



# Should Poland Direct Budget Support to Georgia?

Policy Analysis Exercise

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## Contents

Acknowledgements .....	3
Executive summary .....	4
Acronymys .....	6
I. <u>Polish Aid: Policy Challenges</u> .....	7
I.1. Promoting Policy-Based Partnerships .....	8
Box 1. Definitions of Budget Support .....	9
I.2. Scaling Up Development Assistance .....	9
I.3. Improving Aid Effectiveness.....	10
Box 2. Effects of Budget Support .....	11
II. <u>Georgia: Assessment of Country Preparedness</u> .....	12
II.1. Macroeconomic Stability and Budget Structure .....	13
II.2. Public Finance Management .....	15
II.3. Needs Assessment – Post-Conflict Recovery and Sectoral Priorities .....	16
II.4. Overview of Budget Support to Georgia .....	17
Box 3. General vs. Sectoral Budget Support .....	20
III. <u>Designing Polish Budget Support to Georgia</u> .....	21
III.1. Types of Budget Support .....	21
III.2. Safeguards .....	24
III.3. Funding Areas .....	28
III.4. Organizational Issues .....	29
Bibliography .....	31
Annex:	
Fieldwork Report .....	35
Sample Conditionality Matrix .....	43

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## **Executive Summary**

### *Polish Aid: Policy Challenges*

- Ten years after its inception, Polish aid policy is at a crossroads. Poland needs to progress from piecemeal funding, concentrate its assistance and engage partner governments in programmatic dialogue on relevant policies.
- If Poland wants to abide by its international commitments (the Millennium Declaration, the Paris Declaration on Aid Effectiveness), it needs to double assistance by the end of 2010 and improve the effectiveness of aid.
- Poland can respond to the above challenges by implementing budget support – channeling assistance through national budgets using national allocation, procurement and accounting.

### *Georgia: Assessment of Country Preparedness*

- Georgia is a prime candidate for Polish budget support.
- The Georgian macroeconomy has proven resilient to external and internal shocks. The budget is prudent and well-balanced. Defense spending – a key concern for budget support donors – is being cut.
- Georgia has successfully completed a range of crucial public financial management reforms including the adoption of a Treasury Single Account and Medium-Term Expenditure Framework.
- In the wake of the August 2008 conflict and global recession, Georgia is facing a heavy budget deficit of 8% GDP. The country's call for supplementary budget support for 2009 and 2010 has not yet been fully answered.
- According to the donor community, Georgia's track record as a recipient of budget assistance is satisfactory. Currently, Georgia is receiving budget aid from the World Bank, European Commission, Asian Development Bank and two bilateral donors: the United States and Holland.

*Designing Polish Budget Support to Georgia*

- The decision on providing budget aid should ultimately depend on negotiations with the Georgian government.
- Poland should favor sectoral budget support. A sectoral focus makes aid more visible, links it to tangible outcomes and encourages policy dialogue with the recipient.
- Poland can safeguard its budget support from fiduciary and financial risk by choosing to earmark or condition its assistance. Conditionalities are a preferred method if policy dialogue with the recipient is sought.
- Poland should concentrate its budget support on topics like local government, decentralization and social inclusion policies.
- Introducing budget support as a permanent feature of the Polish ODA system requires a professional development research capability and flexible staffing rules. Alternatively, assistance to Georgia might be implemented as a pilot project with relatively low administrative input.

*Next steps*

- Include budget support to Georgia in aid programming for 2010.
- Shortlist funding sectors and prepare feasibility study of Polish budget support in the selected areas. Decentralization and local development are likely candidates.
- Prepare background paper on risk factors for budget support in Georgia (including political risks, corruption, fiscal policy, macroeconomic stability and public financial management).
- Decide whether budget support will be a permanent modality of Polish aid.
- Create a task force of budget professionals and sectoral experts to assist in implementation of Polish budget support to Georgia.
- Negotiate terms of budget support with Georgian government.

## **Acronyms**

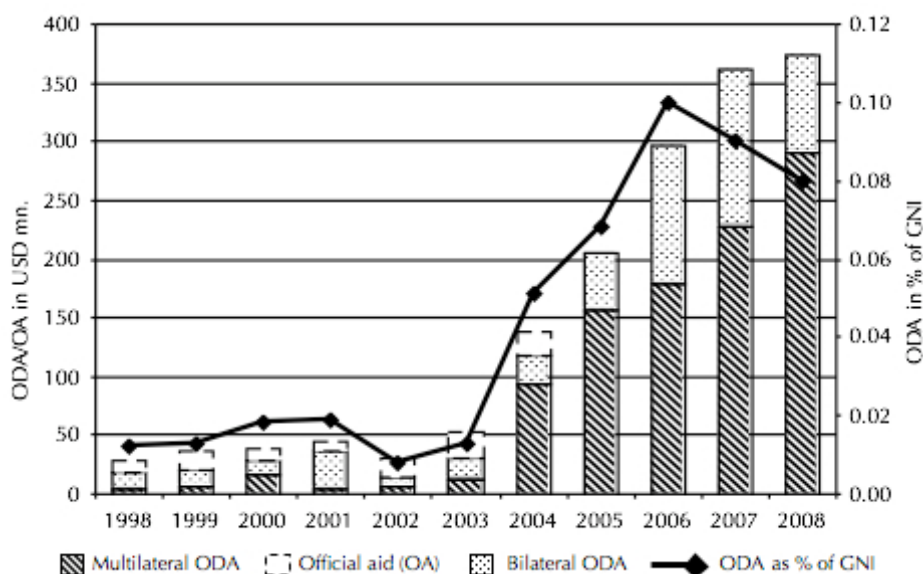
ACP	Africa, the Carribean and Pacific
ADB	Asian Development Bank
CFAG	Coalition for Transparent Foreign Aid to Georgia
COC	Chamber of Control
CIS	Commonwealth of Independent States
DAC	OECD Development Assistance Committee
DPO	Development Policy Operation
EBRD	European Bank for Reconstruction and Development
EU	European Union
EC	European Commission
GBS	General Budget Support
GDP	Gross Domestic Product
GNI	Gross National Income
GoG	Government of Georgia
IDP	Internally Displaced Person
INTOSAI	International Organization of Supreme Audit Institutions
JNA	Joint Needs Assessment
MDG	Millenium Development Goal
MFA /1/	Ministry of Foreign Affairs
MFA /2/	Macro-Financial Assistance
MoF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
NBG	National Bank of Georgia
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
OA	Official Aid
ODA	Official Development Assistance
PEFA	Public Expenditures and Financial Accountability
PFM	Public Financial Management
PRSO	Poverty Reduction Support Operation
SBS	Sectoral Budget Support
USAID	United States Agency for International Development

## **Part I. Polish Aid: Policy Challenges**

Over the course of the last decade, Poland turned from recipient to donor of official development assistance (ODA). Since the inception of its aid program in 1998, Poland's budget for foreign aid rose by an average of 30% annually (compare figure 1) and totaled \$374 mn in 2008 (or 0.08% of gross national income, GNI). Throughout the period, the majority of assistance was disbursed via international institutions such as the European Union or the United Nations. Yet, Polish ODA has also seen rising shares of bilateral assistance (project grants, loans) directed to member countries of the Commonwealth of Independent States. Significant contributions were also given to Africa and the Far East (mostly debt relief and loans). Poland has tried to carve out a niche in development cooperation by actively supporting independent media, civil society organizations as well as central and local government. Aid has come to be seen as an "integral part of Polish foreign policy" (MFA 2003) and a means to contribute to international policy initiatives such as the Millenium Development Goals.

Ten years into its existence, Polish Aid is at a crossroads. On the one hand, assistance levels have stagnated and necessary reforms, above all the adoption of an aid bill, stalled. On the other, Poland, as one of three recent EU entrants that are also member of the Organization for Economic Cooperation and Development (OECD), is pressured to fulfill its international obligations. The following section describes three of the most urgent challenges that the Polish aid administration is currently facing: (1) how to substantiate relations with partner countries; (2) increase aid; and (3) improve its effectiveness. It also explains how direct budget support – the direct channeling of assistance through national budgets using national allocation, procurement and accounting systems – offers solutions to these problems.

Figure 1. Volume and composition of Polish aid 1998-2008 (Source: MFA)



Promoting Policy-Based Partnerships

Polish aid is highly fragmented. It is administered by three ministries (Foreign Affairs, Finance and Science) and spread thinly over a range of modalities and recipients. Every year, about 60-80% of Polish ODA is transferred to multilateral agencies such as the European Union or the World Bank. The majority of the remaining funds is used for loans and debt reduction; one third is parceled out as small project grants to Polish NGOs, diplomatic missions and central and local government institutions. In 2008, the Ministry of Foreign Affairs distributed ca. \$ 35 mn. of project aid to multiple implementing organizations in 8 priority countries and regions. While the pool of priority recipients is being narrowed down (from 9 in 2006), the average size of a project grant still hovers around \$ 60,000.

Due to the fragmentation of Polish assistance, Warsaw has been unable to build lasting partnerships with governments in recipient countries. Large bilateral payments such as export loans or debt reduction have reached countries outside



Poland's immediate zone of interest (e.g. Angola, Nicaragua, Uzbekistan). On the other hand, project assistance to priority countries such as Afghanistan, Belarus, Georgia, Moldova or Ukraine has strengthened contacts at grassroots level but failed to provide sufficient government-to-government networking.

As an aid modality, budget support is a good starting point for substantiating relations with partner countries. Large scale support "buys" the recipient government's attention and gives the donor important bargaining tokens in bilateral negotiations. Since most budget support is offered on an multi-annual basis, it also promotes lasting partnerships. Finally, budget support opens the way for an in-depth dialogue about key reforms in the recipient country.

*Box 1. Definitions of Budget Support (Köberle et al. 2006)*

Direct budget support is a joint donor/government mechanism permitting external resources to be channeled directly through national budgets, using national allocation, procurement and accounting systems, to supplement public expenditure on nationally agreed priorities.

Aid provided as budget support is linked to sector or national policies rather than to specific project activities or budget line items. This reflects the potential of budget support to address key cross-cutting issues such as public sector reform, public financial management or improvements in governance. Budget support typically aims to promote pro-poor growth through encouraging fiscal and macroeconomic stability and more efficient allocation of public funds.

