



Mid Term Evaluation of Tacis
Activities in Georgia
Evaluation Report
January 1998

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ABBREVIATIONS, ACRONYMS, GLOSSARY

ATC	Air Traffic Control
ABRC	Agro-Business Regional Centres
BCC	Business Communications Centre
BSC	Business Support Centre
CCIFEO	Commission for Co-operation with International Financial and Economic Organisations
CERMA	Centre for Enterprise Restructuring and Management Assistance
CPF	Counterpart Fund
CIS	Commonwealth of Independent States
CLAU	Caucasus Logistics Advisory Unit (World Food Programme)
CU	Tacis Co-ordinating Unit
DRN	Development Researchers' Network
EC	European Commission
EBRD	European Bank for Reconstruction and Development
EES	European Expertise Service
EPAG	Economic Policy Advisory Group
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FAO	Food and Agriculture Organisation
FSU	Former Soviet Union
GET	Georgia Economic Trends
GIOC	Georgian International Oil Company
GoG	Government of Georgia
GEPLAC	Georgian-European Policy and Legal Advice Centre
IBRD	International Bank for Reconstruction and Development
IAS	International Accounting Standards
IFAD	International Fund for Agricultural Development
IFI	International Financial Institution
IMF	International Monetary Fund
ITAGA	Integrated Technical Assistance to Agriculture (Tacis Project)
JSC	Joint Stock Company
KfW	Kreditanstalt für Wiederaufbau
MAF	Ministry of Agriculture & Food
M&E	Monitoring and Evaluation

MFE	Ministry of Fuel and Energy
MLEs	Medium and Large Enterprises
MoSPM	Ministry of State Property Management
MoT	Ministry of Transport
NGO	Non-Governmental Organisation
NIS	Newly Independent States
OECF	Overseas Economic Co-operation Fund
PCA	Partnership & Co-operation Agreement
PSIP	Public Sector Investment Programme
PSD	Private Sector Development
PPS	Project Preparation Service
RARP	Regional Agricultural Reform Project
SAC	Structural Adjustment Credit
SME	Small and Medium Enterprise
SMEDA	Small and Medium Enterprise Development Agency
SOE	State-Owned Enterprise
TA	Technical Assistance
TEN	Trans European Network
TRACECA	Transport Corridor Europe Caucasus Asia
WB	World Bank
WFP	World Food Programme
WTO	World Trade Organisation

0. EXECUTIVE SUMMARY

0.1 Introduction

This report presents the findings of the team which undertook the mid-term evaluation of Tacis activities in Georgia between September 1997 and January 1998. A first desk study was carried out in September and October 1997. The field mission to Georgia took place in November 1997 and a draft final report was discussed early January 1998.

This evaluation considers Tacis actions in Georgia over the period 1992 - 1997. The focus has been on the evaluation of the overall programme and sectoral strategies (rather than projects), but using analyses of specific programmes and projects to illustrate both successes and problems. To better link general strategies and specific projects, the logic of Tacis interventions has been re-built in each sector. Sectoral policy and programmes have been shown according to the PCM approach.

This executive summary outlines the mission's main findings and overall conclusions. Subsequent sections present in more detail our findings regarding Tacis actions on market reforms, enterprise restructuring, agriculture, transport, energy, and, finally, on Tacis programme management.

We find that Tacis actions in Georgia have contributed much to the transitional reforms of a country which has been torn by internal conflict, and which lies within a region of considerable geo-political importance. Our overall assessment is positive. Our principal criticisms are that:

- the Tacis programme becomes more and more a generally disjointed portfolio of implementation-oriented projects, some very good, most good, and a few less than satisfactory. Some improvements in project identification, selection, and screening will lead to improved resource allocation;
- Tacis influence on, and dialogue with, Government of Georgia on policy matters needs to be strengthened, in order to improve the effectiveness of Tacis' investments in projects;
- a better linkage between Tacis technical assistance and European private investment should be established, in some key sectors: e.g. transport and communications, energy, enterprise restructuring.

0.2 Relevance and Ownership of the Programme¹

The mission found that Tacis activities were highly relevant to the specific needs of the context and the requirements of the Government of Georgia (GoG) during the country's transition to a democratic, market economy. In many areas, during the period 1991-96, Tacis provided technical assistance on critical issues at the right time. These include privatisation strategy, bank training, transport and energy policy especially in the early stages, agricultural reform and credit, civil service reform, and technical help to small and medium enterprises (SMEs). In all of these areas Tacis was a pioneer, providing substantial levels of help.

In general, ownership of the projects by the partner organisations with which Tacis has worked has been high. However, Tacis - through the TA programme - has not been able to engage sufficiently deeply with the Government of Georgia in policy implications of the transition process. In part this is because GoG policy may not always have been clear, as the structure and role of Government has evolved during a difficult period of economic collapse, and civil conflict. In part, however, it reflects a certain weakness in policy direction by Tacis itself.

¹ For a better understanding of the terminology used, see chapter 1 below

0.3 Overall Effectiveness and Impact

Tacis has been effective in helping GoG to move its reform programme forward; this is recognised by GoG and by Georgian partner organisations. In general the quality of Tacis support has been good, and where ownership has not been a problem, Tacis projects have built institutional capacity, trained Georgians, introduced new approaches and facilitated GoG decision-making.

The programme has made a real impact in several sectors, though in some cases it is difficult to separate the impact of Tacis actions from those of other donors. Impacts of projects have been limited in cases where:

- ownership of the project was weak, or the partner organisation proved to be inappropriate;
- dialogue on policy was limited, either because of project design, or because the contractors were unable to build a dialogue at a sufficiently high level;
- support has ended too early, and the impact of the initial projects has not been sustained;
- the relevant strategies and projects have not been able to facilitate investment.

0.4 Sectoral Impacts

In some areas the Tacis programme has played a particularly important role in structural reform of the economy and the role of the state, and this contribution is recognised by Georgians and by other members of the international community. These areas are: agriculture; civil service reform; and transport.

In other areas Tacis was a highly instrumental pioneer during the early/mid 1990s, and has laid the foundations for reform which are now receiving substantial support from other donors. These include: privatisation and financial markets; energy; and small & medium enterprise (SME) development.

There are other specific areas where current or recent Tacis projects are acknowledged to have been highly effective or valued. These include: environment, where the interstate actions are relevant, human resources, which is now focusing on projects consistent with anti-corruption measures; and democracy support, which includes both short-term support within Parliament and support for non-governmental organisations (NGOs). Several small project programmes (SPPs) and facilities have also been represented in Georgia. They may have had little major structural impact, but by their focus, they can be highly effective, and should not be overlooked².

At present, Tacis appears to be withdrawing from some sectors, for example support for SMEs, and civil service reform, and other donors are likely to build on the foundations laid by Tacis with projects of their own. Our sectoral analyses are summarised in Table 0-1 below.

² Especially the small projects that may be funded directly by the Delegation, without any rigidity and bureaucratic procedure, on specific allocations (e.g. local NGOs).

Table 0-1 Key Conclusions on Sectors

Sector	Strong Points	Weaknesses
<i>Agriculture</i> +++	Tacis helped the Ministry of Agriculture to develop a new strategy, in a highly consultative manner, which ensured ownership and support. The use of food aid counterpart funds allowed a successful combination of TA with investment	Insufficient consideration of small farmers' issues
<i>Economic policy & information</i> +++	<ul style="list-style-type: none"> EES policy inputs "Georgian Economic Trends" is well regarded, independent and influential 	Possible unclear status in the new GEPLAC
<i>Civil service reform</i> ++	Tacis has led the way in the training of civil servants, in reviewing the roles of ministries, and in creating a smaller, but more professional public service	Institutional re-orientation and restructuring is not yet fully accomplished
<i>Transport</i> ++	The Tacis TRACECA initiative has provided a strong strategic framework for Georgia East-West links. The strategy is endorsed by GoG. Assistance to rail, road, maritime and air transport modes has been given.	Uncertainties about how private sector finance will participate in infrastructure provision or operation. See USAID proposal on privatisation of Poti port
<i>Energy</i> +	Strong support to GoG in fundamental restructuring of the sector: separation of the natural monopoly (the transmission network) from generation and distribution; separation of regulatory oversight from commercial operations; improved tariff levels and collection procedures. Tacis also helped in identification of investment needs, and the opportunities for inter-connection of power networks within the region.	Tacis position differs from other major donors who favour more rapid and more aggressive privatisation of energy utilities. The GoG agenda is for more radical reform. Other donors (e.g. USAID) have practically taken the lead in sector policy reform
<i>Privatisation and financial markets</i> +	Influential early privatisation strategy project (93-95) helped secure Tacis' reputation in Georgia. Bank training and systems projects helped to develop the Georgian banking sector.	Tacis influence on privatisation policy was not sustained once the initial project was completed.. Present GoG difficulties in privatisation are overlooked. Financial markets reform is now led by USAID
<i>Enterprise restructuring</i> +	An important action for developing and broadening Georgia's private sector, with a strong training and capacity building element, in collaboration with WB	Too high expectations from restructuring alone. Weak linkage with policy making
<i>SME promotion</i> +	Independent institutions have been created, methodologies tested and training given	Questions of sustainability and availability of credit for SMEs
<i>Environment</i> +	Tacis has organised interstate action in the Black Sea countries	Only recently started; still mainly institutional issues
<i>Democracy</i> +	Current support is relevant and liked by Georgians. The promotion of local NGOs by the Delegation is very useful	Over-rigid programmes by EU NGOs

Source: DRN

0.5 Sectoral Recommendations

0.5.1 Programmes and projects

Our sectoral recommendations do not seek to identify major projects for Tacis intervention within future action plans. Rather they identify areas of risk or opportunity where Tacis managers³ may need to allocate more resources, or enter into small project or pilot actions. On the basis of our field mission to Georgia, we recommend that:

- Tacis managers should pay close attention to the new Georgian-European Policy and Legal Advice Centre (GEPLAC) project. We believe that this should become a key instrument for building a deeper and more extensive policy dialogue between Tacis and GoG. GEPLAC builds on two successful Tacis projects and should preserve both the flexibility of EPAG⁴ and the autonomy of GET⁵;
- particular attention should be paid to safeguarding the independence of Georgian Economic Trends (GET), as the basis for its success: a possible prospective to be investigated for GET could be an evolution towards a foundation, including linkages with academia, the private sector and non government institutions;
- support for the CERMA enterprise restructuring project should continue. GoG expectations for this project are, however, very high, and these need to be managed. In close coordination with the World Bank, the project should be seen as a source of policy lessons and skills to enhance private capacity in enterprise restructuring, instead of a sort of public restructuring agency. The current Tacis contractors should have much more interface with policy;
- support for TRACECA related projects should continue. As far as possible Tacis intervention should be linked with investment opportunities, for example, where it is likely that investment by the EBRD, the private sector or other donors is likely. Tacis approach should be more concerned by the sustainability of the investment in the sector, and more open towards suitable and diversified private sector participation. A similar attitude, which reflects better the complex ongoing EU experience in the sector, would certainly respond to GoG's priority need to attract investments. This would favour projects which help to build financing capability for road and rail maintenance, and for bringing more private sector involvement in the provision of infrastructure. A further traffic modelling project is needed, as traffic forecasts are vital for major infrastructure investment decisions in all TRACECA states;
- in energy there is still much to do to improve transparency and unravel the inter-connections between state-owned energy enterprises. Tacis help should focus on normalising the relations between these enterprises and the state, making any subsidies transparent, and providing a framework that encourages restructuring and reform consistent with a market economy. Tacis role in donors' co-ordination of energy issues in Georgia should continue and co-operation among the donors in this area is particularly important. Tacis may recover its role of key institutional support in the sector, helping GoG in the establishment and management of a sound regulatory framework for privatisation;
- agriculture has been a Tacis success story. However, smaller farmers have not yet been reached by the reforms, and there is a need to extend support to them through local facilities. The prospects for agricultural exports from larger and more professional agro-businesses are important for the balance of trade, but will require more systematic support to agro-business in relation to quality standards, export tariffs, non-tariff-barriers, taxation, trade financing, and specialist information and advice;

³ We use the term "Tacis managers" to encompass Country Desk Managers, Task Managers and EC Delegation staff involved with Tacis programming

⁴ Economic policy advisory group (supported by EES)

⁵ Georgian Economic Trends (supported by EES)

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- among the key infrastructure sub-sectors, telecommunications should be overlooked , particularly with respect to the establishment of a suitable framework to ensure competition and efficiency in the future privatisation.

0.5.2 Short-term and/or specific policy support

There are a number of “gaps” in the GoG policy and reform agenda which could be partially filled through short-term EES inputs. The justification for Tacis actions is to reduce the risk of a slow-down in the pace of reform, and to ensure the success of current Tacis projects. We therefore recommend that Tacis and GoG enter into dialogue on possible short-term EES projects in these areas:

- mechanisms to accelerate the reform of large loss-making state enterprises. These present a challenge for government, and the key requirement at the moment is to show how the reform of these enterprises can be progressed;
- advice on the liquidation of enterprises. The bankruptcy law will need to be tested, and the capacity of the courts and judiciary to implement the law will require advice and training;
- SME policy. The GoG still has no effective SME policy and this fast-growing sector is in danger of being ignored as Government focuses on larger enterprises;
- review of the roles for the new Ministry of Industry. Without support in defining the role of the ministry in the market economy, the danger is that the Ministry develops an active, interventionist, industrial policy which runs counter to the overall direction of market reforms;
- the quality of statistical data for macro-economic decision-making. Although Tacis has not yet been able to identify a large project, the absence of accurate data is a concern to GoG, and a short EES input, working with the state statistical service may be able to identify both short term improvements and the need (if any) for longer term support.

0.6 Programme Management

Effectiveness has suffered for a number of reasons related to the management process:

- first, there is a focus on projects rather than on the overall programme. The short sectoral papers attached to the Indicative Plan are not built on significant and up to date policy analyses. In part this is a consequence of limited staff resources⁶. Implementation-oriented projects, however, appear to have suffered due to weaknesses in policy issues - either too little policy content or a policy dialogue at too low a level with GoG;
- second, project identification (and review) mechanisms are weak. Although Tacis planning is not wholly demand-driven, yet there are no systematic and explicit mechanism and clearly established responsibilities, for the screening, review and selection of the existing demands;
- third, delays between programming and project mobilisation and a certain rigidity of the project instrument itself can reduce programme relevance, if the consequence is that the project then addresses “yesterdays problem”, or if Tacis is effectively excluded from policy dialogue (say when other donors mobilise similar projects).

0.7 Recommendations for Programme Management

There appears to be scope for improvement of programme management, to address specific areas of difficulty identified by the mission. These areas are:

⁶ New technical staff is being appointed in the Delegation and should facilitate Tacis programme management. *Alat* experts are expected shortly in Tbilisi to support the Delegation staff.

- the relative lack of clear priorities for the allocation of Tacis resources. We recommend that updated Tacis sector papers - intended to propose, inform and shape Tacis dialogue with GoG on key policy matters and assistance priorities - be prepared during the course of 1998 by Task Managers and EC Delegation staff, using available facilities and project inputs (e.g. EES, GEPLAC). Such position papers should not represent an academic exercise, but should help in the analysis and understanding of the key policy issues that arise in the mentioned dialogue: e.g. privatisation in infrastructures, liquidation and sale of the big loss-making enterprises, etc.
- uncertainty over roles and responsibilities. There are a number of centres of programme management responsibility within Tacis in Georgia - the Delegation, the Co-ordinating Unit (CU) and the Task and Country Managers and naturally GoG aid co-ordination. We recommend clearer identification of roles for each, for example, along the lines of:
 - the Delegation as the main GoG counterpart for policy dialogue and joint identification of assistance priorities;
 - the “Investment Council” as the main Tacis counterpart;
 - the CU as an effective GoG-side administration instrument;
 - the Task/Country Managers as the managers able to translate agreed requests from the GoG and Delegation into resources and project actions.

