Poverty level			Poverty depth			Poverty severity		
	city	Rural community	country	city	Rural community	country	city	Rural community	country
	<b>2004</b>								
With no children	34.1	35.0	34.5	10.9	12.6	11.8	5.0	6.6	5.8
With one child	34.5	39.9	37.1	10.6	14.9	12.7	4.6	7.9	6.2
With two children	30.9	40.1	36.2	9.7	13.7	12.0	4.3	6.7	5.7
With three or more children	61.7	69.7	66.2	23.8	32.2	28.5	13.0	19.8	16.8
<b>total</b>	<b>34.3</b>	<b>37.1</b>	<b>35.7</b>	<b>10.9</b>	<b>13.5</b>	<b>12.2</b>	<b>5.0</b>	<b>7.1</b>	<b>6.1</b>
	<b>2005</b>								
With no children	36.9	38.9	37.9	12.4	13.9	13.2	5.8	7.1	6.5
With one child	36.6	46.7	41.3	11.4	15.4	13.3	5.1	7.5	6.3
With two children	35.5	44.7	41.1	10.0	16.3	13.9	4.4	8.4	6.9
With three or more children	52.0	68.5	60.1	18.8	29.9	24.3	10.3	15.6	12.9
<b>total</b>	<b>37.1</b>	<b>41.7</b>	<b>39.4</b>	<b>12.1</b>	<b>14.8</b>	<b>13.5</b>	<b>5.7</b>	<b>7.5</b>	<b>6.6</b>

According to 2005 data, average monthly income of a household was GEL 347, which is 7.7 percent higher than the 2004 level. The average monthly expenditure of a household, in 2005 was GEL 383. In this regard, it shall be taken into account that nutrition expenses have accounted for about 50.6 percent in a household cash expenditures on consumption.

GINI Index by consumption of one equivalent adult in 2005 amounted to 0.35 and has a slightly increasing tendency.

Chart 1

## Dynamics of GIN Index in 1997-2005 by income, expenses and consumption



One of the main determinants of poverty is unemployment. The unemployment level in 2005 increased by 1.2 percentage points and reached 13.8 percent by ILO criteria.

The positive tendency of registering new taxpayers at the tax department was observed lately. Number of the newly registered taxpayers increased by 76.1 percent compared to 2004. That means that a number of new jobs were created in the country.

Table 5.  
Distribution of population of over 15 by economic status

1000 inhabitants

	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Total, population over 15</b>	<b>3002.1</b>	<b>3016.8</b>	<b>3026.2</b>	<b>3141.6</b>	<b>3191.0</b>	<b>3239.5</b>	<b>3099.1</b>	<b>3146.9</b>	<b>3159.9</b>
Total labor force*	2060.2	1972.8	1939.3	2049.2	2113.3	2104.2	2050.8	2041.0	2023.9
Total labor force**	2154.1	2018.5	2036.5	2166.5	2229.3	2174.6	2112.7	2103.9	2080.1
Working	1908.5	1728.5	1694.4	1837.2	1877.7	1839.2	1814.9	1783.3	1744.6
Employed	675.9	724.4	697.5	683.9	654.3	650.9	618.5	600.9	600.5
Self-employed	1123.1	987.1	918.6	1041.2	1135.9	1184.9	1195.2	1180.8	1143.3
Unidentified	109.4	17.0	78.4	112.1	87.3	3.4	1.3	1.6	0.8
unemployed*	151.7	244.2	244.9	212.0	235.6	265.0	235.9	257.6	279.3
unemployed**	245.6	289.9	342.1	329.3	351.6	335.4	297.8	320.5	335.5
Population outside labor force*	941.9	1044.0	1086.9	1092.3	1077.7	1135.3	1048.4	1105.9	1136.1
Population outside labor force**	852.2	998.4	989.5	975.1	961.6	1064.9	986.5	1043.0	1079.9
<b>Unemployment level (in percent)*</b>	<b>7.4</b>	<b>12.4</b>	<b>12.6</b>	<b>10.3</b>	<b>11.1</b>	<b>12.6</b>	<b>11.5</b>	<b>12.6</b>	<b>13.8</b>
<b>Unemployment level (in percent)* *</b>	<b>11.4</b>	<b>14.4</b>	<b>16.8</b>	<b>15.2</b>	<b>15.8</b>	<b>15.4</b>	<b>14.1</b>	<b>15.2</b>	<b>16.1</b>
Activity level (in percent)*	68.6	65.4	64.1	65.2	66.2	65.0	66.2	64.9	64.0
Activity level (in percent)**	71.8	66.9	67.3	69.0	69.9	67.1	68.2	66.9	65.8
Employment level (in percent)	63.6	57.3	56.0	58.5	58.8	56.8	58.6	56.7	55.2

\*Strict criteria of the ILO

\*\* Soft criteria of the ILO

## 4. Main Economic and Structural Reforms

Within the economic and structural reforms implemented by the Georgian government, the most noteworthy measures have been: improvement of administration and combating corruption, reform of business-licensing sector, reform of technical regulation system, simplification of business legislation and the reform towards trade liberalization. The reform of the public register is also an important measure, which aims to create the flexible and transparent registration system in the country, simplify the procedures and offer the better service.

### 4.1. Improvement of administration and combating corruption

Purposeful and efficient implementation of public administration reform represents an important prerequisite for proper functioning of the administration sphere in general. Therefore, public administration reform and combating the corruption were set as one of the main basics for social-economic development of the country.

According to the implementation plan of public administration reform, as outlined in the EDPRP progress report of last year, the following measures are in place:

***To implement unified policy in public servants' remuneration and improve the remuneration system (2005-2006)***, with the view of establishing the unified state policy in respect to remuneration of public servants, the PSB and MOF are working on the remuneration rates for different service grades in public sector. At the same time, during 2006 it is planned to update the draft presidential decree on "registry of public service positions". The decree will unify the names of subdivisions and positions within the public sector and organize the grading system.

***To prepare the draft long-term program on administration and public service reform (2005-2006)***, the "public sector management reform project" has been implemented in the PSB under the grant from Japanese Government. The project was completed in the first half of 2006. The following measures were activities were implemented in terms of the abovementioned project:

- Preparation of the plan for public administration reform;
- Evaluation of the number of employees in the public sector; analysis of the remuneration system and current status of training and capacity building for public servants
- Preparation of respective recommendations after reviewing budgetary expenditures;
- Monitoring the publicity and progress of the reforms.

As a result, a long-term program of Georgia's public service reform and the plan of its implementation is to be prepared during 2006.

***To prepare and implement the Human Resource Management information system (HRM) concept (2005-2006)***, the PSB has been working on the preparation of implementation program for the Human Resource Management Information Systems (HR MIS) since September 2005. In particular, existing conditions of public services sector in the country was studied and comparable operating systems of developed

countries were analyzed. The report was prepared which describes in details main functions of HR MIS and gives recommendations on centralization or decentralization of certain function. The main function of the system will be administration of the employment records, administration of remuneration and evaluation system for accomplished tasks; selection/recruitment; training and promotion.

Preparation of the project is in progress. This will introduce trainings for the respective specialists, who will administer the HR MIS system.

***To prepare the public servants' ethics code (2006)***, preparatory works are in progress in the PSB together with NGO's. The public service code, prepared by the PSB will include the ethics code as a separate chapter.

At the same time, it is significant to underline the measures oriented at combating corruption. Besides the concrete actions implemented by appropriate agencies, it shall be noted that Georgia's State Security Council prepared "Georgia's National Anticorruption Strategy", which was approved by the President of Georgia on 24 June 2005 by decree # 550. Goals of the strategy include establishment of the effective state management system, inspiration of legal and social reaction against corruption and prevention of corruption.

Based on the strategy, the Government has adopted the "Operational Plan of Georgia's National Anticorruption Strategy" (Approved by the Governmental resolution # 377 from September 12, 2005). This plan is being implemented in 2005-2006. It consists of three parts ((a) scaling up anticorruption measures, (b) strengthening anti-corruption mechanisms and (c) international responsibilities). Implementation of the operational plan will significantly reduce possibilities of corruption in the public sector and increase transparency of public service.

The strategy and the operational plan will be updated annually. Report on its implementation will be presented to the President of Georgia annually and will be made public. The report will reflect implementation progress of the operation plan. Annual conference will be organized with the view of discussing and updating the plan. Such publicity will ensure political, state and social support to the Plan.

In terms of the administration reform, the proper design of regional policy has a leading role and importance. Effective reform has started in the field of administrative system and territorial arrangement, which implies decentralization and de-concentration of management, distribution of management authorities and resources between national, regional and local authorities, strengthening and fine-tuning of self-governance system.

The "European treaty on self-governance" has been ratified. Based on the main provisions of the treaty, we prepared key legislative acts with regards to regional policy. In particular, organic law of Georgia on "local self-governance" was adopted (its basic stipulations will enter into force in 2006 after local elections). It lays out the legal ground for implementation of legal, economic and financial functions of a self-governance, for creation and functions of self-governance and for interaction with the state bodies (under the principle of division of responsibilities).

Also, law on "property of local self-governance units" was adopted, which determines new principles of property rights, property categories and property acquisition rights of self governing units. Besides, in respect to property-related activities several other legal acts were adopted which regulate land rights, relations and authorities of local and state governance.

Draft law on “the budget of self governing unit” is currently in the completion phase, which, in line with the organic law and other legislative or normative acts, legally regulates budget formation and spending aspects of the self governing units.

As soon as the mentioned laws enter into force, they will create a legal basis for resolution of financial and property issues of the regions. This, on its side, is of utmost importance for realization of the main function of the self-governances – to respond to local needs by means of own resources and abilities.

To improve effectiveness of budgetary processes, it is necessary to expand the revenue basis for local governments and introduce principles of program budgeting. This implies consideration of social-economic development programs of the administrative-territorial units during the process of formation of local budgets. Such programs, however, shall be based on real judgments and evaluation of locally available resources and potential.

During implementation of the reform not only legal relationships between central and territorial units will be fine-tuned, but institutional, staffing, state supervision and other issues too. These shall provide for complete realization of the common interests’ principle for state and local authorities.

## **4.2. Improvement of business climate and attracting private capital**

### **Reform of the licensing system**

The new law of Georgia on “licensing and permits” determines main principles of licensing and permits. In particular:

- The list of the activities requiring licensing or permits has been reduced significantly. About 900 types of licenses/permits have decreased to 150. A number of licenses and permits have been abolished, since they were ineffective in regulating business activities and represented a source of corruption.
- Procedure of licensing and issuance of permits was fine-tuned and simplified. In particular, “one window principle” was adopted, were any additional licensing and certification requirements from other administrative agencies, can be handled by the licensing agency himself through the administrative order.
- The principle “silence means content” was adopted. A license (permit) is considered to be automatically awarded if the granting agency does not refuse license and respectively inform the license-seeker in writing.
- Use of natural resources is regulated by an auction principle. Besides, owner of such license may partly or completely alienate or transfer the exploitation right to a third party. Such measures support the establishment of long-term economic interests in exploitation of resources and provide the prerequisites for stable exploitation of natural resources.

Implemented changes significantly decrease administrative barriers in the licensing sphere and simplify licensing procedures. This represents an important factor for improvement of business-climate.

## **Reform of technical regulation system**

Major importance for business development and sustained economic growth is attributed to the reform of technical regulation system. According to the old system, technical regulation in the country was performed by “SakStandard.” It was performing functions of metrology, standardization, accreditation, certification and market supervision. This system could not ensure consumer safety and it was creating additional barriers for business activity. Accordingly, the system was impeding the economic and trade liberalization process, was hindering integration of Georgia into world-wide economic space and was obstructing export expansion.

Purposes of technical regulation system reform in the country are the following:

- Elimination of technical barriers to international trade;
- increase of possibilities for penetration of Georgian products into foreign markets;
- transformation from mandatory standards towards optional (voluntary);
- Adequate protection of consumer interests, elimination of the old corruptive system and provision of transparency.

Within the framework of the reform, a legislative package has been prepared. The new legislation will comply with contemporary requirements and take into account the implementation of international approach-based and experience-based technical regulation system. In particular the following laws have been adopted in 2005:

- On amendments and supplements to the law on “Standardization”;
- On amendments and supplements to the law on “unified measurements”;
- On amendments and supplements to the law on “certification of products and services”.

Purpose of amendments and supplements to the Law of Georgia on “certification of products and services” is to provide adequate consumer security and life and health protection, which represents the most important function of the State. Security of products at marketplaces is major direction in this regard. The law will regulate general issues of security of products which are presented at the Georgian market.

New law is in full compliance with the requirements of WTO and EU with respect to authenticity assessment and certification. These principles are based on the suggestion that state regulating role in the system shall be limited to establishing such general technical requirements that provide for consumer safety and life and health protection as well as for environmental protection. Simultaneously, the stipulations of the treaty on “technical barriers to trade” that restricts imposing technical barriers to trade shall be met.

In terms of accreditation, it aims at recognition of competency of those organizations which perform authenticity assessment regardless of their organizational-legal form or ownership status.

The National Agency for Accreditation, a legal entity of public law was created according to the legislation of Georgia. The National Agency for Accreditation united the accreditation function that was disseminated among the line ministries. Its activity will be based on international and European standards which represent main precondition for confidence-building towards authenticity assessment and certification reliability. This will also contribute to increase of competitiveness of locally produced commodities for internal and foreign markets. At this stage the



“Accreditation Center” has already been established which works on preparation of technical regulations for authenticity assessment labs and calibration labs as well as on rules and procedures of authenticity assessment accreditation.

**Law of Georgia on amendments and supplements to the law on “unified measurements,”** sets out the legal basis for mandatory provision of unified measurements in Georgia. It also provides for creation and storage of state etalons and for the procedures of approval, certification and trading with measurement means.

Purpose of the law is to protect the rights and legal interests of the residents, legal entities and the Georgian economy from unreliable measurements in such daily social interface areas as trade, health-care, environmental protection, production and consumption safety, etc., prevention of supply of irregular measurement means to consumer markets with consideration of priority of the measurement means for safety of technological processes, services, competitiveness and quality assurance.

**Law of Georgia on amendments and supplements to the law on “Standardization”** sets out the procedures for conversion from mandatory standards to voluntary standards. Currently, major priority of the state is to eliminate discrepancies in the existing system and to establish contemporary market-based and effective system. The law maintains and promotes all innovations which were already introduced to the existing law. Besides, it inclusively establishes the voluntary principle for standards. The law considers establishing the unified national agency for standardization and metrology on the bases of old “SakStandard”, which will fully correspond to European analogous structures. Accordingly, the agency will withdraw from such functions as accreditation, certification or market supervision. Collection of those functions within one state body was a basis for conflict of interest and corruption.

Drawn from abovementioned laws, legal entities of public law – “National agency for standardization, technical regulation and metrology” and “National center for accreditation” were established. As for the market supervision, new effective system shall be established for market supervision and control, where supervision and control functions shall be strictly separated across the implementing agencies. By this, overlapping occurrences will be eliminated and activity of controlling bodies will become more transparent.

Governmental decree on “approval of operational plan for realization of measures under the laws which regulate standardization, metrology and accreditation spheres” has been prepared which determines the measures to be implemented in the frame of the reform and their deadlines.

By a corresponding normative act, only those parts of the EU and OECD technical regulations were accepted, which refer to the parameters of products’ safety and was determined their operational rule. At the same time, in the transition phase, those documents of technical regulation field which are currently in force according to CIS international agreements (GOST, construction norms and rules, sanitary rules and norms, etc.) are fully in force.

### **Entrepreneurial Legislation**

In June 2005 the Parliament adopted amendments to the entrepreneurial legislation. The amendments are oriented at simplification of set-up procedures for businesses

and improvement of legal means of relationships between the partners. Minimum charter capital for LLC's has decreased from GEL 2,000 to 200. This shall facilitate the process of creation of new companies. It is significant that today, it is a timely measure to promote legalization of many small businesses, which were beyond the official business register previously. Charter capital (except for minimum charter capital) can be now supplemented by non-cash assets. It is also possible to build charter capital in other currencies, although in the company's books it will be recorded in national currency. When establishing a company, the law requires having only half of the charter capital built-up, while the other half can be added later.

Under the old legislation, share of partners in company profit was strictly limited to a corresponding share in the charter capital, which was not always reflecting the reality. Through the amendments it is now possible to share profit between the partners under a separate contract.

Under new legislation, responsible entity for registering the companies is State Tax Department which keeps the business register as well. Time required for registration of companies was significantly reduced. If all documents are submitted fully, time for the registration of an individual company is 1 day, and for registration of all other types of legal entities – three days.

### **Trade Liberalization Reform**

The system of Customs Taxes currently is characterized by relatively high rates (0 percent, 4 percent, 5 percent, 6 percent, 7 percent, 8 percent, 10 percent, 12 percent, 14 percent, 15 percent, 16 percent, 17 percent, 18 percent, 20 percent, 25 percent, 30 percent) and numerous bands (16 bands); It is not competitive in the region and therefore is not supporting attractiveness of business climate in the country. High customs taxes increase prices on products of the common consumption and imposes a heavily burden over the low-income population. Besides, the law on “customs tariffs and taxes”, which imposes 16 different rates, makes it difficult to properly carry out customs procedures. Such a diversification of tariffs creates more possibilities for corruptive deals at the customs.

Considering the abovementioned, the Ministry of Economic Development of Georgia has prepared a draft law “on Customs Tariffs” which is intended to replace the existing law “on Customs tariffs and taxes.” It implies further liberalization of Georgia's customs taxation system and synchronization with 2002 TARIC harmonized system.

Following results will be achieved under the draft law:

- customs tariffs of 14 percent, 15 percent, 16 percent, 17 percent, 18 percent, 20 percent, 25 percent and 30 percent will be reduced to 12 percent;
- customs tariffs of 6 percent, 7 percent, 8 percent and 10 percent will be reduced to 5 percent;
- customs tariff of 4 percent will be reduced to 0 percent;
- seasonal customs tariffs will be abolished;
- customs tariffs on agricultural raw material will be reduced to 0 percent;
- customs tariffs on non-agricultural products (goods from 25 to 97 groups of foreign-economic activity nomenclature), excluding construction material

(goods from 25 to 68 groups of foreign-economic activity nomenclature) will be reduced to 0 percent;

- goods originated in non-WTO member countries will be taxed at the same customs tariff level as identical goods originated in the WTO member countries.

The purpose of adopting new law is to improve investment climate and to protect consumer rights via trade liberalization, in particular:

- establish one of the most simplified and competitive customs taxation system in the region;
- draw interest of investors and attract foreign capital by relatively cheap raw material and machinery;
- creation of equal market conditions for local and imported goods and improve consequently the competitive environment which will induce the local production to become more quality-oriented;
- reduce consumer prices on imported goods and import-based products and thus improve social-economic conditions for low-income consumers;
- simplify customs administration and prevent corruption;
- expand trade register coding system to eleven-digit 2002 unified customs codes for creation of unified inter-state and international informational space.

