

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

GEORGIA

Joint Staff Assessment of the PRSP Preparation Status Report

Prepared by the Staffs of the International Monetary Fund
and the International Development Association

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1. Georgia's interim poverty reduction strategy paper (I-PRSP) was presented to the Executive Boards of the IMF and IDA in December 2000. It included a detailed schedule for the finalization of the full PRSP by June 2001. Because more than a year has passed since the consideration of the I-PRSP by the two Boards, the authorities have completed this PRSP Preparation Status Report (henceforth, the Report).

2. The Report describes the main activities undertaken to date to develop Georgia's Poverty Reduction and Economic Growth Program (PREGP), a comprehensive and participatory plan for reducing poverty. As anticipated in the joint staff assessment (JSA) of the I-PRSP, progress has been slower than originally envisaged. This was due in part to initial under-estimation of the complexity and technical assistance requirements for establishing an agreed set of well-specified, costed, and prioritized public actions to address poverty. In addition, more time was needed to allow for a genuinely open, participatory process of consultation with the relevant stakeholders in Georgian society, for the recently initiated social impact analysis, and to develop fully functional sectoral "sub-commissions", each with a designated liaison to the central PRSP Secretariat.

Progress with the I-PRSP Agenda

3. The Joint Staff Assessment for the I-PRSP noted (paragraph 5) some of the key reform areas identified in the I-PRSP. Achievement in reaching the reform goals in the 18 months since the I-PRSP was prepared has been mixed. Macroeconomic performance has been strong, despite an unfavorable environment. Growth, inflation and the budget deficit were broadly in line with 2001 program targets. Arrears on poverty benefits were cleared, and allocations to health and education were significantly increased, although targeting needs to be improved. Health and education indicators are yet to see any systematic improvement. A Paris Club debt rescheduling was agreed in 2001, but external arrears remain high. Liberalization of the business environment continues slowly, although there was some regression on trade liberalization. The main constraints to private sector investment remain the unpredictability of the legal and regulatory enforcement, not the laws and regulations themselves. Governance generally continues to be poor, with corruption still very widespread.

Progress in Developing the Full PRSP

4. The Report describes ongoing efforts by the authorities to address key areas highlighted for further work in the JSA of the I-PRSP. It identifies where efforts are underway, particularly in the areas of poverty data analysis and costing of program activities. The authorities have undertaken further analysis of the continuous household survey data already available to them, and a national census undertaken in January 2002 will provide additional inputs to this analysis. The recent World Bank Poverty Update has also advanced this effort. These steps will improve the authorities' capacity to identify key needs and indicators for monitoring the progress of the strategy.

5. The Report outlines the goals of planned fiscal reforms intended to support the PREGP by raising expenditure efficiency, improving revenue mobilization, and reducing corruption. To date the PREGP has not been linked to the budget process, but the government commission overseeing preparation of the PREGP has retained an external consultant to assist with costing the policies that will underpin the PREGP framework. This work, which is still underway, will be critical in order to establish priorities that are achievable within the context of limited institutional capacity, low revenue levels, and endemic administrative corruption.

Timetable for Completion of the PRSP

6. The target date for delivery of the finalized PREGP had already been revised once, to June 2002, and is now anticipated by October 2002. The most recent decision to extend the period for preparation was taken in consultation with the donor community and civil society. The authorities will use this additional time to address the issues identified above, including increased participation of civil society, the PRSP costing exercise, and social impact analysis. The revised timetable provided in the status report establishes specific deadlines for completing this work, in addition to the drafting, review, and dissemination of the final program document. IMF and World Bank staffs consider this revised timetable for delivery of the final PREGP to be achievable.

Additional Steps to be Taken in Conjunction with Civil Society and Donors

7. The Report describes the authorities' efforts to include representatives of civil society in the discussion, debate, and formulation of the final PREGP. Government-sponsored meetings held in Tbilisi and other regions of the country have provided a valuable forum for consultation with interested non-governmental organizations and other representatives of civil society. Extensive media coverage of these meetings, in addition to the publication and dissemination of related discussion materials, has provided the Georgian public with a great deal of information about the program. Upcoming debates and technical workshops described in the Report will help to ensure that the views and priorities of stakeholders are reflected in the final PREGP.

8. The Report indicates that the authorities have requested additional technical assistance from the Poverty Reduction Strategies Trust Fund (PRSTF) to extend the Multi-

Donor Support Project. The local committee of government officials and donors that vets requests for use of funds under the PRSTF should be formed early in June 2002, and the request sent into the World Bank immediately thereafter. Because this request falls directly within the types of activities the PRSTF is designed to support, staff anticipates that the request will be approved quickly, as envisaged in the memorandum explaining access to the PRSTF. This should avoid any delay in the financing for the preparation of the PREGP.

The staffs of the World Bank and IMF consider that progress on the development of the full PRSP, as evidenced by the PRSP Preparation Status Report, is satisfactory and provides a sound basis for continued access to Fund concessional assistance and IDA adjustment lending. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.