We note that the basic format of CUs has not changed since 1992. Generally speaking, this format should be reviewed, in order to take into account the actual aid co-ordination institutions in the recipient countries and the recent establishment of EC Delegations. In the case of Georgia, a National aid co-ordination unit is established in the State Chancery (the “Investment Council”), whilst CU refers to the Minister of Foreign Trade, as the Tacis national co-ordinator. On the other side, the presence in the country of an active EC Delegation should bring the CU to limit its role to an administrative function, to facilitate Tacis operations in the country and to associate GoG in programme administration and audit;

- a need to continue the shift from Tacis’ earlier demand-driven approach, to a more dialogue-driven approach. The new PCA facilitates this approach, and the current planning process now anticipates the priorities and objectives of the Partnership and Co-operation Agreement between the EU and Georgia. Selective introduction of memoranda of understanding, or conditionalities, between Tacis and GoG is now possible following the PCA. Sectoral memoranda of understanding could be established and they could provide a new institutional framework for a dialogue-driven approach⁷;
- a shift to more flexible instruments. If Tacis can put into place effective dialogue, then there will be a need for more responsive, faster mobilising instruments, and often dealing with more specific, more focused and more urgent needs. We therefore foresee, and would support, some shift of emphasis from the dominant project based approach. We would envisage more use of framework contracts (including local framework contracts), an expansion of the European Expertise Service facility, and more use of small project programmes;
- in some sectors, particularly transport and energy, there are now significant capital investment and financing needs for construction and rehabilitation of infrastructure. These investments cannot be funded from GoG or Tacis resources, and there is a need to attract loan finance from international financial institutions (IFIs) and private sector investment. Tacis should review its policies, approaches, and technical assistance inputs need to adjust to this new situation;
- in the case of large on-going projects, or projects already appraised, we recommend the introduction of a simplified scheme of project and programme risk analysis⁸. This would first, identify risks which could lead the project to fail; second, allocate responsibility for monitoring those risks

⁷ There should be a substantial change in Tacis planning procedures, from the present two years action plans, to sectoral annual memoranda of understanding, including references to the PCA, mutual obligations and consideration of the external factors required.

⁸ An adequate use of the Logical framework method may help in such a task.

(political risks may be dealt with by the EU); and third, identify measures to be taken to avoid, manage or offset the impact of those risks, during project execution.

0.8 Sectoral Logical framework tables

The following tables have been established as an analytical basis for the Country programme evaluation. They are justified and commented in the report below.

Table 0-2 Logical Framework: Legal, Institutional and Policy Reform for a Market Economy

CONTEXT	<ul style="list-style-type: none"> • Collapse of output and of former “command & control system”; negative effects heightened by internal conflicts • Enterprises with little exposure to competitive international markets; manufacturing decline and loss of markets • State agencies actively managed “their” sectors; insufficient in-depth knowledge of public policies for private sector development • Strong commitment to market reform at senior level within GoG 			
WIDER OBJECTIVES	<ul style="list-style-type: none"> • Transfer state enterprises to private ownership & control through privatisation; create a new private sector • Promote foreign investment, in order to introduce capital, skills, technology and links to new markets 			
SPECIFIC OBJECTIVES AND MAIN TACIS ACTIVITIES	RELEVANCE	OWNERSHIP	IMPACT	EXTERNAL FACTORS
<i>OBJECTIVE 1: Build a Legal Framework for a Market Economy</i>	<i>Highly relevant to wider objectives; fundamental for market reforms. High correlation between economic development and commercial law reform in EBRD country surveys</i>	<i>High - strong senior government support. Private land property rights not yet secured.</i>	<i>Partially achieved. Georgia scores 2 in the EBRD 1997 Transition report on its legal transition indicators. (cf. scores of 4 in advanced economies, and early transition states (e.g. Poland)</i>	<i>Complex political relationships in Caucasus region</i>
European Expertise Service (EES) inputs: <ul style="list-style-type: none"> • Economic Policy Advisory Group • Environment Impact Assessment Law • Civil Insurance Law • Economic legislation 	Highly relevant. Met a need for ad-hoc, timely, rapidly delivered advice on key issues	Varied by project. Good relationship between EPAG senior adviser and GoG senior economics team.	EPAG unit contributed to systemic reform by its wide ranging scope. Other inputs more specific.	Other donor support, including: <ul style="list-style-type: none"> • bilateral advice on legislation, • USAID economic/legal advice in Ministry of Economy (CEPAR)
Strengthening of Georgian Parliamentary Research Service to assist development of policy & legislation; Adviser to Parliament Committee on Economic Reform (EES)	Highly relevant.	High	High. Secondment of adviser to Parliamentary committee is valued.	US funded support for Internet access for parliament
Voucher Investment Fund Law (part of privatisation strategy project)	Project was highly relevant and timely	High; however partner organisation (MoSPM) was not best recipient.	Impact limited as voucher programme was itself flawed, and hence voucher funds were less active.	Scandals with Russian voucher funds may have affected popularity of Georgian funds
<i>OBJECTIVE 2: Design and Implement a Comprehensive Privatisation Programme</i>	<i>Highly relevant to wider objectives. Large state enterprises remain in state hands.</i>	<i>High - strong senior government support. However, continued debate over pricing (selling “too cheap”)</i>	<i>Mixed. Small privatisation almost complete. Only half of MLEs privatised by July 1997; state still</i>	<ul style="list-style-type: none"> • Risk of illegal privatisation and asset stripping; vested interests

		<i>and ownership (“insiders”)</i>	<i>owns 88% of shares (GET, 2nd Qtr, 1997)</i>	<ul style="list-style-type: none"> • <i>Investor perception of Georgia as “risky”</i>
Privatisation Strategy (Tacis/92 PR TCS 01) 1994-1995: <ul style="list-style-type: none"> • privatisation strategy • data collection & analysis • pilot privatisations • sector studies 	Project was highly relevant and timely	High. Long term adviser in country. Close relationships with relevant ministry staff. Clear counterparts	Significant. Formed sound basis for follow-on WB projects in mass and case-by-case privatisation (1995-6). However, GoG did not let markets set prices in either voucher or cash auctions, hence voucher and early cash privatisation largely failed	<ul style="list-style-type: none"> • World Bank projects • Absence of effective share register system • Few investment funds
OBJECTIVE 3: Establish a competitive financial market	<i>Highly relevant to wider objectives</i>	<i>High - strong senior government support</i>	<i>Progress in banking; 10 private banks internationally audited. However no stock exchange and no share register.</i>	<i>Support from IMF, to strengthen prudential rules and supervision capacity of central bank</i>
Bank clearing & settlement system	Highly relevant. Before this project all payments between banks were manual, using paper documents	High level of ownership by National Bank.	High. Set up and established principles of electronic funds transfer; paved way for later USAID input	Major telecommunications constraints
Bank Training (199x - 199x) <ul style="list-style-type: none"> • training of over 550 bankers (nearly 6000 training days) • establishment of training institute 	Highly relevant	High. Independent Georgian Bank Training body established, with capacity to become self-financing	Significant. Tacis project provided strong basis for subsequent follow-on credit delivery projects, and for a private banking capacity	USAID now grant -financing a second bank training institute in co-operation with central bank.
Securities Markets (1997-date)	Highly relevant. Essential that sound basis for securities regulation is established early.	Ownership very high. Partner organisation keen to receive advice on a range of models for securities structure	Too early to tell	Major USAID capital markets initiatives about to start
OBJECTIVE 4: Improve quality of statistical and economic information for decision-making	<i>Highly relevant. GoG remains concerned today about quality of data available</i>	<i>High - strong senior government support</i>	<i>Quality of economic intelligence improving, but statistical data still weak, and concerns are expressed over transparency of public finances</i>	
Georgian Economic Trends	Highly relevant. Provides independent report on economy	High.	Very high. GoG and donors consider this a very valuable Tacis activity	Current integration of GET and GEPLAC may weaken GET
OBJECTIVE 5: Establish sectoral strategies (see relevant section)	<i>Highly Relevant (See relevant section)</i>	<i>High - strong senior government support</i>		
Energy Policy	Highly relevant, given external debt, and foreign trade balance.	High (at first)	Limited. Some key Tacis advice (e.g. on privatisation) not adopted by GoG	Other donors. Acute and political nature of the energy crisis.
Transport - TRACECA corridor	Highly relevant	Very High	Very high. Provides framework for role of Georgia as a transit country	Oil pipeline routes pipelines from Central Asia and Azerbaijan
Agriculture - ITAGA project	Highly Relevant. Farming remains a major employer	Very High	Very high. Significant impact on Ministry of Agriculture operations	Terms of trade / access to EU, regional and CIS markets

OBJECTIVE 6: Civil service reform, in order for the state to play a new role in a market economy	<i>Highly relevant to wider objectives. The implementation of new public policies) is fundamental to reform.</i>	<i>High. However, individual line ministries resist loss of control when their future roles are uncertain,</i>	<i>Good. Number of ministries reduced; civil service reduced by 40%</i>	<i>Other donors. Extent to which tax shortfalls accelerate further down-sizing</i>
Restructuring and Anti-monopoly Project • advice, training on anti-monopoly issues in a market economy	Relevant and timely; anti-monopoly issues were new ones facing GoG	Low. Poor definition of counterpart. Responsibility for anti-monopoly changed during project period	Limited. Advice to Anti-monopoly service valued, but too little, too late	Dominant anti-monopoly issues concern strategic enterprises in energy, telecomms, etc. AMS is not yet very influential.
Integrated Technical Assistance to Agriculture	Highly relevant and timely.	High ownership by the Ministry of Agriculture; now being rolled out to regional offices	High - project appears to have had a significant impact on style on government administration in sector	Tacis is main donor in this sector. WB and EBRD starting to look at credit for agro-processing
Civil Service Reform Programme (training, review of ministries, setting up of a personnel unit with Chancellery)	Highly relevant	Very good ownership within State Chancellery; moves to make training with University self-funding	Too early to tell, but work with training and reviewing ministry mandates looks encouraging	<i>Tacis initiative in Civil Service Reform will end soon; other donors keen to continue</i>

Table 0-3 Logical Framework: Enterprise Support

CONTEXT	<ul style="list-style-type: none"> • Collapse of manufacturing and loss of markets in CIS; output fell 70% between 1990 - 1994; hyperinflation • Structure of economy at independence biased towards industry and manufacturing; trade and service sector small • Weak commercial links between enterprises, markets, suppliers, and distribution systems • Limited exposure of enterprises to competition from products/services from Europe, Central Asia, and elsewhere 			
WIDER OBJECTIVES	<ul style="list-style-type: none"> • Employment, improved export earnings, balance of trade, tax revenues • Create an environment that enables/forces Georgian private enterprises to become more competitive 			
SPECIFIC OBJECTIVES AND MAIN TACIS ACTIVITIES	RELEVANCE	OWNERSHIP	IMPACT	EXTERNAL FACTORS
OBJECTIVE 1: Help large state enterprises to be broken up and prepared for sale or private sector involvement	<i>Highly relevant. Poor performance from utilities and infrastructure firms raises costs for other firms</i>	<i>Mixed. Many enterprises are seen as “strategic” within GoG.</i>	<i>Limited. Only the electricity utility has been restructured to date</i>	<i>IFIs are likely to encourage GoG to reform and restructure large state enterprises</i>
Sporadic and isolated Tacis advice on large enterprises, as part of other projects (e.g. transport policy, anti-monopoly advice, energy policy)	Highly relevant	Mixed, depending on relationship with partner organisation and recipient in each project.	Variable. Overall very little impact.	<i>World prices of commodities, services and products controlled by state enterprises; WTO obligations</i>
OBJECTIVE 2: Assist privatised MLEs to become more competitive	<i>Highly relevant. Need for MLEs who can develop value-added export capacity</i>	<i>Very high. Seen as a GoG priority.</i>	<i>Little progress to date on increased exports of value-added products.</i>	<i>Willingness of foreign investors to introduce new skills, and technologies to make Georgian industry more competitive</i>
Enterprise Restructuring & Anti-Monopoly project (“Tacis-2”)	Highly relevant	Low ownership by GoG partner (MoSPM). Disputes with MoSPM over use of project funds. However, high level of ownership by selected enterprises who received advice	Impact on enterprises significant. Project lead to turnaround restructuring. However, weak policy links and insufficient attention to dissemination of findings	Tacis stance on use of project funds (project was closed down for 5 months as this was being resolved)
Centre for Enterprise Restructuring and Management Assistance (CERMA) (Previously the PPDC project - “Tacis-3”)	Highly relevant	Very high. Senior GoG steering committee	Too early to tell. “Tacis-2” results suggests that enterprises will benefit. However, Tacis contractors currently excluded from policy dialogue.	World Bank is partner for Tacis, and requests further Tacis support World Bank /Tacis partnership will influence policy impact
OBJECTIVE 3: Assist small enterprises to form and to grow	<i>Highly relevant. Small enterprises grow quickly to fill gap in trade & services in transition economies</i>	<i>Poor. No obvious GoG or NGO partners for SME institutions.</i>	<i>Small enterprises growing fast, but despite, rather than because of government actions</i>	<i>Proposals to set up SME policy advisory group to advise GoG</i>
Small & Medium Enterprise Development Agency (SMEDA)	High, but conditions for SME activities at start of project were poor, given weak state of economy	Poor. Chamber of Commerce as main shareholder is not sufficiently dynamic.	Some benefits probable through entrepreneur/ start-up training, and preparation of business plans and	Future evolution of the Chamber of Commerce

			investment proposals. Too early to assess impact.	
OBJECTIVE 4: Improve the linkages between Georgian enterprises and markets	<i>Highly relevant</i>	<i>Poor. No obvious GoG or NGO partners for SME institutions.</i>	<i>Some progress. Foreign trade and investment interest growing.</i>	<i>Further progress depends on improvements in the investment and trade environment</i>
Business Communications Centre (Tbilisi) and BSC Kutaisi	High	Good. Principal partners proved to be interested in Tacis BCC and BSC projects	High. BCC now operates independently and continues to provide services. BSC likely to be viable once Tacis funding ends.	<ul style="list-style-type: none"> • Georgian SME institutions need to network and collaborate • BCCs within CIS may collaborate

Table 0-4 Logical Framework: Agriculture

Context	<ul style="list-style-type: none"> Socialist farms have collapsed, land, cattle, machinery being appropriated by workers 682.000 ha of land have been distributed among 682.000 rural families + 500.000 ha leased 			
Wider Objectives	<ul style="list-style-type: none"> To stabilise the private ownership of the land and to promote the development of a market oriented agriculture, to ensure country food security and export growth 			
Specific objectives and Tacis activities	Relevance	Ownership	Impact	External Factors
OBJECTIVE 1: Set up an agricultural strategy Early activities concerned isolated attempts to carry out enterprise restructuring ITAGA carried out wide participatory work on this issue	Very high relevance of both the objective and the activities carried out since 1995.	Extraordinary high, since 1995: MAFI staff, agricultural scientists and parliamentarians were involved in drafting and discussing proposals.	The Parliament has adopted a policy document which largely refers to the strategy worked out with the support of ITAGA	In the early stage GoG was not ready to assimilate policy and institutional support. After the civil stabilisation, GoG's responsiveness is much higher
OBJECTIVE 2: Establish methods and capacity for land registration, towards the promotion of a competitive land market ITAGA carried out a successful pilot exercise, now extended by WB and IFAD	Very high relevance of both the objective and the activities carried out	Very high, as in most ITAGA activities	The financial decision of World Bank and IFAD has been certainly facilitated by the Tacis successful pilot experience.	GoG implemented a relatively quick land privatisation The WB in collaboration with IFAD have decided a 5.5 MUS\$ programme to extend the experience over a number of regions
OBJECTIVE 3: Foster agricultural investment and exports As a result of the support to the agricultural reform (ITAGA & RARP) Through the promotion of agribusiness advisory services, now starting (ITAGA) Through the credit ensured by RARP1 and CPF Through direct support to agro-business and export sectors	The specific objective is relevant. The plan of action is relevant especially for larger farms (land leasing grain growers), although it overlooks the importance of the Small farmers in the new Georgian agriculture. Support to agro-export (wine) has been too weak to be relevant.	Very high ownership of the credit scheme by the commercial banks and the beneficiaries. Low ownership in the wine project.	Immediate impact has been very high: grain production in 1996 has been the highest in the last decades. The recovery of the credit is extraordinary high. No impact in the export sectors.	Private banks have invested appr. 10 MUS\$ in cereal credit WB has provided 8.7 MUS\$ credit line for agro-processing WB and IFAD have funded a 6.5 MUS\$ programme to benefit the poorest rural areas
OBJECTIVE 4: Strengthening market information and marketing capacity ITAGA created a market information newspaper and 4 regional centres	Very high relevance of the objective. The demonstration effect of the activities was significant.	The request for information by the beneficiaries is relatively high.	It has been necessary to start a new programme to extend the experience.	
OBJECTIVE 5: Institutional building and restructuring ITAGA and RARP have provided advice for	Very high relevance of both the objective and the actions	Very high ownership and full participation of MAFI staff	The mission has been told that 60% of ITAGA recommendations have	No other donors are engaged in this field

reorganisation of MAFI and staff training			been implemented.	
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Table 0-5 Logical Framework: Energy Sector