The draft law of Georgia “on customs tariffs” has already been submitted to the Parliament for discussion.

### **Reform of the Public Register**

The Public Register development strategy centers on four main directions: institutional, legislative, technological, and administrative. The public register is administered by the national agency for public register, which is a self-financed legal entity of public law, supervised by the Ministry of Justice.

Institutional reform: the registration system is centralized and independent from the local governments in a financial, functional and administrative sense. Thus any chance of the conflict of interest in the public administration is excluded. The line was drawn between the land management (rural and urban planning, definition of land users, etc) and land administration (ownership rights). The regional services, creating the additional unit of state supervision were abolished. Technical registration offices were abolished and all the information is now centralized with the national agency. National Agency also administers the register of the arrested property. Earlier the chamber of notaries was administering this register.

By uniting all the abovementioned functions, the National Agency of Public Register offers the one-stop service. All property and ownership related information can be obtained in the same building. The centralization ensures safety of the databases. The National Agency of the Public Register is a self financing entity. All the users of information need to pay the service fee. Earlier the state registration fee would apply to the similar services.

All these changes were supported in the amendments of the respective legal framework. The law of Georgia on “The National Agency of Public Register service fees” provides all the information on the timeframe of the services offered by the agency. The law envisages the ‘fast service’ options and thus, leaves no room for corrupt deals. We have presented to the parliament of Georgia the draft law on ‘registering the right on immovable assets’. At present the law on ‘registering the right on movable assets’ is being drafted.

Administrative reform: The staff of the agency optimized and reduced from 2100 to 610. The new members of the staff were selected through the competitive examinations. The agency has signed the memorandum with the Tbilisi State University, where the latter agrees to send the outstanding students for the internship at the agency. The average monthly salary increased from GEL 57 to GEL 452.

For the purposes of delivering the improved service, the new concept of “improved registration service” was implemented in the Agency. The new concept aims to improve the security, transparency and service delivery by the agency. The premises of the agency were renovated to ensure delivery of the service in more transparent and comfortable manner.

One of the important innovations include the physical and functional separation of the front and back offices. This measure ensures that the citizens are not involved in the registration process, and the person who is responsible for the registration has the descent working conditions. The innovated Agency offers legal consultations free of charge. Well places boards and arrows ensure that the citizens locate the needed service easily.

Technological reform is an important innovation, which aims to create the united database. The newly developed software is being tested in Tbilisi registration service. The program envisages simplification of the registration procedures and replacement of the bureaucratic mechanism with the modern standards, where the steps in the registration process are reduced from 66 stages to 7 stages.

The territorial and central systems will be integrated and the united database will be created for the country. This measure will enhance reliability of the database, its accessibility and publicity. The reliability of the real estate related information will facilitate to the development of the real estate market.

## **5. Macroeconomic Policy**

### **5.1. Monetary Policy**

The National Bank of Georgia’s role in EDPRP implementation is to maintain the purchasing power of national currency and provide price stability.

Exogenous supply factors (independent of the monetary policy) have had considerable impact on price dynamics during the accounting year. The twelve month inflation in December 2005 was 6.2 percent. Yet, annual average inflation reached the higher-

than-normal level of 8.2 percent (the annual average inflation in 2005 excluding tobacco and oil products was 5.4 percent).

*Table 6.*

**Annual inflation (CPI)**

	<b>2003</b>	<b>2004</b>	<b>2005</b>
January	5.5	5.2	9.3
February	3.7	6.2	9.2
March	3.4	6.3	9.7
April	2.1	5.6	10.3
May	2.3	5.4	8.9
June	4.8	3.6	9.0
July	5.0	5.5	6.0
August	5.1	5.0	7.2
September	5.2	6.0	7.7
October	4.7	7.7	7.8
November	8.6	4.1	7.9
December	7.0	7.5	6.2

Foreign exchange market was stable in Georgia during the accounting period. Supply-demand of U.S. dollars both at the Tbilisi Interbank Exchange and outside of it was not characterized by any significant disorder. The GEL exchange rate fluctuations were minimal and the exchange rate was kept within the 1.785-1.840 range vs. the USD.

Foreign reserves of NBG as of 31<sup>st</sup> December 2005 have increased by USD 91.9 million (by 24 percent) vs. the 2004 respective value and amounted to USD 474.8 million.

The measures oriented at creation of reliable and stable banking system are noteworthy. At the end of 2005 banking sector of the country was represented by 19 commercial banks two of which are branches of Azerbaijani and Turkish banks.

At the end of the year, total assets of banking sector have increased by GEL 851.4 million (by 50 percent) since the beginning of year and amounted to GEL 2,548 million. Such growth was mainly attributed to increase of deposits and borrowed funds. Net loans represented 65 percent of total assets of banking sector; cash – 18 percent, and securities - 1 percent.

Loan portfolio of commercial banks expanded significantly in 2005. It has increased by GEL 788.9 million (83.2 percent) and amounted to GEL 1.7 billion. Lending activity of the banks was concentrated on private sector, share of which in the loan portfolio amounted to 97 percent. Together with the expansion of loan portfolio, banks have significantly promoted long-term lending and consequently, share of long-term (over 1 year) loans in total lending has reached 65 percent.

During 2005 total liabilities of banking sector increased by 56 percent and amounted to GEL 2,069 million. 74 percent of total liabilities of banks are deposits, 22 percent - borrowed funds, and 3 percent - other liabilities. During previous years, share of deposits in the structure of liabilities was stable and it ranged in between 70-80 percent. Increase in total liabilities was mainly caused by increase in deposits, which, on its part, has increased by 57 percent and amounted to GEL 1,538 million by the end of 2005. It is noteworthy that 47 percent of deposits were individual deposits

which increased by 46 percent. Such increase is largely attributed to increase of confidence of population towards the banks.

Majority of deposits are still concentrated in foreign currency, although a decreasing tendency can be observed. In particular, a dollarization coefficient has decreased from 74.3 to 71.6 percent. The de-dollarization tendency is a result of positive developments in the fiscal sector of the country, increase of volume of non-cash transactions in business activity due to measures that were implemented for reduction of a shadow economy and, most importantly - by appreciation of the Lari exchange rate. As a result, the de-dollarization in bank deposits was mostly reflected in current deposits. In particular, during the accounting period, dollarization of current deposits reduced from 55 to 50 percent, dollarization of time deposits reduced from 96 to 89 percent, which is mainly caused by the fact that public still preferred hard currencies as a store of value, which is typical for transition economies.

During 2005 charter capital of banking sector increased by 29 percent and amounted to GEL 479 million. The main reason for increase of the charter capital is growth of profits of the banks. Total net profit of the banks amounted to GEL 62 million which is 2.2 times higher than the comparable figure of previous year.

87 percent of total assets and 89 percent of deposits of the banking sector are concentrated in 6 largest banks. In the accounting period quantitative and qualitative improvement in the banking sector is mainly attributed to large banks. The financial health of large banks has actually determined overall stability of the banking sector.

In 2005 activities continued for further improvement of non-bank, deposit organizations – credit unions. As a result, the respective indicators have improved significantly.

NBG has implemented numerous measures towards fine-tuning the foreign reserves' management, of which it adopted eight-index-based trend indicator for returns and increased significantly maturity of investment portfolio. Activities are ongoing for incorporation of long-term coupon-securities into the investment portfolio and for development of securities trading at the secondary markets. With the view of diversification of a part of state securities, relationships were established with Central Bank of Belgium which shall act as medium for acquisition and storage of Belgian securities at primary securities market.

National Bank of Georgia continued work on expansion of the list of participants at the T-bills market, fine-tuning of t-bills trading system, increase of their maturity and provision of market instruments for discount rate decrease. The fiscal order established in 2004-2005 has affected the t-bills market. The processes were reflected in the t-bills market by a range of positive tendencies. A sharp decline in the interest rates is of a particular importance. This was caused by increase of confidence towards the issuer and decline in it the credit risk.

**The National Bank of Georgia will continue implementation of consistent and prudent monetary and foreign exchange policy in the medium term (2006-2008).**

This means consistency of money supply with the real rate of economic growth and with inflation target. Thus, money will be supplied to the market only through non-inflationary methods. This, in turn, will ensure the demonetization of the economy in the environment of price stability.

- In view of the requirements of the State Program for Economic Development and Poverty Reduction, and for purposes of ensuring the

purchasing power of the national currency and price stability, the main directions of Georgia's monetary and exchange rate policies for 2006 shall be based on projected annual inflation rate of 5-6 percent. At the same time, taking into account the external influence on prices beyond the NBG control, deviation from the projected inflation shall be possible

- The National Bank shall ensure the supply of money in line with the demand, in consideration of 7.5 percent real GDP growth, legalization of shadow economy, expansion of Lari usage area, significant foreign capital inflow due to large international projects and reduction of dollarization rate of the economy. The reserve money shall increase by 25-27 percent mainly by extending credit to the banking sector and accumulating the National Bank's international reserves.
- Taking into account the priority of price stability, the monetization level shall increase. Broad money shall increase mainly through the improvement of financial intermediation, including intermediation using national currency.
- The net credit to the government shall not increase. By initiatives of the government, the amendments to the organic law of Georgia "on National Bank of Georgia" will be adopted, which will prohibit the NBG to extend credit to the government. The government's debt to the NBG will be securitized, which will develop the securities' market and the NBG will acquire additional instruments for conducting monetary policy.
- The NBG shall create the portfolio of governmental securities in case of necessity, which shall be used in open market operations (Repo) with commercial banks to control money supply. To regulate commercial banks' liquidity, overnight loans and deposits, inter-bank credit and deposit auctions shall be used. Swap operations with commercial banks shall commence if needed.
- Taking into account macroeconomic situation, the adjustments to the minimum reserve requirement shall be exercised.
- The exchange rate policy shall be implemented under the floating exchange rate regime. To avoid severe short-term fluctuations of the exchange rate and ensure stability on the foreign exchange market, two-sided foreign exchange interventions shall be exercised. Considering priority of price stability the exchange rate policy shall ensure the dynamics of the real effective exchange rate such that facilitates maintenance of the country's competitiveness.
- The NBG shall implement the monetary policy so that volume of the National Bank's international reserves amount to the equivalent of at least 2.5 months of import of goods and services.
- For purposes of further development of the Georgian banking system and improvement of financial intermediation, the gradual increase of minimum regulatory capital of the commercial banks shall continue.
- To protect the depositors' rights, the preparation of the legislative basis for deposit insurance system shall be completed. The preparatory works for creating the deposit insurance agency shall commence.

- To improve of the commercial bank's credit risk management systems and enhance credit culture in the country, the legislative basis on credit information bureaus shall be prepared.
- To harmonize the Georgian legislation with the EU legislation, and to reflect Basel Core Principles of Effective Banking Supervision, the National Bank shall continue working on amendments to the legislation basis on Activities of Commercial Banks.
- To improve the system of storage and safe management of valuables, meeting demand on cash and improving the commercial banks services in this area, activities on establishing the modern cash center shall commence.
- In the medium-term (2006-2008) the major attention will be awarded to ensuring transparency of banking sector, its sustainable development and liquidity position, increase of capitalization level and promotion of intermediation functions, also to encouragement of favorable conditions for creation and development of competitive financial markets.

For 2007-2008 it is intended to maintain the average annual inflation in the range of 5-6 percent; foreign reserves will gradually increase to 2.5 months of imports of goods and services; broad money (M3) will expand such as, to support annual increase of monetization coefficient by at least 0.5-1.0 percentage point on average; Lending to the Government through emissions will be limited; Foreign exchange policy will be based on floating exchange rate regime; The NBG will make two-sided foreign exchange interventions which will support the increase of foreign reserves on the one hand and strengthening of international competitiveness of local production on the other; development of secondary market for securities and implementation of new mechanism of state securities-based monetary regulation – the open market operations, will be encouraged in practice; consolidation of banking sector will continue by encouraging competition in the sector and the rate of minimum reserve requirements will be gradually adjusted.

## **5.2. Fiscal Policy**

### **5.2.1. Budgetary Reform**

The budgetary reform implies a core improvement of budgetary measures. In comparison to previous years, rationalization process of budgetary organizations is in place; agencies and organizations are becoming more independent in defining their policies and directions.

Within the framework of EDPRP a methodology of budgetary funding has changed and it is now designed as program financing that significantly increases the level of targeting and efficiency of budgetary expenditures.

Works are ongoing on fine-tuning of budgetary classification which considers establishing of GFS-2001 standards for classification of revenues, expenditures, financial and non-financial assets and liabilities.

Monthly realistic forecast of budgetary expenditures will be prepared. A medium-term (4 years) state budget forecasting and planning will be implemented. The MOF has prepared new forms of budgetary application forms.



## **Local Budget**

At the end of 2005 new organic law on “local self-governance” was adopted. The law will enter into force in November 2006 after the elections of new self-governance units.

Furthermore, it has become essential to elaborate such legislative basis that would support a real independence of local self-governments and direct their authorities into correct and targeted channel.

By the end of 2005 the Government of Georgia has submitted to the Parliament of Georgia a draft law on “budget of local self-governing body” which was prepared by the Ministry of Finance of Georgia.

Based on stipulations of the organic law of Georgia “on local self-governance” and law of Georgia “on the state budget system” the draft aims at expansion and concentration of fiscal autonomy to local representative and executive bodies, as well as at fine-tuning of the formation and execution methods for budgets of territorial units which, as of today, has never been reflected comprehensively in the active legislation.

The draft law aims at elimination of all abovementioned deficiencies. It explicitly and newly sets forth the rules for formation, discussion, approval, execution and control of the budgets of territorial units.

The draft law takes into consideration transfers for local self-governing units under the formula of proportionally calculated transfers. Such approach is based on the principle of independence for budgetary regulation and exclusive authority of local government.

New rule of formation of the budgets of local self-governances, which is set forth in the draft law submitted to the parliament of Georgia, for the first time in Georgia’s reality, allows for determining such budgets, by the formula of proportionally calculated transfers, which provides for the low per-capita social-economic potential-having local self-governances with the opportunity to be treated at the level of average Georgia’s economic indicators.

The draft will specify the stipulations on control, audit, evaluation and execution of the budgets of self-governing units. It will institute that the audit and execution reports represent public information, which will be available to the public according to established rules.

### **5.2.2. Customs Reform**

One of the main directions of fiscal policy, as set forth by the EDPRP, is fine-tuning of customs legislation. For this purpose, a special team was set in the MOF which intensively worked on preparation of new customs code. Because of time limits, in 2005 it was not possible to submit the draft code for review to interested parties, business circles, experts and a respective committee of the Parliament of Georgia. Therefore, this process continued in the first quarter of 2006. As of today, the draft has been submitted to the Parliament.

Purpose of new customs code is to harmonize Georgia’s customs legislation with the EU legislation, which will make Georgian customs administration consistent with the European rules. This will support strengthening of trade relations with the EU as well

as with the majority of countries which use harmonized customs system. New customs code considers fundamental reviewing of customs policy and has following targets:

- **To encourage economic growth** – by increasing the volume of foreign trade, transit and processing on the basis of harmonized and simplified customs legislation;
- **To support legal businesses** – by simplified customs procedures and strengthening administrative measures against smuggling.

New customs code completely changes the structure of the existing one. In particular, new structure is harmonized with the EU legislation; it includes litigation and customs responsibility issues; it considers following directions:

### **I. Harmonization with the EU legislation:**

It is consistent with customs code of the EU under provisions of 1992 European Council, decree # 2913/92, and with the EU customs code implementation provisions of 1993, decree # 2454/93.

### **II. Fine-tuning and simplification of customs procedures:**

1. Clear definition of rights and responsibilities of customs officials;
2. Clear definition of customs procedures from entering the customs territory to releasing the goods;
3. Introduction of simplified customs procedures together with regular procedures (especially for transit regime);
4. Possibility of prolongation of period for customs duties payment to 1 month;
5. Customs control in the customs zone will be preformed only by customs bodies;
6. Fine-tuning and simplification of customs regimes and of related procedures, in particular:
  - a) 8 customs regimes out of existing 15 will remain;
  - b) 5 customs regimes were transformed into customs processing operations;
  - c) 2 customs regimes (temporary export and re-import) were transferred to the customs preferences part as returning goods.

### **III. Customs safety**

1. Introduction of a system to ensure meeting customs obligation – introduction of the system of guarantees;
2. Introduction of accounting and accrual scheme for customs levies;

The new code fine-tunes contents of customs procedures which are related to declaration and inspection of goods for their admission into the customs regime. Types of customs declarations and methods of their submission to customs authorities were determined (in writing, in electronic forms and oral declarations). Significant changes were introduced into the procedures of customs declaration for modification or cancellation of the declared data.

Inspection procedures for customs control over products, goods, passengers, personal belongings, transports and post dispatches were fine-tuned and described in details.

The new customs code describes in more details guarantees for implementation of customs obligations and the related topics. In particular, types of guarantees were defined for customs submission (bank guarantee, financial risk insurance policy and deposits in the state treasury), as well as the measures to be employed in case of breach of customs obligations. The code clearly defines those circumstances where customs obligations arise. Also, for meeting customs obligations, responsible persons, and in case of several responsible persons – joint-responsibility issues were determined. One of the important chapters in the code is about execution of customs obligations. In particular, it comprises such topics as calculation and payment of customs duties and accruing of customs duties. Period of accruing customs duties is defined at 6 years. Herewith, notification responsibilities for accrued customs duties from the side of customs authorities and their execution deadlines were established and determined.

The draft also determines general conditions for changing execution deadlines for accrued customs duties. In particular, the draft sets forth such provision where the execution deadline for a payer of customs duties under a declaration can be extended to 1 month. The code proposed an innovative approach to addresses the issue of customs disputes. Similar to tax disputes, resolution of disputes is carried out at the MOF, or by the court. Rules for initiation of customs dispute procedures and the timeframe for dispute resolution deadlines has been determined.

New customs code completely adopts the stipulations of the Code of Administrative Breaches in the part of violations of customs rules (types of breaches and responsibilities). It also defines types of customs violations and the entities subject to customs violation, general principles of responsibilities, customs sanctions, rules of processing of customs cases and rules of appealing the decisions taken by customs bodies.

### **5.2.3. Treasury system reform**

Within the framework of the reform of treasury service, for the increase of effectiveness of state funds' management, the treasury has closed down about 300 transit accounts for budgetary revenues at the National Bank of Georgia; 9-digit treasury codes were introduced for revenues and, since April 4, 2005, budgetary revenues are accounted straight at the Treasury Single Revenue Account. As a next step for accounting reform, it was planned to establish a single revenues and expenditures account from 1<sup>st</sup> January 2006. Accordingly, the preparatory works were implemented during 2005 and the reform was successfully accomplished. Operating software was prepared and applied by local staff of the treasury service. At the end of 2005, the treasury single account was enacted. A full-scale operation of the treasury single account was achieved. This implied accumulation of budgetary revenues at one unified account and transfer of revenues to the beneficiaries, as well as execution of all operations for the state budget expenditures.