*Scaling Up Development Assistance*

At the General Affairs and External Relations Council of the EU on 23-24 May 2005, Poland promised to increase the proportion of ODA to GNI to 0.17% by 2010 and 0.33% by 2015 with a view to contribute to the financing of the UN Millennium

Development Goals (MDGs). While Polish aid has tripled over the last five years, its share in gross national income has not yet broken the 0.1% mark. If Poland is to keep its commitment, it needs to double assistance in 18 months and quadruple it by 2015.

The bulk of the required increase is likely to come from payments to the European Development Fund (EDF), expedited debt reduction and more active lending. Yet, each of these instruments has significant downsides for Poland as a donor. The European Development Fund is the main mechanism for providing EU assistance to countries in Africa, the Caribbean and the Pacific (ACP). Poland intends to focus on recipients east of its borders. Debt reduction allows to write off loans that are unrecoverable but does not raise assistance permanently. Poland is also quickly running out of outstanding loans that could be canceled. Lending is problematic because export credits – the most popular loan modality – compromise the effectiveness of assistance and contravene OECD guidelines on tying.

Budget support would offer Poland a fourth option for scaling up assistance. There are no limits on the size of a potential support package. As a rule, budget support is paid out over many years allowing Poland to add a new long-term modality to its aid portfolio.

### *Improving Aid Effectiveness*

While there is no consensus on what constitutes effective aid, the international community has adopted guidelines that link effectiveness to selected indicators such as predictability, fragmentation and alignment with MDGs. Poland is signatory to the flagship agreements on aid effectiveness, the Rome Declaration, the Paris Declaration and the Accra Agenda for Action. So far, it has not undertaken any official assessment of aid effectiveness. Yet, fragmentary evidence suggests that

Poland needs to improve the terms on which it gives foreign assistance. Aid is spread thinly across many recipients, sectors and modalities. Poland programs its ODA on a yearly basis and cannot guarantee future payments to partner countries. Project evaluations are confined to output monitoring – no results-based management system is in place.

Budget support offers Poland a chance to adjust its assistance scheme to the requirements of the Paris Declaration. By launching budget support, Poland would improve its rating on indicator 3 (reporting aid in the recipient's budget), 5a/b (using national public financial management and procurement systems) and 9 (implementing program-based approaches). Recipients would be given ownership of the allocation and management of assistance. Funds could be concentrated and their use streamlined. Since budget support could be based on a bilateral agreement with the partner country, Poland would also ensure better predictability of its aid. Finally, channelling aid through the partner government's budget would increase the accountability and transparency of Polish aid.

*Box 2. Effects of Budget Support (DCD 2007b)*

In theory, budget support should allow donors to harmonize assistance, align aid on budget, save transaction costs etc. But does budget support work in practice? In 2004, a group of 24 agencies and 7 partner governments conducted an independent evaluation of general budget support. The evaluation found that general budget support:

- Supported policy coherence and dialogue, empowered aid-implementing agencies and made policy commitments more visible;
- Increased discretionary funds available to recipients, enhanced matching of donor and recipient money and balanced out investments and recurrent spending
- Involved high start-up costs, marginally decreasing over time
- Generally improved the planning and budgeting processes
- Lacked predictability and noticeable effects on fiscal accountability

While the evaluation did not include CIS countries, the general trends are likely to hold across geographies. Budget support brings positive effects to harmonization, alignment and policy development and sometimes helps the allocative efficiency of public expenditure and PFM systems.

## **Part II. Georgia: Assessment of Country Preparedness**

After the Rose Revolution and prior to the conflict with Russia in August 2008, Georgia has been regarded as one of the most successful reformers among all developing countries. Annual GDP growth exceeded 9% in every year since 2005. The government focused first reforms on fighting corruption and modernizing law enforcement agencies. It embarked on a strategy aimed at developing a dynamic and competitive private sector as the main engine of growth. The government also undertook complementary reforms in the areas of public finance, health care, education and social safety. The scale and speed of reform is best illustrated with the fact that between 2005-2008 Georgia jumped 96 ranks in the World Bank's Ease of Doing Business Index. It is today the 18th most business-friendly economy in the world.

Georgia's economic success and reform spirit make it an attractive candidate for Polish budget support. Georgia, more than any other developing country in the former Soviet bloc, has the capacity to translate external financing into accelerated growth and poverty reduction. Poland has also important strategic interests in the Caucasus region and actively supports Georgia's post-conflict reconstruction. Georgia is a suitable candidate for Polish budget support not least because of the size of its budget. Given total expenditures of about \$ 3.68 bn., Polish budget support could account for a meaningful share of public finance.

But is Georgia prepared to receive Polish budget support? What developmental needs should budget support meet? What other budget donors are currently present in the country? What are their experiences with cooperation with the Georgian authorities? The following chapters attempt to answer these questions by

summarizing findings from the Joint Needs Assessments (2008, 2009), the Public Expenditure and Financial Accountability review (2009) and interviews with donors and government officials.

*Macroeconomic Stability and Budget Structure*

Before the conflict in August 2008, Georgia's macroeconomy showed a solid performance and great flexibility in responding to internal and external shocks. In spite of large increases in energy prices and the loss of part of the traditional export market, fiscal and external current account balances were healthy. The fiscal deficit on a cash basis was 2.9% of GDP in 2006 compared with 2.4% in 2005. Financing of the state budget deficit did not crowd out the private sector and was not inflationary. External public and publicly guaranteed debt declined from 46.4% of GDP in 2003 to 18% in 2007.

On the revenue side, the curing of public finances was made possible thanks to improved tax collection (from 9.4% of GDP in 2003 to 19.1% in 2006) and strong external financing through grants and concessional loans. The composition of expenditures has also gone through major changes during 2003-2006. Social spending on education and health increased from 0.1% of GDP in 2003 to 4% in 2006. All social expenditures taken together, including pensions and social assistance programs, came to represent about one third of the state budget. There have also been increases in transport, communications and public capital expenditures. Of concern was the fact that the largest rise in public expenditures was on defense (from 0.7% of GDP in 2003 to 5.2% in 2006).

The August conflict and the global economic downturn have moved Georgia out of its secure growth trajectory. In the first Joint Needs Assessment from October 2008, the economy was projected to grow by 4%; it is now projected to contract by 1.5%.

The growth estimate for 2010 has been revised from 6% to 2% (see table 1). Budget deficit is predicted to rise to 8.2% of GDP in 2009 and 6.9% in 2010. The Georgian authorities responded prudently to these external shocks by a combination of adjustment and financing. Expenditures have been cut. Defense spending is expected to decline by 3.5 percentage points of GDP. The government is determined to continue social reforms. This flexible response is largely made possible by external financing through donors supporting the payment of pensions and targeted social assistance (e.g. Asian Development Bank, World Bank).

Overall, the Georgian government has demonstrated significant skill in managing the economy and keeping fiscal discipline. The key point of concern from a budget support point of view – the large share of defense spending in Georgia’s state budget – is likely to be resolved as Georgia restructures its government spending.

*Table 1. Macroeconomic Projections 2008-2010 (JNA 2009)*

	2007	2008		2009		2010	
		Pre - Crisis	Post - Crisis	JNA	Revised*	JNA	Revised
GDP (growth, in per cent)	12.3	9.0	2.1	4.0	-1.5	6.0	2.0
	In percent of GDP						
Fiscal revenues and grants	29.3	28.5	30.7	26.0	28.0	25.5	26.7
Fiscal expenditure and net lending	34.0	32.4	37.1	29.8	36.3	28.0	33.6
Overall fiscal balance	-4.7	-4.0	-6.3	-3.8	-8.2	-2.5	-6.9
Export of goods and services	31.1	33.3	28.7	30.0	25.6	31.5	29.3
Import of goods and services	57.9	58.9	58.3	54.3	48.2	52.2	51.5
Current account balance	-19.6	-16.6	-22.2	-18.7	-16.1	-15.9	-15.5
Current account balance (\$ billion)	-2.0	-2.1	-2.9	-1.9	-1.8	-1.8	-1.7
Memorandum Item:							
GNI per head (\$, atlas method)	2,090	2,510	2,480	2,830	2,610	3,280	2,750

Source: World Bank; \* As of June 2009

*Public Finance Management in Georgia*

Until August 2008, the Georgian government had made steady progress in the reform of the public financial management system. Since then, reform activities have somewhat stalled but are likely to return to past performance. In general, Georgia scores satisfactory marks in each of the PEFA evaluation criteria but there exists large variation in each assessment area.

The Budget System Law approved in January 2004 set in place the principles of comprehensiveness, transparency and accountability for the budget system as well as procedures for the preparation, discussion, approval, execution, consolidation, reporting and auditing of the budget. All extra budgetary funds were closed and all state financial transactions were unified within a Treasury Single Account (TSA).

The division of power among the Government, the external control and Parliament is well defined. The annual budget law determines the appropriations to the spending units, and reallocation between spending units is not allowed without the Parliament's approval of the revised budget. The control mechanism that is in place ensures that the spending units maintain their commitments within their approved appropriation. To strengthen the link between government development priorities and the annual budget, a Medium Term Expenditure Framework (MTEF) has been developed to reflect sectoral priorities in the budget and improve the efficiency of public expenditures.

A new reform strategy for public sector accounting as well as new financial and performance requirements for Legal Entities of Public Law, have further strengthened the Treasury system and its financial accounting and reporting framework. The law on local self-government finances has defined the budget and financial control

procedures for local self-governments and has established rules for the formulation, control, audit, evaluation and execution of local government budgets. In addition, the State Procurement Agency has developed guidelines for efficient procurement procedures and continues to improve transparency in public procurement processes by adopting international standards.

There are, however, areas in the existing internal and external control system, personnel and payroll, public procurement, and reporting of high quality consolidated financial statements that are in need of continued reform to further enhance the effectiveness of PFM. A detailed account of these weaknesses is provided in the 2009 PEFA report.

#### *Needs Assessment – Post-Conflict Recovery and Sectoral Priorities*

The August 2008 conflict and the global economic slowdown dealt a severe blow to the growth prospects of the Georgian economy. It brought on a contraction of liquidity in the banking sector, stress on public finances, damage to physical infrastructure and increased numbers of internally displaced persons. In the run-up to the donor conference in Brussels in October 2008, the United Nations and the World Bank called for donor support in three areas:

- the restoration of confidence through budget aid as well as equity, debt and guarantee support to domestic banks;
- meeting social needs such as housing for IDPs and social assistance;
- support for critical investments in infrastructure and urban development.