CONTEXT	<ul style="list-style-type: none"> • Collapse of sector affecting the whole economy • Strong dependence on external providers • Weak technologies and high level of consumption 			
WIDER OBJECTIVES	<ul style="list-style-type: none"> • To assist the Government in the development of a national energy policy • To improve energy efficiency in both production and final use • To contribute to the development of an economically viable oil and gas transport sector 			
SPECIFIC OBJECTIVES AND MAIN TACIS ACTIVITIES	RELEVANCE	OWNERSHIP	IMPACT	EXTERNAL FACTORS
<i>OBJECTIVE 1: Development of a national energy policy and strengthening and training of the local authorities with responsibility for energy policy</i>	<i>Strong direct relevance; solution of energy crisis depends on the sound definition of an appropriate energy policy and the right institutional framework. The TA has overlooked the crucial issue of privatisation</i>	<i>There has been a significant contribution by the Georgian organisations, and parts of the Energy policy management project have been largely or completely carried out by them, which gives good indications for its sustainability.</i>	<i>Ministry of Energy has been established, and is supportive of the energy policy developed by the Tacis project. The outcomes of the project are used by other donors.</i>	<i>Acceleration of privatisation process, in the distribution of electricity. New electricity law has been carried out with assistance of USAID.</i>
Energy policy management TA to the Ministry of Fuel and Energy				
<i>OBJECTIVE 2: Improvement of energy efficiency</i>	<i>The inefficiencies and losses in industrial and domestic consumption are key problems, but they should be addressed on a more commercial basis</i>	<i>Great interest of local authorities: probably excessive expectations. Attention to alternative use of local resources (wood and coal).</i>	<i>It is not visible.</i>	<i>Need for co-ordination with the policy reform and other donors' activities.</i>
Assistance on the Industry and Consumer Level				
Creation of Energy Efficiency Centre				
<i>OBJECTIVE 3: Integrate Electricity Supply Networks of the region</i>	<i>Relevant to wider objectives. There are significant opportunities to develop the integration of Electricity Supply Networks of the region: Caucasian countries and Turkey.</i>	<i>All participants to the "Interconnection of Caucasian and Turkey Electricity Supply Networks" project from Armenia, Azerbaijan and Georgia have demonstrated willingness and ability to co-operate in spite of the political situation in the Caucasus.</i>	<i>The technical constraints to run in parallel the Russian Unified Power System (UPS) and the Turkish grid have been identified as main restrictions when optimising the options for interconnections</i>	
Improvement of the System, Operational				

Planning, Operations and Control Practices in Caucasus and Central Asia Countries				
Technical and Organisation Requirement for extended Economy and Security of the Power System Operation				
Interconnection of Caucasian and Turkey Electricity Supply Networks				
OBJECTIVE 4: Development of oil and gas transport sector	<i>Highly relevant to wider objectives. The Strategic Project for transportation of major oil of the Caspian region via pipeline through the territory of Georgia is proceeding. Support to GIOC should focus increased transparency in company management and external investment</i>	<i>GIOC authorities emphasise that Tacis projects are well designed to accommodate GIOC needs. There is political support for better management and accountability.</i>	<i>Rehabilitation of Pipeline Baku-Supsa is on going</i>	<i>WB is financing an Institutional Building project, which includes: feasibility study of "the major oil pipeline", on-the-job training, pipeline negotiations advisory service. Feasibility study for refinery in Supsa provided by USAID.</i>
Establishment of short term expert service for the provision of advice on oil and gas business administration and contract negotiations to the GIOC.				
Technical Assistance to GIOC in environmental assessment of pipeline Baku-Supsa				
TA to the Georgian Oil and Gas Sector				
Oil and Gas Pipelines				

Table 0-6 Logical Framework: Transport Sector

CONTEXT	<ul style="list-style-type: none"> • Serious damage and degradation of the existing infrastructure • High transit potential, due to the Georgia strategic location 			
WIDER OBJECTIVES	<ul style="list-style-type: none"> • Integration of Georgian transport system in TRACECA and in TEN • Restructuring of institutional framework and development of the legal and regulatory system • Rehabilitation of basic infrastructure 			
SPECIFIC OBJECTIVES AND MAIN TACIS ACTIVITIES	RELEVANCE	OWNERSHIP	IMPACT	EXTERNAL FACTORS
<i>OBJECTIVE 1: Rehabilitation and maintenance of transport system</i>	<p><i>Very high relevance of the objective and partially of the activities carried out. Dramatic position of the railways makes of paramount importance an assessment of the rehabilitation needs and the preparation of investment projects</i></p>	<p><i>The counterpart was not aware of all project activities. Rolling stock maintenance project seems to be very appropriate for the Partner Organisations</i></p>	<p><i>Studies used for EBRD railways loans. Pavement management and bridge management computer systems have been established. The impact has been limited from the low level of investment</i></p>	<p><i>Law of railway restructuring passed recently in Parliament. Agreement between EBRD and MoT about an investment program for Georgian railways (32 US\$ millions).</i></p>
Rolling stock maintenance				
Railways Infrastructure Maintenance				
Pavement Management Systems				
Road Maintenance				
Rehabilitation of the Red Bridge				
<i>OBJECTIVE 2: Sector strategy and legal frameworks</i>	<p><i>Harmonisation of legislation of all TRACECA countries is an important task to assure the viability of the whole corridor. The concept of inter-modal transport is virtually unknown, but scope for introduction exists. The key strategic issue of the involvement of the private sector has not been addressed</i></p>	<p><i>Not all the projects did really address the needs of the recipients. Operation and maintenance of the forecasting model does not seem to be sustainable.</i></p>	<p><i>Proposed drafts of some TRACECA projects are under discussion in the recipient countries. Part of recommendations about trade facilitation have been implemented; project produced first an awareness of the changes needed.</i></p>	<p><i>In September 1997, decree of the President on "conception of transport policy of Georgia" identify the major issues for the transport sector. The cost of Georgian railway transport of freights is the highest in the region.</i></p>
Trade facilitation				
Multimodal Transport Systems				
Transport Legal and Regulatory Framework				
Regional Traffic Forecasting Model				
<i>OBJECTIVE 3: Institutional Strengthening</i>	<p><i>Improve efficiency of transport system should increase</i></p>	<p><i>In some cases, it proved to be difficult to design an appropriate</i></p>	<p><i>The lack of commercial attitude and marketing will have a negative impact</i></p>	<p><i>In September 1997, a decree of the President on "conception of</i></p>

	<i>competitivity of both TRACECA corridor and regional economic system</i>	<i>project</i>	<i>on the sustainability of the projects</i>	<i>transport policy of Georgia" identificate the major issues for the transport sector</i>
Improvement of road transport services, Caucasus				
Joint venture for Trans-Caucasus railway				
Air Traffic Control training and technical assistance				
<i>OBJECTIVE 4: Promote and develop maritime connection in Black Sea</i>	<i>High relevance</i>	<i>Integration of Georgian transport system in TEN (Trans European Network) has been identified by GOG as one of the major issues for the transport sector</i>		<i>Memorandum of understanding between USAID and GoG on cooperation to create a plan to restructure and privatize Poti sea port</i>
Maritime connection Georgia-Ukraine: port of Poti				
Maritime connection Georgia-Ukraine: port of Illicheysk				
Maritime connection Georgia-Ukraine: equipment				
Maritime connection Georgia-Ukraine: supervision				
Maritime connection Georgia-Ukraine: coordination				
Caspian sea project: monitoring				

1. THE EVALUATION: METHODOLOGY AND APPROACH

This evaluation considers Tacis actions in Georgia over the period 1992 - 1997.

The focus has been on the evaluation of the overall programme and sectoral strategies (rather than projects), but using analyses of specific programmes and projects to illustrate both successes and problems. To better link general strategies and specific projects, the logics of Tacis interventions has been re-built in each sector, according to the different periods (Tacis 1, 2 and 3). Several logical frameworks have been established, in which the following elements appear: the key sectoral problems and Tacis overall objectives in the sector; the specific objectives (or sub-sector strategies) which have been pursued in the main intervention areas; and the projects financed to implement such strategies.

The sector and project analyses considered three key issues:

- *relevance* - the extent to which Tacis projects as designed match with GoG policy priorities and the needs of the country during this phase of its transition;
- *ownership* - the extent to which GoG and the partner organisations were committed to, and supportive of, the project during implementation;
- *impact* - the degree to which overall programme, sector or project goals were achieved, including considerations related to the policy results and the likely future sustainability of the changes generated in the context. Sustainability is generally linked with the capacity to attract investment, which is a key indicator of the TA impact.

The evaluators used a number of indicators to assess relevance, ownership and impact, which were variously brought to bear on sectors and projects as appropriate. These indicators are summarised below (Table).

Table 1-1 Issues and indicators Used in the Evaluation

Issue	Indicators
Relevance	<ul style="list-style-type: none">• Match with the key problems identified in country and sectoral policy analyses at different stages• Match with GoG policy as written, such as:<ul style="list-style-type: none">– Indicative Economic Plan (1996 - 2000)– Decree on Second Stage of Reform 1997• Match with GoG policy as implemented• Match with GoG policy as agreed with donors, such as:<ul style="list-style-type: none">– the GoG / EU Partnership & Co-operation Agreement (PCA)– World Bank Structural Adjustment Credit (SAC) agreement– IMF Enhanced Structural Adjustment Facility (ESAF) agreement– GoG/USAID Memorandum of Understanding on Privatisation of Poti Port• Relevance to “best practice” in market reforms (a subjective measure, but would include aspects of good governance, transparency, competition)
Ownership	<ul style="list-style-type: none">• Extent to which GoG officials participated in project design• Level of support by partner organisation• Evidence of disputes between GoG and Tacis• Evidence of disputes between contractors and partner organisations• Evidence of financial or resource commitment by partner organisations

Impact	<ul style="list-style-type: none"> • Outcomes, in comparison with high level programme or project goals • The contribution to structural or systemic change in the Georgian economy, civil society or government • Evidence of ability of beneficiary to continue to deliver benefits once Tacis support has ended, in terms of financial self-sustainability and availability of human resources • Evidence of welfare and consumer benefits • Evidence that GoG has used Tacis inputs to change and develop its policies and legislation • Evidence that other donors have used Tacis inputs in their activities • Extent of private sector participation in the economy • Level of private sector investment or IFI lending in infrastructure • Inter-state agreements; legislative harmonisation • Incidental, or unintended impacts (positive or negative)
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Source: DRN

There are difficulties in assessing projects and sectors according to all of these indicators. In the case of *relevance*, sound policy analyses are not easily available to identify key problems. GoG policies were not, and are still not, fully articulated. They are often a combination of investment proposal lists, and generalities on policy direction.

Ownership issues are sometimes a matter of subjective recollection, although the record of Tacis Monitoring and Evaluation (M&E) reports is valuable.

In many cases, the *impact* of Tacis projects cannot be easily separated from other external effects. Simply comparing the situation before and after the Tacis interventions is not appropriate, as other donors actions, GoG legislation, and changes in the political, financial or economic circumstances of the country have also had major influence. The evaluators have therefore tried as far as possible to make with and without project judgements. In practice, however, the “with project / without project” perspective is difficult to assess even for completed projects, although Tacis M&E reports have again proved extremely valuable in this regard.

It was hoped that the evaluation would provide some inputs into the 1998/99 biannual programming process for Georgia. In the event, the evaluation team reported back just as this the in-country “wrap-up” meetings were being completed, and most project proposals were already fully developed. For future evaluations where input to programming is required, we would suggest that the evaluation should be scheduled to report at least six months prior to “wrap-up” meetings.

2. BUILDING THE FRAMEWORK FOR A MARKET ECONOMY

2.1 The Context

2.1.1 *Private Sector Development*

Private sector development (PSD) encompasses Tacis initiatives in the development of a private sector where business transactions are largely determined by an open, competitive market, and where government policies encourage and support the expansion of private sector involvement in activities previously undertaken by the state.

Tacis support to GoG in building the policy, institutional and legal framework for the private sector, has comprised:

- advice on the design of public policies to promote private sector development and the emergence of a functioning market economy;
- support to the design and implementation of the privatisation process in agriculture, industry and services;
- support to capital and financial markets development;
- advice and assistance in the preparation of legislation needed for a market economy.

Tacis initiatives to support different classes of enterprises are considered in Section 4 of this report. Projects concerned with key strategic enterprises are also considered within the relevant sectoral analyses for agriculture (Section 4), energy (Section 5) and transport (Section 6).

2.1.2 *Building the Framework for a Market Economy in Georgia*

Like all countries of the former Soviet Union (FSU), at independence, Georgia lacked fundamental components of a market-oriented economy. The introduction of a market economy is a strategic priority for GoG (see Box).

Box 2-A Government of Georgia: Strategic Priorities

“During the short and medium term periods the strategic priorities of socio-economic development of Georgia are as follows:

1. To overcome the economic crisis in the possible shortest period;
2. To introduce market economy principles through the necessary institutional and structural changes;
3. To provide the vital branches of economy with power by means of the economy of consumption, to increase the generation of its own power and by introducing energy economising technologies.
4. To increase the rates of food consumption through priority development of agro-industrial complex;
5. To accord priority to the development of transport and other means of communication.
6. To promote exports with a view to accumulate foreign currency, with primary attention to development of such industries as: ferrous and non-ferrous metallurgy, chemical industry, production of ecologically clean products;
7. To attract foreign investments and credits for financing programmes envisaged by the Indicative Plan.

... The transition to the market economy requires relatively short period and it is characterised with the following features: appearance of free entrepreneurs and owners; free formation of prices and market infrastructure. Formation of the developed market economy requires several decades. Overcoming structural crisis in economy is a longer process than introduction of market economy itself. However, it is the market economy that represents the impetus for overcoming the crisis and introducing independent, self-financed economy.

The Indicative Plan of Socio-Economic Development of Georgia for 1996-2000 had been drawn up with a view to realise the strategic and medium term goals of socio-economic development of Georgia”.

(Source: The Indicative Plan of Socio-Economic Development of Georgia for 1996-2000)

For Tacis too, building the market economy is a key intervention. In the first (1991) Tacis Regulation, “the transition to a market economy” was the main objective; the phrase “and thereby reinforcing democracy” was added in the 1993 Regulation. Even so, a recent evaluation of Tacis noted that:

“the 1991 and 1993 Regulations do not provide an implementation strategy for achieving the Tacis objectives. Instead, they identify a number of indicative areas eligible for Tacis support (commonly referred to as the Tacis Priority Sectors) and mention that the programme should:

- enable the establishment of conditions favourable to private investment;
- encourage the development of (NIS) inter-state economic links and trade flows;
- encourage the dialogue between the social partners (in NIS states).” (Tacis - An Interim Evaluation. Tacis 1997)

More recently, the European Union has entered into a Partnership and Co-operation Agreement (PCA) with the Government of Georgia. The PCA proposes a framework for a more extensive dialogue with the GoG, and places high priority on the acceleration and completion of market reforms (see Box).

Box 2-B Extracts from the Draft EU/Georgia Partnership and Co-operation Agreement

Article 1 states that “the objectives of the partnership are:

- to provide an appropriate framework for the political dialogue between the Parties allowing the development of political relations;
- to support Georgia’s efforts to consolidate its democracy and to develop its economy and to complete the transition to a market economy;
- to promote trade and investment and harmonious economic relations between the Parties and so to foster their sustainable economic development;
- to provide a basis for legislative, economic, social, financial, civil scientific, technological and cultural co-operation”

Elsewhere the document states that:

- “Georgia will benefit from temporary financial assistance from the Community by way of technical assistance in the form of grants. The purpose of this assistance shall be to accelerate the economic transformation of Georgia” (Article 73, our emphasis);
- “this financial assistance shall be covered within the framework of Tacis as foreseen within the Community’s relevant Council Regulation” (Article 74).

Source: Proposal: Partnership and Co-operation Agreement, 27.03.1996

EU/Georgia relations will also be deepened through reciprocal steps to harmonise legislation. The EU White Paper on mechanisms to foster closer links between the EU and the countries of Eastern and Central Europe places high priority on harmonisation; the GoG has responded by announcing that legislation introduced from June 1998 will be screened to ensure that it approximates EU legislation.

2.2 Overall Logical Framework of Tacis Activities: Building the Policy, Legal and Institutional Framework for a Market Economy

Table sets out an analysis of interventions by Tacis in building the policy, legal and institutional framework for a market economy.