In 2005 the Treasury Service prepared, and the Minister of Finance of Georgia approved, the instruction on “rule of creating the financial plan for smooth (operative) financing of budgetary organizations and the management of funds”. The instruction is in force from 1<sup>st</sup> January 2006 and the budgetary organizations will spend their budgetary allocations under the law on the state budget according to the monthly operative financial plans approved by the minister of finance of Georgia.

In order to introduce the international accounting standards within the public sector, the Treasury Service developed the ‘accounting reform strategy’, that was approved by the order #101 of the Minister of Finance of Georgia approved on February 1, 2006. This strategy is a precondition for the accounting policy to be implemented by the treasury and defines the basic directions of the reform.

As a result of the reform, the accounting in the public sector of Georgia will be fully compatible to the international standards. In the transitional period the accounting will be based on the cash methods and will be gradually replaced by the accrual method; The Government Finance Statistics 2001 will be implemented and all the accounting of the government finance will be fully compatible to the international accounting standards.

## **6. Ongoing and Planed Reforms in the Sectoral Spectrum**

### **6.1. Education**

Radical reforms of the education system of Georgia, launched in 2004, have brought some results in terms of legislative initiatives and, most importantly, were reflected in integration with the European educational system. For the first stage of restructuring educational system following three main targets were set:

- harmonization of Georgian education system with the European standards;
- eradication of corruption sources at all levels of educational system (initial, basic, secondary, high, specialized, etc.);
- transition to a new system of education financing.

Despite the fact, that all three targets were related to challenges, significant achievements have been already recorded. It is noteworthy that from 2005 official consultations started for inclusion of Georgia in the European neighborhood policy, where the education and the science are the priorities

Currently, one of the most important tasks is integration of research and science into educational processes, optimization of science financing and creation of relevant legislative basis. In particular, following tasks shall be accomplished:

- evaluation and comparative analysis of existing conditions in the scientific sector;
- preparation of the national concept on development of science and technology and it synchronization with the European view;
- preparation of programs for commercialization of science research results and its synchronization with the comparable European programs;
- preparation of programs for encouraging the scientists and attraction of young specialists.

Besides it is important to:

- Establish professional education system in the South Caucasus which will be similar to European system.
- Cooperate with European structures on the basis of social partnership in Georgia, with the view of developing professional education and lifelong learning, etc.
- Participate in the Bologna process, which considers efficient and rapid implementation of priorities. In this regard following shall be accomplished:

- European system of credit transfers and accumulation (ECTS) shall be implemented;
- Universities shall move to three stage system and integrate training and research into high education;
- National union of students shall be established;
- Mobility of students and tutors shall be encouraged, etc.

The most difficult and important task is to increase level of social understanding, increase their participation and provide relevant material-social conditions for this purpose. To achieve this, the public and private partnership and support of international community will be essential.

### **6.1.1. High Education**

On May 19, 2005 ministers of 40 participant countries to the Bologna process and international organizations jointly accepted Georgia as an authorized member. This is, undoubtedly, a significant step forward, because Georgia has officially become integral part European High Education Area (EHEA) and European Research Area (ERA). Such a success was preconditioned by significant legislative changes. On 21 December, 2004 Parliament of Georgia adopted law on high education.

The law fundamentally changes the previous system of high education and is consistent with international requirements. The law provides for full autonomy to high education institutions and awards extraordinary rights to students as a partner and interested group. The law stipulates that:

- Georgian high education institutions shall move to three stage system:
  - Bachelors degree (minimum 3 years)
  - Masters degree (minimum 2 years)
  - Doctoral degree (minimum 3 years)
- Educational system should switch to European credit transfer and accumulation system before 2009-2010;
- Based on the same law and Decree of Minister of Education #149 high education institutions of Georgia are required to distribute free of charge the appendix for to a diploma which has been approved by UNESCO-CEPES, Euro Council and Euro Commission.

In the beginning of 2005 institutional accreditation of high education institutions was performed. About 113, out of 237, (48 percent) high education institutions were awarded the accreditation.

According to the law of Georgia on high education in academic year 2005-2006 unified national exams were set up in whole Georgia. 17,341 registered applicants out of 30,400 became students. 4,300 students were awarded state voucher (GEL 1,000 – 1,500). This means that the highly ranked students are able to use state funds towards their tuition fee to any preferred institution inside or outside Georgia. “Funding following a student” model radically changes financing formula of high education.

The process of establishing the system of quality control is also noteworthy. According to the law on high education the system of quality control implies evaluation of high education institutions and programs by student participation and publication of results on self-evaluation and external evaluation. Several universities have already introduced the quality control units which are responsible to ensure a high level of education by application of contemporary methods of evaluation. The

quality control units in high education institutions are required to establish and maintain intense professional relationships with respective services abroad to provide transparent criteria and establish contemporary methodologies in the field of quality control.

List of already implemented measures include establishment of state management school named after Mr. Zurab Zhvania. The purpose of this institution is to offer continuous education to Georgian and other minority representatives employed (or prospective employees of) in public sector. It aims at increasing their qualification, information exposure and professionalism.

### **6.1.2. General Education**

The situation in general education has also significantly progressed towards implementation of European standards. Parliament of Georgia adopted law on general education on 8<sup>th</sup> of April, 2005. Law regulates state approach towards general education, language of education, length of education, rights of parents and teachers, financing of general education, management principles for general education institutions, accreditation, property management issues, etc. Important part of the law is move towards 12-year-long education that shall be gradually implemented in 2006-2007, establishing supervisory boards, introduction of elections for directors and introduction of pupils' self-governance. Starting from 2005 the schools are financed through the budget of the ministry of science, rather than the local budgets. Besides, the new financing system will be introduced. The new vouchers worth of GEL 220-390 will be allocated per each pupil. Basic education in Georgia is mandatory and the state provides for the appropriate system and social-economic conditions for each resident of Georgia to have possibility to get high level basic education.

In order to facilitate the process of integration of the non-Georgian population into the society, the ministry of education and science implemented the following programs: "civic integration program," "school partnership program," and "Future Starts Today." The program that subsidizes the provision of Georgian textbooks to the non-Georgian schools is also being implemented. In terms of this program the Georgian text book by the name "Tavtavi" was printed and distributed to the non-Georgian schools.

It is noteworthy, that Georgian government together with Estonian partners has launched a project called "a deer leap". State budget of Georgia has allocated significant amounts for the project: In 2005 USD 3.3 million were allocated. The project considers equipping all schools with computers and connecting them to the internet network.

It is also important to note that the Ministry of Education and Science of Georgia prepared a concept "on professional training and development of tutors." Purpose of the concept is to define status of a teacher, introduce relevant mechanisms for improvement of teachers' professional skills (e.g. credits, certification exams, etc), and establish a transparent, merit-based remuneration system.

State curriculum of Georgia is in the process of preparation. The curriculum will include core and optional subjects, which would support development of critical-analytical thinking in students. The curriculum will be consistent with main directions of social and state development and meets contemporary international requirements for education.

According to the law of Georgia on General Education, first 6 years of 12 year school courses provides for initial education, from 7 to 9 years are for basis education and from 10 to 12 years are secondary education courses. As of today, there are 3,131 general education schools and 70,212 teachers in Georgia.

### **6.1.3. Professional Education**

Professional education of Georgia is in the phase of radical transformations. A new concept of Georgia's professional education was prepared considering the existing situation of initial and secondary professional education system. It also relies on analysis of the difficulties in labor market and employment and considers prospects of integration of Georgia's professional education into the European area.

New policy of professional education in Georgia is based on continues education principles. The professional education policy in Georgia is based on principles of skilled labor movements on the EU territory and establishment of such conditions in Georgia, when the country develops the economy through its own specialists. At the current stage, the most important target is to give a professional opportunity to the population, mostly to young generation, to reduce unemployment and poverty. This issue has been awarded a political priority as well.

Ongoing changes in the fields of economy, education and employment, in the process of modernization of professional education, will promote social dialogue and the necessity for increase of cooperation level with market structures and the employers. With this view of this, by initiative of Ministry of Education and Science of Georgia, under the decree of Government of Georgia # 90 of 27 May 2005 was established a governmental commission for social partnership in the field of professional education. The commission discussed the concept on professional education (which is approved by the governmental meeting on August 31, 2005) and drafted the plan of its implementation. The draft law on professional education, which is in the process of preparation, is based on the abovementioned concept.

### **6.1.4. Deinstitutionalization**

The process of deinstitutionalization for those children, who are currently in the institutions, is a very important initiative. This is the first attempt in Georgia to create alternative, family-type, care for children in the institutions or for those who are in a high risk of being sent to the institutions. The sub-program on prevention and deinstitutionalization has achieved significant results since the first year of implementation to-date.

The sub-program of deinstitutionalization has created and developed a "Social Service", which is staffed with qualified personnel who take decisions and select the best fitting care for any individual child. 42 social workers have undergone a training process all-over Georgia, who now carry out the process of deinstitutionalization.

Long-term economic crisis, which continued since the restoration of national independence, has exposed traditional network of family security to severe tests. According to UN convention on children rights, each child has the right of being grown in the family. The state is responsible for employing all efforts for reduction of number of children under state patronage in the orphanages and for prevention of possibilities to take children under state patronage, by establishing alternative forms of social assistance.

According to law of Georgia “on orphans and adoption of children which are left without parent care”, , Ministry of Education of Georgia, together with donor organizations (UNICEF, EveryChild, World Vision International in Georgia) has been implementing programs in 5 regions of Georgia: Tbilisi, Rustavi, Telavi, Batumi and Kutaisi, since 1999. The program has three directions: reintegration, prevention of risk-groups, adoption.

Extremely important is the program on “prevention of infant rejection and deinstitutionalization”, which has been implemented by Georgian Ministries of Education and Healthcare, British EveryChild and international World Vision since December 2002. From 1<sup>st</sup> January 2005, by decree of the Minister of Education and Science # 396 of 31<sup>st</sup> December 2004, the abovementioned program was transferred into sub-programs of the Ministry of Education and Science.

In 2003-2005 the deinstitutionalization program has assisted about 850 children. Among them, 400 children were assisted in 2005. In 2006, the number of adopted children will be twice as much as in the previous year. .

#### **6.1.5. Inclusive Education**

On 13 February 2004, Parliament of Georgia adopted the document on “main directions of social policy for protection of rights of children with disabilities”. The Government of Georgia was assigned to prepare concrete measures to ensure the implementation of the document. Besides, the concept was prepared, which addresses special educational service in the schools for children with limited intellectual abilities. Purpose of mentioned concept is to provide such children with relevant education; to meet high standards of educational services; to make available special educational services to targeted children and their families.

The Ministry of Education and Science is working on preparation and implementation of new methodologies and approaches, which will support the transformation of system to the requirements of democratic society. Children with disabilities were accounted across the general education schools in Tbilisi. Ten pilot schools are functioning where inclusive education process is successfully carried out. The implementation of the program has been monitored in the beginning of year and progress of the process was evaluated.

#### **6.2. Health Care and Social Protection**

Ongoing priorities of the Ministry of Labor, Health Care and Social Protection represent the most important three social risks: poverty, health and age. Efforts are oriented at creation of risk regulation instruments and mechanisms. Accordingly, three significant reforms are intended for forthcoming years, in particular:

- reform of the system of administration of social assistance;
- reform of the health care system;
- limitation to incorrect increase of “privileges” (pensions and allowances) – (reform is oriented at limitation of unjustified increase of privileges for some groups of pensioners).

The main points of the social assistance concept are as follows:

- The law defines a number of cases (reaching the pension age, lose of the breadwinner, restriction of capabilities) when the citizen is entitled to receive



the adequate assistance from the state (adequate means that the assistance may be adequate to the economic situation in the country).

- The population that is below the poverty level, and is unable to improve its economic conditions will receive the adequately addressed social assistance.
- For those poor population who are unable to implement active preventive measures and who are at the edge of the extreme poverty, the state creates the effective security net by offering different social services.

### **6.2.1. Reform of the system of administration of social assistance**

Main objective of the reform of administration of social assistance system which started by the Government in 2004 is to improve social economic conditions of population through elimination of poverty. The main principles of the reform are:

- improving the targeting of the poverty alleviation program, so that the program is tied to those who need the assistance most.
- monetization of benefits. As experience suggests monetized social assistance, in most cases, is more efficient for the improvement of economic conditions of families by optimizing their consumption.

Objective of the state program on identification, evaluation of social-economic condition and formation of the database of the families below the poverty margin is creation of the database of socially vulnerable poor families based on their social-economic status, which will allow us to plan and implement financial and other type of social assistance programs.

Most significant prerequisite for effective functioning of social assistance program is correct selection (targeting) of assistance recipients (beneficiaries), specifically in such cases where available resources are scarce and share of population below poverty margin is quite high.

State agency for employment and social assistance has started work on the program according to governmental decrees “on measures for poverty reduction and fine-tuning of social safety” (17.03.05) and “on approval of methodology for evaluation of social-economic conditions of socially vulnerable families (households)” (04.08.05).

Creation of database considers following stages: submission of application from an applicant family, processing of application, identification of families according residence area and their registration in the database by assigning a rating score in accordance to evaluation methodology of their social-economic conditions.

At the communication booths the process of acceptance of applications from the families which are below the poverty margin (which initially is based on self-evaluation of a family) has started in August 2005. As of to date, within the frames of the program, in all regions of Georgia about 1,100 communication centers have been established for registration of applicant families. Any family, which considers to be leaving in extreme poverty and which requests assistance from the state can get registered in the database.

As of January 1, 2006 based on the applications submitted to communication centers, 21 percent of Georgia’s families expressed their wish to receive assistance. In comparison to other regions share of socially vulnerable families which expressed willingness to receive social assistance is high in Samtskhe-Djavakheti, Racha-Lechkumi and Mtskheta-Mtianeti regions. The figure remains lowest in Tbilisi (10.4 percent) and Guria region (16 percent).

As of to date, the database has registered information about 218,384 families (88.5 percent of submitted applications) where 566,068 people live.

Large number of one member families in the database as probably determined by the fact that such families are mostly represented by single pensioners who have very high poverty risk and feeling of being unprotected. In particular, almost two third (65 percent) of single member families who submitted applications are pensioners. It shall be noted that share of pensioners is quite high even in two member families. Share of pensioners in total applicants of the database is 27.1 percent.

Social agents are interviewing those families who are willing to receive targeted social assistance. State agency for employment and social assistance has authorized the social agents to identify the families which are willing to register in the database, to interview the family members in their houses, to evaluate social-economic condition of a family and to obtain other necessary information according to the methodology that was set forth by above mentioned governmental resolution.

Main characteristics of the methodology are following:

- Calculation of the rating score (so called welfare index), which corresponds to welfare level of a family. The calculation is implemented based on the established methodology.
- The index is calculated based on the assessment of the questionnaire prepared by the social agent.
- Each indicator is given corresponding weight – digit, according to effect on welfare of a family. Each digit affects the final index calculated for the family.
- Based on welfare index families can be ranged according to the poverty level.

Effective implementation of the targeted social assistance program is planned Autumn 2006. Presumably on the initial stage, program will be managed by a centralized method, however in future management shall be delegated to local governments.

In Summer 2006, the medical insurance program for the poorest part of the population has commenced. In terms of the program the 600 thousand poorest people will receive free healthcare service from the state. The health insurance program covers the members of the families whose score is below the 100 001. The people falling in this category comprise 20.1 percent of the population. The special cards will be distributed to the beneficiaries. The cards will be used for identification and provision of service to the patients. The fact that the state will pay for the medical service will enable the beneficiaries to save the money that they would have spent on the medical service.

The card holder is entitled to receive the following services free of charge: ambulatory service at the medical center or clinic, consultation from the specialized doctor, free medical tests, urgent ambulance service, pregnancy and baby delivery services, hospital treatment or planned operations. The family doctor should certify that this cardholder needs the abovementioned service.

### **6.2.2. Reform of Health Care System**

Most important component of health care reform is following:

- Investments in infrastructure
- Standards of professional activity
- Investment in human resources

- Adequate financing of responsibilities (services)
- Reform and implementation of Basic Beneficiary Package (BBP) and Supplementary Beneficiary Package (SBP)
- New insurance product – mediproduct will be introduced and maintained at the Georgian medical insurance market.

It is important that procurement and financing of medical services are determined within the frames of BBP. Healthcare financing package which was worked out by the Ministry with the support of international experts determines social healthcare, primary healthcare and ambulance services as components of the BBP. It is also considered to supplement some hospital services to existing BBP. The SBP will be oriented specific targeted groups. The government intends to hire a supplier of services both for BBP and SBP.

The ambulatory service, as a component of BBP will be set as one of the priorities and aims guaranteed availability of free, comprehensive and effective ambulatory assistance to the population. The program intends for structural reorganization of the ambulatory service units, optimization of personnel, improvement of material-technical basis and continuous harmonization of standards and tariffs.

As a result of implementation of program well functioning and efficient ambulance service will be formed which will be able to provide with timely and highly qualified medical service and timely hospitalization of the patients,

By implementation of the reform following will be achieved:

- Expansion of medical and social program for mothers and children and improvement of their financing;
- Creation and activation of optimized organizational model for programs of medical and social assistance to mothers and children;
- Creation of primary health care system and expansion of supervisory system for mothers and children health care;
- Improvement availability of information and services in relation to reproduction health care;
- Improvement of quality of reproduction health care service;
- Preparation of the evaluation plan for social welfare and health care condition of mothers and children;
- Dialogue with NGOs and international organizations with the view of funding means for and by unified efforts to resolve Medicare and social problems of mothers and children;

With the view of successful implementation of medical care program implementation of financial and structural reforms are necessary in parallel regime. For creation of properly functioning primary and secondary health care systems 2005-2009 period has been set.

Significant changes are planned as well in the field of primary health care. In particular:

- In three regions of Georgia (Kakheti, Imereti, Adjara) 78 medical institutions will be rehabilitated, equipped with medical apparatus and doctors and nurses will be trained.
- From 1 June, 2006 in the rehabilitated centers implementation of program on family doctor model will start.

- By providing efficient, fair and equal distribution of resources in the health care sector, instead of limited package of medical service, new system will offer to population high quality basic medical service, which will be available for all residents regardless of age, sex or social status.
- Financing of ambulatory service has increased, management and quality of service has improved, which together with other arrangements in primary health care will significantly improve access of population to primary assistance.
- Ministry of Labor, Health Care and Social Protection has got actively involved in expertise and fine-tuning of the models which were worked out by NGOs and the field of primary health care. It is essential to analyze such experience and to replicate them on the national level.