Total financing needs were estimated at \$3.25 bn. over 3 years. This included both reconstruction efforts as well as additional projects envisaged by the government in Tbilisi. At the donor conference in Brussels, actual pledges exceeded expectations



as \$3.7 bn. was committed to Georgia.

Budget support played a prominent role in the evaluation and design of Georgia's post-conflict needs. Initially, it was estimated that the budget would require \$480 mn. of additional financing in 2008 and \$450 mn. in 2009. Yet, as the global recession deepened and budget revenues shrank, the budget deficit threatened to reach over 8% of GDP. The government responded by cutting expenditures and seeking external financing. In addition, Georgia sped up the privatization process in the transport sector and applied for a stand-by arrangement with the IMF. No requests for additional budget support were made.

Of the \$480 mn. budget support required for 2008, donors have disbursed so far \$388.5 mn. Apart from the financing gap for 2008, it is unclear whether donors will cover the budget support planned for 2009. While selected institutions such as the World Bank and the Asian Development Bank agreed to scale up assistance, others like USAID remain silent about the prospects for continued cooperation. There remains a financing gap of ca. \$ 200 mn. which gives Poland and alternative donors of budget support room to participate in Georgia's economic recovery.

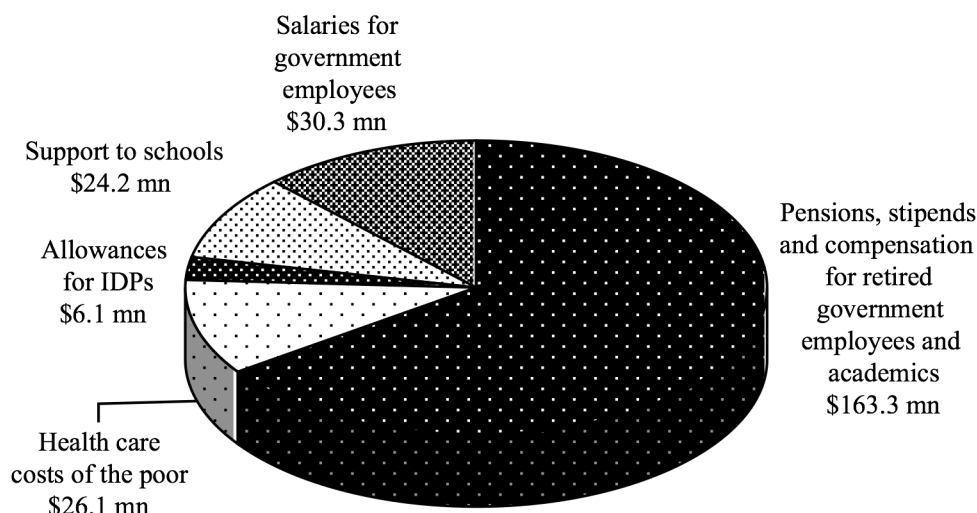
#### *Overview of Budget Support to Georgia*

Since the launch of PFM reforms in 2004/2005, Georgia has been favorably viewed by donors of budget aid. It is therefore not surprising that budget support has been accorded an important role in Georgia's post-conflict recovery. In the period between October 2008 and March 2009, 6 donors implemented around 9 different budget support programs in the country.

The largest portion of external financing came from USAID which transferred \$250

mn. in emergency assistance to the Georgian government. USAID specified per capita expenditures which should be financed from its grant (compare figure 2). Large scale cash transfers are unusual for USAID. The American cash transfer is likely to have been motivated politically.

*Figure 2. Breakdown of USAID Cash Transfer of \$250 mn*



The Asian Development Bank (ADB) has been the second most generous donor of budget assistance to Georgia. In November 2008 Georgia obtained a US\$ 70 mn budget loan from the ADB. The loan was issued on very beneficial terms (40 years repayment, 10 years grace period, annual interest of 1%, no conditions) in accordance with the Bank's procedures on emergency lending. It was paid out in one tranche. The ADB plans to expand its portfolio in Georgia by two Development Policy Lending Operations in 2009 and 2010 (\$40 mn. each).

The most influential budget donors in Georgia are the World Bank and the European Commission. The Bank has closely cooperated with the Georgian government on a number of important reforms (including private sector development). Between 2005 and 2008 it has been running a Poverty Reduction Sector Operation (PRSO) with extensive policy dialogue in the areas of public sector management, public services,

private sector development as well as social protection, health care and education. After the August 2008 conflict, the PRSO has been extended through a supplementary loan of \$40 mn. Recently, the World Bank approved a Development Policy Operation (DPO) of \$85 mn supporting three main policy areas: public finance, social safety and external competitiveness. It plans to follow up with two additional DPOs. All World Bank programs are loans.

The European Commission has been one of the first donors to disburse budget support to Georgia. Since 2006, it has been introducing every year a new sectoral budget program of € 15 mn. Each program is spread over three installments. In 2009, three such programs in the areas of public financial management, criminal justice and vocational training were in effect. In response to the August 2008 conflict, the Commission also funded a special program on IDP housing. In the past, the European Commission disbursed macro-financial aid to Georgia and considers to re-launch this type of budget assistance. The Commission disburses grants only.

The Netherlands has been one of two bilateral donors paying out budget assistance to Georgia. To limit transaction costs, it has coordinated its assistance with the World Bank and linked the disbursement of its budget grants to conditionalities negotiated under the PRSO. Due to dissatisfaction with the progress of reforms in the Georgian Chamber of Control, the Netherlands withheld half of its promised assistance (€ 2.5 mn were disbursed). The second bilateral donor of budget aid is the Ukraine. The government in Kiev promised to pay out \$10 mn. in general budget support following the August 2008 conflict. The transfer was received in 2009 but no information is available about the terms of assistance.

Box 3. General vs. Sectoral Budget Support (Köberle et al. 2006)

There are two types of nonproject aid that is commonly referred to as direct budget support:

- General Budget Support (GBS) – a general contribution to the overall budget (also called macro support)
- Sector Budget Support (SBS) – financial aid earmarked to a discrete sector (with any conditionality relating to these sectors)

Sector budget support is usually related to a broad area such as education and health, or subsector like primary health care financing. The dialogue focuses on sector-specific concerns rather than on overall budget priorities. Sector program assistance supports the implementation of reforms and other actions needed to overcome sector-based development constraints. Additional sector reporting may supplement standard government accounting, although the disbursement is usually based upon government procedures.

### **Part III. Designing Budget Support to Georgia**

Given the fiscal implications of the August 2008 conflict, Georgia's developmental needs, improved public financial management and openness to donors, Tbilisi should be considered a prime candidate for Polish budget support. However, the decision on support to Georgia should ultimately depend on the modalities of assistance and the extent to which concerns about the monitoring of budget aid and the country's transition to democracy are accommodated. This part therefore outlines and evaluates key questions about the type of budget support that Poland might provide and Georgia accept.

#### *Types of Budget Support*

The first set of questions concerns the modalities of Polish budget assistance. Should Warsaw provide general budget support, sectoral aid or other program-based assistance? Should budget assistance be provided on a bilateral basis or should it be "piggy-backed" onto an existing multilateral program such as the World Bank Development Policy Operation? Are loans preferable to grants? How much assistance should Poland provide and over what time horizon?

Various modalities – the scale of assistance, concessionality, tranching and program duration – are linked to the type of assistance. Table 2 juxtaposes different types of assistance and their characteristics. It can be seen that the scale of assistance generally increases with the directness of budget support. Channeling assistance through the World Bank would allow Poland to limit its financial contribution to a one-time loan of US\$ 1 mn. Independently provided budget support necessitates larger sums and longer timelines to develop a lasting policy dialogue with the

recipient government. Sectoral budget support would therefore require a minimum of US\$ 3 mn. in grants or loans spread over 3 years. General budget support becomes attractive for the Georgian government upwards of US\$ 5 mn.<sup>1</sup> All types of program assistance are feasible from a legal point of view. Although Polish law does not permit multi-year planning of foreign aid, program assistance can be generally disbursed on the basis of an intergovernmental treaty.

The bottom section of table 2 evaluates the four types of budget support with respect to potential benefits and risks for Poland. Apart from general advantages linked to budget support as an aid channel (i.e. scaling up and diversifying Polish development assistance), Warsaw can also maximize the degree to which budget support allows it to enter policy dialogue with Georgia and the degree to which different types of assistance conform to the Paris Declaration on Aid Effectiveness<sup>2</sup>. Similarly, Warsaw should be interested in the long-term success of its program assistance and ought to pay attention to issues of ownership and impact. Finally, Poland should base its choice of budget support mechanism on its ability to track funds in the Georgian budget system.





















According to the above criteria, sectoral budget support stands out as the most promising channel for Polish budget support to Georgia. The focus on a particular sector would allow the Polish government to develop a lasting partnership in a specific policy area. Poland's involvement could go beyond the provision of funds and include technical assistance. Choosing a sectoral focus would encourage the Georgian government to link Polish assistance to concrete outputs (e.g. a network of

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<sup>1</sup> Estimates are based on interviews with World Bank staff in Tbilisi and the Georgian Ministry of Finance. Minutes from each interview are attached in annex 1.

<sup>2</sup> Two indicators of progress listed in the Paris Declaration are directly related to the provision of budget assistance. Indicator 5 requires that donors use public financial management and procurement systems in partner countries. Indicator 9 asks donors to use predominantly program-based approaches.