Table 2-1 Logical Framework: Legal, Institutional and Policy Reform for a Market Economy

CONTEXT	<ul style="list-style-type: none"> • Collapse of output and of former “command & control system”; negative affects heightened by internal conflicts • Enterprises with little exposure to competitive international markets; manufacturing decline and loss of markets • State agencies actively managed “their” sectors; insufficient in-depth knowledge of public policies for private sector development • Strong commitment to market reform at senior level within GoG 			
WIDER OBJECTIVES	<ul style="list-style-type: none"> • Transfer state enterprises to private ownership & control through privatisation; create a new private sector • Promote foreign investment, in order to introduce capital, skills, technology and links to new markets 			
SPECIFIC OBJECTIVES AND MAIN TACIS ACTIVITIES	RELEVANCE	OWNERSHIP	IMPACT	EXTERNAL FACTORS
<i>OBJECTIVE 1: Build a Legal Framework for a Market Economy</i>	<i>Highly relevant to wider objectives; fundamental for market reforms. High correlation between economic development and commercial law reform in EBRD country surveys</i>	<i>High - strong senior government support. Private land property rights not yet secured.</i>	<i>Partially achieved. Georgia scores 2 in the EBRD 1997 Transition report on its legal transition indicators. (cf. scores of 4 in advanced economies, and early transition states (e.g. Poland))</i>	<i>Complex political relationships in Caucasus region</i>
European Expertise Service (EES) inputs: <ul style="list-style-type: none"> • Economic Policy Advisory Group • Environment Impact Assessment Law • Civil Insurance Law • Economic legislation 	Highly relevant. Met a need for ad-hoc, timely, rapidly delivered advice on key issues	Varied by project. Good relationship between EPAG senior adviser and GoG senior economics team.	EPAG unit contributed to systemic reform by its wide ranging scope. Other inputs more specific.	Other donor support, including: <ul style="list-style-type: none"> • bilateral advice on legislation, • USAID economic/legal advice in Ministry of Economy (CEPAR)
Strengthening of Georgian Parliamentary Research Service to assist development of policy & legislation; Adviser to Parliament Committee on Economic Reform (EES)	Highly relevant.	High	High. Secondment of adviser to Parliamentary committee is valued.	US funded support for Internet access for parliament
Voucher Investment Fund Law (part of privatisation strategy project)	Project was highly relevant and timely	High; however partner organisation (MoSPM) was not best recipient.	Impact limited as voucher programme was itself flawed, and hence voucher funds were less active.	Scandals with Russian voucher funds may have affected popularity of Georgian funds

OBJECTIVE 2: Design and Implement a Comprehensive Privatisation Programme	<i>Highly relevant to wider objectives. Large state enterprises remain in state hands.</i>	<i>High - strong senior government support. However, continued debate over pricing (selling “too cheap”) and ownership (“insiders”)</i>	<i>Mixed. Small privatisation almost complete. Only half of MLEs privatised by July 1997; state still owns 88% of shares (GET, 2nd Qtr, 1997)</i>	<ul style="list-style-type: none"> • Risk of illegal privatisation and asset stripping; vested interests • Investor perception of Georgia as “risky”
Privatisation Strategy (Tacis/92 PR TCS 01) 1994-1995: <ul style="list-style-type: none"> • privatisation strategy • data collection & analysis • pilot privatisations • sector studies 	Project was highly relevant and timely	High. Long term adviser in country. Close relationships with relevant ministry staff. Clear counterparts	Significant. Formed sound basis for follow-on WB projects in mass and case-by-case privatisation (1995-6). However, GoG did not let markets set prices in either voucher or cash auctions, hence voucher and early cash privatisation largely failed	<ul style="list-style-type: none"> • World Bank projects • Absence of effective share register system • Few investment funds
OBJECTIVE 3: Establish a competitive financial market	<i>Highly relevant to wider objectives</i>	<i>High - strong senior government support</i>	<i>Progress in banking; 10 private banks internationally audited. However no stock exchange and no share register.</i>	<i>Support from IMF, to strengthen prudential rules and supervision capacity of central bank</i>
Bank clearing & settlement system	Highly relevant. Before this project all payments between banks were manual, using paper documents	High level of ownership by National Bank.	High. Set up and established principles of electronic funds transfer; paved way for later USAID input	Major telecommunications constraints
Bank Training (199x - 199x) <ul style="list-style-type: none"> • training of over 550 bankers (nearly 6000 training days) • establishment of training institute 	Highly relevant	High. Independent Georgian Bank Training body established, with capacity to become self-financing	Significant. Tacis project provided strong basis for subsequent follow-on credit delivery projects, and for a private banking capacity	USAID now grant -financing a second bank training institute in co-operation with central bank.
Securities Markets (1997-date)	Highly relevant. Essential that sound basis for securities regulation is established early.	Ownership very high. Partner organisation keen to receive advice on a range of models for securities structure	Too early to tell	Major USAID capital markets initiatives about to start
OBJECTIVE 4: Improve quality of statistical and economic information for decision-making	<i>Highly relevant. GoG remains concerned today about quality of data available</i>	<i>High - strong senior government support</i>	<i>Quality of economic intelligence improving, but statistical data still weak, and concerns are expressed over transparency of public finances</i>	
Georgian Economic Trends	Highly relevant. Provides independent report on economy	High.	Very high. GoG and donors consider this a very valuable Tacis	Current integration of GET and GEPLAC may weaken

			activity	GET
OBJECTIVE 5: Establish sectoral strategies (see relevant section)	<i>Highly Relevant (See relevant section)</i>	<i>High - strong senior government support</i>		
Energy Policy	Highly relevant, given external debt, and foreign trade balance.	High (at first)	Limited. Some key Tacis advice (e.g. on privatisation) not adopted by GoG	Other donors. Acute and political nature of the energy crisis.
Transport - TRACECA corridor	Highly relevant	Very High	Very high. Provides framework for role of Georgia as a transit country	Oil pipeline routes pipelines from Central Asia and Azerbaijan
Agriculture - ITAGA project	Highly Relevant. Farming remains a major employer	Very High	Very high. Significant impact on Ministry of Agriculture operations	Terms of trade / access to EU, regional and CIS markets
OBJECTIVE 6: Civil service reform, in order for the state to play a new role in a market economy	<i>Highly relevant to wider objectives. The implementation of new public policies is fundamental to reform.</i>	<i>High. However, individual line ministries resist loss of control when their future roles are uncertain,</i>	<i>Good. Number of ministries reduced; civil service reduced by 40%</i>	<i>Other donors. Extent to which tax shortfalls accelerate further down-sizing</i>
Restructuring and Anti-monopoly Project • advice, training on anti-monopoly issues in a market economy	Relevant and timely; anti-monopoly issues were new ones facing GoG	Low. Poor definition of counterpart. Responsibility for anti-monopoly changed during project period	Limited. Advice to Anti-monopoly service valued, but too little, too late	Dominant anti-monopoly issues concern strategic enterprises in energy, telecomms, etc. AMS is not yet very influential.
Integrated Technical Assistance to Agriculture	Highly relevant and timely.	High ownership by the Ministry of Agriculture; now being rolled out to regional offices	High - project appears to have had a significant impact on style on government administration in sector	Tacis is main donor in this sector. WB and EBRD starting to look at credit for agro-processing
Civil Service Reform Programme (training, review of ministries, setting up of a personnel unit with Chancellery)	Highly relevant	Very good ownership within State Chancellery; moves to make training with University self-funding	Too early to tell, but work with training and reviewing ministry mandates looks encouraging	<i>Tacis initiative in Civil Service Reform will end soon; other donors keen to continue</i>

2.3 Support to the Privatisation Programme

2.3.1 Tacis Actions

Tacis support to privatisation was principally the so-called “Tacis-1” project (Technical Assistance for Implementation of an Overall Privatisation Strategy in Azerbaijan, Armenia and Georgia). In Georgia the project operated from February 1994 through to September 1995. Through this project, Tacis was a pioneer in supporting a key element of the economic reforms. In addition to implementation assistance, the project provided policy and legal support, as well as some of the initial analyses of sectors such as state banks and the wine industry.

2.3.2 Relevance

Tacis support in this area was highly relevant to GoG policy on privatisation. The GoG Indicative Plan states that:

“Economic reform and its main element - privatisation of state property - is the main one during the transition period when centralised economy is changing with new economic relations”.

The project took place at the right time. We were told:

“When we started our knowledge [of privatisation] was very small ...then day-by-day we grew in our activities and knowledge...The primary contribution of Tacis-1 was that it helped us develop our view on privatisation”it helped with a lot of practical questions” [Beneficiary: MoSPM]

2.3.3 Ownership

There was a strong sense of ownership by the counterpart ministry (the Ministry of State Property Management, MoSPM). This arise from the effective working relations between the long-term resident expert and the counterparts, and also because the expert was able to influence a broad range of individuals. The Tacis M&E units’ sector analysis noted:

“The success of the overall privatisation [strategy] project can, to a large extent, be attributed to the team leader.... Even more than a year after the completion of the project, MoSPM staff remember him and appreciates him and his inputs. He was well known, also far beyond the Ministry, and welcomed by authorities up to the President. Another project asset was the interest in the project by the Deputy Minister... and the perfect working relationship between him and [the team leader]” (Georgia ERD Sector Review. Tacis M&E Unit. Undated).

Within the recent Tacis Interim Evaluation, this project was quoted as a success story to illustrate that “the right people at the right place and at the right time” is likely to result in impressive progress.

2.3.4 Impact

By providing concrete, practical advice at a period when the Ministry of State Property Management was making its first steps in privatisation, the project helped the MoSPM in articulating its approach to privatisation, and in its relationships with donors, with other consultants, and, crucially, with other ministries.

“When we started, we had problems with different ministries ... there was big internal resistance to privatisation. Tacis-1 helped to support MoSPM in overcoming this resistance” (Beneficiary, MoSPM)

The project undoubtedly helped in capacity building within MoSPM. There was effective co-ordination with two World Bank projects during 1995 (voucher privatisation, and pilot case-by-case privatisation of large enterprises using investment banks), which built upon the Tacis project.

The impact on privatisation during the project period was, in our judgement, significant. Discussions with the beneficiary of Tacis-1 revealed that perceived key benefits included:

- better information for privatisation. The MoSPM initially lacked basic information on the numbers of enterprises to be privatised. Tacis-1 assisted in the collection of data and provided support for the development of a database; the early provision of computers allowed the MoSPM and its regional (municipal) offices in Tbilisi and Kutaisi to computerise its records;
- Tacis-1 gave confidence and support to the privatisers in the MoSPM, by:
 - providing in-country and overseas training for MoSPM staff;
 - conducting a public opinion survey at a critical time which showed support for privatisation, particularly of small scale enterprises;
- improved procedures. The project provided methodological advice on the privatisation legislation, privatisation methods, privatisation planning and management, pilot privatisation, auctions and tenders, public information for privatisation, and international relations;
- improved public awareness regarding privatisation. Tacis-1 supported the work of MoSPM in providing information on the privatisation of both small-scale and large scale enterprises, and at the request of the Head of State prepared all the materials for a privatisation exhibition;
- a foundation for follow-on projects supported by the World Bank in mass (voucher) privatisation and selective (“case-by-case”) privatisation.

The mission has no doubt that Tacis-1 helped to improve the quality of the privatisation (for example by encouraging more transparent privatisation processes) and helped the MoSPM to organise privatisation better. It is, however, difficult to attribute all the acceleration of privatisation only to Tacis-1. For example, during the project the privatisation of small scale enterprises accelerated; around 60% of all small enterprises privatised were sold during the period of Tacis-1 (see Table). However, during 1994 and 1995, new legislation allowing management buy-outs and voucher privatisation also accelerated privatisation.

Table 2-2 Small Scale Privatisation in Georgia, by Sector. 1993 - 1996

Sector	Enterprises approved for privatisation	Number of Privatised Enterprises				
		1993	1994	1995	1996	Total
Trade	3556	416	610	1670	488	3184
Public Service	3608	420	546	1707	566	3239
Industry	319	149	14	29	3	195
Agriculture & Food	548	64	22	112	3	201
Construction ¹	165	101	56	41	2	200
Transport ¹	73	8	15	46	6	75
Social “sphere” ¹	85	21	22	299	10	352
Power Supply	31	5	4	13	1	23
Oil Products	163	142	11	10	0	163
Health Care	641	0	0	362	85	447
Bread Production	119	0	0	70	9	79
Total	9308	1326	1300	4359	1173	8158

Source: Ministry of State Property Management

¹ The number of privatised enterprises in this sector is higher than the number approved for privatisation is due to restructuring where enterprises have been split up.

There was also significant progress in the corporatisation of medium and large state enterprises during the project period. Of 1,330 such enterprises approved for privatisation, the number of joint stock companies rose from 50 to 850 by the end of the project.

The creation of joint stock companies is, however, only the first step in privatisation. The next step is to sell the shares. Since the end of the Tacis-1 project, however, GoG progress on sales has been slow, and the hope that privatisation was well on its way was misplaced. From 1995 on, it appears that the key problems were not in the organisation and implementation of privatisation, but in GoG policy and level of commitment to rapid privatisation. On some key issues neither the Tacis-1 project, nor initially the World Bank, were able to fully convince GoG of necessary policy changes.

The most important of the policy changes needed was the pricing of shares. In both voucher and subsequent cash auctions, the legislation did not allow prices to fall to levels at which the market would purchase shares. This absence of a clearing price had a profound effect on the pace of privatisation, and is well summarised by “Georgian Economic Trends”:

“The main lesson ...is that discounts demanded by buyers are currently huge. The effectiveness of voucher privatisation was limited by the minimum prices set at special voucher auctions. It was not allowed to buy more than 45 shares for one voucher, and thus nearly half of the shares offered attracted no bids.....Discounts were high for a number of reasons: because much of the population was too poor to consider doing anything with their vouchers other than selling them immediately; because there was justified scepticism on the general worth of surviving Georgian industry; but above all because information on companies was inadequate and control rights insecure. The true value of enterprises clearly varies widely and has little relation to nominal valuation, which was based on book value in 1993, before extensive pillaging and debt accumulation. Existing managers have incentives to overestimate the value of poor enterprises to persuade investors to come in, or to underestimate the value of good ones to allow themselves to buy shares cheaply...
.....The government appears to have no response to these problems, and thus privatisation has effectively stopped. Cash auctions continue, offering shares at a reserve price of 150 per cent of nominal value. Since the first cash auction, they have sold 0.8 per cent of shares offered. The twelfth cash auction attracted no bids at all...plans to reduce prices still face political opposition...A new law on privatisation ..seems to contain little new” (Georgian Economic Trends, First Quarter 1997).

Thus, there was about a nine month lull during 1996/97 when privatisation virtually stopped. Activity was only restarted when the World Bank finally convinced the government to adopt a zero minimum price at auction, and included this as a condition in its structural adjustment credit (SAC). In order to meet this conditionality, the MoSPM sold residual shares in 265 SOEs in one auction with no minimum prices during summer 1997⁹, and will need to sell at least another 109 more around January 1998 in order to meet the second tranche condition within the SAC.

We conclude that Tacis had a valuable impact, but that further technical assistance, of a policy nature, was required. The recent Tacis Interim Evaluation concluded:

“In Georgia, as in some other countries, Tacis seems to have switched too early to post privatisation support while assistance to the privatisation process was still badly needed”. (Tacis- An Interim Evaluation. Tacis 1997)

⁹ These auctions were successful. Of 63,912,432 shares in 265 enterprises offered for sale, 63,907,095 were sold; total receipts were Lari 5.4 million. We were told by the Ministry of Finance that there was some surprise that such a high sum had been obtained from enterprises which had previously been considered “unsellable”.

While we cannot speak for other Tacis states, we fully endorse this conclusion in the case of Georgia.

Tacis did not provide further support to privatisation, once the “Tacis-1” project had ended, because the successor projects to Tacis-1 were concerned primarily with post-privatisation restructuring. These were the “Tacis-2” Enterprise Restructuring project, and the current “Tacis-3” Centre for Enterprise Restructuring and Management Assistance (CERMA). Both are discussed in Section 4.

2.3.5 Current Situation

In our view, privatisation in Georgia in late 1997 remains an important issue, as part of a wider “enterprise reform” agenda. Indicators of the problem are that:

- the great majority of the equity of the former state enterprises still remains in the hands of the state;
- the biggest enterprises have not been privatised. They represent a heavy burden for the national budget and GoG has not yet defined any action plan for their privatisation;
- the privatisation process is still considered to be insufficiently transparent and to favour “insiders”. This will be a disincentive for foreign investors;
- Georgia has failed to convince the international investment community to invest in enterprise in Georgia through privatisations. GoG has been unable to use its privatisation programme as a tool to “market” the country;
- there are no obvious mechanisms to allow the domestic public to participate in future privatisations. Voucher privatisation has largely failed, but there is as yet no functioning stock exchange or other mechanisms through which the government can enlist public support for future privatisations;
- recent legislation on revaluation of assets (upwards) suggests that the GoG still over-estimates the market value of Georgian enterprises and assets;
- the GoG often appears to implement privatisation under pressure from the international community, and is not itself taking the lead and demonstrating a strong internal commitment to reform. Examples of privatisation under pressure reported to the mission include:
 - the recent “zero” auctions of enterprises as a result of direct SAC conditionality;
 - the withholding of food security aid by the EU until the (stalled) privatisation of the bread corporations restarted;
- too many enterprises have been classed as “strategic”, with no privatisation of majority stakes, and therefore to remain under state control. (However, the IMF’s ESAF policy framework notes that Government intends to reduce the list of “strategic” enterprises by at least 20% and to include only ports, railways and a few other enterprises where a competitive environment cannot be ensured for the time being);
- the absence of share registration (to record property rights) and stock exchanges (to exchange those rights more easily) means that there is no effective market for corporate control.