### **6.2.3. Healthcare of Mothers and Children**

- With the view of improvement of alternative care of expectants, state medical standard was supplemented by one free ultra-sonic research.
- With the view of improving material and technical basis of medical care institutions for mothers and children, under assistance of the Japanese government all institutions for mothers and children in the regional centers were equipped with ultra-sonic research equipment.
- 
- A modern centre for mothers and children was opened In Kutaisi; the free gynecology department was set up in the institute of gynecology research after a full scale refurbishment. Also, a strong clinic-diagnostic laboratory was opened.
- 
- A department for mucoviscidos was opened in the children's "republican" hospital of Tbilisi,
- Reproductive health survey was carried out across the country and results of the survey were analyzed. Work on the draft law on reproductive healthcare is ongoing.
- To promote a healthy lifestyle, a group of trainers were trained in the high medical educational institutions, with the aim to continue working for promotion of healthy lifestyle, in medical personnel and in the population. The program was carried out under the auspices of the UN.

A commission was set up for prevention of mortality in mothers and children under the Ministry of Labor, Health and Social Protection. Representatives of gynecologic and pediatric clinics in departments are unified. By assistance of this commission and relevant sectoral associations professional investigation of documents of died mothers is in the process and the investigation report will be submitted to healthcare Ministry for further reaction.

#### **6.2.4. Program of support of social integration and adaptation of persons with disabilities**

2005 program for supporting social adaptation of Georgia's persons with disabilities (PD) is representing a mechanism which is oriented at implementation of PD social policy.

PDs in developing countries represent socially vulnerable, poor societies; therefore care on PDs by means of social integration, prevention of their transfer to institutions, psycho and social rehabilitation and provision of auxiliary means will be a step forward to economic development and improvement of social condition of the country.

The PD social adaptation program included the following sub-programs: PD social integration, institutional protection expenditures, PD children rehabilitation, provision of assistance means, and other sub-programs.

In 2006, the accent is places on creation of the centers for independent living and development of network of community organizations.

It shall be noted that legal status of institutional organizations was in the form of LLCs, which was significantly limiting range of innovations for improvement of their functioning, therefore state control on institutional organizations, which were referred in the first part of the Presidential Decree # 585 of 12.07.05 "on restructuring of pension houses for elderly, PDs and careless children, into legal entities of public law" was transferred to the Ministry of Labor, Health and Social Protection (these institutions are "Tbilisi pension house for elderly and Kutaisi pension house for elderly, Dzevri pension house for elderly).

As well important is one more priority of the Ministry, which envisages improvement of the capability assessment mechanism, using the international classifier of functions (ICF) for disability and health assessment (2005-2007).

Main criterion for determining capability restriction level in Georgia was partial or complete loss of ability caused by illness or anatomic and mental disorders. On opposite, ICF is structured by considering following components: functions and structure of body, participation and activity (related to tasks and actions of an individual plus involvement in life) and additional information about factors of the surrounding. Purpose of the program is to apply the ICF as a tool for social assessment so, that the decisions taken accordingly are fact-based and thus supporting elimination of corruption in the system.

In order to be able to utilize the ICF, a range of measures including the legislative changes must be implemented.

#### **6.2.5 Pension Reform**

Current state pension system provides for fixed-rate pensions given to every person of pension age. Existing pension was increased from GEL 14 to 28 in January 2005. Building-up of pension arrears was stopped and the debt was repaid, which was the first step on way of pension reform implementation.

The draft laws on "State Pensions" and "State Compensations and State Scholarships" were prepared in 2005. These laws will enter into force from 1<sup>st</sup> January, 2006. Their aim is to create a common legislative basis for the existing pension system.

According to the law on State Pension, the pensions increased up to GEL 33 in Spring; the next increase up to 38 GEL will take place in Autumn, 2006.

### 6.3. Transport

#### The main indicators of the Georgia's transport system in 2005

Table 7.

#	Name	Capacity (million tone)		Capacity million tone /km)		Passengers (million passengers)		Passengers (Million passenger per km)	
		2005Actual	% compared to 2004	2005 Actual	% compared to 2004	2005Actual	% compared to 2004	2005Actual	% compared to 2004
<b>Total transportation sector</b>		<b>45,8</b>	<b>111,4%</b>	<b>6853,3</b>	<b>123,4%</b>	<b>267,0</b>	<b>101,4%</b>	<b>6468,0</b>	<b>102,7%</b>
1	Railways	18,9	122,7%	6145,6	126,4%	3,6	120,0%	713,1	116,0%
2	Motor transport	26,9	104,7%	578,0	101,4%	263,1	101,2%	5252,0	101,0%
3	Airport	-	-	-	-	0,55	137,5%		
<b>Ports</b>		<b>Cargo procession</b>		<b>Number of services ships</b>		<b>Number of services containers</b>			
5	Poti port	6,1	100,0%	1921	104,1%	105946	132,4%		
	o/w dry	5,2	106,1%						
6	Batumi port	10,9	132,9%	724	108,4%				
	o/w dry	1,1	84,6%						
7	Supsa port	7,0	109,4%	64	139,1%				
8	<b>TOTAL ports</b>	<b>24</b>	<b>115,9%</b>	<b>2709</b>	<b>105,8%</b>				
	o/w dry	6,3	101,6%						

Program of the Government of Georgia “on economic development, long-term stability and Euro-integration for unified and strong Georgia” has clearly demonstrated readiness of the government to address development of the country through improvement of transport and communication infrastructure. Main goals are a) to increase transitory attractiveness of the country and to support development of multi-function corridor with the view of European integration. It includes development of key infrastructure; b) to support to increasing the level of living by infrastructural development and improved accessibility; reduction of welfare difference between city and rural areas/ various regions of Georgia.

With the view of achieving these goals it is necessary:

- Liberalization of the regulating environment and ensuring the competitive market conditions, including the optimization of the technical reliability system.
- Creation of the stabile and predictable business environment.
- To harmonize transport legislation basis and standards with the European legislation.
  - Further fine-tuning of transport sector regulations and separation from functions of policy formation of the Ministry of Economic Development;
  - Encouragement, initiation and support to Public-Private Partnerships (PPP) in infrastructural components;
- Separation of responsibilities between central and local levels in relation to infrastructural management;

- Encouragement of implementation of international and regional projects through introduction and development of contemporary technologies;
- Further implementation of TRACECA program as an important component of regional cooperation and European integration;
- Rehabilitation and construction of international, intrastate and rural roads
- Declaration and implementation of the so called ‘open-air’ policy in the field of aviation;
- Encouragement of further development in the marine sector by supporting management improvement (introduction of corporate administration);
- Protection of interests and rights of users of Georgia’s infrastructure;
- Guideline principle for further reformation of state management system and priorities of the government of Georgia in the transport sector is the process of institutional deregulation of the economy, which, among others, includes reduction of licensing and permits regulations by introducing principles of “one board service” and “the presumption of silence”.

with the view of optimization of independent regulating bodies, it was considered to establish the national transport regulating commission before December 2005 on the basis of reorganized transport administration (motor transport administration, civil aviation administration, marine transport administration), which was postponed for 2006 by the decision of the parliament of Georgia. The reform aims at setting-up the unified transport administration body (technical regulating body) instead of currently existing transport administration bodies. Draft law specifies frames of control for technical administration, which is oriented at supervision and control of licensing and permits requirements. As a next stage of the reform, a package of changes to the laws on motor road transport, law on normative acts and the conflict of interests in the state service were prepared.

### **6.3.1. Railway Transport**

Works on new railway project of Karsi-Akahalkalaki-Tbilisi-Baku is ongoing. Turkish party has launched tender for marketing research and analysis of given interval, which was completed in 2005 and on the basis of which further implementation details of the project will be specified; economic-technical basis for the railway line will be developed and feasibility of its construction will be determined.

Works are ongoing for introduction of modern information technologies at the border-customs passages, as well as for their inclusion in the unified information network and for relevant information exchange.

In 2005 “Georgian Railway” has significantly increased volume of transported goods and respective revenues. Dynamics for transportation of crude oil and oil products increased significantly compared to the last two years: data of 2005 is the highest for past 15 years. Revenues from passenger turnover increased too.

In January 2005 the USAID project started, which aims at restructuring of “Georgian Railway” and preparation of its development program. Contractor of the Railway, consulting company Booz Allen Hamilton, is working on the models of railway restructuring and their selection. Six versions of restructuring model are under discussion. American consultants will make initial conclusions after surveys, according to which, if Georgia considers itself as a potential member in the European Union, the railway shall become functionally independent from the State. Latvian,

Russian and Kazakh railway management models shall be taken into consideration for Georgian Railway.

Following measures were implemented in the railway sector in 2005:

- In January 2005, agreement was signed on direct, international railway-ferry communication between Poti (Georgia) and Kavkaz (Russia), according to which direct international railway-ferry transportation has started. Three trips were carried out during 2005. Works are ongoing for fine-tuning of technical and economic issues of this communication;

- On 24 December, 2005 in Poti a piloting-illustrative launch of the container train to Poti-Baku-Aktau-Almaata and backwards was set up;

- Amendments were introduced into the “Railway Code of Georgia” with the view of establishing a basis for railway tariff policy to be approved by “Georgian Railways”;

Following measures are planned in the railway sectors in 2006:

- With the aim to attract additional transportation volumes, issue of acceptance and transportation of excise goods in “Kavkaz” (Russia) port to be solved from the side of the Russian Federation;

- Works on preparation of proposals for gradual restoration of Sochi-Tbilisi railway to be continued;

- Implementation of measures for traffic intensively increase on Poti-Rize direct motorway-ferry line from the side of Turkey, and inclusion of Georgian ports (Poti, Batumi) in Samsun-Novorosiisk, Trabzon-Sochi direct motorway-ferry schedules, for participation of Georgian companies. Also, discussion shall start on direct railway-ferry communication between ports of Samsun and Poti;

- Modernization of Tbilisi Railway Central Station, Borjomi Station and the transfer bridge;

- Separation of administrative-economic functions in the railway sector (establishment of regulating body and commencement of its restructuring).

### **6.3.2. Motor Transport**

Within the frames of the unified state policy on motor transport, administration of motor transport considers implementation of significant changes. In particular, liberalization of existing legislation is in process aiming to increase attractiveness of transit corridor functionality and optimization of tariff policy. In 2005 new tax code abolished the road tax, which significantly reduced a tax weight on foreign transporters involved in motor-transport sector. In particular, the following taxes has been abolished: on automobile – USD 20, on bus – USD 40-130, on heavy motor vehicle - USD 160 – 300 (by cargo capacity)

According to the law of Georgia on “Licensing and Permits” quantity of permits has significantly reduced and related procedures were simplified.

In terms of liberalization of market in the country, draft inter-governmental agreement on “International Motorway Communication” was prepared, undergone local legislative procedures and was signed with 11 countries (Czech Republic, Hungary, Slovak Republic, Moldova, India, Austria, China, Poland, Estonia, Finland and Russia). Start of negotiations with these countries is planned for 2006.



### 6.3.3. Airway Transport

Ongoing economic processes and globalization tendency in the world has made it rather outstanding to support free competition in various sectors, including support to expansion of international airway network in the frames of bilateral and multilateral international treaties and liberalization of normative frameworks, which is a prerequisite for speeding-up of Georgia's integration with the European structures.

In 2005 Georgia became a member of European Civil Aviation Conference (ECAC), which played a significant role in liberalizing the regulatory framework of European air transportation system and European integration. Membership in this organization is an additional step forward towards Georgia's integration within the European and the World leading community.

With the view of liberalization of airway traffic, preparation of relevant amendments to international agreements with Georgia's partner countries is ongoing. Such clauses of inter-governmental agreements as: tariffs, frequency of flights, capacity, number of appointed airlines and strict definition of places of destination, is, to some extent, restricting airway communication between the countries. Accordingly, the decision was reached on abolishing such restrictions. Considering the abovementioned, and according to the decree of the President of Georgia # 211 of 23.03.05 on "Measures to be implemented for liberalization of airway communication", new draft agreement on "Airway Communication" with 19 countries was prepared, which has already undergone internal legislative procedures and in the near future it is planned to start of negotiations with relevant competent bodies of referred countries.

The so called "Horizontal Agreement" on airway communication between Georgian and European Union was prepared which will be signed in the nearest future.

On May 24, 2005, the executive authorities (government) of Georgia and the government of the United Kingdom of Great Britain and Northern Ireland signed a Memorandum of Understanding. The memorandum enables the airlines of the parties to exploit the routes such as the capacities allow meeting customers' demand on the routes.

On October 5, 2005 the governments of Georgia and the Republic of Turkey signed a new agreement on air transportation, which eliminates the restrictions existing in the previous agreement: regarding the number, capacity and frequency of flights, tariffs and destination points. From the day of the signature of the agreement, the annex to the agreement was enacted, which enables the airlines of the parties to have regular flights between four points on the territory of Turkey (Ankara, Istanbul, Trabzon and one to be determined later) and four points in Georgia: Tbilisi, Batumi and two points to be determined later. At the same time, these destination points on the routes can be changed at any time, according to the demands on the market and with the request of the agreement party.

To facilitate the regular air transportation between Georgia and Latvia, the agreement between governments of Georgia and Latvia on air transportation has been signed on October 5, 2005 within the framework of the official visit of the president of Latvia, Ms Vaira Vike-Freiberga. The Latvian company "Air Baltic" plans to launch a direct regular flight between Tbilisi-Riga.

According to the protocol, signed by the Minister of Economic Development of Georgia and the Minister of Transport and Communication of Kazakhstan (Tbilisi, October 3, 2005), the annex to the agreement on air transportation between Georgia

and Kazakhstan has been amended. In particular, the number of destination points has increased by both parties. Tbilisi, Batumi and Kutaisi have been determined as destination points in Georgia. Astana, Alma-Ata and Aktau has been determined as destination points in Kazakhstan. Kazakhstan has already nominated air company "Scat" which will launch regular flights between Aktau-Tbilisi-Aktau and Aktau-Batumi-Aktau. The flight Aktau-Tbilisi-Aktau has been operational since May 2006 and has been flying twice a week. According to the decree of the President of Georgia # 1115 of 27.12.04 on "Provision of Transport for Population of Mestia Region", and by considering social conditions of population of Mestia and the neighboring regions and by considering condition of roads in those regions, with the view of providing concessional airway transport services for this population, on July 5, 2005 regular flights Tbilisi-Mestia-Tbilisi were introduced twice a week, with AN-28 type aircraft of low capacity (17 seats). 51 flights were made and 1,141 passengers were transported during 2005. In parallel work is ongoing for setting-up internal airway flights (including Tbilisi-Akahalkalaki and Tbilisi-Chikhareshi).

During 2005 Georgia prepared draft agreement on "Joint utilization of Batumi Airport" and the technological scheme of operation of Batumi international airport to be endorsed by Georgian and Turkish governments. Bilateral meetings are planned in 2006 for discussing, agreeing and signing of this document.

One of the priority directions of country's development for today is development of airway-navigation and airport infrastructure:

- According to inter-governmental coordinative meetings in Moscow on the problems of traffic in ICAO eastern part of Europe, Georgia has moved to the compressed system of vertical scheduling for consistency of airway turnover and for compliance with international norms.
- Air navigation systems were modernized and reequipped, which is in full compliance with international requirements for today. These processes are continuing as to be in line with rapid development of international civil aviation.
- By end of 2006 Tbilisi international airport and auxiliary territories will be reconstructed, thus Georgia will have the international airport of modern standards. The airport will be constructed by a joint Turkish company of Tav and Urban. The company invests USD 62 million from own capital. Along with the Tbilisi airport, the Batumi international airport will also be reconstructed, which is an additional of USD 15 million investments from the Turkish companies. The Georgian side retains the right to request investment of an additional USD 18 million for introduction of additional technologies in the airports.

During 2005 turnover of Tbilisi international airport increased and reached 547,160 passengers, which is 36 percent higher than the 2004 turnover (402,399 passengers). In 2005 air-company "Lufthansa" has entered Georgian market with flights between Tbilisi and Munich and air-company "Center-Avia" has entered the market with flights between Batumi and Moscow.

#### **6.3.4. Marine Transport**

With the view of optimization of technical regulation of the marine transport sector, separation of functions of policy-making and regulation was carried out. At the next stage of the reform it is planned to establish exact frames of technical regulation,

which will not exceed control of the licenses and permits. Tariffs for loading-unloading services in the ports were disconnected from the state regulation sector. With the view of supporting further development of the marine sector by means of management improvement, process of privatization of state marine companies is in progress.

The following measures implemented in the marine transport sector during 2005 are notable:

- Preparation of inter-agency memorandum in accordance with the agreement on “Cooperation of Black Sea countries in rescue operations” ;
- Preparation of memorandum on “Recognition of marine diplomas and certificates”;
- Establishing cooperation between Turkey and Georgia in shipbuilding sector;
- 
- With the view of attracting private investments, introduction of contemporary technologies and management standards in Poti port; terminals # 9 and # 10 were rented out on a long-term lease basis.
- In December 2005 contract was entered with the Dutch company “Boscalis International BV”, which will undertake rehabilitation of Poti port protection chain. Project total cost is 15.3 million Euros.
- Works are ongoing for long-term lease of the terminals # 4 and 5 of Batumi port and on development of Poti port terminal # 16.
- Start of negotiations on passenger boat communication between Georgian and Turkish ports (Batumi-Khopa-Rize-Trabzon).

### **6.3.5 Motorways**

In the sector of motorways 2005 was very important year by considering the volume of works and number of implemented projects. For rehabilitation and development of the motorway network, the 2005 budget has spent significantly more funds. Increase of financing has significantly improved overall condition of motorways – damaged intervals were repaired, bridges and other constructions were rehabilitated, most of the international and interstate roads were renovated.

Total volume of works on the motorway in 2005, by all sources of financing, amounted to GEL 133.8 million. This figure is twice as high as the financing in the previous year. The financing sources including:

- from the state budget – GEL 26.1 million;
- World Bank – GEL 3.8 million;
- Kuwaiti Fund – GEL 3.9 million.

Due to increased financing very rapid rehabilitation process of Georgia’s motorway network has started.

In 2005 first phase of construction of the motorway tunnel on Chakvi-Makhinjauri interval was finished. In 2006 will start second phase of the construction (parallel tunnel) works.

Due to performed rehabilitation and renovation works, condition of motorways and bridges was significantly improved.

In 2005, for restoration of damaged parts of the motorways due to natural disasters GEL 28.0 million was spent. Considerable amount of works were performed in

Lentekhi, Cageri, Mestia, Ambrolauri, Oni, Chkhorotskhu, Martvili and Zugdidi regions.

With the view of restricting the movement of over-norm-loaded vehicles on motorways of Georgia, the draft law on “amendments to law of Georgia on Motorways” was prepared which regulates load norms for the vehicles.

With the view of further development and expansion of motorway shipments between Georgia and Turkey, within the Millennium Challenge Georgia program it is planned to construct and reconstruct the motorways in Samtskhe-Javakheti region. It is planned as well to complete works on transfer of Rikoti Tunnel into long-term private administration and exploitation.