Table 2. Comparison of Alternative Types of Budget Support<sup>3</sup>

Modalities	Direct Budget Support						Other Program-based assistance	
	General		Sectoral		Multilateral (World Bank)			
Scale of assistance (year)	US\$ 5-10 mn.		US\$ 3-10 mn.		US\$1-10 mn.		US\$ 1-10 mn.	
Loan vs grant	Loan or grant		Loan or grant		Loan		Loan or grant	
Tranching	Fixed or variable; fixed more common		Fixed or variable		Fixed		No tranches	
Duration	Min 3 years		Min 3 years		Min 1 year		Min 3 years	
Legal feasibility	Inter-governmental agreement		Inter-governmental agreement		MoU with World Bank		Inter-governmental agreement	
Evaluation	Rating	Comment	Rating	Comment	Rating	Comment	Rating	Comment
Potential for policy dialogue		Small		Large		Small		Large
Alignment with Paris Declaration		Supports achievement of indicators 3, 5 and 9		Supports achievement of indicators 3, 5 and 9		Supports achievement of indicators 3, 5 and 9		Supports achievement of indicator 3 (potentially) and 9
Ownership		Full ownership		Significant ownership		Significant ownership		Limited ownership
Impact		Unclear		Tangible		Tangible		Tangible
Risks		Funds difficult to track		Funds somewhat difficult to track		Funds somewhat difficult to track		Funds managed by donor

<sup>3</sup> Source: Desk research and field interviews

 Best possible rating  Worst rating

drug rehabilitation centers with trained counsellors)<sup>4</sup>. Channeling funds through the Georgian budget would ensure partner country ownership and make Polish assistance more valuable to Georgian policymakers. Eventually, Polish assistance could be traced to sizeable outcomes which would help Warsaw to justify large-scale spending to the Polish public.

While sectoral budget support is easier to control than general support (eligible expenditures are limited), the tracking of funds is a problem common to all forms of budget assistance. Donors often opt for donor-managed program assistance or supplement their support programs with sophisticated tracking mechanisms. These measures are so wide-spread that all budget donors active in Georgia include them in their program designs. The next section explains the fiduciary arrangements currently in use in Georgia and recommends safeguards for Polish budget support.

### Safeguards

Budget support, like any other lump sum transfer, is associated with two major risks<sup>5</sup>. Firstly, large inflows of discretionary financing may tempt recipients to misappropriate funds. Secondly, budget aid is fungible. It can be easily shifted between different uses (including non-developmental expenses). It is practically impossible to link assistance to specific expenditures. Yet, for visibility reasons donor agencies are interested in "owning" projects and programs that they co-fund. To minimize the fiduciary and financial risks of budget aid, donors in Georgia make use of two basic control mechanisms: earmarking and conditioning assistance. Both

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<sup>4</sup> Theoretically, the same argument holds for general budget support. In practice, GBS is coordinated by the Ministry of Finance and sectoral support by line ministries which are usually more amenable to identifying donor-funded budget items.

<sup>5</sup> Cant et al. (2008) also list developmental risks (the risk of not achieving the stated program objectives) and non-financial risks (including macroeconomic, political and partnership risks). Some assess corruption as a specific governance risk. Each donor emphasizes different types of risks but all agree that fiduciary controls and public financial management are key.



measures can be used alongside general/sectoral budget support and joint financing (compare table 3).

*Table 3. Types of Budget Support vs. Safeguards in Georgia 2008-2009*

	General budget support	Sectoral budget support	Multilateral (World Bank)
Earmarking	<ul style="list-style-type: none"> <li>• USAID cash transfer</li> <li>• ADB emergency assistance (only targeted social allowances)</li> <li>• ADB Municipal Development Project</li> </ul>	<ul style="list-style-type: none"> <li>• EC – IDP program</li> </ul>	
Conditionality Indicators  Measures	<ul style="list-style-type: none"> <li>• ADB emergency assistance (rest)</li> <li>• World Bank Poverty Reduction Support Operation</li> </ul>	<ul style="list-style-type: none"> <li>• EC – PFM, criminal justice and vocational training programs</li> </ul>	<ul style="list-style-type: none"> <li>• Netherlands</li> </ul>

Under the first control mechanism, earmarking, the scope of funding is limited to individual expenditures (e.g. pensions), programs (e.g. IDP housing) or implementing agencies (e.g. regional development funds). Thanks to the itemized allocation of funds donors can reliably control spending through reports and audits. However, drawing up spending plans with the donor means that only simple budgeting tasks like procurement or book-keeping are left in the domain of the recipient administration. This runs counter to the general idea of budget support which is to allow recipients to plan and implement assistance via the national budget. Moreover, earmarking does not fully resolve the problem of fungibility as additional investments in the targeted sector might crowd out domestic spending. Feyzioglu et al. (1998) observed that in 13 developing countries between 1971-1990 loans earmarked for agriculture, education and energy programs led to lower public spending in these sectors; aid was not fungible in transport and communication.

Earmarked budget support is currently being implemented by three budget donors in

Georgia: USAID, the European Commission and the Asian Development Bank. Under the terms of its \$250 mn. cash transfer agreement, USAID finances salaries, pensions, unemployment benefits, health care fees, education grants and stipends (for a detailed list of expenditures see section II.4). To simplify the checking of accounts, each spending category has been budgeted on a per capita basis. The size of education grants to schools, for instance, was made dependent on the number of students. The European Commission has channelled its assistance to IDPs via the the Georgian budget but earmarked funds to tasks like the building and maintenance of refugee shelters. The Asian Development Bank has assigned \$40 mn. to the Municipal Development Fund. It also earmarked a part of its \$40 mn. emergency aid to Georgia's program of targeted social assistance to the poor.

Conditionalities, the second safeguard, are the most common means of tracking the flow of budget aid. Donors divide their aid packages into several installments and make the release of each tranche dependent on the fulfillment of trigger conditions agreed in advance. Trigger conditions include both quantitative indicators (e.g. budget deficit, the rate of inflation) and required measures (e.g. privatization, PFM reforms). While donors do not specify how to allocate budget support, they require recipients to focus their resources on the agreed triggers. The advantage of this strategy is that the recipient government retains its discretion over the structure of expenditures. Negotiating conditionalities can also open the way for policy dialogue on issues of concern. On the other hand, conditionalities do not permit to track expenditures as rigorously as earmarking. Policy triggers are often circumvented. Recipients have an incentive to provide inaccurate or incomplete information which donors tend to overlook in the name of program continuity (Gibson et al. 2005).

In Georgia, unreliable statistics and dead letter reforms are often cited as problems in evaluating whether conditions were met. All donors have reservations about data provided by the Ministry of Economy. Representatives of non-governmental

organizations warn that the rate of inflation has been systematically underestimated.<sup>6</sup> The government has a good record of implementing required policy reforms but struggles with the enforcement of specific measures (e.g. the reform of the judiciary and the penitentiary system).

Currently, four out of six budget donors are using conditionalities to safeguard their budget support operation. The least stringent is the Asian Development Bank which paid out all of its emergency assistance in one installment. Georgia is only required to keep its GDP growth at an annual average of minimum 4% over the years 2008-2010 with economic recovering beginning in the second half of 2009. The World Bank's Poverty Reduction Support Operation is more complicated; it spans four tranches, one supplemental credit, ex ante conditions regarding macroeconomic stability and a list of 29 triggers in the areas of public sector management, private sector development, human development and energy policy. The European Commission provides sectoral budget assistance in three variable tranches. It includes detailed conditionalities related to the functioning of the supported sector (see sample conditionality matrix for criminal justice in annex 2).

Donors can supplement the earmarking or conditioning of assistance with additional safeguards. A standard provision requires the recipient to report regularly and, if necessary, give a third party auditor access to the books. Since parliamentary scrutiny over the budget is weak, donors may also train and fund political parties and non-governmental organizations in the monitoring of budget expenses. NGOs in Georgia have voiced interest in such trainings.

Given the fiduciary and financial risks associated with the provision of budget support to Georgia, Poland should consider to employ one of the above tracking mechanisms. Its choice largely depends on national preferences and negotiations

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<sup>6</sup> For more details see interviews with World Bank staff and representatives of the Open Society Georgia Foundation and the Eurasia Foundation (annex 1).

with the Georgian government. If Poland would like to disburse budget support but avoid country systems, earmarking is recommended. If the use of country systems and cooperation on policies is important, conditionality should be preferred. If sectoral budget support is chosen as aid modality, conditionality would further enhance the policy dialogue between Poland and Georgia.

### *Funding Areas*

If Poland decides to provide sectoral budget support to Georgia, it will have to choose an area of focus. Since there exists currently no single definition of what constitutes a "sector", Poland can define this area according to its own interests and capabilities. Taking into account Poland's ongoing aid projects in Georgia and a recent expert survey of future activities the following areas could be long-listed for sectoral support:

- Regional development and local government reform
- Social inclusion (with special emphasis on drug abuse and disabilities)
- Agriculture and rural development
- Tourism and forestry
- Border security

The above long-list should be narrowed down to two or three target sectors. The shortlist should then be negotiated with the Georgian side. Poland should consult potential implementing agencies and take a lead in negotiations with the Georgian Ministry of Finance by presenting well-researched proposals based on the shortlist. The Georgian Ministry of Finance prefers general over sectoral budget support and is likely to justify this choice with the ownership principle prevalent in the aid effectiveness literature.

Regional development and local government support is a particularly strong target area thanks to the ongoing Task Force on Regional Development for Georgia co-led by the Warsaw-based Foundation for Economic Education and co-funded by Polish Aid. Providing budget support in this area would allow Poland to push the planned local government reform towards increased decentralization and accountability. Thanks to the success in promoting local self-government after the fall of communism, Poland is particularly well-suited to launch a comprehensive policy dialogue in this area.

### *Organizational Issues*

Poland needs to consider whether it would like to introduce budget support as a permanent vehicle for its aid policy. If yes, aid monies need to be made easier available and organizational capacity strengthened. This can be achieved through the following legal and administrative steps:

- creating an independent aid agency with *autonomous staffing rules* tailored to attract leading fiscal experts and economists;
- building a formal *network of sector experts and contractors* for donor missions and ad hoc project tasks;
- adding a *strategic analysis and research unit* for critical evaluations of a country's macroeconomic conditions and developmental progress;
- *setting aside* a fixed proportion of *Polish aid* for budget support;
- adopting an aid bill with provisions enabling *multi-year planning of aid budgets* and stronger predictability of budget assistance;
- devising *policy guidelines* pertaining to the selection criteria for recipients of budget assistance and related problems (e.g. bandwagoning of budget donors in countries with strong PFM systems);

If a long-term commitment towards budget support cannot be made, cooperation

with Georgia offers a good opportunity to pilot this form of assistance. Budget aid to Georgia could generate administrative and political momentum establishing program assistance permanently in Poland's aid policy. At its most basic, the pilot scenario does not require any changes to the existing legal and administrative structures. Funds can be made available through the signing of an inter-governmental agreement between Poland and Georgia (according to Polish law international liabilities are a priority expenditure in the Polish budget).