A further, related, issue is that the Privatisation Fund remains “off-budget” and needs to be consolidated into the central government budget (this too is an ESAF policy requirement);

2.4 Development of Financial and Capital Markets

2.4.1 Tacis Actions

Principal Tacis support for financial and capital markets has comprised:

- an initial review of state banks within “Tacis 1”;
- banking training, and establishment of the Tbilisi Banking Training Support Unit (TBTSU);

-
- a review of the investment fund law and drafting of a voucher fund law, again under “Tacis-1”
 - the current project to develop a securities law and to design the structure of the securities sector;
 - development of a framework to institutionalise accounting and auditing (this work is now being built on by the USAID funded accounting reform project, although Tacis is supporting the translation of some IAS - International Accounting Standards - documents into Georgian).

2.4.2 *Relevance*

Tacis actions in financial and capital markets have been highly relevant to the reform process, but were somewhat disconnected.

It is not clear whether the Tacis programming process, involving GoG (through the Co-ordinating Unit), the Delegation and the Task Managers, fully identified areas of most need. A good example is share registration. Share registration is a vital complement to privatisation¹⁰. Other donors were not active in implementing share registry systems, and Tacis was well-placed (from the Tacis-1 project) to identify this need and to offer timely support for share registration. However, even now, there is no share registry in Georgia, shareholders property rights are not secure, and there is confusion over share ownership (as a result, GoG has had to set up an inter-ministerial commission to decide who owns what shares in privatised enterprises). Although share registration is about to be tackled under a World Bank project, the delay in providing TA may represent a failure of donor and GoG co-ordination processes.

2.4.3 *Ownership*

Ownership in this area of support is mixed. The beneficiary in the current Tacis project on securities markets appears highly supportive. This project offers an excellent example of the benefits of involving the beneficiary in project design:

“The project could have been sooner, but we recognise that it takes time. We spent time with Tacis during 1995 - 1997 developing the terms of reference.....Tacis took account of our GoG views; we saw the proposals and participated in the tender evaluation...we were able to work with Tacis to select the best consultants from among the proposals” (Beneficiary, State Inspectorate for Securities and Stock Exchange)

Ownership was also high in the case of banking reforms, but the strength of the relationship between contractors and beneficiary in the case of accounting reform and voucher investment fund law inputs is uncertain. In the case of the voucher investment fund law, the problem appears to be less a question of the quality of the contractors work, than, first, that the Tacis-1 beneficiary (the MoSPM) was inappropriate, and, second, that GoG’s voucher pricing policy constrained the opportunities for voucher investment funds to develop as well as they did elsewhere in the NIS.

2.4.4 *Impacts*

We questioned the representatives of the partner organisations in the banking projects. A high degree of satisfaction was expressed, and we were told that the Tacis projects did support reform and capacity building of the banking sector at a key stage.

Overall, Georgia’s banking sector is now performing well. There is a healthy cadre of commercial banks, and the central bank is gradually tightening prudential regulations, certifying banks, and closing uncertified banks in an orderly manner. Ten commercial banks have their accounts audited to

¹⁰ Experience from Russia provided early evidence of abuses of property rights that could take place in the absence of effective share registration.

international standard by international auditing accountants. Only one former state bank (Agrobank) is in difficult circumstances, and may need restructuring; its licence may be revoked.

Donors involved with the provision of credit through banks for on-lending to private businesses also expressed the view that the calibre of banking personnel and operations was - in general - satisfactory, given Georgia's stage in transition.

2.4.5 Current Situation

In addition to Tacis, there are three major donor-led initiatives in economic reform:

- a World Bank-led Structural Adjustment Credit (SAC) of SDR 44.2 million (\$60m equivalent);
- the IMF-led Enhanced Structural Adjustment Facility (ESAF) of SDR 55.5 million;
- a USAID package of measures on economic reform. This is a major package, of US\$ 250m for the three south Caucasus states, with around \$100m to Georgia. The programme will cover five areas: capital markets development, privatisation of urban and industrial land, comprehensive accounting reform, comprehensive tax and fiscal reform, and "showcase" privatisation of a strategic enterprise - Poti Port.

The current Tacis Securities project will end during 1998. The Tacis contractor has co-ordinated with USAID officials and contractors, to ensure that there is a common understanding of the direction for securities markets. Tacis' inputs have been valued by the beneficiary (the State Inspection for Securities and Stock Exchange), but it is hard to see any immediate follow-on role for Tacis, given the scope and scale of the forthcoming USAID projects, which will implement securities trading systems, operations, and procedures.

2.5 Policy, Legislation and Institutional Reform for a Market Economy

2.5.1 Tacis Actions

The principal Tacis projects supporting policy, legislation and institutional reform have been:

- the EES facility, which has amongst other inputs:
 - supported the European Policy Advisory Group, whose input has been highly valued by the GoG economics team within the State Chancellery;
 - supported the preparation of a Public Sector Investment Programme (PSIP) and assisted GoG to prepare for Consultative Group meetings with donors;
 - assisted the Georgian Parliamentary Research Service in improving its capacity for research on policy and legislation;
 - provided an expert to work alongside the Chairman of the Parliamentary Economic Reform Commission;
- the publication of "Georgian Economic Trends" (GET), in English and Georgian, reporting on macro-economic trends, fiscal, monetary and reform policies;
- the civil service reform project, which has:
 - established a civil service training unit. This has provided basic training in the mechanics of a market economy, and is moving towards financial sustainability;
 - assisted GoG in streamlining and reducing the number of ministries, and in defining appropriate mandates for ministries;
 - established a personnel unit within the State Chancellery.

Much of Tacis' work in this area relates to the redefinition of the role of the state within a market economy. This is a vital area of transition reform.

Other Tacis projects in specific sectors (agriculture, energy, transport) or in cross-cutting sectors (anti-monopoly, environment) have also contributed to bringing market principles to bear. One of the best examples is in the ITAGA project in Agriculture. This project helped redefine the role of the ministry, and its advice has helped the ministry to progressively withdraw from previous "command and control" of the sector, to a new role as a policy, research, information and regulatory affairs¹¹ body. We were told:

"The policy component was the first part of the ITAGA project. ...the contractors' process identified everyone who was involved in policy: the Ministry, scientists, Parliament and others.....there were 2-3 months of meetings, and the project created a kind of public review. Everyone was asked to write down their feelings, so when the policy document was published, everyone saw their feelings in it. ITAGA's policy document has strongly influenced Government's agriculture policy. This policy document has really changed thinking"
(Beneficiary, GoG)

2.5.2 *Relevance, Ownership and Impact*

All the steps taken by Tacis have been highly relevant to GoG priorities.

The EES facility, Georgian Economic Trends and the civil service reform project appear to be highly regarded within Government. Positive comments were also made by various donors in Georgia on Georgian Economic Trends and the civil service reform project:

"GET is a very useful product, we hope GEPLAC continues it" (Donor official)

It is difficult to isolate the impacts of these projects, but we note that in Georgia economic stabilisation and structural reforms have enabled a remarkable turnaround. After four years of continuous decline, growth resumed with real GDP growing by 2.4 percent in 1995 and 10.5 per cent in 1996. Moreover:

- prices have been liberalised for most commodities;
- public sector staffing has been reduced to 40% since mid-1994 and the number of ministries reduced;
- Georgia has developed a good relationship with donors, in particular through the Presidential Adviser on Economic Reform (and with whom the Tacis Economic Policy Advisory Group (EPAG) worked most closely).

We conclude that Tacis has contributed to GoG's policy agenda, although the agenda can be considered to have been led by IFIs such as the IMF and World Bank who have strongly supported reform through rehabilitation and structural adjustment credits.

2.5.3 *Current Situation*

Although Georgia's success in its economic turnaround suggests that the framework for a market economy is in good shape, the mission was surprised by the absence of relevant sectoral and national economic policies. In our judgement:

- there is something of a vacuum in policy articulation. There are no comprehensive GoG sector policies in key areas such as private sector development, energy, or transport. The experience of Tacis managers is that policy making is fragmented, and often undertaken on a case-by-case basis;

¹¹ For example, regulations concerning food safety, animal health, veterinary medicines and agro-chemicals.

- there is some proliferation of external policy advice, including:
 - the current EES-financed Economic Policy Advisory Group (EPAG), which focuses on advice to the Chairman of the Commission for Co-operation with International Financial and Economic Organisations (CCIFEO);
 - the up-coming GEPLAC project (which will absorb EPAG);
 - the current USAID-supported Centre for Economic Policy Advice and Research (CEPAR), which works within the Ministry of Economy. (A new project has been prepared and a new contractor is now being engaged);
 - bilateral macro-economic policy advice provided by a seconded British civil servant under the Know-How Fund;
 - bilateral legal advice provided by the GTZ, a state organisation of the German government;
 - sectoral policy advice provided by various technical assistance contractors, in key sectors such as agriculture, energy and transport (sometimes with differing advice being provided);
- there remain important differences of policy stance between key economic ministries. Two examples told to the evaluation mission were (1) that the Ministry of Industry had made proposals for reintroduction of price controls under its mandate, and (2) the Ministry of Finance sets standard prices for assets where there is “no market price”.

In our discussions with Tacis managers, we found that all felt a lack of policy direction from the GoG, and an absence of worthwhile policy or sector strategy papers by GoG. Various “indicators” of GoG policy were mentioned, including:

- World Bank and IMF agreements with GoG, (as set out, for example, in the documentation relating to structural adjustment credit and facilities);
- GoG’s Indicative Plan (prepared by the Ministry of Economy, but generally considered to be a relatively weak document within the donor community);
- a recent Presidential Decree on the “second stage of economic reform”;
- President Shevardnadze’s Monday morning announcements.

2.6 Conclusions and Recommendations: Building the Framework for a Market Economy

There remains a need for co-ordinated policy advice, and for strengthening of GoG capacity to articulate policy. It is also clear that there is no one single counterpart beneficiary to receive policy advice. There are different groups and institutions within government and within parliament to whom policy could be directed. Moreover there are a number of providers of policy advice. Donor co-ordination in this area could be improved.

We have three recommendations:

- first, we recommend that Tacis be prepared to support a number of policy initiatives, with a range of counterparts. There may be some overlap, but it is important that policy dialogue is developed and enhanced at various levels and within various GoG institutions;
- second, we recommend that Tacis take a more active role in the co-ordination of micro-economic reform (private sector development and enterprise reform) policy advice. By this we mean that Tacis initiate and host regular meetings of donors and of contractors addressing policy in this area¹². Tacis is well-placed to do this, given the history of its involvement in SME development, privatisation, anti-monopoly support, as well as some inputs to energy and transport enterprises. On a more

¹² The IMF has recently agreed to co-ordinate donor initiatives on macro-economic assistance.

cautionary note, we believe that Tacis needs to lead the co-ordination effort to help ensure that the “European” policy message - both bilateral and multi-lateral - is not itself fragmented;

- third, we recommend that Tacis identify mechanisms through which Tacis can strengthen policy-making and policy articulation capacity within GoG.

PSIPs (public sector investment plans) may be one way forward. In the case of Georgia, two PSIP plans have taken place so far, through a Project Preparation Service (PPS) team supported by both Tacis and UNDP. Unfortunately this team was broken up, some members moving to the new Georgian Investment Centre (an initiative of the Ministry of Trade and Foreign Economic Relations), while others moved to the Tacis EES supported Economic Policy Advisory Group (EPAG). The new GEPLAC project would be one vehicle to re-build this capacity, but would probably need to be augmented through additional EES resources to strengthen PSIP programming¹³ *per se*.

The mission has immediate concerns over the new GEPLAC project. There have been difficulties in developing Terms of Reference which integrate and balance the legal and economic components of GEPLAC, and in establishing a steering committee with the right mix of direction. The process of project design, of developing the Terms of Reference, and of awarding the contract has been insufficiently transparent and insufficiently consultative with the intended beneficiaries. As a result, we believe that there is a significant risk that this project will fail to win broad-based political support, and may be unable to deliver the right balance of economic and legal advice. A further concern is the lack of donor co-ordination. At the time of the mission, Tacis and USAID had not discussed possible duplication between GEPLAC and the follow-on to the CEPAR project, even though contractors had been appointed in both cases.

In our view, GEPLAC must work, and work well, if Tacis is help the EU to maintain and deepen its policy dialogue with GoG as foreseen in the proposed Partnership and Co-operation Agreement. We recommend that the GEPLAC project be closely monitored by the relevant Task Managers, the EC Delegation and the Tacis Monitoring Unit, particularly during start-up.

The Georgian Economic Trends publication has generally been well-received. The mission received unsolicited praise for its internet publications from a visiting IMF mission, and we were told it was widely read within the National Bank, the Chancellery and the Ministry of Finance. It provides useful and timely analysis of data. GET is a success story for Tacis. We recommend that support to this publication continues¹⁴, and it is monitored to ensure that the integration of GET within GEPLAC does not reduce the quality of the product.

Progress on privatisation is a key issue. Many actions by Tacis and other donors rest on the assumption of a sizeable pool of privately owned and controlled enterprises. Examples are Tacis projects in banking, securities markets and post-privatisation restructuring. We recommend that Tacis work with the GoG to provide a “problem-solving” input through EES or GEPLAC, with the explicit aim of accelerating privatisation. This should be linked into senior level policy advice on enterprise reform; and should aim to both deliver (and test) GoG’s stated commitment to privatisation, to competitive markets and to open, competitive, sales processes.

¹³ Terms of reference for which could be similar to those for the proposed PSIP programming exercise in Kazakstan (“Strengthening the Institutional Capacity of the Ministry of Economy and Trade in Information Analysis and Forecasting as a Basis for Economic Policy”)

¹⁴ GoG officials suggested to us that this publication could also usefully be translated in Russian, given Georgia’s links with other CIS states. We think that the benefits of translation into other languages should be explored, especially if there is a move to financial sustainability, and priced publication.

There are a number of other areas where Tacis could enter into dialogue with GoG to identify actions needed to complete market reforms. We recommend selective actions under the EES or similar frameworks, to initiate Tacis support in:

- implementation of liquidation & bankruptcy legislation. A new Georgian bankruptcy law was introduced in January 1997, and amended in June 1997 to strengthen creditor rights. The law has not been tested, however, and there will be a lack of experience within the judiciary, which could be supported through relevant advice and training. Similar problems have been / are being tackled by Tacis, Phare and other donors elsewhere in Central Europe;
- operation of statistical services. On several occasions we have been told of significant problems in the area of statistical data collection. As the economy grows more rapidly, it will be even more important that the ministers responsible for finance and economic policy can base their decisions on reliable data sources;
- industrial policy. The new Ministry of Industry has ambitions in the development of industrial and sector policy. It needs urgent help in developing approaches which fit the role of a Ministry of Industry in a market economy. The Ministry could be extremely important in reform, but there is a risk that the Ministry could easily become too interventionist and protective in trying to “manage” or “regulate” the industrial sector.

Dependent upon the outcome of current EES work with the Anti-Monopoly Service, further support might be envisaged on anti-monopoly issues relating to “strategic” enterprises, within Parliament.

More generally, Tacis programming in legislative, policy and institutional reform could usefully anticipate and reflect the priorities and objectives of the proposed Partnership and Co-operation Agreement between the EU and Georgia.

3. SUPPORT TO ENTERPRISES

3.1 The Context

This section considers Tacis direct support to enterprise reform - i.e. circumstances where the principal beneficiary is an enterprise, rather than a GoG institution. We consider Tacis interventions in the three major classes of enterprise in Georgia:

- *enterprises remaining under state control*, typically those which the state considers “strategic”, where there is a natural monopoly, and where the state is likely to take a particularly careful approach to privatisation and restructuring. The privatisation and reform of such enterprises is often highly political. Energy, transport, defence and telecommunications enterprises clearly fall within this category, but other enterprises (such as the grain/bread industries, or enterprises in mono-industrial towns) can also be classed as “strategic”. Tacis interventions include:
 - advice on rolling stock maintenance for the Railways Department;
 - projects to assist the electricity utility (Sakenergo) in operations management, power sector investments, international interconnections;
- *medium and large privatised¹⁵ enterprises (MLEs)*, which make up the middle tier of Georgian manufacturing industry, and which formed the majority of enterprises to be privatised. This tier includes enterprises from the extractive industries (minerals, mining, smelting), the agro-processing industries (including the important wine sector), and the manufacturing sector (such as wood products, textiles, chemicals). Tacis interventions include support to the Centre for Enterprise Management and Restructuring (CERMA), in collaboration with the World Bank;
- *small and medium sizes enterprises (SMEs)*, including small retail shops, workshops, and facilities which were subject to small scale privatisation as well as new small businesses, particularly in the services sector. Here Tacis has supported the formation of new companies concerned with small enterprise development and with facilitation of international business communications.