#### **6.4. Communication**

As a result of economic reforms market economy principles are well established in communication sector: it is liberalized and de-monopolized, new communication means and services are being initiated. Communication sector is characterized by growing competition, which positively affects its development and, more importantly, quality of services and affordability to the population.

Local fixed telephone network and intercity communication lines are being transferred to modern digital systems. In result, as of end-2005, installed capacity of local telephone stations, equipped with digital technologies, reached 64 percent, while in cities telephone density reached 24.2 per 100 people.

In 2005, only Georgian United Telecommunication Company has introduced modern telephone stations equipped with digital systems and technologies, with capacity of 48 thousand numbers, including in Tbilisi ( number: 74, 31), Kutaisi, Rustavi, Ozurgeti, Zestaphoni, Marneuli, Gardabani, Signagi and etc.

In 2005 beeline mobile communication network continued development. Number of customers increased from 909,000 in 2004 to 1,174,000 in 2005, with the density of 26,09 per 100 people.

Information transfer and internet connection systems continue development. In 2004 customers connected to internet network amounted to 100,000, while in 2005 their quantity reached 178,000.

Television network covers about 96 percent of the population, while radio network – 90 percent. Noteworthy, that about 60 percent of the population can receive signals of three and more radio stations.

In 2005 privatization of large scale state-owned communication companies was initiated. State-owned shares of Georgian Telecom company were privatized in 2005, while in May 2006 Georgian United Telecommunication Company - the main local operator, was sold for USD 90 million.

Trend of growth of communication market continued in 2005. Revenues of the sector increased by 21,1 percent compared to 2004 and if 2004 revenues were GEL 595,96 million, year 2005 revenues reached GEL 715,52 million.

For the last 5 years revenues from services in communication as part of GDP has been growing. In 2000 it amounted to 3,52 percent, while in 2005 share of the sector revenues as part of GDP reached 6,21 percent.

Notwithstanding of such rapid development of the communication sector the cost of service has not increased, due introduction of modern technologies and new types of services. Cost of certain services has even decreased, e.g. international calls.

Changes in legal framework, introduced in 2004-2005, significantly simplified licensing procedures. Pursuant to the Law on Electric Communications, licensing changed to authorization, which implies registration of the entity carrying out operation of electronic communication network, means and/or services. Licensing is required only to receive the right of use of expandable resources.

In 2006 Georgia joined Conference of European Post and Telecommunication (CEPT) administration. Membership of this organization has an important political and economic meaning for our country. Using this organization, Georgia is lobbying its interest in communication and postage sectors in EC and EU, as well as in International Telecommunication Union (ITU) and United Post Union (UPU), UN organizations of major importance.

The government program for the years 2004-2009 identified development of information communication as one of the priority sectors in Georgian economy, as this sector should speed up the process of building information society. Based on this, it is considered necessary to prepare a national strategy for development of information and communication technologies, which will form basis for implementation of targeted programs. First priority problem in information and communication sector is intellectualization and globalization of information, communication and postage networks. Currently, draft laws on Postage services, Electronic Signature and Electronic Commerce are being prepared and harmonized with European legislation.

Based on the recommendations of Radio Communication Bureau of International telecommunication Union, all countries should switch to digital broadcasting starting from 2008. MOED actively cooperates with the National Commission for Communications of Georgia on this issue.

Certain steps have already been taken to form information society: By the initiative of the Government of Georgian and the National Commission for Communication and with support of the World Bank and UNDP, work on the Framework Program for Development of Information and Telecommunication Technologies has been completed. ICT business sector become more active; LAN systems were introduced in public organizations; Government is actively working on creation of unified government network, based on networks of government organizations; First regional inter-departmental WAN was completed in Imaret; 11 internet-clubs were established in Imaret; it is planned to create a regional computerized component in Samrtskhe-Javakheti; ICT components were developed and used in many international projects; number of people working on computers is increasing; National Federation of Electronic Sport was established; Optical-fiber cable line for the South Caucasus countries (Georgia, Armenia, Azerbaijan) was put in place in parallel to the railway network; quantity of customers of modern digital telephone systems is increasing; digital systems are increasingly used for inter-city communications lines and radio channels. Mobile telephone network coverage and quantity of its customers is increasing, etc. Techno Park - Innovative Fund of the Georgian Technical University was established in order to develop information communication technologies in Georgia and increase scientific research work in the sector.

## 6.5. Construction

Construction sector represents one of the largest growing and prospective sectors in Georgia:

- Share of construction in GDP is 8.8 percent;
- Growth rate of the sector is quite high and in 2005 reached 22,3 percent in real terms;
- Construction share in the commercial banks' total lending is 11.6 percent and thus the sector shares first three places together with trade (38.3 percent) and industry (25.5 percent);
- Number of companies involved in the construction business increased by 7.5 percent.

Significant steps were made forward for integration of normative-technical basis of the construction with the European and world standards; 18 Georgian construction norms and rules were introduced; in parallel to other technical norms of Georgia, those parts of the technical norms of the EU and OECD member countries, which are mandatory, were introduced as well.

Resulting from the importance and potential of the construction sector, liberalization policy of the Government assigns specific priority to simplification and liberalization of procedures in the construction business.

Our aim is to simplify the red-tape procedures related construction and to set the construction activity free from excessive state involvement.

As a result of the first stage of the reform which was implemented in 2005, procedures related with commencement, progress and completion of construction works were significantly simplified and, consequently, time-losses for such procedures were reduced. Results of the reform are following:

- "One board principle" and "approved if not no responded" are applied in construction licensing and permits;
- Not all construction projects require license;
- Construction works will be put into specific ranges and on some categories licenses will be abolished;
- In most cases construction permits are simplified and only submission of a construction project is required;
- The Ministry of Economic Development issues permits only for contraction projects of extraordinary importance;
- For other construction projects permits are issued by local services, which means that all construction related issues are arranged locally, without involvement of state central bodies;

Further liberalization of construction sector is planned in 2006, in particular:

- works are ongoing on the construction code which will further simplify relations of construction businesses and the state and will unify the regulations of construction sector into one document;
- acceptance of completed buildings into the exploitation register will be simplified: creation of special commissions for each construction project, which include representatives of about 10 agencies, will not be required any

more. Instead, acceptance will be carried out by same agency which has issued the permit, which means that the construction business will interact with only one agency;

- Construction inspection procedures will be simplified. This function will not be limited to only one agency and competitive environment will be established;
- Norms related to location of neighboring buildings will be simplified and clearly determined, which currently is so problematic that frequently causes interruptions of works and disputes between neighbors

## **6.6. Recreation/Tourism**

Georgia has considerable recreational and tourist potential. Currently, Georgian cultural, ecological and adventurer tours at the international tourist markets are considered to be pretty competitive tourist products. Foreign tourists and visitors in 2005 amounted to 542,000, which is 49 percent higher than the 2004 figure.

### **Tourism Information Centers**

One of the major instruments for development of international and internal tourism in Georgia is establishment of tourism information centers. This type of centers can be seen worldwide and their aim is to provide tourists with all necessary information.

Functioning of such centers is especially important for economic development and poverty reduction purposes. Peasant or farmers will have the opportunity to advertise his product (room for rent, food or transportation) free of charge and offer the information to interested parties, tourist or tourism agency.

Currently establishment of information centers is being completed in Mtskheta-Mtianeti, Kakheti and Imereti. It is planned to create these centers in Tbilisi. Their sphere of activity will cover tourism, resorts and recreation. The centers will be also useful for individual tourists.

### **Establishment of School of Tourism Professions**

Rapid growth of tourism created the necessity of establishment of special school or education center of tourism. The school will train low level professions, such as chief-cooks, cooks, waiters/waitresses, barmen, porters, hotel personnel and etc.

It is an important project, which will support the poverty reduction process in the country, giving all interested people to get training, re-training and acquire new professions, which are highly demanded on the labor market.

Issue of establishment of special schools was discussed between the department of tourism and resorts and the Ministry of Tourism of Greece. An agreement was reached, based on which International Relations Department of the Ministry of Tourism of Greece will manage establishment of the School of Tourism Professions and lead further negotiations with the Department of Tourism and Resorts and Ministry of Education and Science (MOES) of Georgia. For the time being, MOES has selected a building for the school, while Greece counterparts provided inventory for the school (computers, tables, chairs, restaurant and hotel inventory etc.) to the Department of Tourism and Resorts for temporary storage. Greece counterparts have also developed the action plan for the school development. All the inventory will be

transferred to the school as soon as it is established as the Legal Entity of Public Law. MOES has appointed the school director, nominated by the department of Tourism and Resorts. MOES will carry out the refurbishment of the building. Greece counterparts are planning to train the trainers of the school and organize internships for the first 5 best students to high level hotels and/or tourist agencies in Greece.

### **Development of Internal Tourism**

Activities for development of internal tourism in Georgia are being carried out. Special attention will be given to development of rural tourism, as well as initiation of new types of tourism – agri-tourism and wine tourism. It is sought to be important for poverty reduction purposes as well, as it gives rural population opportunity to get involved in tourism industry, receive alternative income, creates job opportunities etc.

To support internal tourism special information posters in Georgian and in foreign languages are prepared for different Georgian regions and selected tourist and resort centers, in particular:

- Borjomi region council, in cooperation with the Department of Tourism and Resorts designed and printed an information brochure on Borjomi region, including Bakuriani;
- Centre for Resorts, Physiotherapy, rehabilitation and Treatment developed and prepared for printing information materials about resorts of Georgia;
- It is planned to print digital map of Kakheti region in nearest future. The map will include information about resorts, historical and cultural heritage of the region, general infrastructure etc. Similar maps of Mtskheta-Mtianeti and Imaret regions are being prepared;
- Establishment of tourist information centers is being completed in Mtskheta-Mtianeti, Kakheti and Imaret. It is envisaged to establish centers in Tbilisi. The centers will support development of internal tourism and individual tourism in Georgia.
- Information database will be updated systematically, which will ensure that the information is available to local and foreign tourists free of charge.

### **Creation of Image and External Support**

Priority target before the Georgian tourism development is creation of the Georgia's image and its popularization. The way to achieve it is active participation in international tourist exchanges and exhibitions and promotion of Georgian tourism program. It, in the long run, should increase interest towards Georgia, flow of tourists and stimulate demand. For the purpose of popularization of Georgia as a tourist country, Georgia was presented to more than 15 international tourism exhibitions and exchanges. Georgian tourist agencies have actively participated in this process. Moreover, Department of Tourism and Resorts developed and published image brochures and tourist maps. Introduction and press-tours for journalists from Germany, Estonia, Austria, Holland, Ukraine and Israel were organized.

Works are in progress for fine-tuning the legislative basis for tourism and recreation sector. As of today, proposals are already submitted for abolition of part of existing normative acts. At this stage work is in progress on amendments and supplements to other laws and on development of state regulation mechanisms. It shall be noted that new regulations in the field intend to be based not on restrictive but on encouraging, i.e. the incentive approach, where observation of some of the criteria



established by the state will be profitable and beneficial for the private sector. Also, work is in progress together with the State Statistical Department on elaboration of a method for evaluation of the economic efficiency of tourism, which will be based on international standards.

The Government of Georgia prepared and the Parliament adopted in August 2005 law of Georgia on “amendments and supplements to the law of Georgia on temporary entrance to, residence in and leaving of Georgia by foreigners.” Based on this law cost of the visas will be reduced and visa issuance procedures will be simplified. In particular, foreigner visiting Georgia can obtain visa not only at the airport but at any customs-border points of Georgia.

Important steps were taken towards simplification of visa procedures. In particular, there is no visa requirement for EU, USA, Canada, Japan, Israel citizens entering Georgia. Bilateral agreement on visa free regime is reached with Turkey. Passengers of cruises visa-free regime is for 72 hours. Moreover, based on the tax code, 0 rated VAT is imposed to organization of transportation and tourist services to foreign tourists

In 2006 UN World Tourism Organization (MTO) plans to prepare the master plan for tourism development in Georgia. The project will be financed by UNDP and other donor organizations. Foreign and local experts will work on the project for 4 months. The master plan will also include sub-master plans of selected regions and territorial entities. The document will form the basis the tourism policy of Georgia and strategy of the sector development.

In 2006 Department of Tourism and Resorts plans to initiate voluntary self-evaluation rating system of hotels, which will support the competitive environment in the private sector.

#### **Planning and Development of recreation-resort zones**

Works on legislative changes have continued. After enactment of those changes Georgia’s resorts will be divided by types: balnaeological, climatic, sky-resort, etc.

Works are in progress on launching the tenders on preparation of Tskaltubo and Gudauri recreational zones development projects.

According to the decree of the President of Georgia # 968 of 29 November 2005, status of recreational territory will be awarded to following resorts, recreational areas, sky-resorts and Black-Sea coasts:

1. Gudauri recreational territory;
2. Bakuriani recreational territory;
3. Bakhmaro recreational territory;
4. Ureki recreational territory.

### **6.7. Environment Protection**

According to the EDPRP objectives, the Ministry of Environmental Protection and Natural Resources has determined the following main targets:

- Integration of environmental activity into the process of social-economic development of the country;

- Strengthening the legislative basis in the environmental field;
- Improvement of ecological expertise;
- Expansion of international relations and participation in global environmental issues;
- Improvement of quality of clean and surface water and of atmospheric air in the cities;
- Solution of problems in the field of management of hazardous chemical substances;
- Protection of the Black Sea from pollution.

Following works were completed or are in progress for achieving the abovementioned targets:

1. As a result of political and governmental changes in the country, the decree of the Government of Georgia # 77 of 22 April 2005, established a new governmental commission on sustainable development of Georgia. The commission is chaired by the Prime Minister and aims at elaborating the strategy on sustainable development of the country and enhancing the social-economic planning system. The strategy and the system should define detailed procedures of preparation of national, regional and local programs for environmental actions with consideration of interests of involved parties, publicity of processes and monitoring of implemented measures.

2. The decree of the Government of Georgia # 2 of 20<sup>th</sup> January 2005 set the Ministry of Environmental Protection and Natural Resources as a responsible agency for “Clean Development Mechanism” (CDM) in Georgia. Currently, draft governmental decree is being prepared which will establish the CDM National Council, which will issue official confirmation on behalf of the Government of Georgia for implementation of CDM project. As a result of the confirmation, Georgia will be given the opportunity to reduce emission of thermal gases together with a party as identified in annex 1 of Kyoto Protocol. As of today, preliminary approval has been issued for preparation of project idea notes on three projects. These are:

- Reduction of azoth sub-oxides emission at JSC “Azot.” According to preliminary estimates, annual reduction of emissions will equal to about 160 thousand tons of carbon dioxide equivalent. Foreign partner of the project is the Dutch Ministry for Environmental Protection.
- Reduction of methane emission during distribution of natural gas by JSC “TbilGas”. By the preliminary estimations, annual reduction of emissions will equal to about 280 thousand tons of carbon dioxide equivalent. Foreign partner of the project is the Dutch Ministry for Environmental Protection.
- Reduction of methane emission from Georgia’s central gas pipeline. By the preliminary estimations, annual reduction of emissions will equal to about 1,400 thousand tons of carbon dioxide equivalent. Foreign partner of the project is the “Carbon Fund” of International Bank for Reconstruction and Development.

Currently, the project on “utilization of renewable energy for local energy supply purposes” is in progress, with the financial assistance of Global Environmental Fund and German Reconstruction Credit Bank. The project considers building-up of a turnover fund for renewable energy, which will allow for financing of concessional loans via commercial banks for implementation of renewable energy production projects. Pilot projects consider rehabilitation of 5 to 7 small hydro power stations and the rehabilitation-strengthening of geothermal water supply system in Saburtalo region of Tbilisi.

Law of Georgia on “State Environmental Control” was adopted which aims at execution of real control over the fulfillment of environmental legislation, revealing and prevention of administrative violations, restoration of confidence of the society towards the state.

The new law of Georgia “On licenses and Permits” was adopted in May of 2005. In accordance with this law, the procedures for licensing and permits were simplified, terms and conditions for licensing were strictly defined and one board principle came into force. The above-mentioned law envisages granting of right on exploitation of natural resources by the rule of auction. Currently the Ministry issues 6 types of licenses on use of natural resources, 7 types of licenses on activities and 10 types of permits.

Works on preparation of the legislative basis for environmental monitoring are in progress as there is no law in Georgia on environmental monitoring that would clearly define what surveys shall be implemented in the country, who shall be the implementing authority, under what methodology and order, what indicators, what are the responsibilities on data exchange, transfer and reporting. Legal provisions on environmental monitoring are scattered in various environmental laws. Creation of the environmental database is gradually in progress, which will enable us in future to make predictions on expectable environmental trends.

The Ministry carries on preliminary negotiations with the Environmental Agency of United States of America and with Millennium Challenge Georgia on preparation of project proposals aiming at potable water supply to various cities and regions.

Project proposals from KFW on the pilot project for Kharagauli region community forestry and the project on creation of Javakheti national recreation zone are in discussion process.

Project proposal on the development of environmental monitoring system in Georgia was prepared together with Finish environmental ministry and the Institute of Environmental Protection.

Hereby, projects in the environmental sector financed by international organizations, which directly relate to EDPRP shall be mentioned. In particular:

**“Preparation of a national action plan for fulfillment of the Stockholm convention on stable organic polluters”.**

Aim of the project is to increase the national potential for implementation of responsibilities under Stockholm convention and creation of co-ownership mechanisms in Georgia including the preparation of the action plan. The project will assist Georgia to ratify the convention and to become its party.

As of today, the registration of stable organic polluters is completed at the national level. Within the frames of the project, following works were carried out in 2005:

- Registration of stable organic polluters (pesticides, polychloride biphenyl, dioxins and furans) was carried out by the methodology of UNEP;
- Several types and voltage electro transformers, electro condensers and high voltage switches were registered with the view of identifying polychloride-biphenyl pollution from electro insulation oils;

- Inventory registration took place in former “Sopkimia” soviet and collective inventory storages with the view of identifying outdated pesticides and polluted territories;
- Inventory registration was applied to almost all large and medium enterprise territories with the view of identifying dioxin and furan pollution according to the suggested methodology;
- Collection of test samples from polluted soils, drainage and surface waters, female feeding milk as well as from the fish is in progress directly by the laboratories;
- Analysis of inventory records of stable organic pollutants is in progress which will form the basis for preparation of the national action plan;
- Creation of database and geo-information systems are in progress;
- Five TV topics were prepared and broadcasted via different channels;
- Eight publications were prepared and published in various newspapers;
- Ten minute video shooting is in progress;
- Exhibition of stable organic pollutants was held on March 18-20 of 2005;
- At the 8<sup>th</sup> international forum of pesticides, which was held in Sophia (Bulgaria) on May 24-30, 2005, the Ministry of Environmental Protection of Georgia presented photo exposition on stable organic pollutants;

#### **“Georgia-support to renewable energy production for local supply purposes”**

Purpose of the project is to support renewable energy production by elimination of major barriers to increasing renewable energy utilization. During the reporting period, institutional, legislative and regulatory barriers were identified and ways of their elimination were planned. Brief analysis of electricity system in relation with the small hydro power plants was prepared. The hydrology database was prepared for 6 small HPPs. A geothermal pilot-project was prepared that envisaged thermal water supply of population in Saburtalo region by the well #4. Some small HPPs were visited and analyzed.