Operationally, the agreement can be designed and monitored by the Development Cooperation Department at the Ministry of Foreign Affairs and personnel of the Polish Embassy in Tbilisi. Alternatively, an inter-ministerial committee with representatives from the Departments for State Budget; Financial Policy, Analysis and Statistics; International Affairs and Public Finance Reform at the Ministry of Finance as well as the Development Cooperation Department at the Ministry of Foreign Affairs could be formed.

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## Annex I

### POLICY RESEARCH PROJECT: POLISH BUDGET SUPPORT TO GEORGIA

#### FIELDWORK REPORT

Tbilisi, 18-24.01.2009

Interviewee: Giorgi Kiziria, National Officer, Asian Development Bank

Date of interview: 19.01.2009

The meeting with Giorgi Kiziria was proposed by Debra Kertzman, Senior Project Leader at the Asian Development Bank (ADB). GK was formerly with the Ministry of Foreign Affairs of Georgia and advised the ADB on a series of loan projects in the second half of 2008. Since January 2009, he heads the Tbilisi office of the ADB.

The Asian Development Bank views budget support as a suitable channel for the promotion of the Georgian economy. In November 2008 Georgia obtained a single-tranched **US\$ 70 mn budget loan** from the ADB. The loan was issued on very beneficial terms (40 years repayment, 10 years grace period, annual interest of 1%, no conditions) in accordance with the ADB's procedures on emergency lending. The loan aims to cover a part of the budget shortfall that resulted from the Georgian-South Ossetian conflict in August 2008.

The ADB limits the **monitoring of the budget loan** to the tracking of basic indicators. A critical condition is that all social expenditures (including a large number of outstanding state pensions) laid down in the budget for 2008 are covered. The lack of conditionality and flexible monitoring of the loan is grounded in the government's efforts to liberalize the economy and reduce corruption alongside organized crime. The ADB is also willing to make concessions because it faces pressure to expand its loan portfolio in Georgia.

Apart from general budget support, the ADB co-finances Georgia's **Municipal Development Fund (MDF)**. Other donors include the World Bank, the European Commission, the European Bank for Reconstruction and Development, the German Kreditanstalt für Wiederaufbau and the Millennium Challenge Corporation. The ADB issued a US\$ 40 mn. loan which MDF parcels out to municipalities through competitive grants and loans. By channeling funds through a central application process administered by MDF the ADB risks that pro-government municipalities will be awarded transfers on better terms. On the other hand, the donor relies on partner systems and saves transaction costs. To balance these two objectives, ADB requires MDF to seek approval for investment projects exceeding US\$ 2 mn.

According to Giorgi Kiziria, there are three alternative **mechanisms of tracking budget transfers**: (1) earmarking funds; (2) policy conditionality; and (3) indicator-based conditionality. ADB employs the latter mechanism by monitoring the percentage of social assistance recipients in the population. The problem with this last method is that official statistics are often manipulated by the government. The

quality of statistical data is currently a major bone of contention in negotiations with the European Commission.

Interviewee: Mariam Dolidze, Economist, World Bank

Date of interview: 20.01.2009

Since 2005, the World Bank provides budget support to Georgia in the form of tranching lending under the umbrella of a **Poverty Reduction Support Operation** (PRSO). The release of consecutive tranches is made conditional on reform progress in four policy areas: (1) public sector management; (2) electricity and gas services; (3) private sector development; and (4) social protection, health care and education.

Based on a series of **conditionality reviews**, the World Bank is satisfied with the policy measures implemented by GoG. In 2008, GoG failed to fulfill only one policy trigger – the adoption of an INTOSAI<sup>7</sup>-compliant law on the Georgian Chamber of Control. The World Bank is also expecting the establishment of an independent senior civil service and the re-design of the Public Administration Bureau.

Like other donors, the World Bank faces significant **limitations** in measuring progress of **quantitative policy indicators** such as poverty rates or employment. The data provided by the Ministry of Economy are unreliable. More reliable statistics can be obtained from the Central Bank of Georgia, especially as far as financial markets are concerned. In addition, the Ministry of Finance has been commended for sound tracking of donor funds.

In future, the World Bank plans to focus its operations in Georgia on another multi-year development support lending program and technical assistance in the field of public financial management and donor coordination. The Bank wants to continue to use policy matrices as a means to track budget support in the upcoming program. The negotiations for the new budget support scheme are set to begin in February 2009. On the topic of prospective donor engagement in Georgia, Mariam Dolidze pointed to the recent activities of the European Bank for Reconstruction and Development (Georgia became eligible for EBRD funding in 2009) which could even exceed funding provided by the World Bank.

Interviewee: Tamuna Karosanidze, Executive Director, Transparency International Georgia

Date of interview: 20.01.2009

Transparency International (TI) is leading the Coalition on Transparent Foreign Aid to Georgia (TFAG), a group of 7 Georgian NGOs promoting donor-recipient

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<sup>7</sup> The International Organisation of Supreme Audit Institutions (INTOSAI) operates as an umbrella organisation for the external government audit community. For more than 50 years it has provided an institutionalised framework for supreme audit institutions to promote development and transfer of knowledge, improve government auditing worldwide and enhance professional capacities, standing and influence of member SAs in their respective countries.

accountability. The Coalition has no uniform position on budget support, but **advocates caution in the use of direct budgetary transfers**. According to TI, the budget system is semi-transparent and suffers from the weak position of the Georgian legislature. For instance, the Georgian constitution allows the President to dissolve the Parliament if it rejects the budget three times.

In addition, TI seconds concerns from international donors regarding **external audit, procurement and public financial management** (PFM). As with the budget approval process, legislative powers are also significantly curtailed by Georgian law. Currently the Georgian Chamber of Control is not required to start a formal investigation process if irregularities are reported by parliamentarians. It is not clear whether Georgia's procurement law is observed. An unpublished report by TI claims that 40-70% of public expenditures by 7 lead Ministries (including the Ministry of Health) are source-procured. In addition, the structure of the Georgian budget makes the tracking of funds very difficult because line items are defined in vague terms such as "administration".

The monitoring of public expenditures is also significantly hampered by the lack of **PFM capacity in nongovernmental institutions**. TI and other NGOs recommend that donors provide special grants to civil society organizations for capacity-building in general and the tracking of specific budget support packages. Other means to increase the transparency of cash transfers include: earmarking funds to clearly formulated line items in the budget, auditing expenditures, creating contingency plans if monies are mismanaged and portioning out funds in conditional installments.

Interviewee: Martin Klaucke, Head, Operations, EC Delegation to Georgia

Date of interview: 21.01.2009

The European Commission has been **one of the first donors** to disburse budget support to Georgia. Start-up programs were focused on agriculture (food security) and social development (child welfare). In addition, the Directorate General for Economic and Financial Affairs (DG ECFIN) has been providing macro-financial assistance (MFA) to Georgia. Despite the fact that GoG did not meet **EU conditionalities** related to the reform of the Chamber of Control, the MFA program has been extended until 2008. It might be renewed in 2009 with a concessional loan of US\$ 40-50 mn. linked to the repayment of Georgian debt to the EU. In addition, EC provides general budget support (GBS) as reimbursement for IDP housing expenditures. Funds are tracked through (1) a simple policy matrix including conditions on the transparent allocation of housing and (2) detailed reporting guidelines for MDF as implementing institution (the EC checks MDF's books only and does not conduct on-the-ground investigations of housing quality).

Currently, the EC also implements **three sectoral budget support programs** in Georgia. Each of them spans three yearly installments of EUR 5 mn and is enforced through policy conditionalities. The thematic focus ranges from public financial management (started in 2007) to criminal justice (2008) to vocational training (2009).

Georgia has a good track record of working with EC on **policy reforms** but many issues remain unresolved:

- Georgia's State Procurement Agency does not have sufficient discretionary power;
- The CoC does not meet INTOSAI standards;
- Internal audit in government institutions does not work in practice;
- No significant progress has been made on the budget planning reform including the revision of the MTEF;
- Work on the PEFA report has not been concluded due to objections from the government.

Interviewee: Irina Lashkhi, Rule of Law and Public Administration Program Coordinator, Open Society Georgia Foundation

Date of interview: 21.01.2009

Open Society Georgia Foundation is one of 7 members of TFAG. One of TFAG's first projects was the monitoring of the programs funded by the Millennium Challenge Corporation. Neither OSGF nor TFAG were explicitly working on **budget support programs**. According to Irina Lashkhi, the budget support operations run by the EU deserve the most credit for linking spending to institutional conditionalities, budget transparency and expenditure audits. The World Bank devised a detailed conditionality matrix, but seems to apply it flexibly to actual reform progress. In comparison, USAID is seen in civil society circles as a "lenient" donor for whom conditionalities linked to the state of Georgian democracy or rule of law play a nominal role in view of the geopolitical situation in the Caucasus.

Like other interviewees, Irina Lashkhi was sceptic about the **quality of statistics** provided by the Central Bank and the Ministry of the Economy. She does not recommend their use for monitoring purposes unless independent data are gathered. (This was the case when the World Bank conducted a Living Standards Measurement Study in 2005-2006.) For instance, official sources predicted an inflation rate of under 5% while a recent report by the consulting service Oxford Analytica estimated annual inflation at 21%.

OSGF is concerned about achieving real progress with the reform of external audit and the judiciary. It also advocates that NGOs be allowed to participate in meetings of the Aid Coordination Council which has been established in December 2008 at inter-ministerial level. Currently, OSGF is working with the Economic Policy Research Center on an assessment of Georgia's response to the current economic crisis. The report is due to appear in February 2009 and might be of interest to new budget donors.

Interviewee: Timothy Grewe, Budget Advisor to the Georgian Ministry of Finance, Department of Treasury

Date of interview: 22.01.2009

According to Timothy Grewe, budget support is the most **fungible** type of ODA. Once funds enter the budget, they can be freely moved to finance any expenditure. Donors should make sure that recipient countries have a well-functioning budget system in place that allows the tracking of funds in relation to line items. If this is the case, budget support can be earmarked to individual expenditures. The recipient has to indicate whether donor income financed **additional spending** (e.g. higher salaries than initially planned). **Conditionality** is another means of ensuring that recipients spend funds as originally intended. Grewe pointed out that conditionality in sectoral budget support is more effective because individual policy areas can be easier monitored and donors are more likely to enforce conditions.