Although the statistical picture is not clear, discussions during the mission indicate that these three classes of enterprise have very different characteristics. Indeed, at present, the Georgian economy can be viewed as a two tier economy. On one hand, there is a fast-growing retail, service and trade sector dominated by small, new start-up enterprises (SMEs). Much of Georgia’s high rate of growth (and much of the unrecorded economy) is derived from this tier. In direct contrast, there is a stagnant tier made up of large, cumbersome, un-responsive, state-owned or state-controlled enterprises, which dominate the infrastructure sectors of the economy. This sector is proving difficult and time-consuming to reform; the enterprises are loss-making and a net drain on the central GoG budget, and moreover their poor performance adversely affects other businesses¹⁶. There is no clear statement by GoG setting out its policy on such enterprises (see Box).

¹⁵ By privatised we mean at least 51% of shares are owned by fully private persons or legal persons

¹⁶ To illustrate: the mission heard anecdotal evidence of at least one potential foreign investor frightened off from Georgia because of the unreliability of power supplies; while rail transport costs are amongst the highest in the CIS (see transport section of this report).

Box 3-A GoG Policy Statements on State Enterprise Reform

The GoG statements regarding the transfer of ownership and control to the private sector are often ambiguous. While corporatisation (i.e. conversion into joint stock companies) is envisaged, the transfer of shares is not confirmed as a key policy goal, and the commitment to withdrawal from state intervention is unclear, as these examples show:

“The control of stock companies will be based on purely new principles. In this process the state, as an owner, will participate in different spheres of economy through the shares left in state ownership. The reform of state enterprises means full corporatisation of these enterprises and it will give guarantees for their independence. Direct subsidising from the state will be practically annulled. In certain cases sanation policy (sic) will be carried out for unprofitable and not sufficiently profitable enterprises granting special privileges, in other cases these enterprises will be declared bankrupt. (GoG Indicative Plan: Para 1.6.8 “State Enterprise Reform”)

“With a new (sic) of enduring structural changes, the proprietary relations balance, and the purposeful governance of the privatisation process, the restructuring of power engineering, communication, transport municipal facilities and other spheres will be carried out, paying special attention to the creation of favourable conditions for the private capital participation, the increase (sic) efficiency of management of property remaining in the state sector” (Presidential Decree No 600, “On the Basic Directions for the Second Stage of the Economic Reform”, October 1997)

This perception was reinforced by meetings with GoG representatives within line ministries who considered that the case for privatisation still needed to be made and the MoSPM should focus on its role in the management of state property. Discussions in Parliament also revealed some belief that corporatisation alone would be an effective instrument of state enterprise reform .

The third tier of privately owned and controlled MLEs is, however, rather thin. In many cases, insider privatisation has transferred ownership to the previous managers, who have not undertaken the drastic restructuring necessary to make these enterprises viable. Most are on hold, although there are a few success stories, a few foreign investments, and (perhaps most valuable) a number of new, soundly managed, commercial banks. The GoG appears to place high priority on the restructuring of these enterprises.

3.2 Overall Logical Framework of Tacis Activities: Enterprise Support

Table sets out an analysis of interventions by Tacis in enterprise support.

Table 3-1 Logical Framework: Enterprise Support

CONTEXT	<ul style="list-style-type: none"> • Collapse of manufacturing and loss of markets in CIS; output fell 70% between 1990 - 1994; hyperinflation • Structure of economy at independence biased towards industry and manufacturing; trade and service sector small • Weak commercial links between enterprises, markets, suppliers, and distribution systems • Limited exposure of enterprises to competition from products/services from Europe, Central Asia, and elsewhere 			
WIDER OBJECTIVES	<ul style="list-style-type: none"> • Employment, improved export earnings, balance of trade, tax revenues • Create an environment that enables/forces Georgian private enterprises to become more competitive 			
SPECIFIC OBJECTIVES AND MAIN TACIS ACTIVITIES	RELEVANCE	OWNERSHIP	IMPACT	EXTERNAL FACTORS
OBJECTIVE 1: Help large state enterprises to be broken up and prepared for sale or private sector involvement	<i>Highly relevant. Poor performance from utilities and infrastructure firms raises costs for other firms</i>	<i>Mixed. Many enterprises are seen as “strategic” within GoG.</i>	<i>Limited. Only the electricity utility has been restructured to date</i>	<i>IFIs are likely to encourage GoG to reform and restructure large state enterprises</i>
Sporadic and isolated Tacis advice on large enterprises, as part of other projects (e.g. transport policy, anti-monopoly advice, energy policy)	Highly relevant	Mixed, depending on relationship with partner organisation and recipient in each project.	Variable. Overall very little impact.	<i>World prices of commodities, services and products controlled by state enterprises; WTO obligations</i>
OBJECTIVE 2: Assist privatised MLEs to become more competitive	<i>Highly relevant. Need for MLEs who can develop value-added export capacity</i>	<i>Very high. Seen as a GoG priority.</i>	<i>Little progress to date on increased exports of value-added products.</i>	<i>Willingness of foreign investors to introduce new skills, and technologies to make Georgian industry more competitive</i>
Enterprise Restructuring & Anti-Monopoly project (“Tacis-2”)	Highly relevant	Low ownership by GoG partner (MoSPM). Disputes with MoSPM over use of project funds. However, high level of ownership by selected enterprises who received advice	Impact on enterprises significant. Project lead to turnaround restructuring. However, weak policy links and insufficient attention to dissemination of findings	Tacis stance on use of project funds (project was closed down for 5 months as this was being resolved)
Centre for Enterprise Restructuring and Management Assistance (CERMA) (Previously the PPDC project - “Tacis-3”)	Highly relevant	Very high. Senior GoG steering committee	Too early to tell. “Tacis-2” results suggests that enterprises will benefit. However, Tacis contractors currently excluded from policy dialogue.	World Bank is partner for Tacis, and requests further Tacis support. World Bank /Tacis partnership will influence policy impact
OBJECTIVE 3: Assist small enterprises to form and to grow	<i>Highly relevant. Small enterprises grow quickly to fill gap in trade & services in transition economies</i>	<i>Poor. No obvious GoG or NGO partners for SME institutions.</i>	<i>Small enterprises growing fast, but despite, rather than because of government actions</i>	<i>Proposals to set up SME policy advisory group to advise GoG</i>
Small & Medium Enterprise Development Agency (SMEDA)	High, but conditions for SME activities at start of project were	Poor. Chamber of Commerce as main shareholder is not sufficiently	Some benefits probable through entrepreneur/ start-up training, and	Future evolution of the Chamber of Commerce

	poor, given weak state of economy	dynamic.	preparation of business plans and investment proposals. Too early to assess impact.	
OBJECTIVE 4: Improve the linkages between Georgian enterprises and markets	<i>Highly relevant</i>	<i>Poor. No obvious GoG or NGO partners for SME institutions.</i>	<i>Some progress. Foreign trade and investment interest growing.</i>	<i>Further progress depends on improvements in the investment and trade environment</i>
Business Communications Centre (Tbilisi) and BSC Kutaisi	High	Good. Principal partners proved to be interested in Tacis BCC and BSC projects	High. BCC now operates independently and continues to provide services. BSC likely to be viable once Tacis funding ends.	<ul style="list-style-type: none"> • Georgian SME institutions need to network and collaborate • BCCs within CIS may collaborate

3.3 Restructuring of State-Owned Enterprises

3.3.1 Tacis Actions

Tacis support for state enterprise reform has been limited to activities within other projects. Some examples are:

- initial advice on the privatisation of electricity enterprises as part of an energy policy project. This advocated a cautious approach to privatisation, but was in direct contradiction to the advice of other donors (such as USAID), and has not subsequently been adopted by GoG;
- later (1995) advice on the mechanism of de-monopolisation and bundling of electricity distribution companies for sale, as part of the “Tacis-2” post-privatisation project (current GoG proposals for selling these companies are in line with this advice);
- indirect influence on state enterprise reform, through (for example) reporting on the policy and progress of state enterprise reform in GET, which recently stated:

“...overall industrial output is stagnant. Likely explanations for this include the slow progress made in industrial privatisation over the 12 months to June [1997], as well as continuing problems with supplies of electricity...the State Tax Service has reported that 80 per cent of its revenues come from the private sector, despite the fact that most medium and large enterprises remained in the state sector and are much better registered. This suggests a largely inactive state sector” (Georgian Economic Trends. Quarterly Review, Second Quarter 1997.);

- advice on the future of the Chiatura mine enterprise, as part of EES policy advice on regional development.

3.3.2 Relevance

GoG, like many other transition governments, agrees in principle that state-owned enterprise (SOE) privatisation is a key plank of market reforms. In practice, however, it faces challenges in the reform of number of “difficult” SOEs. These difficult cases include so-called “strategic” enterprises¹⁷.

The EU, through Tacis, could help GoG by providing practical support in implementing the reform of these difficult cases. Tacis advice on the restructuring and management of such SOEs would be highly relevant to GoG:

- first, to help GoG to implement its vision for a market economy;
- second, to help reduce the financial burden of loss making enterprises;
- third, to assist in resolving the employment problems in mono-industrial areas.

The second reason is perhaps the most urgent and critical. The mission was told:

“We now have a big problem trying to sell (privatise) the big scale enterprises, where the state still has over 51% of shares. These enterprises have not been a major source of revenue for the budget, but remain on the budget and have huge tax arrears...these enterprises represented 40-50% of GDP five years ago and there is still an instinctive feeling that these enterprises have a role to play, even though today they only contribute perhaps 14% towards GDP....our problem is

¹⁷ We use the term “strategic” here as this reflects GoG terminology. Actual practice in several market economies shows that enterprises in the sectors mentioned can be transferred to the private sector.

that we have the resources to continue to subsidise some, but not all, of those enterprises. Those without a real market will have to be liquidated” (senior GoG official).

Moreover an IMF ESAF Policy Framework Paper, prepared by Georgian authorities in collaborations with IMF and World Bank staff states:

“For a limited number of large, loss-making enterprises remaining under state ownership, the Government will offer temporary rescheduling of their overdue budgetary obligations, subject to adoption by these enterprises of restructuring programs which aim at restoring financial viability. However, failure by these enterprises to restore financial balance within the time frame of the restructuring plan will be followed by liquidation of their assets in accordance with the requirements of the bankruptcy law” (Enhanced Structural Adjustment Facility, Policy Framework Paper, 1997-1999).

Of all the large loss-makers, GoG’s most serious problem enterprise is Sakenergo, the energy utility, as other loss-making state enterprises continue to incur debts for energy expenditure through it. Others include the Rustavi metallurgical plant, the Azot chemicals plant, Chiatura manganese mine, and Zestaphoni metallurgical plant, in addition to transport enterprises.

While Sakenergo is being dealt with by USAID funded contractors, GoG lacks support to tackle the other enterprises. Relationships between these enterprises and the state are confused, complex and opaque. The mission reviewed the last GoG budget, and found that although the Ministry of Finance records expenditure of minor GoG institutions in great detail, the subsidies to these enterprises are treated off-budget and are not revealed. During the mission’s visit to Georgia, parliamentarians publicly complained about non-transparency in the draft 1998 budget.

3.3.3 *Current Situation*

It is clear that dealing with large loss-making enterprises is an important and difficult task, and one where technical assistance (deciding what to do) is more important than, or at least precedes, major restructuring. In theory, therefore, Tacis should be well placed to assist.

To date, however, Tacis has not supported state enterprise reform in a direct and concrete manner. Our discussions suggest that some possible reasons may be:

- technical assistance in this area requires clear policy vision by the donor, because GoG is itself uncertain what to do and is ambiguous in its statements on state enterprise reform (see Box). The lack of strategy papers or similar reports suggest that Tacis in Georgia as yet lacks such direction;
- an apparent reluctance to support certain reform measures, because of a perceived absence of philosophical basis for Tacis intervention, as illustrated by this comment:

“For example, it doesn’t make sense for the EU to say to Georgia ‘privatise your railways’, when so much of the European rail network remains state owned”. (Tacis manager)

To some extent Tacis managers appear constrained from driving through aggressive reforms of enterprises, in a manner which is possible for other donors (for example, the privatisation of the power sector or of Poti Port, both with USAID support).

3.4 Restructuring of Privatised MLEs

3.4.1 Tacis Actions

Tacis support for privatised MLEs has comprised:

- the “Tacis-2” Enterprise Restructuring project. The project had three components:
 - developing a methodology for enterprise screening and classification to assist the MoSPM in enterprise reform decisions (i.e. whether to liquidate, revitalise, or restructure)¹⁸;
 - work with selected privatised enterprises (the formal partner organisation being MoSPM, but in reality the principal recipients and beneficiaries being the enterprises themselves);
 - work on developing anti-monopoly frameworks (the recipient for this component emerged over the course of the project as the newly formed Anti-Monopoly Service);
- the “Tacis-3” Centre for Enterprise Restructuring and Management Assistance (CERMA) provides restructuring advice to selected enterprises similar to that component of the “Tacis-2” project. However, there is much more focus on capacity building. Tacis experts work alongside two local consultants for each enterprise, in order to train young Georgians in enterprise restructuring and reform. Institutionally the project is very different too: CERMA has been established as a legal entity, reporting to a senior GoG steering committee, and ultimately may be converted into a consulting organisation. It is intended a vehicle for a major World Bank enterprise reform project, and there is close co-operation between the World Bank and Tacis.

3.4.2 Relevance

Tacis support to privatised MLEs is, in the mission’s view, highly relevant. Experience throughout the transition economies of Eastern and Central Europe reveals that the problems of previously state-owned enterprises are enduring.

It is important that viable, profitable, fully private MLEs develop, be it by growth of successful SMEs, revitalisation of existing MLEs, or the break-up of large SOEs. Export growth is a key target for the country, but will depend on enterprise managers learning how to meet the quality needs of export markets. This will be a challenge, as many Georgian enterprises have yet to demonstrate that they can survive in a competitive market.

A weakness of “Tacis-2” and “Tacis-3” is insufficient attention to enterprise liquidation as a restructuring method. We understand that the Tacis RARP project has resulted in the first (and so far only) creditor-led bankruptcy case against a Georgian enterprise by a Georgian bank. Although this particular insolvency was a by-product of RARP, it is an important one for the signals it sends. Enterprise liquidation is a normal feature of a healthy market economy, as it allows under-utilised assets to be transferred from non-profitable enterprises to enterprises that can utilise those assets more productively

3.4.3 Ownership

Ownership of the advice by individual enterprises is high. In part this is because a key criterion for enterprise selection is the enthusiasm and commitment of the enterprise managers to restructure. In the

¹⁸An enterprise database of state enterprises was constructed; at the time MoSPM was considered responsible for enterprise reform, but this responsibility now appears to have shifted to the new Ministry of Industry

case of CERMA, some enterprises are now willing to make some payment for CERMA's consulting services.

3.4.4 Impacts

The final monitoring assessment of the Tacis-2 project indicate that restructuring support was highly valued by enterprises:

“The project was very successful in enterprise level assistance. Management of four enterprises appreciate the work done. Exemplary lessons may be learned from the project as to how to promote enterprise revitalisation under limited resources” (End of Project Assessment Report).

The mission also visited one enterprise, and was able to confirm that one year later, the enterprise managers still considered that Tacis advice had been instrumental in the turnaround. The enterprise however had had new owners and investment, and this too was critical to success. (See Box)

Box 3-B Isani: Enterprise Revitalisation

Isani is a shoe enterprise in Tbilisi which received advice on restructuring under the Tacis-2 project. The enterprise has changed radically:

- the number of workers fell from 3,800 in the mid-1980s to zero (at the time of the Tacis intervention) to 250 today. With Tacis advice, current workers are hired on a contract basis;
- the enterprise has divested itself of unused “social assets” (kindergartens, house of culture, rest houses), again with Tacis advice;
- investment financing has been provided through a Russian-financed investment company (now the majority shareholder), and more recently an Italian partner has been found who sources components (e.g. the firm now uses Turkish shoe-soles), provides technology and market links.