#### **Regional project “Creation of the potential for the quality improvement of national green-house gases”**

Purpose of the project is to improve quality of the green-house gas inventory in the region according to the UN convention on climate changes.

In the sub-field of solid remnants, a manual “On national procedures on inventory” was prepared for experts.

In the transport sub-sector, strategy for the data collection was elaborated and computer software was introduced for emission calculations. Methodology was elaborated and computer software for emission calculation was introduced for the central gas pipeline of Georgia.

#### **“Forest development project“**

Aim of the project is to introduce prudent systems of forest management, which will support increase of the share of the sector in economic development of Georgia and will reduce poverty level in rural areas.

As part of the project, forest-pathology condition of ordinary chestnut forests in the Imaret region was studied and intensity of tree druness was established. Integrated measures were elaborated for the improvement of chestnut forests’ condition. Semaphoric maps were created for some regions, which give us the possibility to identify ecologically sensible territories for further planning of forestry measures in

Borjomi-Bakuriani area. 3.7 hectares were planted with various plants in Sartichala forestry. Field works for inventory register of the forests of Oni, Ambrolauri, Borjomi and Bakuriani areas were completed. 29 normative acts were elaborated and adopted. Soils were prepared (113.5 hectare) for planting the forests in nine districts of Tbilisi surrounding. Legislative system for the separation rules of state forest funds and local forest funds was introduced with the view of management of local forest funds.

#### **“Development project of protected territories of Georgia”**

Purpose of the project is to implement the conservation of Georgia’s bio-diversity through creation of ecologically and socially stable, reserved territories in three regions of East Georgia and through increase of conservation abilities of forestry landscapes which are connected to those reserved territories.

Reserved territories are partly equipped with vehicles, computers, horses, boats and audio-video equipment. Personnel of the protected territories are partly trained in legislation and rescue activities, compilation of annual plans and in computer application. Reports on practical surveys of bio-diversity of reserved territories have been submitted, which include evaluation of quantity and density of key types of plants on the reserved territories and studies of their distribution; Identification and evaluation of possible risks; General survey of the structure of the plants and horizontal distribution; Creation of thematic maps on the basis of collected data. Neighboring population of reserved territories was trained in preparation of test type micro-projects. During the first contest of micro-grants‘ program, the Council of micro-grants program has approved 27 project proposals on a provisional basis, out of which 9 projects have been already financed and implementation is in progress. Field works have been carried out on reserved territories.

#### **“The costal zone integrated management”**

Purpose of the project is conservation of unique eco-systems of Kolkheti high-humidity territories by creation of reserved territories and provision of their stability with the view of preserving flora and fauna and their habitants as well as for scientific, educational and tourist activities and for obtaining own incomes apart to the state co-financing.

The following works were carried out in 2005:

- Two sanitary laboratories were reconstructed in Poti and Batumi. For bacteriological monitoring of water quality, marine laboratory of scientific research institute of the Black Sea Ecology and Fishery was reconstructed for open-sea monitoring;
- Two sea boats were purchased for Kolkheti national reserved territory and for scientific research institute of the Black Sea Ecology and Fishery;
- Construction of the administration building for Kobuleti state reserved territory, which will also serve to Kintrishi state reserved territory;
- Project and tender documentation was prepared for reconstruction of Kolkheti national reserve visitors’ center and the administrative center;
- Two illustrative projects were launched and ecological sea-shores were arranged.

#### **“Improvement of social security of Kolkheti valley population”**

Purpose of the project is to assist poor and socially vulnerable population residing in the neighborhood of Kolkheti national reserve that considers: attraction of alternative

sources of income and their application; improvement of rural infrastructure; encouragement of fishery and agricultural production and preservation of important natural functions of Kolkheti valley.

The following works were completed in 2005:

- Communal mobilization in thirty targeted communities (Guria, Samegrelo and Kobuleti) was completed;
- Priorities for micro-projects in targeted communities were identified;
- Communal organizations submitted 28 micro-projects out of which 25 projects were financed and are being implemented; Projects basically aim at rehabilitation of schools, kinder gardens, ambulatories, bridges, motorways and rehabilitation of water supply systems;
- With the view of increasing environmental understanding of the population residing in the neighborhood of Kokheti national reserve, three NGOs were selected;
- Training of local population is in progress with the view of increasing project preparation and implementation skills.

**“Training program for customs personnel on control and monitoring of ozone damaging substances in export-import operations”**

Purpose of the program is to increase knowledge of Georgian customs officials and specialists of other agencies on import monitoring and control of equipment, which use chlorine-fluorine-carbon and other ozone damaging substances. Also, part of this training program aims at identification and prevention of illegal trade.

Within the frames of program on “Initiatives on refrigeration equipment in the commercial-industrial and transportation facilities and for the ultimate consumers”, by 2005, 3,355 kg of CFC-12 was directly excluded from operation while another 2,466 kg is meant to be excluded (only due to relevant technical consultations), which is 800 kg more than 2001 average annual plan.

Within the frames of UNIDO program on “Gradual exclusion of methane-bromide from usage in the soil fumigation sector”, experiments were carried out in the green-houses with the view of introduction of alternative chemical substances. Testing of alternative chemicals (methane-sodium and diazomethane) was successfully performed and their effectiveness in combating the major types of soil wreckers and soil diseases was performed. Observed sharp increase in harvest productivity is also remarkable.

Within the scope of a tuition program “Utilization of modern practice in the refrigerating technique” 120 technicians from different regions of Georgia got trainings. The program envisages provision of technical information to personnel providing service and repairs and studying in order to decrease consumption of ozone damaging substances while servicing refrigerator equipment.

In the Ministry of Environmental Protection and Natural Resources, the team of monitoring of high ecological risk units is established since 2004, which is working under the targeted budgetary program on “implementation of monitoring of environmental and social influence of Baku-Tbilisi-Cheyhan oil pipeline and South Caucasus gas pipeline”.

**Open program: Borjomi-Kharagauli national reserve territory**

Purpose of the project is the stable management of the reserve, study of pastures, evaluation and preparation of management program, monitoring of on-going projects in auxiliary zones and organization of the coordination council.

Project is in completion phase. Currently, construction of one of its components, namely, Dzirula-Kharagauli motorway, is in progress.

**“Identification of requirements to improve Georgia’s potential with the view of global environmental protection”**

The project aims to evaluate existing financial, technical, institutional and human resource capacities in Georgia, as well as elaboration of applicable strategies and programs for development of such capacities with purpose of implementation of conventions on climate changes, bio-diversity and fight against expansion of deserts. Within the frames of the project, it is planned. Within the frames of the project the following activities were implemented:

- Thematic reports were prepared on bio-diversity, soil degradation and climate changes;
- Existing financial, technical, institutional and human resources of Georgia were studied with the view of effective implementation of the conventions on bio-diversity protection, climate change and soil degradation prevention. Problems were identified and the strategy and the action plan for problem solving were prepared;
- Web-site of the project was designed and posted on the internet:  
[www.ncsa.ge](http://www.ncsa.ge)

**“Development of the trans-boundary cooperation for emergency reporting in river Mtkvari basin”**

The project aims at the prevention of industrial emergency cases in the basin of river Mtkvari, timely reaction, trans-boundary management and creation of advance reporting system of European standards.

The following works were completed in this regard:

- Industrial enterprises, which carry out ecologically unsafe activities in the river Mtkvari basin were registered;
- Risk potential was identified and priority criteria were set together with the related risks and their potential negative influence on environment and human health;
- Specialists were trained in application of methods for reduction of the risk potential.

Potentially risky enterprises, which may have negative influence on the countries of river Mtkvari basin, were selected.

**6.8. Development of agricultural and food sector**

Following activities were implemented in the agricultural and food sector development according to the EDPRP:

**Adoption of law on product safety and administrative institutional reform of the sector (2005-2007)**

Purpose of the law on product safety and quality is to protect healthcare and economic interests of the consumers by ensuring effective functioning of local market and variety of food products. Area of regulation of the above-mentioned law is the following:

- Food safety requirements and principles of products delivered to the market;
- General requirements on food quality;
- General requirements regarding labeling of food products;
- Responsibilities of the producer/distributor regarding safety and quality of the food product;
- Mechanism of state control of food quality and safety;
- Scope of activities of the state entity responsible for control and supervision of quality and safety of foods products;
- General rules for adoption and implementation of measures in cases of violation of the current law.

During preparation of the draft law, the working group of the Ministry of Agriculture of Georgia has considered experience of various countries and recommendations of local and international experts. The law was approved by the parliament of Georgia in December 27, 2005.

According to the decree of the government of Georgia # 145 of August 25, 2005 “On amendments and additions to the charter of the Ministry of Agriculture of Georgia” and the decree of the Minister of Agriculture # 2-202 of September 2, 2005 “On reorganization of central apparatus of the Ministry of Agriculture of Georgia”, the central apparatus of the Ministry of Agriculture is undergoing a reorganization and reduction-optimization of its personnel.

According to the decree of the above decree of the government of Georgia the regional departments of the Ministry of Agriculture were liquidated and territorial bodies were established, in particular: agricultural regional departments of western and eastern Georgia. Following sub-divisions were liquidated by the same decree:

- Fishery department “Saktevzi” – Central apparatus of the Ministry will undertake elaboration of the policy and targeted programs;
- Teams for internal movement of cattle to winter pastures;
- Administration of Adjara pastures;
- Agro-engineering service – registration of agricultural equipment and issuing of vehicle passports is performed by the Ministry of Internal Affairs;
- Service for inspection and monitoring of food products – food products inspection laboratory was transferred to the Ministry of Justice;
- Department of life-stock farmery – Central apparatus of the Ministry will undertake elaboration of the policy and targeted programs.

The Ministry of Agriculture of Georgia has prepared a package of amendments to the existing legislative base. After the reform the ministry will be reorganized into a policy making body for agricultural and food sector.

#### **Establishment of private veterinary services and a network of laboratories within the frames of the reform of the veterinary department (2005-2007)**

As a result of the reform of state veterinary service starting from the 1<sup>st</sup> of July, 2005, all types of veterinary activities, including the state program on prevention of epizooty, shall be implemented by private veterinary services according to the



established rules and requirements. State veterinary inspection laboratories at the markets and sub-markets were liquidated and instead private veterinary supervision laboratories were established, which perform veterinary reliability service for all products delivered to the market.

In the state tender for implementation of anti-epizooty measures in the second half of the year, 14 private veterinary units were selected, which already perform vaccinations in Kakheti, Samegrelo-Zemo Svaneti and Samtkhe-Javakheti regions fully and from Inner Kartli regions, in Kareli, Kaspi and Khashuri areas, from Lower Kartli regions, in Rustavi and Gardabani areas, from Imaret regions, in Bagdati, Terjola, Kharagauli and Samtredia areas and in Adjara Autonomous Republic. 26 regions and cities of Georgia did not participate in the tender, therefore, in those regions, where there are no private veterinary services yet, vaccinations are performed by state veterinary agencies.

The decree #214 of September 16, 2005 of the Minister of Agriculture of Georgia approves rules for implementation of preventing quarantine activities against “a” and “b” group hazard transmitting diseases, fulfillment of which is the necessary condition of the struggle against epithetical. The decree #234 of October 11, 2005 of the Minister of Agriculture of Georgia which approves veterinary examination of beef cattle, veterinary-sanitary expertise rules of meat and meat products is to be mentioned as well.

At the later stage, the veterinary department and phyto-sanitary service will be liquidated and the national service for product safety, veterinary and phyto-sanitary will be established.

**Creation of unified and sound service of coordinating-regulating function on the basis of existing Inspections for fauna protection, testing of selective achievements and inspection of quality of plant seeds, with the view of transfer of economic functions to private structures (2005-2007)**

The soil fertility service and the inspections for fauna protection, testing of selective achievements and inspection of quality of plants and seeds will be liquidated and their economic functions will be transferred to private structures.

**Agricultural development of mountainous and Alpine-zone regions (2005-2007)**

Purpose of the project is, through the increase of revenues, to increase the level of living of the population of the mountainous and Alpine-zone regions. The program comprises four regions: Aspindza, Dusheti, Ambrolauri and Shuakhevi. Components of the project are: support of co-operation development, encouraging the creation of revenue basis, rehabilitation of social infrastructure, improvement of communal environment and program management.

74 villages participated in the abovementioned program in 2005. 25 legally registered local farmery associations and unions were established, which unify 1,344 individual farmers.

The program has determined principles of lending and pay-back of technical credits, where-upon the technical credit lines were assigned to potato, bee-farming and to those farmers, which participate in the experimental planting works.

Through the farmers’ houses, which were established in 2005 within the frames of the program, it is now possible to render consultancy and information services to locally employed population on such issues, as high-fertility technologies of agricultural

products, high-productive kinds of plants and live-stock, effective methods of fighting diseases in the plants and live-stock.

Within the frames of agricultural development program for mountainous region villages it is considered to allocate small and medium-size credits for agricultural processing enterprises. Total available funding for such credits for 2006-2007 is USD 1.4 million. It is planned to expand the program by comprising at least two more new regions.

**Encouragement of development of rural credit unions (2005-2007)**

Under the auspices of the agricultural development project, on March 18, 2005, a round table was arranged on the topic “Credit Unions – problems and perspectives of development”. Representatives of the Government, Parliament, Ministry of Finance, Ministry of Agriculture and the National Bank of Georgia were invited, as well as 46 credit union managers across the country. Themes in the discussions were development-support opportunities for credit unions and prospects of and problems to the development.

At the initiative of the credit union development center, the credit union association has become more active and was newly registered. Currently the association is working on legislative changes.

Training seminars on the issues of administration of loan portfolios, marketing, mobilization of savings, and accounting procedures were set-up for managers, accountants and the loan officers of the credit unions. Informational brochures were publicized which reflect characteristics of functioning of credit unions.

**Implementation of the project on “Poverty Reduction in Lower Kartli and Samtskhe-Djavakheti Regions” with the view of encouraging social-economic development of rural areas (2005-2007)**

Tender of the European Commission selected those winner organizations, which will implement the above project, in particular, the implementation body in lower Kartli is “Action against Hunger” and in Samtskhe-Djavakheti “Mercy Corps”. Purpose of the project is encouragement of social-economic development in lower Kartli and Samtskhe-Djavakheti regions and prevention of ethnic conflicts in the region.

Herewith, it shall be mentioned that under the initiative of the Ministry of Agriculture and with the view of implementing measures against falsification, registrations of origin of locally produced wines, with the definition of relevant specific zones. Passportization of vineyards was carried out, in particular in Kvareli region (zone of Kindzmarauli) and Racha-Lechkhumi region (zone of Khvanchkara). Following Georgian wines belong to controlled categories of Georgian wines of original wine names: Khvanchkara, Kindzmarauli, Mukuzani, Tvishi, Tibaani, Manavi, Kvareli, Atenuri, Sviri, Kotekhi, Kakhuri.

Registration certificates (passports) and registration notes (where expected harvest is defined), after relevant processing will be given to owners of vineyards of unique kinds of wines in respective geographic zones. Accordingly from 2006, quality of wine products exported from the country will be much higher than in previous years, because according to the law, wine products will be regularly controlled.

Several facts of wine falsification were revealed in the accounting period by joint works of the Ministry of Agriculture and Financial Police. Relevant legal actions were taken thereof.

The Ministry of Agriculture of Georgia elaborated the program on development of agricultural seeds' cultures of Georgia, which was discussed and approved at the governmental meeting on August 17, 2005.

With the view of liquidation of losses caused by natural disasters, in the form of humanitarian aid to Dmanisi region hybrid seeds of early corn were delivered, while under assistance of FAO and ACH 150 tons of potato seeds were delivered to Mestia region. Process of distribution was completed in July 2005.

In the form of grant assistance the Japanese government is implementing the agricultural production growth program in Georgia-2KR. Within the frames of this program Georgia received 1,480 units of agricultural machinery since 1996. Winner of the tender of September 2, 2005 held in Tokyo, Japan in February of 2006 will deliver to Georgia 5 units of agricultural harvesting vehicle, tractors and other equipment. Funds received from disposal of agricultural machinery, delivered under the 2KR program, will be deposited into the partnership fund and used for the formation of agro-engineering service centers in the regions of Georgia.

### **Operational plan of reforms and measures of the Ministry of Agriculture for the medium term perspective (2006-2008)**

Mission of the Ministry of Agriculture of Georgia is creation of favourable conditions for effective agricultural sector and competitive food production, ensuring food safety, epizootic and phitosanitary safety and acknowledgement of Georgia as a good trade partner. Agricultural development strategy for 2006-2008 was elaborated which is in consistency with priorities determined by the government and medium term expenditures plan. Mid-term priority directions are as follows:

1. Development of agriculture infrastructure and reform of melioration system management, with the aim to
  - increase production in primary agriculture production;
  - increase the irrigated and dry territories of land;
  - Effective system of management;
  - Rehabilitated irrigation and drainage infrastructure;
  - Effective spending policy, based on unified state policy;
2. Development of winery and fight against falsification:
  - Reduce level of falsification and ensure protection of Georgian brands in local and international markets;
  - Creation of effective system of Georgian wine quality, considering market requirements;
  - Well-organized regulation system of wine industry;
  - realization of Georgian wine potential in local and international markets.
3. Ensure food security and quality assurance, with the aim to reach the following
  - Protection of health, life and economic interests of the population in related with food;
  - Retain good epizootic and phyto-sanitary conditions;
  - Reduction of food falsification.

## **6.9 Energy Sector**

Strategic interest of Georgia's energy sector is development of energy and energy transport infrastructure in terms of East-West and North-South connection of Europe

and Asia. Energy complex of the country due to its geographic location has to actually get involved in the joint processes of electricity production in Caucasus region, oil and gas transportation and consumption of Caspian Sea basin. It shall play the role of catalyst for political stability of the region and shall become determinant of economic integration of the region; Shall effectively involved in transportation and functioning of energy carriers, electricity, oil and gas transportation in the regional and inter-regional corridor. Energy potential of transitory electricity, oil and gas major pipelines passing on the territory of Georgia will have significant impact on economic development of the country.

Major priorities of state deregulation reform in the energy sector are the following:

- Harmonization of energy legislation of the country with the European Union legislation by considering economic factors of the country;
- Implementation of legislative changes with the view of introduction of free access and free market principles in the sector;
- Optimization of licensing and permits in the energy sector, fine-tuning and simplification of licensing procedures;

It shall be noted herewith, that rational policy of the accounting period allowed energy sector of the country to diversify supply with energy carrier resources. In particular, damaged and difficult-to-access intervals of 500 kV high voltage transmission line “Kavkasioni” were rehabilitated; Electricity transmission line “Dariali”, which is used to import electricity from Turkish “Ezma HPP” in extreme conditions, was repaired. Import-export scheme of barter type was arranged with Turkish electricity system, which allows for transfer and supply of about 100 mw electricity. After rehabilitation of Kharadaghi-Tbilisi central gas pipeline, it has become possible to import gas from Azerbaijan and Iran in critical situations. Agreements with Azerbaijan electro system on parallel regime operations have been innovated.