In Georgia, the budget planning reform has not yet been completed. Tax administration and human resource management are further **shortcomings of Georgia's PFM system**. The MoF needs to implement capital budgeting and a new information system. The recent slowdown in PFM reforms can be explained by the August conflict and the recent economic crisis. In addition, international assessments like PEFA often keep rigidly to benchmarking criteria which may inadequately represent the state of PFM in the recipient country. For instance, PEFA significantly underrated Georgia's tax administration due to high outstanding debt which has been effectively written off.

Grewe recommends that new donors "piggy-back" their budget support onto existing programs operated by multilateral institutions such as the World Bank. An alternative would be to run specific capital-intensive projects in infrastructure (cf. Denmark) and earmark funds accordingly. Cooperation with the Municipality Development Fund also seems to be a viable option.

Interviewee: Dimitri Gvindadze, Vice-Minister of Finance for Donor Coordination

Date of interview: 22.01.2009

The Joint Needs Assessment conducted by the United Nations and the World Bank estimated Georgia's **budgetary financing needs** after the August 2008 conflict at US\$ 481 mn. in 2008, US\$ 453 mn. in 2009 and around US\$ 50 mn. in 2010. In 2008, budget grants and loans from the World Bank, the Asian Development Bank, the European Commission, the Dutch government and the European Union covered most of the financing gap. Donor negotiations for the 2009 fiscal year are still ongoing, with contributions from the World Bank (US\$ 40 mn.), the Asian Development Bank (US\$ 40 mn.) and the European Commission (US\$ 50 mn.) as well as US\$ 46 mn in debt reduction likely to account for almost 50% of the required sum.

The Georgian Ministry of Finance justifies the **delay in PFM reforms** – the revision of the medium-term expenditure framework (MTEF), the adoption of INTOSAI

standards and the enforcement of procurement law – with the current economic crisis and the need to address expenditure and deficit management as a priority. It also discourages the use of donor-designed monitoring tools (e.g. policy matrices) and recommends that new donors of budget support **channel their assistance through existing programs** (e.g. the World Bank-sponsored Poverty Reduction Support Operation). General budget support is preferred to sectoral assistance. The government also discourages donors from managing aid monies themselves

Dimitri Gvindadze admitted that the Georgian government favors a **limited effort approach** to Polish Aid because GoG knows little about Poland's reform experiences and its potential advisory role in Georgia. He expressed interest in an US\$ 10-15 mn. assistance package similar to the three-year programs provided by the European Commission. MoF is open to discussions about potential policy linkages of Polish assistance (e.g. in the field of regional policy).

Interviewee: Hans Gutbrod, Regional Director, Caucasus Resource Research Center

Date of interview: 22.01.2009

Similar to other post-Soviet states, Georgia struggles with good quality **development statistics**. The country's geography and many informal settlements inhibit the collection of representative data. Hans Gutbrod identified the government's reluctance to engage in long-term institution-building as the root cause for unreliable data: GoG implements half-hearted reforms in the Statistics Department of the Ministry of Economy – the main government body responsible for the collection and processing of data – and does not provide enough resources to train and develop professional capacity and statistical infrastructure. With a few exceptions (NORAD, World Bank), donors have neglected the field of statistics. The unclear division of powers between municipalities and the central government further aggravates the problem.

The Eurasia Foundation and the Caucasus Resource Research Center developed a sampling framework for Georgia's entire territory. Currently, the government is organizing a Task Force on Statistics. Gutbrod believes that a comprehensive reform of statistical services should take approximately 1.5 years, but doubts whether there is sufficient political will to implement this reform.

Interviewee: Witold Sartorius, Executive Director, Foundation for Economic Education

Date of interview: 22.01.2009

Witold Sartorius leads a task force on the **consolidation of regional development policy** in Georgia, the first high-level policy project financed from the Polish aid budget. The secretariat of the task force is run by the Center for Effective Governance System and Territorial Arrangement Reform (CEGSTAR), a semi-independent government body affiliated with the Ministry for Regional



Development.

According to Sartorius, the **mission of the task force is to build a sustainable consensus** on the priorities, means and the organization of regional development policy. Currently, this policy area is populated by local administrations, the central government and autonomous agencies like the Municipal Development Fund. Key issues that need to be addressed include the legal position of municipalities and regions, the financing of local administration and a potential territorial reform that would prepare Georgia for absorbing more EU assistance.

There is potential for **synergies** between **Polish budget support** and the regional development project led by Sartorius. It is conceivable that Poland implements a sectoral budget support program and ensures that funds are spent adequately by constructing a policy matrix around issues of regional development, transparency and local administration. The main outcome of such a program would be not the program output (e.g. better trained local government officials) but the policy reforms (e.g. more accountable local leaders) implemented through the conditionality matrix.

Interviewees: Terence Jones & Sean Callahan, Budget Support Team  
USAID Georgia

Date of interview: 23.01.2009

In November 2008, the American government approved a **budget support grant of US\$ 250 mn** to prevent the default of the Georgian state in the wake of the Georgian-Ossetian conflict. The grant was provided through the Tbilisi office of USAID and covered (1) government salaries, stipends and pensions (US\$ 193.6 mln); (2) health care expenditures of the poor (US\$ 26.1 mln); (3) school fees (US\$ 24.2 mln); and (4) subsistence payments to internally displaced persons (US\$ 6.1 mln). Government expenditures undertaken by the Ministries of Interior or Defense were excluded from the funding pool.

Both USAID officials underscored how the **cash transfer agreement with Georgia stands out from custom US assistance policy**. Washington generally prefers policy-based grants or project assistance to unrestricted cash transfers. A direct grant of US\$ 250 mn. is also an unprecedentedly large budget inflow for a small economy like Georgia. The decision to aid Georgia's post-conflict recovery through budget assistance was made at the highest political level in the US Department of State.

The **monitoring** of USAID budget support is relatively **modest**. Under the terms of the cash transfer agreement signed in October, GoG is required to report on public spending every calendar month. The spending items covered under US budget support have been earmarked and formulated on per capita basis (pensions, stipends etc.). USAID reserves itself the right to conduct an audit of relevant expenditures if the financial documentation does not meet USAID expectations. In the first month since the conclusion of the agreement, MoF submitted documents in Georgian language and was required to provide certified translations to USAID. Nevertheless, the US government is considering additional budget support in 2009.

## Annex II

### SAMPLE POLICY MATRIX

#### GENERAL AND SPECIFIC CONDITIONS FOR THE DISBURSEMENT OF EC BUDGET SUPPORT IN THE AREA OF CRIMINAL JUSTICE

##### General Conditions for the disbursement of all installments

The General Conditions set out in Table B below shall apply to the disbursement of all installments and all requests for installment release must be accompanied by appropriate information and documentation to verify compliance.

**Table B: General Conditions for the release of all installments**

Condition	Criterion	Indicator/Means of Verification
<b>A. MACROECONOMIC STABILITY</b>		
<b>Sound macroeconomic framework</b>	Positive assessment by IMF and EC of the Government's macroeconomic policy and Georgia's macroeconomic performance.	<ul style="list-style-type: none"> <li>• IMF and ECFIN Reports.</li> </ul>
<b>B. PUBLIC FINANCE MANAGEMENT</b>		
<b>Sound public finance and fiscal management</b>	Ongoing implementation of the PSFMRSP, and progress in the ENP AAP2007 SPSP PFM Reform Programme, agreed with the EC in the Financing Agreement dated 17th December 2007. Satisfactory progress with the implementation of the updated PFM strategic vision taking into account the findings of 2007 PEFA assessment	<ul style="list-style-type: none"> <li>• Available reports/aide-memoires</li> <li>• In the first quarter of 2010 a review will be carried out in order to assess progress in the reform of the public finance management system bearing in mind findings and recommendations of the PEFA assessment conducted in 2007</li> </ul>

**Specific Conditions for the disbursement of installments**

The Specific Conditions and associated assessment criteria and means of verification for each element of the Programme and for each installment are shown in Table C.

**Table C: Specific Conditions for the release of each installment**

Reform Area	Conditions/Criteria/Verification Indicators		
	First Installment - 2008	Second Installment - 2009	Third Installment - 2010
<b>A. SECTORWIDE CONDITIONS - Fixed Component of Second and Third Installments</b>			
Relative Share of Installment (Weight)	100%	60%	40%
<b>1. Sector Reform Management and Coordination established</b>			
	<b>1.1 Sector management and consultative mechanism is established</b>	<b>1.2 Sector management and consultative mechanism is fully operational</b>	<b>1.3 Sector management and consultative mechanism is fully operational</b>
	<b>(a) Intergovernmental Criminal Justice Sector Management Commission (ICJSMC) established.</b>	<b>(a) Intergovernmental Criminal Justice Sector Management Commission (ICJSMC) with effective and suitably resourced Technical Secretariat fully operational.</b>	<b>(a) Intergovernmental Criminal Justice Sector Management Commission (ICJSMC) with effective and suitably resourced Technical Secretariat fully operational.</b>
	Indicator/Means of Verification: <ul style="list-style-type: none"> <li>• Presidential Decree establishing ICJSMC, defining <i>inter alia</i> the mandate, composition, and mode of operation of the ICJSMC.</li> <li>• ICJSMC Order or equivalent designating a Technical Secretariat and National Coordinator/Secretary (minimum one full time official assigned for management of this task);</li> <li>• Minutes of initial meeting of ICJSMC.</li> </ul>	Indicator/Means of Verification: <ul style="list-style-type: none"> <li>• Minutes of at least biannual meetings of ICJSMC</li> <li>• ICJSMC decisions/orders are published</li> </ul>	Indicator/Means of Verification: <ul style="list-style-type: none"> <li>• minutes of at least biannual meetings of ICJSMC</li> <li>• ICJSMC decisions/orders are published</li> </ul>

	<p><b>(b) Consultative process with civil society and the donor community established and operational</b></p> <ul style="list-style-type: none"> <li>•</li> </ul>	<p><b>(b) Participatory consultative process with civil society and the donor community fully operational</b></p>	<p><b>(b) Participatory consultative process with civil society and the donor community fully operational</b></p>
	<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Letters from ICJSMC/Technical Secretariat to civil society organisations and donors inviting participants for the consultation process</li> </ul>	<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Minutes of at least biannual coordination meeting between ICJSMC and civil society representatives</li> <li>• Minutes of at least biannual coordination meeting between ICJSMC and donor representatives</li> </ul>	<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Minutes of at least biannual coordination meeting between ICJSMC and civil society representatives</li> <li>• Minutes of at least biannual coordination meeting between ICJSMC and donor representatives</li> </ul>