The conclusion of the shareholder representative, when asked if he would advise other enterprises to pay for the kind of advice that Isani received free-of-charge from Tacis is instructive, however:

“Would I advise another person to pay for advice from Tacis? No, I would not tell them to buy consulting advice unless they already had a partner. In the case of Isani we (the investment company) brought money and a strategy to the firm, and the Italian partner brings markets, and links and technology”

We conclude that “Tacis-2” and the current “Tacis-3” (CERMA) project are both likely to deliver significant benefits at enterprise level, but the benefits are currently constrained by weaknesses in the policy and legal environment (for example, too little pressure to liquidate, poor safeguards for investors, and artificial restrictions on asset sales).

3.4.5 Current Situation

The current CERMA project has been established quickly and very effectively, and looks a very promising structure. There are however, two areas of concern to the mission:

- first, the number of enterprises suitable for restructuring through advice alone. This is not clear as “Tacis-2” and this “Tacis-3” project have only worked with 12 enterprises so it has been relatively easy to select good candidates, with reform-minded managers. Equally it is not clear how many genuinely private firms are available, a point already noted by the Tacis Monitoring Unit:

“The ToR instructs the contractor to assist privatised or private enterprises. The Contractor specifies the target group as enterprises having at least 51 per cent of the shares privately owned. According to Georgian Economic Trends, 88 per cent of total amount of shares of enterprises which had undergone privatisation still belong to the state. If this is really the case, the overwhelming majority of enterprises will remain beyond the [CERMA] sample to be screened” (Tacis Monitoring Report)

- second, the ideal methods of restructuring would be owner-led (in the Isani case, Tacis was working with new owners, who had control over the enterprise and could make tough restructuring decisions) or creditor led (typically private banks) In Georgia, there are few external owners with control, and the major creditors are not private banks but the state.

An extension to the current project is being approved. This will come on stream in early 1998, and at the same time the number of experts within CERMA will be increased as a World Bank Pre-Project Facility technical assistance team joins CERMA in the second quarter of 1998. Further support to CERMA has been requested under the 1998/99 Action Programme, to build on World Bank funding for its main enterprise reform project due during 1999.

3.5 Support to SMEs

3.5.1 Tacis Actions

Three Tacis projects have supported small enterprises:

- the Small and Medium Enterprise Development Agency (SMEDA) in Tbilisi;
- the Business Support Centre (BSC), Kutaisi;
- the Business Communications Centre (BCC), Tbilisi.

Support for the BCC ended in 1996, while support for the Tbilisi SMEDA and Kutaisi BSC institutions have been merged into a single, 18-month follow-on project . Tacis funding to the two centres will be progressively reduced over 18 months, so that the centres are to be fully self-financing by January 31 1999.

3.5.2 Relevance

Direct support to small businesses was - and still is - highly relevant to the transition economy in Georgia. Experience elsewhere in Eastern Europe had shown that small businesses rapidly filled the gap in post-soviet economies in the trade and services sectors.

In Georgia, small enterprises dominate the economy (Table). Of 24,302 registered enterprises, 88% are micro-enterprises of 1-10 employees. Most enterprises are based in Tbilisi: one third of all registered enterprises, and half of the enterprises with more than 100 employees are located in the capital.

Table 3-2 Registered Enterprises by Size and Region

Number of Employees /	1-10	11-20	21-100	101-500	500+	Total
Region:						
Tbilisi	7,025	621	532	166	39	8,383
Adjara Republic	389	27	20	1	0	437
Guria	684	25	27	3	0	739
Racha-Lechkumi & Lower Svaneti	201	13	11	0	0	225
Samagrelo & Upper Svaneti	1,469	85	103	30	3	1,690
Imereti	5,456	162	151	50	7	5,826
Kaheti	1,174	69	82	26	3	1,354
Mskheta-Mtianeti	810	46	36	3	1	896
Samskhe-Javakheti	485	31	31	7	1	555
Lower Kartli	2,905	117	106	31	3	3,162
Mid-Kartli	865	58	80	28	4	1,035
Total	21,463	1,254	1,179	345	61	24,302

Source: SMEDA (based on data from Department for Social and Economic Data, Tbilisi 1997)

3.5.3 Ownership

The major difficulty with direct support for SMEs in a transition economy is to identify partner organisations. GoG budget institutions and academic organisations are inappropriate implementation partners, while local NGOs tend to focus on humanitarian and social issues.

Given the circumstances and the timing, we judge that Tacis chose appropriate partner organisations for the SMEDA, BSC and BCC projects, and that ownership has been good in that these new institutions were established with a clear shareholder structure. However, the majority owners - in particular the Chamber of Commerce - have generally been somewhat passive¹⁹. This is not so surprising, given the general lack of experience within the owner institutions of shareholding structures and the roles of Chambers of Commerce in a market economy.

If the Tacis SME institutions are to fully realise their potential, it will be essential for the owners to develop their vision of the future of the SMEDA, BCC and BSC Kutaisi, and to provide more lead and direction than has been the case so far. The mission was informed of some changes which encourage us to think that the owners will become more active over time. These included:

- actions by the Chamber of Commerce to orient itself towards funding and self-sustainability, for example through a subsidiary concerned with issuing bar codes;

¹⁹ An exception to this passivity was the determination of the owners that the BCC and SMEDA should not be merged

- proposals, led by the BCC, for greater networking and co-operation between SME institutions throughout Georgia;
- proposals by the Kutaisi BSC to offer some shares to employees.

Within GoG, however, interest in SME appears weak, despite evidence that most recent growth in the Georgian economy is derived from the small business sector. This is unfortunate, given the sectors' importance in providing employment, and its potential importance as a source of tax revenues. The risk, however, is that when GoG "recognises" the sector, then its response will be to impose excessive controls²⁰.

3.5.4 Impacts

Given the poor state of the Georgian economy when the SME institutions were set up, conditions for the institutions were not favourable. The market for their services was thin, and they found it difficult to develop.

Today, however, the circumstances are much better. We believe that Tacis support to these institutions has been worthwhile, although much of the beneficial impact on enterprises will be seen in future. Nonetheless:

- SMEDA, BCC, BSC Kutaisi have delivered training and distinct delivered services to small and medium businesses;
- their business planning capabilities are being recognised by banks and lenders;
- they are working as sub-contractors to other donors and NGOs.

3.5.5 Current Situation

To date much of the effort within the SME sector in Georgia might be considered as institution building. In addition to the Tacis SME institutions, there are also NGO centres in regions, and (soon) the Tacis-supported regional agro-business training and consultancy centres.

Sustainability is now the key test for the Tacis supported SME institutions. We fully endorse the Tacis strategy of "pushing" the SMEDA, BCC and BSC institutions to self-finance themselves. Although it has down-sized, BCC has survived over the last year without Tacis funds, proving that self-financing is possible. Like BCC, the BSC in Kutaisi appears to be sufficiently entrepreneurial to survive. However, the Tbilisi SMEDA appears in need of more help in the shift to becoming more business-like, perhaps reflecting the lack of entrepreneurialism within the main shareholder (the Chamber of Commerce).

We are encouraged, however, to see that there is now real competition between institutions in Georgia in the provision of services for SMEs. Already the SMEDA has bid for work in training of entrepreneurs contracted by donors. We believe that this competition will be the best guarantor of sustainability as it forces SME institutions to deliver what the market (both the private sector and donor-funded programmes) requires.

There is considerable discussion within Georgia on the need for credit for smaller enterprises, at more affordable rates. In general, it is clear that more credit facilities are becoming available, and most are

²⁰ The World Bank office in Tbilisi is already concerned over the level of regulations hampering business, and may provide support for a combination of deregulation and better regulation.

being taken up. Evidence from the RARP-1 project demonstrates that small business farmers can effectively utilise credit, even in the absence of facilities for business planning. Moreover, discussions with IMF and USAID contractors in Georgia indicate that they consider the calibre and capacity of Georgian commercial banks in lending to be satisfactory. Loan guarantee and leasing facilities are also likely to emerge soon.

The real question for the SME sector in Georgia is “what next?”. As the institutional and financing capacity improves in coming years, the SME sector’s technical assistance needs will change, but there appears to be few ideas from within Tacis as to if - or how - it should respond. This is, again, remarkable, given that the 1996 Tacis Regulation states:

“the development of small and medium-size enterprises (SME) being a priority, equity funding for SME should be provided by means of establishing joint ventures” (quoted in Tacis - An Interim Evaluation).

3.6 Conclusions and Recommendations: Support for Enterprises

3.6.1 “Strategic” Enterprises

In the case of strategic enterprises, any intervention by Tacis must provide both policy and technical/economic inputs. The privatisation, restructuring and reform of major state enterprises will be a matter for intense debate within GoG and within Parliament. The key issues (see Box) are essentially political. If Tacis wishes to promote reforms in these areas, it cannot therefore be simply “demand-driven” as there are profound and important choices to be made by GoG. Tacis contractors will have to face these issues, and they will need to be supported in key policy stances by Tacis managers in Brussels and Tbilisi.

Unlike other donors, Tacis sets no explicit conditionalities, nor does it set out expectations in a memorandum of understanding (as, say, USAID has done in relation to the latest technical assistance for Poti Port privatisation). Our discussions with Tacis managers revealed that most favour the introduction of conditions, but that Tacis cannot use conditionality (see also section 7 below) in the way of IFIs because Tacis interventions are smaller, and because Tacis lacks the management resources of the IFIs. This stance must both reduce the effectiveness of technical assistance and limit the potential for Tacis “leadership” within a sector.

We recommend that Tacis identify a few areas where it has both the will, and the capacity, to deal with projects which are both technically demanding and have a significant political dimension. A good example is telecomms privatisation. Tacis may support a future telecomms privatisation project, but given the revenue potential, this is likely to be highly political, and will therefore demand much attention from Tacis managers.

At the same time, the member states and EBRD should be solicited to promote potential investment in the sector. In the countries in which a Delegation is established, co-ordination between Tacis TA, EU member states and EU financial institutions should be a common practice.

Box 3-C Reform of Strategic Enterprises: Where Technical Assistance Meets Policy

Reform of large, strategic, valuable state enterprises poses significant policy issues. There is much money at stake - both for GoG and its donor partners. If policy issues are not tackled within the framework of Technical Assistance, then reforms will be slow and ineffective, and TA itself can be misused. The following is an illustrative checklist of some questions and issues.

Is there political support for reform?

- Does government and parliament really believe that reform is the way forward? Or is there a lingering belief that state control over these “levers of the economy” remains necessary?
- Are there vested interests, who benefit from the status quo, and resist competitive markets?
- Are there potentially large numbers of redundancies, which will threaten the GoG’s mandate?
- Will the state sell a controlling interest, or just a minority stake?

To where do the revenues from privatisation accrue?

- To the central budget?
- To the ministry or agency responsible for privatisation?
- To the enterprise itself?

Will the state impose hard budget constraints?

- Do state enterprises still receive privileges from the state? Will these be ended before privatisation?
- Will non-payers be cut off from electricity or energy supplies?
- Does the state still provide soft loans to strategic enterprises?

Who benefits from privatisation sales?

- Who will benefit?
 - if monopoly rights are maintained, then the main beneficiary will be the state budget. Losers will be consumers and businesses.
 - if a competitive market is created, consumers, businesses and the economy will be the winners.
- Voucher privatisation largely failed to deliver benefits to Georgian citizens. Will Georgian citizens be able to participate in large enterprise privatisation (e.g. through opportunities to purchase shares at discounts)?
- Will the Government ensure that the sale process is fully transparent and honest? (Botched sales in Russia have dented the credibility of the reforms and of the Government)

Will technical assistance be biased?

- If a merchant bank advises GoG on the sale (as is often the case) and is rewarded partly on the price for which the telecommunications company (say) is sold, will they advise the sale with too-generous monopoly rights and attractive licence conditions?
- Will donor ideology be imposed on technical assistance contractors and their ToR?
- Will donors interfere in the selection of contractors, to influence national donor country interests?
- Will the regulatory framework and licence conditions be put into place before the sale is prepared, by wholly independent economic advisers?

There are “technical” answers to all these questions. However, as they are also overt policy matters, Tacis must enter into a deep policy dialogue if it is to work with Government in this area.

Restructuring of private MLEs (see below) must also be matched by hard budget constraints on SOEs. It would be indeed perverse if Tacis supported tough restructuring of privatised enterprises, while remaining state enterprises were subject to a softer budget constraint. We recommend that Tacis encourage the GoG to seek support for an enterprise reform adviser or advisers, under the EES scheme. The role of this adviser(s) would again be “problem-solving” to help GoG to:

- reduce the number of strategic enterprises in line with GoG’s commitments under the ESAF with the IMF;
- adopt policy measures that would apply progressively harder budget constraints on remaining state enterprises, in order to force restructuring by management, and in order to raise tax revenues and reduce the level of loss-making;
- develop a coherent strategy for dealing with the “difficult cases” - large state enterprises, whose closure is politically difficult, but whose losses cannot be sustained and therefore must be dealt with.

3.6.2 *Medium and Large Enterprises*

In the case of medium and large enterprises, future support to enterprise restructuring in Georgia is likely to be channelled through the CERMA project once those enterprises are privatised. We recommend continued support for CERMA through Tacis, at least until the World Bank is able to fully mobilise its intended project in this area.

We do, however, have three concerns or caveats. These are:

- first, the expectations for CERMA may be too high. GoG sees the revitalisation of former state enterprises as a key priority for creating new jobs and for delivering exports. There is an expectation at senior level within GoG that 200 enterprises can be restructured by 2000. This is too optimistic without effective policy measures (see below);
 - we understand that CERMA - with World Bank funding - can envisage restructuring of some 100 enterprises by the year 2000;
 - CERMA staff told us that most of the initial 70 candidates for CERMA restructuring (presumably the best enterprises) were in fact liquidation candidates. Unfortunately liquidations in Georgia have been too few, and enterprise managers have not been exposed to the stark choice between restructuring and enterprise liquidation;
 - rapid restructuring is likely to require changes in management control. Unfortunately former managers retain control in most state enterprises, having acquired majority shareholding during the privatisation process. Although they may effectively lobby GoG for post-privatisation support, they will lack the skills, experience and confidence to restructure and are also unlikely to give up control to more qualified managers or to sell to outsiders;
- second, effective mechanisms for the delivery of policy advice must be linked to the CERMA project. Enterprise restructuring costs under CERMA are around ECU100,000 per enterprise. In our view, the speed and success of enterprise restructuring is likely to be significantly increased if government policy provides a credible liquidation threat, and the removes barriers to ownership change and asset restructuring. The CERMA project could do much to influence policy. At present, however, there are no formal mechanisms within the project to influence policy, and no links with current Tacis economic policy initiatives (such as GET or EPAG). Policy discussions are limited to the personal efforts of the Georgian Executive Director, and the World Bank Task Manager (Tacis consultants have no links with - and indeed have been isolated from - any policy dialogue on enterprise reform with GoG). We therefore recommend that Tacis identify mechanisms by which the policy implications of CERMA activities can be communicated, say through

dissemination of case studies in GET, or through GEPLAC. We also recommend that Tacis support a private sector development/enterprise reform adviser through the EES facility, working either with Parliament or with the economic unit in the State Chancellery. This adviser would:

- work with GoG, SMEDA and others to assist in identifying the “barriers to business” faced by all enterprises, and also the special burdens placed upon small enterprises. These will include issues of excessive taxation, customs procedures, over-regulation, barriers to exporting or to export processing businesses,
 - work with GoG, CERMA and others to assist in identifying the “barriers to restructuring” faced by MLEs;
 - work with relevant Tacis projects to effectively communicate, influence, and inform policy makers on these issues.
- third, stronger linkages between the CERMA project and investment should be established:
 - the CERMA project is modelled to some extent on the ARIA project in Moldova, but lacks certain critical elements which may have contributed to the success of ARIA (namely, a creditor-led approach to restructuring, a credit line to support restructuring costs, and -in general -a more healthy portfolio of enterprises);
 - the EBRD in Georgia is interested to co-operate with CERMA and would be interested in opportunities to work with enterprises that emerge from the CERMA restructuring with good prospects;
 - other investors in the EU member states can be interested, informed and met on the investment opportunities identified by CERMA.

Current proposals envisage significant Tacis support for CERMA in coming years. We support this, as MLEs will be vital to export growth. However, we recommend that Tacis monitors the project very closely, and works carefully with the World Bank to ensure that the project is having a maximum impact on the sector as a whole. Efforts will be needed to ensure that senior levels of GoG are adequately informed of project progress, outcomes, and constraints. A dialogue with GoG (and with the World Bank) on what is achievable at enterprise level, and what is required from policy, is vital.

3.6.3 *Small and Medium Enterprises (SMEs)*

Support to SMEs is an area of some concern to the evaluation mission. As with SOEs and MLEs there is scope for improvement in the policy dialogue with GoG, particularly in developing a strategy for the SME sector, and identifying what type of SME specific programmes are required.