Improvement of consumed electricity registration process is successfully continuing in distribution companies. Cable work and transformers of distribution network were fully replaced with new ones, significant number of computers and special equipment was purchases. Through improvement of consumed electricity registration, the electricity supply of the national economy and population has significantly improved.

Fundamental rehabilitation works are in progress on Vardnili cascade, Gumati cascade and Shaori HPP units, where practically new and reliable hydro generator units will be commissioned. Total capacity of rehabilitated units amounted to 350-400 mW.

In terms of improving collection of consumed electricity price, major problem for distribution companies represent those consumers, which are not equipped with power meters. Out of distribution companies in Georgia, “Telasi” has equipped Tbilisi with power meters based on own investments, while Adjara energy company was supported with donor organizations. As a result these companies have achieved satisfactory level of collection of consumed electricity price. Other regions of Georgia are still without electricity consumption registration system. This is why regional distribution companies can not collect price of supplied electricity, which causes building-up of the arrears, which damages entire energy system.

The process of metering of the United Distribution Company is the most important process currently in the energy sector of Georgia. Installation of wholesale, communal and individual power meters will create possibility to account for consumed

electricity by the population to accrue exact costs of consumed electricity and to fully collect price of consumed power. Non-payer consumers will be individually disconnected from the network.

Construction of new gas turbine of 110 mw capacity is in the completion phase. 220 kV electricity transmission lines of Kolkhida-Surami-Urbnisi-Aragvi were completely renovated. 110 and 35 kV transmission lines were repaired in Utsera, Orbeli, Tsesi, Gudauri, Variani, Dariali and Khudoni. Several substations of State Electric System were repaired.

Most critical intervals of central gas pipeline of Georgia were rehabilitated. Repair of Kharadagh-Tbilisi pipeline made it possible to transport natural gas from Iran to Georgia. 205<sup>th</sup> km interval of North Caucasus-Transcaucasia central pipeline was also repaired at river Khuro passage. The gas meter unit was installed at the Georgian-Russian border, which will give the possibility to the country to exactly account for the volumes of gas imports from Russia. It is important to underline effectiveness of those measures which were implemented with the view of consumption accounting improvement in the distribution network of Kazbegi region. 2,444 consumers of the region were equipped with gas meters, which allowed reasonable accounting of consumed gas in this very difficult region and consequently significant losses have been mitigated, which was proportionally reflected in financial condition of natural gas sector.

First range priority for development of regional cooperation in electricity sector and increase of transitory potential of the country represents rehabilitation-re-equipment of existing high voltage transmission lines (500/330/220).

Recommencement of construction works on 500 kV transmission lines Zestaponi-Akhaltzikhe-Tbilisresi-Akhaltzikhe-Turkey, which has started in Soviet era, is currently under preparation. Completion of construction of these transmission lines will allow exporting Georgia's excess electricity in summer to Turkey, Iran and countries of Middle East. While in winter it will become possible to diversify the imports. Herewith financing of the construction will be carried out through participation of interested parties and private investments.

Total energy potential of Georgia exceeds 80 billion kWh. Only about 12 percent of this potential is currently applied. This clearly suggests that major direction of Georgia's energy sector is intensive application of hydro-energy resources.

Priority direction of nearest future (3-5 years) is completion of Khudoni HPP construction. Construction will be financed by international financial institutions and attracted private investments funds. Specific priority will be given to construction of small HPPs of local importance. Based on existing studies and geographical evaluation analysis almost on all territories of Georgia can be implemented construction of 8-10 MW capacity hydro power plants. Through construction of small HPPs Georgia's energy system will receive about 120 MW additional capacity by 2010.

### **6.9.1. Energy Security**

In parallel to already existing sources and with the view of providing for energy security of the country (natural gas demand of Georgia is completely based on supplies from Russia), works continued for infrastructure improvement on the pipelines from Azerbaijan and Iran. The gas pipeline construction of Iran-Armenia,

which crosses Georgia, creates possibility to export Iranian gas to Europe, which will further improve reliability of country's energy supply and will make the additional source of revenues for the country.

Construction of Baku-Tbilisi-Erzurum gas pipeline, which goes in parallel to Baku-Tbilisi-Jeyhan oil pipeline construction, shall be completed by 2007. In the form of gas transit price Georgia can receive natural gas, the maximum capacity of which will reach 0.85 billion cubic meters per year by 2011. Considering increased demand on natural gas in the country negotiation shall start with partners of the project to increase the gas volumes for Georgia. Full satisfaction of Georgia's gas requirements from Baku-Tbilisi-Erzurum gas pipeline can not be achieved even in case of changes of contract conditions. Consequently it still remains active to settle the issue of natural gas supply from Russian Federation.

### **6.9.2. Privatization of Energy Units**

All energy units of the country except the systemic operator ("Georgian State Electro system" Ltd) are subject to privatization. Distribution and generation sector shall fully become subject of privatization. After transfer of the distribution sector into private ownership collection level of consumed electricity price will be significantly increased and relevant budgetary revenues will be also increased. Success of reforms of the energy sector as a whole will be significantly relying on the successful completion of the privatization process.

Privatization of gas distribution network of capital of Georgia is a first range objective. Simultaneously privatization list includes the nationalization of following important energy units: Rioni HPP, Gumati HPP cascade, Lajanuri HPP, Dzverula HPP, Shaori HPP, Ats HPP, United Distribution Company of Georgia, Adjara Distribution Company and Kakheti Distribution Company.

## **7. Rehabilitation of post-conflict zones, integration of refugees and eco-migrants**

Government of Georgia pays extraordinary attention to the rehabilitation of post-conflict zones and implementation of joint projects in the zones, which represents important prerequisite for political resolution of the conflicts. Active participation of international community in this process is remarkable. Without significant contribution from international communities it would have been difficult to effectively implement the projects of conflict zone rehabilitation.

Out of ongoing measure in Georgian-Osetian conflict zone, the EC financed Third Rehabilitation Project shall be noted, which considers implementation of works in the sectors of energy, infrastructure and social issues in the amount of 2.5 million Euros. The program is progressing despite of few difficulties, which is explained by specific conditions of the zone. Coordination of the program is made by Georgian-Osetian organizational committee established under the auspices of OSCE. Most parts of the projects have been already implemented, while others are in the phase of completion. Majority of implemented and ongoing projects aim at benefiting both Georgian and Osetian population. Third rehabilitation project is planned to be completed by the end of July 2006.

Besides GEL 700,000 were allocated from the state budget 2005 for implementation of rehabilitation projects (35 projects) in Tskhinvali region according to the relevant governmental decree (# 214, of 10.06.05). Important role in infrastructural rehabilitation of Tskhinvali region has the municipal development fund (total value of GEL 600 thousand). In this regard rehabilitation projects in the valleys of large and small Liakhvi are to be underlined.

It shall be mentioned herewith, that active work is ongoing for increasing of volume and borders of rehabilitation projects of this type. In the first range it shall be mentioned that preparatory works are in progress for the donor conference planned for June 2006 under the auspices of OSCE on “the issues of economic rehabilitation of Georgian-Ossetian conflict zone and surrounding regions”. In particular, determination and adoption of a long process of so called “assessment of requirements mission” carried out by OSCE support and determination and approval of priority directions out of selected projects of the parties by joint monitoring commission. With the view of effective coordination of the activities, the extraordinary organizational committee was set up, which is represented by high level officials from EC, USA, Netherlands, Belgium and France.

Social-economic rehabilitation program is being implemented using financing (EURO 3,96 million) of UNDP, UNOMIG and European Commission in Abkhazia, in and adjacent to the conflict zone. The program covers social and economic rehabilitation of major sectors, such as power supply, agriculture development, health protection and main services.

In parallel there are ongoing projects of ECHO (EURO 1.1 million), ECD – Decentralized Cooperation program (0EURO.95 million). European initiative for democracy and human rights protection has been completed.

It shall be noted herewith that refugees of the conflict zone represent one of the most socially vulnerable groups of population. Therefore organization of social-economic assistance for refugees inside the country is of most critical importance.

Ministry of Justice of Georgia developed a draft on Restitution and compensation of the property damaged during the conflict in the Tskhinvali region.

Draft was prepared with participation of local NGOs and international organizations, including Venetia commission of European Council. Currently the draft is being discussed at the Parliament.

The aim of the draft law is restitution of property rights of people who incurred damage/loss during conflict in the Tskhinvali region and protection of their interests.

According to the data of the Ministry for Refugees by January 2005, number of refugees due to conflicts in the country amounted to 241,449 out of which 229,131 are from Abkhazia and 12,318 from Tskhinvali region. These data are based on verification results of registration of refugees, which was carried out through support of UNHCR. However, it shall be noted that due to non-compulsory type of registration process many refugees did not participate in the registration process. 42 percent of IDPs still reside in collective centers, while other 58 percent stays with their relatives or in rented premises. Number of eco-migrants presumably varies in the range of 100-120 thousand, however due to non-existence of database, exact number can not be determined.

Considering the above mentioned it still remains a priority direction to update the existing database and to improve the registration system. Strategy of the Ministry of refugees and settlement with respect to social aspects of refugees is to determine real number of refugees and to identify people below the poverty margin. It is reasonable to diversify state assistance to refugees by employment in the state and private sectors.

With the view of achieving improvement of social issues of the refugees the Ministry is actively cooperating with various governmental and private organizations as well as international organizations involved in implementation programs, which address problems of the refugees.

## **8. Implementation status of the EDPRP measures in 2005 State Budget**

***Social Protection and Pensions*** – The 2005 state budget allocated GEL 533,896.7 thousand for this sector, while the actual cash expenditure amounted to GEL 529,081.3 thousand.

In total, in 2005, current pensions were fully paid out. This amounted to GEL 407,187.8 thousand. Including:

- Pensions for 29,391 law enforcement structure pensioners were financed by GEL 38,827.4 thousand;
- Pensions for regressive pensioners with health damages attributable to service injuries, was financed by GEL 2,157.8 thousand.
- All other pensioners (including former Parliament members, wife of ex-president Zviad Gamsakhurdia, former judges of supreme and constitutional courts) were financed by GEL 319,553.0 thousand, which is the GEL 34,718.2 thousand higher (72.9percent) than 2004 figure. This is primarily caused by increase of pensions since 1 January, 2005.
- Paying out the pension arrears of previous years continued in 2005. The pension arrears were covered together with the current pensions. With this purpose, the MOF has allocated 46,649.6 thousand from the article on “Payment of arrears of previous years”. Out of which GEL 1,228.2 thousand, according to the governmental decree # 74 of 19.04.05 on “Pension arrears towards pensioners and additional measures for social protection of population”, was directed to pensioners of mountainous regions of Georgia which suffered damages due to natural disasters

Assistance for temporary disability: under this program expenditures amounted to GEL 3,830.4 thousand in 2005.

Social (household) assistance to disabled persons: GEL 21,024.3 thousand was allocated from the state budget.

Assistance to the families of those persons, who died on 9<sup>th</sup> of April amounted to GEL 25.0 thousand.

***Healthcare*** – 2005 state budget allocated GEL 178,192.0 thousand towards the healthcare. The cash expenditures amounted to GEL 165,259.9 thousand. In general, results of healthcare activities in 2005 can be qualified as satisfactory. This was achieved due to active measures, which were implemented in expenditure policy. Based on particular targeting of expenditures, stable financing schedule was set up,



which was accordingly reflected in timely financing of healthcare programs. Significant part of arrears was covered in 2005.

Herewith, despite of achievements of 2005 it is necessary to further enhance works towards fine-tuning of expenditure policy of the Ministry and, first of all, improvement of economic justification of the programs and strengthening of control (monitoring) of program expenditures. These areas will be attended better in the forthcoming periods.

**Education** – 2005 state budgetary allocations for the Ministry of Education and Science amounted to GEL 79,402.2 thousand. The cash expenditures amounted to GEL 80,941.1 thousand. The following measures were implemented:

- Together with structural and personnel reorganization of district educational departments and regional school departments, process of setting up of educational resource centers was launched on the whole territory of Georgia. In particular, contest of managers of resource centers was planned, training package for resource centers' personnel was prepared and prototype charter of a resource centre was approved;
- State educational institutions and major part of specialized schools were established in the form of legal entity of public law;
- Financing of 2005 semesters for general education schools was carried out by a voucher (per capita) principle;
- Remuneration of teachers of public school was put in order;
- Accreditation high education institutions continued;
- Reform of entrance examination system for high education institutions started;
- First unified national examination was successfully carried out, based on which 4,198 students were awarded state financing through state student grants.

**Transport and Communication** – 2005 state budget allocated GEL 125,920.0 thousand for this sector and cash expenditures amounted to GEL 125,896.1 thousand. i.e. the expenditure plan was fulfilled by 100 percent. This number is twice as high as the 2004 allocation and almost 150 percent higher than 2003 allocation. These expenditures were primarily directed towards rehabilitation and development of motorway network. Increase of financing has significantly improved conditions of common motorways – damaged intervals were rehabilitated; Bridges and other auxiliary constructions were repaired.

**Tourism** – 2005 state budget allocated GEL 981.4 thousand and cash expenditure amounted to GEL 898.2 thousand. Allocated funds were spent on two measures: participation in “Expo-2005” world exhibition and for organization of the “Promotion and Branding of tourist potential of Georgia”. This included measures for Georgia’s participation in tourist exhibition fairs of Berlin, Milan, Finland, Netherlands and Madrid.

**Energy** – Allocation of 2005 state budget amounted to GEL 292,560.5 thousand and cash expenditures amounted to GEL 230,349.1 thousand.

Financing of the measures as determined by operational program of Georgia's energy sector was successfully progressing. As a result, an important step forward was made in the field of energy security and stable functioning of the sector.

***Agriculture and Food Products*** – Allocation of 2005 state budget amounted to GEL 54,025.7 thousand and cash expenditure amounted to GEL 41,356.3 thousand.

***Environmental Protection, Forest Resources and Land Management*** - Allocation of 2005 state budget amounted to GEL 32,534.9 thousand and cash expenditures – GEL 24,478.3 thousand. During 2005 activities of the sector were directed at realization of the priority reforms as determined by medium term strategy.

## **9. EDPRP measures in 2006 budget**

Under the law on 2006 state budget financing of EDPRP measures by major sectors is determined as follows:

***Social Protection and Pensions*** - 2006 State budget allocations to the sector amounts to GEL 591,323.0 thousand (which is 10.8 percent higher than 2005 budgetary plan and 11.8 percent higher than cash expenditures).

***Healthcare*** - 2006 State budget allocation for the sector amounts to GEL 180,606.5 thousand (1.4 percent higher than 2005 budgetary plan and 9.3 percent higher than cash expenditures).

***Education*** - 2006 State budget allocation to the education sector amounts to GEL 329,747.7 thousand (315.3 percent higher than 2005 budgetary plan and 307.4 percent higher than cash expenditures).

***Transport and Communication*** - 2006 State budget allocation to the sector amounts at GEL 168,578.0 thousand (33.9 percent higher than budget plan and cash expenditure in 2005).

***Energy*** - 2006 State budget allocation to the sector amounts to GEL 229,749.9 thousand (21.5 percent lower than 2005 budgetary plan and 0.3 percent lower than cash expenditures).

***Tourism*** - 2006 State budget allocation to the sector amounts to GEL 505.8 thousand (48.5 percent lower than 2005 budgetary plan and 43.7 percent lower than cash expenditures)

***Agriculture and Food Industry*** - 2006 State budget allocation to the sector amounts to GEL 67,950.3 thousand (25.8 percent higher than 2005 budgetary plan and 64.3 percent higher than cash expenditures).

***Environmental Protection, Forest Resources and Land Management*** - 2006 State budget allocation to the sector amounts to GEL 24,062.2 thousand (26.0 percent lower than 2005 budgetary plan and 1.7 percent lower than cash expenditures).

## **10. Medium term expenditure framework (MTEF)**

Medium term expenditure planning was integrated and institutionalized into the budgetary processes of 2005, which aimed at better targeting scarce state resources.

At the same time it is very important, that expenditures are in a direct consistency with the priorities as set forth by the government. Link between strategic and expenditure plans was maintained between annual budget and the medium term planning. All of these were reflected in the document of government of Georgia on basic data and directions.

Participation of three pilot ministries was initially planned in preparation of medium term expenditures program, however all ministries and agencies have got involved in this process and their budgets for 2005 were submitted in the MTEF format.

The EDPRP together with other documents have made basis for preparation of the “basic data and directions” (BDD) document. The elaboration of the BDD is, undoubtedly, a step forward, since, according to the Georgia Budget System Law, it contains forecasts of macroeconomic indicators, national fiscal policy, state sector priorities and analysis of macroeconomic and fiscal data of previous years and the medium term forecast (2006-2009). The BDD the first fiscal document, which provides for general, macroeconomic and fiscal framework, as well as national and sector policy, which, consequently, create basis for the budget. This document determines main directions of social and economic policy of the country, while medium term expenditure framework converts those directions into sector budgets. It creates the possibility, that the annual budgets be based on governmental strategic objectives.

In preparation of medium term expenditure framework, Ministry of Finance applies so called “Up to Bottom” and “Bottom-Up” principles.

Based on “Bottom-Up” principle, the first stage of 2006-2009 MTEF cycle considers preparation the medium term action plan matrix. The matrix was disseminated to ministries and state agencies together with relevant instructions. Final version of the action plans are being submitted to the government.

It is very important to link governmental strategies with expenditures. Forecast of current sector expenditures made it possible to determine ceilings for each agency, under the budget system law.

According to the Georgia’s budget system law, Ministry of Finance of Georgia prepares budgetary circular including instructions, and disseminates it to line ministries and other recipient organizations. It comprises medium term expenditure framework and represents its integral part. Major innovation for 2006-2009 instructions was the establishment of multi-year expenditure ceilings for the line ministries.

Next step would be further integration of policy making departments of line ministries into the MTEF process. It is also important to increase capacity of line ministries in budget forecasting with the view of allowing them to independently plan and execute priority reform programs.

Full integration and institutionalization of MTEF into the budgetary process is also planned for forthcoming years.

## 11. Participation

As it was already mentioned in the introduction, EDPRP document for the year 2005 was prepared ensuring co-participation principles. Discussion of the document by the government of Georgia was preceded by active consultation and discussions in the ministries, responsible state authorities and agencies. The process was coordinated by MOED.