<b>2. Sector Strategy and Action Plans updated</b>			
		<p><b>2.2 Comprehensive medium term Criminal Justice Sector Strategy<sup>8</sup>, supported by annualised Implementation Action Plan is updated and is reflected in Government policy statements, budgetary allocations proposed for FY2010 and for the MTEF 2010-2013.</b></p>	<p><b>2.3 Comprehensive medium term Criminal Justice sector strategy, supported by annualised medium term action plan is updated and is reflected in Government policy statements, budgetary allocations approved for FY2010 and proposed for 2011 and for MTEF FY2011-2014.</b></p>
		<p><b>(a) Strategy and Implementation Action Plan have been updated in a process of intergovernmental consultation and include all sub sectors supported by the ENP AAP2008 SPSP for Justice Reform.</b></p> <p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• ICJSMC order/instructions or equivalent convening working groups or mandating individuals for updating the Strategy and the Implementation Action Plan, terms of reference, timetable</li> <li>• Revised Strategy for the sector, including sections on juvenile justice, penal reforms, probation that <i>inter alia</i> reflect reforms supported under the ENP AAP2008 SPSP for Justice Reform, approved by ICJSMC and published by July 2009</li> <li>• Revised Implementation Action Plan for FY2010-2013 that includes specific costed actions to meet <i>inter alia</i> the ENP AAP2008 SPSP for Justice Reform conditions, formally</li> </ul>	<p><b>(a) Strategy and Implementation Action Plan have been updated in a process of intergovernmental consultation and include all sub sectors supported by the ENP AAP2008 SPSP for Justice Reform.</b></p> <p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Revised Strategy for the sector, including sections on juvenile justice, penal reforms, probation that <i>inter alia</i> reflect reforms supported under the ENP AAP2008 SPSP for Justice Reform, approved by ICJSMC and adopted by government and published by July 2010</li> <li>• Revised Implementation Action Plan for FY2011-2014 that includes specific costed actions to meet <i>inter alia</i> the ENP AAP2008 SPSP for Justice Reform conditions on time, formally approved by ICJSMC and published by July 2010</li> </ul>

<sup>8</sup> The following two basic documents are referred to in this document as baseline and documents to be reviewed updated:

- Strategy of the reform of the Criminal Legislation of Georgia, endorsed by the Government and President in 2005 (elaborated with assistance of EU Rule of Law Mission) (referred to as “Criminal Justice Sector Strategy” or the “Strategy”)
- Implementation Plan for the Strategy on Criminal Justice Reforms in Georgia (as amended by the State Commission on Coordination of Legal Reforms) (endorsed by the Government on 26 January 2007) (referred to as “Implementation Action Plan”)

		<p>approved by ICJSMC and published by July 2009</p> <p><b>(b) Strategy and Implementation Action Plan reflected in budget preparation process.</b></p> <p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Appropriate expenditure to comply with ENP AAP2008 SPSP for Justice Reform conditions included in draft budget for FY2010</li> <li>• Strategic directions reflecting <i>inter alia</i>, the ENP AAP2008 SPSP for Criminal Justice Reform conditions included in BDD (for FY2010) and detailed MTEF (FY2010-2013);</li> </ul>	<p><b>(b) Strategy and Implementation Action Plan reflected in budget preparation process.</b></p> <p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• appropriate expenditure to comply with ENP AAP2008 SPSP for Justice Reform conditions included in draft budget FY2011</li> <li>• strategic directions reflecting, <i>inter alia</i>, the ENP AAP2008 SPSP for Justice Reform conditions included in BDD (for FY2011) and detailed MTEF (FY2011-2014)</li> <li>•</li> </ul>
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<b>3. Monitoring and Statistics systems developed</b>			
		<b>3.2 Monitoring mechanisms and statistical tools for policy analysis under development</b>	<b>3.3 Monitoring mechanisms and statistical tools for policy analysis established.</b>
		<b>(a) Monitoring mechanisms in place and operational as agreed</b>	<b>(a) Monitoring mechanisms operational</b>
		<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• ICJSMC adopts internal regulation or equivalent on procedure for monitoring of Criminal Justice Reforms (clarifying who is in charge of production of official Progress Reports, inputs of sector agencies, timetable of reporting)</li> <li>• Letter of ICJSMC inviting CoE and UNICEF to participate in the programme monitoring with experts</li> <li>• Monitoring reports of frequency and coverage, as agreed by ICJSMC are available and published</li> <li>• At least one progress report for 2009 on implementation of criminal justice reforms is published by July 2009</li> </ul>	<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Monitoring reports, of frequency and coverage, as agreed by ICJSMC.</li> <li>• At least one Progress report for 2010 on implementation of criminal justice reforms is published by July 2010</li> <li>• Expertise (reports, assessments, recommendations) of independent international experts is available for and from ICJSMC as relevant for July 2010</li> </ul>

		<p><b>(b) Development of comprehensive criminal justice statistics under way</b></p> <p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• ICJSMC order or equivalent appointing working group to determine nature and method of collection of statistical requirements</li> <li>• Assessment report on current statistic systems with recommendations for the establishment of a comprehensive up-to-date database on crime statistics in Georgia, its source and the methods of and responsibilities for collection drafted and presented to ICJSMC</li> <li>• ICJSMC instructions to relevant agencies to establish or adjust statistical registers/databases drafted</li> </ul>	<p><b>(b) Monthly updated and accurate comprehensive criminal justice statistical data available</b></p> <p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Governmental Order or equivalent for establishment of one unified comprehensive up-to-date database on crime statistics in Georgia</li> <li>• Monthly datasheets with comprehensive criminal justice statistical data available to relevant agencies and the public</li> </ul>
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<b>B.SUB- SECTOR COMPONENT CONDITIONS - Variable Component of Second and Third Installments</b>			
Relative Share of Installment (Weight)	(under fixed component)	40%	60%
<b>1. Juvenile Justice improved in line with CRC standards</b>			
		<b>1.2 Juvenile Justice system (legislation and practices) improved in line with international standards (CRC<sup>9</sup>).</b>	<b>1.3 Juvenile Justice system (legislation and practices) improved in line with international standards (UN CRC).</b>
		<b>(a) A new approach to Juvenile Justice in line with CRC standards is developed.</b>	<b>(a) Progress in Juvenile Justice reforms in line with standards reflected in the CRC.</b>
		Indicator/Mean of Verification: <ul style="list-style-type: none"> <li>• Criminal Justice Reform Strategy approved by ICJSMC incorporates Strategy for Juvenile Justice Reform in line with CRC standards<sup>10</sup>.</li> <li>• Implementation Action Plan for Criminal Justice Reform Strategy approved by ICJSMC incorporates specific time bound actions to implement Juvenile Justice Reform Strategy</li> <li>• ICJSMC formal invitation letter to UNICEF or other international mandated body to review by March 2010 the juvenile justice system in</li> </ul>	Indicator/Mean of Verification: <ul style="list-style-type: none"> <li>• ICJSMC Progress Report on implementation of Criminal Justice reforms includes chapter on implementation of the Strategy for reform of the Juvenile Justice system.</li> <li>• Assessment report by international expert on CRC drawn up in cooperation with or by UNICEF reports progress on Juvenile Justice System Reforms</li> </ul>

<sup>9</sup> Reference is made to the UN Convention on the Rights of the Child (CRC) to which Georgia acceded on 2<sup>nd</sup> June 1994 as well as the recommendations of the UN Committee on the rights of the child concluding observations on GEORGIA adopted at the 1342nd meeting, held on 6 June 2008. Reference is also made to the Analysis of the Juvenile Justice System in Georgia, conducted by Prof. Carolyn Hamilton on behalf of UNICEF in 2007.

<sup>10</sup> In line with the assessment and recommendations on juvenile justice in Georgia conducted by UNICEF in 2007, this strategy will also include provisions on use of detention, including pre-trial detention for juveniles, only as a measure of last resort, for as short a time as possible, and develop alternative measures, such as community service and half-way homes to deal with juvenile delinquents in a more effective and appropriate manner.

<sup>11</sup> It is the responsibility of the Ministry of Justice to request the assessments of UN and other international experts by the relevant agencies in time in order to receive the assessment in time for the review of this Programme

*POLICY ANALYSIS EXERCISE: BUDGET SUPPORT TO GEORGIA*

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		Georgia <sup>11</sup>	
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		<p><b>(b) Criminal legislation related to juvenile justice reviewed, revision initiated.</b></p>	<p><b>(b) Amendments to criminal legislation related to juveniles justice drafted, approved by government, and submitted to Parliament.</b></p>
		<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Decree or equivalent of ICJSMC, formally allocating responsibilities for review of legislation relevant to juvenile justice<sup>12</sup> to a working group or expert</li> <li>• Terms of Reference for this working group/expert specifying inter alia scope of work and timetable adopted by ICJSMC</li> <li>• First draft assessment on legislation in need of amendment or revision presented to ICJSMC by July 2009</li> </ul>	<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Final report of ICJSMC working group on juvenile justice related legislation adopted by ICJSMC and published</li> <li>• Proposed draft legislative amendments to primary legislation related to juvenile justice or separate draft law in line with provisions of CRC approved by ICJSMC and submitted to Parliament for adoption</li> </ul>

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<sup>12</sup> It may also be decided to set up one single legal review and drafting group assigned by ICJSMC, which would be responsible to draft assessments, recommendations and finally legislation for the different areas included in this programme: Juvenile Justice, Sentencing practice (lengths of sentences), probation and community sentences. During the review for this programme it shall be sufficient to prove by evidence (reports, draft laws) that all respective issues are covered by the ICJSMC work process and reflected in the relevant documents.

		<p><b>(c) Improved education and living conditions for juvenile prison inmates (sentenced and pre-trial), better service provision for juveniles on probation.</b></p>	<p><b>(c) Improvement in education and living conditions for juvenile prison inmates (sentenced and pre-trial), better service provision for juveniles on probation</b></p>
		<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Report by international independent expert or Ministry of Education and Science<sup>13</sup> confirms that school activities are introduced for all inmates in the colony for sentenced juveniles in Ortachala of equal quality and duration to those available in the community (in cooperation with MoES)</li> <li>• Training programme drafted for probation officers dealing with juvenile probationers (official training module available for review)</li> <li>• The “Standing Commission of the Penitentiary Institution” in charge of reviewing prisoners files and proposing them for early release has reviewed the case of each sentenced juvenile at least every sixth month in 2009 (official statistics).</li> </ul>	<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Report by international independent expert or Ministry of Education and Science confirms that school activities for all inmates in the colony for sentenced juveniles in Ortachala of equal quality and duration to those available in the community continue to be provided (in cooperation with MoES)</li> <li>• Each juvenile in custody are provided with minimum 4 hours/week sports or other recreation activity (protocols of detention facilities)</li> <li>• All probation officers that deal with juvenile offenders have received special training on the needs and rights of juveniles under probation (official training module available, list of participants, dates, training reports)</li> <li>• The “Standing Commission of the Penitentiary Institution” in charge of reviewing prisoners’ files and proposing them for early release has reviewed the case of each sentenced juvenile at least every third month in 2010 (official statistics).</li> </ul>

<sup>13</sup> It is the responsibility of the Ministry of Justice to request the assessments of the Council of Europe and other international experts by the relevant agencies of the Council of Europe in time in order to receive the assessments in time for the 2009 review in July 2009.

<b>2. Penal System and Probation improved in line with Council of Europe recommendations</b>			
		<b>2.2 Penal Execution System is improved in line with Criminal Justice Reform Strategy</b>	<b>2.3 Penal Execution System is improved in line with Criminal Justice Reform Strategy</b>
		<b>(a) Review of legislation and internal controls procedures in penitentiary started in line with Council of Europe recommendations</b>	<b>(a) Legislation and internal controls procedures in penitentiary comply with Council of Europe recommendations</b>
		Indicator/ Means of Verification: <ul style="list-style-type: none"> <li>• Council of Europe expert report<sup>14</sup>, assessing if new Code on Imprisonment, submitted to parliament, is in line with Council of Europe standards available by July 2009</li> <li>• Review by Council of Europe expert of complaints and disciplinary procedures for staff and inmates in the penitentiary launched (Draft report presented to ICJSMC by July 2009)</li> </ul>	Indicator/ Means of Verification: <ul style="list-style-type: none"> <li>• Council of Europe expert report on the Code of Imprisonment confirms that recommendation related to the Code of Imprisonment have been taken into consideration by the Georgian government</li> <li>• Council of Europe expert assessment confirms that complaints and disciplinary procedures for staff and inmates in the penitentiary meet Council of Europe standards (assessment published by July 2010)</li> </ul>

<sup>14</sup> It is the responsibility of the Ministry of Justice to request the assessments of the Council of Europe and other international experts by the relevant agencies of the Council of Europe in time in order to receive the assessment on the Code of Imprisonment in time for the 2009 review in July 2009.

		<p><b>(b) In line with CPT recommendations the government develops a strategic approach to combat prison overcrowding, guided by CoE recommendations (99)22 and 2003(22)</b></p>	<p><b>(b) In line with CPT recommendations the government commences implementation of a strategic approach to combat prison overcrowding, guided by CoE recommendations (99)22 and 2003(22)</b></p>
		<p>Indicator/Means of Verification</p> <ul style="list-style-type: none"> <li>• ICJSMC order/instructions or equivalent convening a high level working group, terms of reference, timetable for revising the Strategy and Action Plan in line with the above recommendation to develop a strategic approach to combat prison overcrowding</li> <li>• Draft strategy on combating prison overcrowding submitted to ICJSMC as well as civil society and donors, (Draft strategy available, agenda of respective ICJSMC meeting)</li> <li>• Review of criminal legislation with regard to length of sentencing in comparison with other European countries initiated (Draft report on legislation available by July 2009)</li> </ul>	<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Policy on Strategic approach to combat prison overcrowding and respective Action Plan published</li> <li>• Draft amendments to Criminal Code and other relevant legislation to shorten lengths of prison sentences submitted to parliament (Draft amendments are published and available)</li> </ul>

		<p><b>(c) Process for strengthening Probation Department is launched.</b></p>	<p><b>(c) The mandate of the Probation Department is strengthened and its capacities increased in line with its new mandate.</b></p>
		<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• ICJSCM order or equivalent approving Strategy and Implementation Action Plan for reform of the Probation System published</li> <li>• ICJSMC instruction or equivalent to launch review of primary and secondary legislation to identify necessary amendments with involvement of Council of Europe international experts</li> <li>• An increased number Probation Service offices (compared with January 2008) are established, equipped and staffed</li> <li>• Costed and time bound Action Plan for renovation and equipment of Probation premises developed</li> </ul>	<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• ICJSCM order or equivalent approving revised Implementation Action Plan for reform of the Probation System;</li> <li>• Amendments to primary and secondary legislation in line with Council of Europe, as identified in the legislation review by ICJSMC, drafted and submitted to parliament for approval</li> <li>• Increased resources of Probation Service required by strategy reflected in FY2010 budget, FY2010 budget submission and FY2011-2014 BDD and MTEF</li> <li>• An increased number of Probation Service offices (compared with January 2009) are established, equipped and staffed</li> </ul>

<b>3. Access to Justice and Protection of Human Rights strengthened</b>			
		<p><b>(a) Capacity and outreach of the Legal Aid Service expanded</b></p> <p>Indicator/Means of Verification</p> <ul style="list-style-type: none"> <li>• Number of professional staff increased compared to January 2008</li> <li>• Legal Aid website designed and active by July 2009</li> <li>• Increase in the number of legal aid bureaus compared with the 10 in January 2008</li> <li>• Introduction of unified communication system/computer network for Legal Aid Service</li> </ul>	<p><b>(a) Capacity and outreach of the Legal Aid Service expanded</b></p> <p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Number of professional staff increased compared to January 2009</li> <li>• Effectiveness of Legal Aid website assessed and implementation of recommended improvements launched</li> <li>• Increase in the number of legal aid bureaus compared with January 2009</li> <li>• Unified communication system/computer network for Legal Aid Service fully operational</li> </ul>



		<p><b>(b) Capacity of the PDO strengthened and expanded throughout Georgia</b></p> <p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• PDO representative offices established in 2 of the following regions of Georgia: Samtskhe Javakheti, Kvemo Kartli, Shida Kartli, Kakheti, Guria, and Mtskheta-Mtianeti</li> <li>• Full funding for expansion, efficient functioning throughout Georgia, and PDO sustainability reflected in FY2009 budget, and in BDD for FY2010, FY2010-2013 MTEF, and FY2010 budget submission</li> </ul>	<p><b>(b) Capacity of the PDO strengthened and expanded throughout Georgia</b></p> <p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• PDO representative offices established in another two of the following regions of Georgia: Samtskhe Javakheti, Kvemo Kartli, Shida Kartli, Kakheti, Guria, and Mtskheta-Mtianeti</li> <li>• Full funding for expansion, efficient functioning throughout Georgia, and PDO sustainability reflected in FY2010 budget, and in BDD for FY2011, FY2011-2014 MTEF, and FY2011 budget submission</li> </ul>
		<p><b>(c) National Preventative Mechanism (NPM) in line with OPCAT provisions agreed and adequately funded.</b></p>	<p><b>(c) National Preventative Mechanism (NPM) in line with OPCAT provisions operating effectively.</b></p>
		<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• Draft Law specifying the institutional arrangements for the NPM meeting OPCAT provisions submitted to parliament</li> <li>• Staff recruitment to fulfil OPCAT responsibilities launched (by July 2009)</li> <li>• Government requests by formal letter a review of the OPCAT mechanism from the OPCAT Committee for 2009 or first semester 2010</li> </ul>	<p>Indicator/Means of Verification:</p> <ul style="list-style-type: none"> <li>• OPCAT review by relevant international expert/body confirms that Georgian NPM meets OPCAT requirements (Report published by ICJSMC by July 2010)</li> <li>• NPM established and operational (organigram, operating procedures, annual budget, list of staff, monitoring guidelines and schedule)</li> </ul>

**6. Performance evaluation arrangements for fixed and variable installments**

The system for allocating the installments between fixed and variable components is illustrated in Table D.

For the Fixed Component of each installment, no funds are released unless there is full compliance on all elements of the Specific Conditions, criteria and indicators related to the Sector wide reforms: 1) Sector Reform Management and Coordination; 2) Sector Strategy and Action Plan; and 3) Monitoring and Statistics.

For the Variable Component of the Second and Third Installments, the potential variable amount (Euro 2mn for the Second Installment; Euro 3mn for the Third Installment) is divided across each of the Sub sector reform conditions related to 1) Juvenile Justice (3 Criteria); 2) Penal System and Probation (3 Criteria) and 3) Access to Justice and Protection of Human Rights (3 Criteria). For each Sub-sector the degree of compliance is separately assessed as either full compliance, less than full but substantial compliance, or less than substantial compliance.

Each **Criterion** is assessed compliant in case all **Indicators** are met. If one or more Indicators are not met, the criteria is considered not compliant, unless a profound justification for not meeting the Indicator has been provided by the relevant services prior to the review and this justification is discussed in the Steering Committee to the Programme and accepted by EC.

Full compliance for the **condition** (all criteria are met); the relative variable element of the Installment is released in full. With less than full but substantial compliance (out of 3 criteria at least two are met), only half of the relative variable element (Euro 0.25mn for the Second Installment; Euro 0.75mn and 0.375mn for the Third Installment) is released. With less than substantial compliance, none of the relative variable element is released.

	1st Installment		2nd Installment		3rd Installment	
	% total installment	maximum amount	% total installment	maximum amount	% total installment	maximum amount
<b>Fixed Component</b>						
A SECTORWIDE	100	5mn	60	3mn	40	2mn
<b>Variable Component</b>						
B SUBSECTOR	nil	nil	40	2mn	60	3mn
1. Juvenile Justice	-	-	20	1.0	30	1.5
2. Penal System and Probation	-	-	10	0.5	15	0.75
3. Access to Justice	-	-	10	0.5	15	0.75

**Table D: Relative Weights of Specific Conditions for the Fixed and Variable Components**

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