Special attention should be given to two-day seminar at Georgian Fund for Strategic and International Studies (GFSIS) held on October 17-18, 2005, which was devoted to development of the present report. The seminar was attended by all interested parties: NGOs and international organizations, representatives of respective government organizations, independent experts. The seminar was held with support of CBIE, CIDA and UNDP.

The seminar was organized by MOED, EDPRP implementation support project consultants, representatives of GFSIS, consultants of CIDA. During the preparation period the team decided to hold two-day seminar, prepared detailed agenda, target audience, as well as other details. In result a detailed action plan was developed, and all organization activities (distribution of invitations and materials, sending of the seminar agenda using e-mail) were carried out according to the schedule. Intensive dialogue revealed that the format of the seminar and agenda was adequate. representatives of NGOs stated that the seminar was a step forward in public discussions.

During the seminar, experts of the UNDP supported EDPRP support project presented materials prepared in consultation with respective public organizations, on the following sectors: Management and reform of public administration, deregulation of economy, transport and communications, energy sector, agriculture, environment protection, health protection and social security, education. Presentations were followed by discussions, which evaluated the ongoing/already implemented reform/its component.

NGOs presented their written comments within the deadline established by MOED. Received comments were officially transferred to relevant ministries of state organizations with the request to make relevant changes to the year 2005 EDPRP report, based of the seminar discussions/materials and NGO comments.

Reports received from the ministries were used for development of consolidated draft of EDPRP document. The report also includes description of important reforms and activities, which were not discussed during October meeting. At the same time, the Government of Georgia was working on the mid-term action plan of reforms in 2007-2010. These reforms were outlined in Basic Data and Directions Document and formed the basis for agreeing upon mid-term activities under the EDPRP. These activities are given in the annex 1.

## ANNEX 1

### Matrix of Reforms and Activities to be implemented during the medium-term period (2006-2008) in the frames of Economic Development and Poverty Reduction Program

Reform/Activity	Completion Date	Responsible Organization
<b>Improvement of governance and combating the corruption</b>		
1. Provision of unified policy in the remuneration field of public service personnel remuneration and fine-tuning the remuneration system.	2006	Government of Georgia, Bureau of Public Service
2. Preparation of a new version of draft decree of the President of Georgia “on the Ranking Register of Public Sector Personnel ”	2006	Government of Georgia, Bureau of Public Service
3. Preparation of draft long-term program for administrative and public service reform	2006	Government of Georgia, Bureau of Public Service
4. Elaboration of the concept on Human Resource Management Information System (HR MIS) and preparation of the project for targeted training of personnel on a proper application and servicing of the computer technologies in the HR MIS.	2006	Bureau of Public Service
5. Elaboration of the Public Service Code, which will include a behavior code for public service employees as a separate chapter.	2006	Bureau of Public Service
6. Implementation of Georgian National Anti-corruption Strategy Action Plan and monitoring its progress	2006-2008	Government of Georgia
<b>Macroeconomic Policy</b>		
1. Fine-tuning of tax and customs policy and improvement of tax administration quality.	2006-2008	Ministry of Finance
a) To complete working on new customs code.	2006	Ministry of Finance

2. Fine-tuning of budgeting process and full integration of medium term expenditures planning into the budgeting process.	2007-2008	Ministry of Finance
a) Systematic preparation of the document on main data and directions on the basis of medium term expenditure process	2006-2008	Ministry of Finance and other Ministries
3. Introduction of GFS classification principles	2007-2008	Ministry of Finance
a) Preparation of the registers of legal entities of public law (LEPL)	2006	
b) Establishment of accounting and audit requirements for LEPLs in accordance with the international standards	2006	
4. Further improvement of foreign assistance coordination	2006-2007	Ministry of Finance
5. Maintenance of price stability and the purchasing power of the national currency (projected level of inflation within 5-6 percent)	2006-2008	National Bank of Georgia
6. Considering the priority objective of maintaining price stability, the level of monetization will increase. Growth of broad money will realize primarily based on expansion of financial intermediation, including expansion of banking intermediation with national currency.	2006-2008	National Bank of Georgia
7. Securitization of the Government's debt to NBG	2006	Ministry of Finance National Bank of Georgia
8. Preparation of the legislative basis for deposit insurance system	2006-2007	National Bank of Georgia
<b>Improvement of Business Climate and Attraction of Private Capital</b>		
1. Preparation of country's economic policy and coordination of its realization	2007-2008	Ministry of Economic Development
2. Liberalization of trade, reduction of technical barriers in trade and reform of system of standardization, metrology, accreditation and market supervision.		Ministry of Economic Development
a) Introduction and activation of new (liberal) scheme of import tariffs	2006	
b) Negotiation and taking relevant measures for establishing free trade regime with trade partners	2007-2008	

c) Execution of planned measures as defined in the governmental decree # 591, of 29 December 2005 of Government of Georgia “on Approval of the Action Plan for realization of the Laws regulating Standardization, Metrology and Accreditation activities”	According to the time-table of the decree	Ministry of Economic Development
3. Reform of system of licensing and permits		Ministry of Economic Development
a) preparation and adoption of normative acts according to the law of Georgia “on Licensing and Permits”	2006-2008	
4. Denationalization of state owned economic units and state property		Ministry of Economic Development
a) Preparation of units for privatization as defined by the list of the units to be privatized.	2006-2008	
5. Formation of contemporary system of court administration and court proceedings.	2007	Ministry of Justice
10. Establishment of unified state register which will include the registers for civil, public, non-profit entities, political unions, regulating bodies, licenses and permits and normative acts, and ensuring its proper functioning	2006-2007	Ministry of Justice
<b>Improvement of Risk Management in Healthcare and Social Protection Sector</b>		
1. Improving health care condition of Georgian population through improvement of financial accessibility of medical service:	2006-2008	Ministry of Labor, Health and Social Protection of Georgia
a) provision of population with essential medical service (universal package)		
b) Creation financially accessible package of medical insurance and covering of poor population with this package.		
2. Improvement of quality and economic efficiency of medical service:	2006-2008	Ministry of Labor, Health and Social Protection of Georgia
a) Restructuration of medical infrastructure (optimization and integration of service supply levels) and modernization/development of strategic infrastructure.		

b) Optimization/development of professional human resources.			
c) Ensuring the effective management of healthcare system:			
<ul style="list-style-type: none"> <li>• Introduction of policy analysis practice based on justifications.</li> <li>• strengthening of state regulation (system of permits, licensing and certifications, national recommendations of clinical practice “Guidelines” and state standards of clinical condition management “Protocols”)</li> <li>• Strengthening of functions of healthcare state procurer</li> </ul>			
d) Improvement of management of state owned organizations providing medical services.			
3. Reduction of poverty:		2006-2008	Ministry of Labor, Healthcare and Social Protection of Georgia
a) Introduction and development of targeted social assistance system			
b) fine-tuning of social risk management mechanisms			
c) Establishment of social service needs evaluation system			
d) Facilitating social integration of socially vulnerable groups of population			
e) Enhancing competitiveness of local labor resources through introduction and improvement of professional standards and encouraging professional education.			
f) Introduction and improvement of risk reduction mechanism for professional diseases and industrial injuries and loss of income associated with them.			
g) Increase of labor market mobility through facilitating the mediation activities in the field of employment			
<b>Education</b>			
1. Completion of institutional building and ensuring the quality of education			Ministry of Education and Science
a) Establishment of pre-school training /education system		2006-2008	



b) Introduction of educational programs for directors of general education institutions	2006-2007	
c) Introduction of educational programs for members of supervisory boards of general education institutions	2006-2007	
d) Establishment of resource centers and the school networks around them	2006-2007	
e) Rehabilitation of general education institutions	2006-2008	
f) Establishment of the network of professional education centers	2006-2008	
g) Establishment of high education system for specialized education	2006-2008	
h) Establishing of national education plan	2006-2008	
i) Development of national, regional and school evaluation system	2006-2008	
j) introduction of professional standards for teachers of general education institutions and centers of professional education and setting-up the certification exams	2006-2008	
k) Establishment of accreditation system	2006-2008	Ministry of Education and Science
2. Integration into united European and Euro-Atlantic area and securing national identity		
a) Involvement in international evaluation systems (PISA, PILSS, TIMSS)	2006-2008	
b) Involvement in network of Europe's professional classifications	2007-2008	
c) Further development of Bologna process	2006-2008	
d) Elaboration of national concept for development of science and technologies in accordance with the European outlook. Harmonization of legislation.	2006-2007	
e) Preparation and implementation of programs oriented at increase of competence in the field of preparation and implementation of international scientific projects.	2006-2007	
f) Systematic integration into the European Research Area (ERA)	2006-2008	
g) Elaboration of training curriculum and provision of non-Georgian speaking schools with the school literature.	2006-2008	
h) Inclusion of the national identity topics into the general national	2006-2008	

education curriculum			
i) Establishment of Georgian nationality investigation fund	2006-2007		Ministry of Education and Science
3. Orienting at country's stable development and establishment of knowledge-based environment			
a) Unified national exams (BA, BSc, Ma, PhD)	2007-2008		
b) Implementation of student grant programs (BA, BSc, Ma, PhD)	2006-2007		
c) Student loan program	2007-2008		
d) Education program for teenagers with different abilities	2006-2008		
e) Implementation of children-house and deinstitutionalization programs	2006-2008		
f) Introduction of stable development competence into the programs of training of high education specialists. Reflection of stable development experience and properties into the national educational curriculum.	2006-2008		
g) Implementation of re-qualification and life-long education programs	2006-2008		
h) Full-scale automation of general education schools	2006-2008		
i) Implementation of program– “University + Industry”	2007-2008		
j) Internet accessibility in high and professional education	2006-2008		
k) application of computer technologies in the process of high education	2006-2008		
l) Implementation of distant training programs	2006-2008		
m) Implementation of entrepreneurial innovational potential encouragement program	2007-2008		
n) Programs for preparation of IT and engineering technologies' specialists in high education institutions for specialists	2007-2008		
o) Determining priorities for science development and its facilitation	2006-2008		
p) Development of technologies of real potential and abilities based on stable development principles. Bringing closer scientific and economic sectors.	2006-2008		
<b>Energy Sector</b>			
1. Construction and rehabilitation of hydro and thermal power plants			Ministry of Energy of Georgia

a) Increasing reliability of Vardnili HPP and rehabilitation works	From 2007		
b) Co financing of rehabilitation of Enguri HPP units #4 and #5	From 2007		
c) Completion of Khudoni HPP construction	From 2008		
d) Completion of Paravani HPP construction	From 2008		
e) Construction of small hydro power plants	From 2007		
2. Construction-rehabilitation of high voltage electricity transmission lines			Ministry of Energy of Georgia
a) Rehabilitation-overhaul works of Kolhida-1, Surami-Urbnisi, Liakhvi-Aragvi High Voltage electricity networks	2007		
b) Cooperation in construction of 500 kV line (Zestaponi-Akhaltikhe) connecting Georgia and Turkey	2007-2008		
c) Construction of 330 kW Razdani-Erevani transmission line to electro system of Armenia in 2006-2007	2006-2007		
d) Reconstruction of HV transmission line “Enguri-Zestaponi”	2007-2008		
3. Rehabilitation-construction activities in natural gas sector			Ministry of Energy of Georgia
a) Renovation, construction and rehabilitation of gas transportation networks in regions of Georgia	From 2007		
4. Construction of Renewable Energy power stations			Ministry of Energy of Georgia
a) Construction of wind power stations.	From 2007		
<b>Transport and Communications</b>			
1. Optimization and liberalization of transport operation system. Development of road infrastructure.	2006-2010		Ministry of Economic Development
a) Preparation of draft projects for relevant legislative amendments and international agreements (2007-2009)	2006-2009		
b) Implementation of common-use motor road networks’ rehabilitation and development program within the applicable period (2007-2010)	2006-2010		Department of Motorways
2. Launch of implementation of the first phase of Karsi-Akhalkalaki-Tbilisi-Baku railway project	2008 - 2010		Ministry of Economic Development; “Georgian Railways,” Ltd.

3. Further liberalization of civil aviation	2006-2008	Ministry of Economic Development. The National Commission on Transport Regulations
4. Completion of Tbilisi and Batumi airport infrastructure modernization – reconstruction.	2006-2008	Ministry of Economic Development. The National Commission on Transport Regulations
5. Improvement of navigation system in accordance with international civil aviation requirements	2006-2008	Ministry of Economic Development The National Commission on Transport Regulations
8. Rehabilitation of interregional roads and commencing construction of new highways	2006-2008	Ministry of Economic Development
9. Rehabilitation of water supply system in the regions	2006-2008	Ministry of Economic Development
<b>Communication</b>		
1. Elaboration of the development strategy of Georgia’s information communication networks and based on it, elaboration of a program to eliminate a “digital inequality”.	2007	Ministry of Economic Development
2. Integration of Georgia’s telecommunication fiber-optic cables and radio lines into the regional telecommunication space.	2006-2010	Ministry of Economic Development
3. Elaboration of the concept of Electronic Governance	2007-2008	Ministry of Economic Development

			Development
4. Elaboration and implementation of an e-government program (creation of the government network)	2006-2008		
5. Elaboration and implementation of the television-medicine development program.	2007-2008		Ministry of Economic Development. Ministry of Health, Labor and Social Protection
5. Advancement of the legislative basis for implementation of the strategy.	2006-2008		Ministry of Economic Development
<b>Recreation</b>			
1. Marketing and promotion			
a. Active participation in international recreation exhibitions and fairs in order to promote Georgia's foreign image, popularize tourist potential and advertise Georgia's recreation products.	2006-2008		Ministry of Economic Development
b. Organization of introductory and press tours to foreign journalists.	2006-2008		Ministry of Economic Development
c. Publishing the advertisement products on Georgia	2006-2008		Ministry of Economic Development
2. Development of internal tourism			
a. Creation of tourism information centers in different territorial entities of Georgia	2006-2007		Ministry of Economic Development.
b) Encouragement of rural, agricultural and wine tourism	2006-2008		Ministry of Economic Development
3. Planning-Development			
a. Establishment of schools for recreation professionals	2006-2007		Ministry of Economic Development. Ministry of Education and Science
b. Elaboration of the master-plan for tourism development	2006-2007		Ministry of Economic Development.

c. Introduction of the rating system for self-evaluation of the placement structure.	2006-2007	Ministry of Economic Development.
d) Further planning and development of Georgian recreational territories.	2006-2007	Ministry of Economic Development
<b>Agriculture and Development of agricultural sector</b>		
1. Development of agricultural infrastructure. Melioration system operation reform	2006-2008	Ministry of Agriculture
a) Development of land melioration for provision of agricultural products		
b) Implementation of development project for irrigation and drainage consumer organizations		
2. Development of vine-growing and wine-making industry and combating falsification	2006-2008	Ministry of Agriculture
a) Identification of geographical areas of raw material needed for production of original wines and registration and pasportization of vegetation in those zones		
b) Establishing wine quality system and support to establishing of regulating agency for wine-making (GTZ project)		
3. Provide for food safety and quality	2006-2008	Ministry of Agriculture
a) Implementing technical regulations for various products		
b) Ensuring laboratory investigation for foodstuff products		
c) Implementing activities against epizootics.		
d) Implementing measures against massive dissemination of especially dangerous organisms for plants.		
4. Development of agriculture in mountainous and Alpine regions. (IFAD)	2006-2007	Ministry of Agriculture
5. Project on village development (World bank/IFAD).	2006-2007	Ministry of Agriculture
6. Implementation of "Poverty reduction in Lower Kartli and in regions	2006-2007	Ministry of Agriculture

of Samtkhe-Djavakheti” with the view of assisting social and economic development in the rural areas			
<b>Environmental Protection</b>			
1. Introduction of Natural resources exploitation system/ Public Private Partnership (PPP) model for forestry management			Ministry for Natural Resources and Environmental Protection
a) Forest creation	2006-2008		
b) Forest protection and renovation in landslide-prone areas	2006-2008		
c) Routine differentiation and regulation of forest areas with landscape-ecological zoning method.	Before first half of 2007		
2. Resources exploitation system/move to reservoir-based management for water resources.			Ministry for Natural Resources and Environmental Protection
a) Move to reservoir-based management for water resources.	Before first half of 2007		
b) Introduction of water quality monitoring system.	Until end of 2007		
3. Environment protection system/Development of protected territories and ecotourism.			Ministry for Natural Resources and Environmental Protection
a) Construction of infrastructure	First phase before end of 2007		
b) Preparation of informational tours	Before first half of 2007		
c) Demarcation of boundaries and establishment of management plans	Before first half of 2007		
4. Environment protection system reform/Working out of waste management policy			Ministry for Natural Resources and Environmental Protection
a) Elaboration of draft law on waste-management	Before 2007		
b) Elaboration of national action plan for solid organic pollutants	Before 2007		
c) Elaboration of waste management strategy	Before the end of 2007		
5. Effective activation of “Clean Development Mechanism” (CDM) of Kyoto Protocol on UN climate change convention	2006-2007		
6. Assisting private sector working in renewable energy sector.	2006-2007		Ministry for Natural Resources

Elaboration of sector development strategy			and Environmental Protection
7. Maximal consideration of expected negative results of climate change in various sectoral strategies and programs	2006-2007		
<b>Improvement of Social-Economic Conditions in Post-Conflict Zones, Integration of IDP's and Eco-migrants.</b>			
1. Implementation of the third phase of energy, water supply and social rehabilitation programs in Tskhinvali region under the EC financing	2006		Government
2. Implementation of Georgian-Abkhazian conflict zone rehabilitation project (Water supply, litter utilization, rehabilitation of 4 hospitals and consolidation of Riv. Kodori dykes) under the EC financing	2006-2008		Government
3. Implementation of social rehabilitation program in Gali region and its adjacent territories (Ochamchire and Tkvarcheli regions) under the EC financing	2006-2008		Government
4. Registration of property rights on real estate in Abkhazia and Tskhinvali region			Ministry of IDP
a) Promotion of the presidential program "My House"			
b) Provision of free legal advice for refugees	2006-2007		
c) Procurement of geoinformation software map and preparation of cadastral map some lands.	2007		
d) Provision of satellite surveys	2006		
e) Provision of relevant software for the data base	2006-2007		
5) Elaboration of state policy for refugees with the purpose of their integration and improvement of social-economic conditions			Ministry of IDP
a) Elaboration of new outlook for solving the IDP issues	2006		
b) Registration of collective centers for creation of comprehensive data base	2006-2007		
c) Registration of refugees	2006-2007		



d) Provision of the software for synchronization of the data-base on refugees	2006-2008		
e) Improvement of social-economic conditions of refugees (gasification of collective centers, putting in order the consumed electricity meters, rehabilitation of organized sector units)	2006-2008		
6. Elaboration of relocation-integration mechanisms for natural disaster-driven migration processes			Ministry of IDP
a) Identification and procurement of reserve living spaces necessary for the relocation	2006-2008		
b) Finding additional financing sources for relocation measures	2006-2008		
c. Establishment of a relevant legislative basis for regulation of migration processes	2006-2007		