Our first concern is the poor linkage between Tacis support to SME development and policy decision-making within GoG. We therefore endorse the plan for an advisory body on SMEs within the current SMEDA/BSC continuation project. We recommend that Tacis actively support the emergence of such a body, and that other actors in the sector (such as CARE) are encouraged to participate. The key task for this body will be to lobby, and offer advice to, GoG ministries on:

- the importance of the small business sector to the economy;
- “the barriers to small business” - in particular those regulations and administrative burdens which impact particularly on small businesses;
- the impact of proposed legislation on small businesses.

Our second concern relates to the question of programme needs for SMEs. There appear to be few ideas on the needs of the SME sector amongst Tacis managers or contractors. In this sector Tacis

appears to be being overtaken by other donors, who are actively involved in project identification and design. For example, during the course of our mission:

- a UNDP staff specialist on SME activities in Eastern & Central Europe visited Georgia for the purposes of assessing future UNDP support to the sector;
- USAID consultants concerned with developing strategies for SME sector support and the feasibility of small business incubators visited Georgia;
- we were provided with a five year strategy plan for the intervention by CARE in this sector.

Even though Tacis was one of the important early actors supporting SMEs, there is today no Tacis strategy paper for this sector, nor any clear vision for the future. In the short-term it appears that Tacis is likely to effectively withdraw from being a presence in this sector, even though the sector will be one of the most dynamic in the economy.

On the basis of our mission, technical assistance activities which Tacis might consider for future SME programmes may be:

- a programme of training in “business growth”, for small entrepreneurs;
- a mechanism for the exchange of assets as enterprises liquidate and restructure (this will be particularly useful as a CIS wide programme, perhaps building on the communications links between BCCs);
- more advanced training programmes as enterprises outgrow the basic training provided initially by SMEDAs. These may be sector specific, or horizontal (for example, packaging, export marketing, labelling, food marking);
- business incubators. The Georgia/EU PCA refers to establishment of technology parks, but these are likely to be a few years away. Incubators have, however, performed well elsewhere in central Europe, and EU Member States have experience of incubators in areas of industrial dereliction (e.g. in collapsed coal-mining areas) which make use of low quality industrial space;
- support for informal incubators. Many SOEs and privatised MLEs raise income by renting out redundant space for former employees or others. A mobile business clinic programme could provide support to such “enterprises within enterprises”.

We recommend that any such programmes should be contracted out, and that the contracts be packaged such that the former Tacis-assisted institutions (SMEDA/BSC/BCC) can bid for this work.

Regarding credit, the situation in Georgia is fast-changing. New credit lines from USAID and CARE have recently been established. In principle, we support discussions between Tacis and the German KFW agency for introducing a new credit line for small businesses, but the market for small business credit will need to be assessed and reviewed.

In general -this is valid for both SMEs and MLEs- we recommend that programmes allowing stronger linkages between TA and investment and facilitating business information in the EU member states be established. Some programmes in Latin America, such as ALINVEST, may provide useful references.

4. SUPPORT TO AGRICULTURAL REFORM

4.1 The Context

Agriculture still provides 28% of the GDP and absorbs more than 30% of the labour force. After the collapse of the collective system, the land distribution has been almost completed (80% of the target). The lack of an effective land registration system is now the main constraint to a competitive land market and the use the land as collateral for agricultural credit.

Table 4-1 Land Resources

Land Resources	Available (ha)	Privatised (ha)	% Privatised
agricultural land	2,988,600	748,500	25.05%
-arable	(781,100)	(412,300)	(52.78)%
-perennial	(284,600)	(190,600)	(66.97)%
-pasture	(1,922,900)	(145,600)	(7.57)%
forest and bushes	3,006,500	//	

Source: DRN

The leasing formula allows some of the farmers who have the management, technical and financial capabilities to crop significant areas of about 10 ha and more, that can be merged in different kinds of associations including those with up to several thousands ha. About 15% of the land owners may be considered medium size farmers, thanks to the leasing system. These are mainly grain growers. They have benefited from commercial credit for grain marketing since the last season. The 1995-96 season was particularly good and the wheat harvest was the highest of the last decades: 450,000 mT. The 1996-97 grain harvest has been 320,000 mT. of wheat and 400,000 mT. of maize. The average domestic demand for wheat is about 750,000 mT.

Table 4-2 Land Privatisation

Privatisation of agricultural land	# families	ha land	ha land / family
Distributed to rural families	681,000	682,000	1,00
Distributed to other families	NA	66,500	NA
Total target	1,356,000	936,000	0,69
Achieved	NA	80%	NA
Agricultural land leased by the state	--	627,606	--
Agricultural land farmed		90%	

Source: DRN

Among the small farmers, different merging processes are taking place, but the access capacity to commercial credit, input supply and marketing is limited. Some specific programmes to fight rural poverty deal particularly with small farmers in marginal areas. Small farmers adopt risk averse production strategies, which are strongly diversified, and their marketing activities are very poor.

Generally speaking the agricultural potential in the country is relatively high, and agricultural exports were traditionally developed toward the Russian Federation, namely: wine, citrus and other fruits and vegetables. Exports have collapsed since the early nineties, but the export potential is there and adequate strategies are needed to develop agro-export business.

4.2 Overall Logical Framework of TACIS Activities in Agriculture

Since the beginning, Tacis support to GoG in agriculture has aimed at accelerating the privatisation process and assisting agro-business:

- the first intervention included a study and a pilot experience in privatisation and restructuring of a state farm;
- then technical assistance (TA) and experimentation was financed to enhance privatisation in the food sector especially for fresh produce.

Three interventions were financed after 1995:

- ITAGA, (Integrated Technical Assistance to Georgian Agriculture), including different areas: strategy; land registration; agro-business; training; and institutional building;
- RARP1, the Regional agricultural reform project, that mainly assisted in organisation of credit unions and credit management in the grain sector; and
- technical assistance in the wine sector.

Presently, the ITAGA project is concluded, whilst RARP 1, continuing until February 1998, should be extended after that date. A new Tacis project, already in the pipeline, will start during 1998 (“Agro-Business Regional Centres”), and will build on the work of ITAGA in agricultural marketing information.

In addition to and in combination with Tacis projects, EC runs other interventions regarding the agricultural sector, namely:

- the Counterpart funds (CPF) of the food aid (Box 4-A), which made possible the successful credit activities of RARP 1. The use of these funds represents an example of how successful can be the combination of a sound technical assistance with investment opportunities; and
- since 1996, the Food Security Facility, which is administered by a DGVIII unit. The Food Security Facility (see Box 4-B) may play a very important role in enhancing the Tacis co-operation in the agricultural sector and strengthening the policy dialogue between EU and the Government of Georgia.

Several project proposals are being studied by both the Georgian MAFI and Tacis task managers. These include:

- the reorganisation of the seed sector and, more generally, the improvement of private sector participation in input supply;
- export promotion, including: approximation of food standards, customs duties, licences;
- reorganisation and private sector participation in activities such as livestock breeding and veterinary services.

Table 4-3 provides a synopsis of the logical framework of Tacis intervention in the sector, as it may be identified from both the planning documents and the actual practice.

Table 4-3 Logical Framework: Agriculture

Context	<ul style="list-style-type: none"> • Socialist farms have collapsed, land, cattle, machinery being appropriated by workers • 682.000 ha of land have been distributed among 682.000 rural families + 500.000 ha leased 			
Wider Objectives	<ul style="list-style-type: none"> • To stabilise the private ownership of the land and to promote the development of a market oriented agriculture, to ensure country food security and export growth 			
Specific objectives and Tacis activities	Relevance	Ownership	Impact	External Factors
OBJECTIVE 1: Set up an agricultural strategy Early activities concerned isolated attempts to carry out enterprise restructuring ITAGA carried out wide participatory work on this issue	Very high relevance of both the objective and the activities carried out since 1995.	Extraordinary high, since 1995: MAFI staff, agricultural scientists and parliamentarians were involved in drafting and discussing proposals.	The Parliament has adopted a policy document which largely refers to the strategy worked out with the support of ITAGA	In the early stage GoG was not ready to assimilate policy and institutional support. After the civil stabilisation, GoG's responsiveness is much higher
OBJECTIVE 2: Establish methods and capacity for land registration, towards the promotion of a competitive land market ITAGA carried out a successful pilot exercise, now extended by WB and IFAD	Very high relevance of both the objective and the activities carried out	Very high, as in most ITAGA activities	The financial decision of World Bank and IFAD has been certainly facilitated by the Tacis successful pilot experience.	GoG implemented a relatively quick land privatisation The WB in collaboration with IFAD have decided a 5.5 MUS\$ programme to extend the experience over a number of regions
OBJECTIVE 3: Foster agricultural investment and exports As a result of the support to the agricultural reform (ITAGA & RARP) Through the promotion of agribusiness advisory services, now starting (ITAGA) Through the credit ensured by RARP1 and CPF Through direct support to agro-business and export sectors	The specific objective is relevant. The plan of action is relevant especially for larger farms (land leasing grain growers), although it overlooks the importance of the Small farmers in the new Georgian agriculture. Support to agro-export (wine) has been too weak to be relevant.	Very high ownership of the credit scheme by the commercial banks and the beneficiaries. Low ownership in the wine project.	Immediate impact has been very high: grain production in 1996 has been the highest in the last decades. The recovery of the credit is extraordinary high. No impact in the export sectors.	Private banks have invested approx. 10 MUS\$ in cereal credit WB has provided 8.7 MUS\$ credit line for agro-processing WB and IFAD have funded a 6.5 MUS\$ programme to benefit the poorest rural areas

Continued...

OBJECTIVE 4: Strengthening market information and marketing capacity ITAGA created a market information newspaper and 4 regional centres	Very high relevance of the objective. The demonstration effect of the activities was significant.	The request for information by the beneficiaries is relatively high.	It has been necessary to start a new programme to extend the experience.	
OBJECTIVE 5: Institutional building and restructuring ITAGA and RARP have provided advice for reorganisation of MAFI and staff training	Very high relevance of both the objective and the actions	Very high ownership and full participation of MAFI staff	The mission has been told that 60% of ITAGA recommendations have been implemented.	No other donors are engaged in the field

Source: DRN

4.3 Other Donors' Activities

Other donors mainly involved in the sector are the World Bank, IFAD, FAO, and Japan co-operation. Table shows the principal actions funded.

Table 4-4 Other Donors' Activities in the Agricultural Sector

Donor	Subject	US\$ million
FAO	- seed industry - wheat protection - help in project preparation: - silk - training - water users' associations	Small TA projects
World Bank	- credit for processing - land reform (with IFAD) - small rural credit (with IFAD) - training	8.7 3 2.5 0.5
IFAD	- land reform (with WB) - small rural credit (with WB)	2.5 4
Japan	- machinery service and input supply -CPF to use for agricultural credit	5

Source: DRN

4.4 Relevance

The first period was characterised by a very low absorption capacity of the government. In the agricultural sector GoG's attention was mainly focused on the management of the emergencies determined by the collapse of the whole ownership and organisational system. On the other hand, Tacis programmes were very general and did not provide very much help in facing the real problems.

With the end of the war and the establishment of the new government, this situation changed radically. The new programmes agreed upon with Tacis, especially ITAGA, have addressed the core issues of the agricultural reform:

- strategy and policy management;
- land registration and cadastration;
- market information;
- reorientation and restructuring of the Ministry;
- staff training.

Not only have the selected issues been absolutely relevant, but the project design and management have been very appropriate: in all the fields, a learning-by-doing process has been identified and carried out, with very deep participation by Ministry staff, parliamentarians, scientists, and final beneficiaries.

“ITAGA is an example of Georgian participation in foreign TA... The agricultural strategy has been a very collective exercise: each one wrote a thinking and/or a proposal. The result was a policy document probably less perfect than it could have been, but each one recognised his own contribution... Tacis is providing the best TA” (GoG officials).

Very positive comments on the leading role of Tacis in the policy support to the agricultural sector were expressed to the mission not only by the beneficiaries, but also by the donors’ representatives.

“agriculture is the sector in which Tacis programmes are probably the most effective” (donors’ and GoG officials).

Box 4-A Food Aid

Food aid is not included in the present evaluation, but its relationship with the Tacis activities has been considered.

Two food aid operations have been funded by EU:

- the 1994-95 operation generated counterpart funds (CPF) which were completely incorporated in the budget, without any specific condition;
- the 1995-96 operation generated CPF of US\$ 20m, of which US\$10m went to the budget and US\$ 10m were used to feed a credit line in agriculture.

The availability of this amount allowed RARP 1 to launch its grain market stabilisation initiative, based on the organisation of credit unions among the farmers and the participation of commercial banks.

We can say that this use of the CPF has been ideal. On the one hand, it has been made possible by the particular relevance of the Tacis agricultural programme. On the other hand, however, it showed that when a sound technical assistance is combined with investment opportunities, it is easier to find success stories.

RARP 1 also appears very relevant: it focused on grain market stabilisation, through the involvement of private farmers and traders. The project helped in setting up specific policy objectives and in the promotion of credit unions among the cereal farmers. It created the basis for the intervention of the commercial banks in grain marketing. The response to these actions was very positive.

There is only one weak point in the strategic set up of ITAGA and RARP 1, and that can be easily overcome in the future: small farmers issues are partly overlooked. The projects concentrated on production recovery, marketing and investment and addressed mainly those farmers who could respond relatively quickly to the supply of credit and other support services. Small farmers were the indirect beneficiaries of many actions carried out by the projects, like the land registration and most ITAGA components. But ITAGA does not show a specific concern about the particular needs of the small farmers to improve their access to the markets, input supply and credit. On the other hand, small farmers’ unions are only marginally involved in cereal credit operated by the commercial banks, with the support of RARP 1 and the CPF.

4.5 Ownership

As seen above, one of the reasons for the success of the second generation of the Tacis agricultural projects is the high level of internalisation by the government and the beneficiaries. Programmes were prepared, negotiated and awarded to contractors, with the deep involvement of the Georgian counterparts.

ITAGA and RARP 1 are considered among the most internalised projects of the Tacis programme in Georgia²¹.

4.6 Impact

One way to measure the impact of the interventions mentioned is to consider their pilot role with respect to bigger investment projects funded by other donors. This is the case of the land registration: ITAGA pilot actions have tested a methodology and trained the Georgian staff in specific matters, allowing World Bank and IFAD to finance a US\$ 5.5m programme to extend the methodology to a considerable number of provinces.

Box 4-B Food Security Facility

The Food Security Unit of the EC DGVIII provides financial support to a number of selected countries in the world, to reduce their level of food insecurity. This financial aid is provided in the form of direct budget support, against the fulfilment by the government of a number of policy conditions. The scope of these conditions is to accelerate the economic and agricultural reform, to ensure minimum levels of social expenditure in health and education, to fight against the poverty and improve households' access to food.

The EC has negotiated a first budget support to GoG, of ECU 10m, for 1996. This amount represented 3.5% of the total 1996 budget and 19% of its expenditure in the social sectors. 44% of the facility was allocated to the health sector and 28% to the Pension fund.

In 1997, a new amount of ECU 17m was negotiated: 32% in the agricultural budget, 39% in the education, and 28% in the health sector. However the disbursement of the 1997 support was suspended, due to problems in the fulfilment of the conditions regarding the privatisation of the bread baking industry.

Another way to measure the impact and the sustainability of Tacis actions is to consider the participation of the private sector in the actions initiated and/or promoted. This is the case with the cereal credit: with the technical assistance of RARP 1, twenty commercial banks were selected and involved in credit management, through a credit line of US\$ 10m established with part of the European food aid CPF. The banks doubled the credit line through their own funds and assured a full management of the credit operations, which were highly successful, including a bankruptcy procedure against one union that did not repay its own debts.

Finally, a measure of the impact is the analysis of the structural changes that have taken place in the sector and the identification of possible relationships between these changes and the actions considered. This is the case with different processes, such as:

- in general, the relatively advanced reform process in agriculture show that TA and other external supports have contributed to a positive change;
- more specifically, the situation of the grain market has almost completely overcome its emergency phase; in 1996 the private sector ensured commercial reserves for about 4 months, which is an absolute record for the country. This is a direct consequence of one of the actions undertaken by Tacis.

²¹The new project "Support to Parliament": at least in its preparation, is another example of participation by the Georgian counterparts.

4.7 Conclusions and Recommendations: Agriculture

Export promotion and small farmers appear to be the main priorities for the sector.

We recommend that export promotion be dealt with on a systematic basis, including: quality standards, tax and duties, sub-sector policies, financial schemes, specialised information and advice to the enterprises. The Agro-Business Regional Centres (ABRC) could play an important role in such a framework, but they are not sufficient, since they may cover only some of the relevant components (i.e. enterprise support).

Small farmers issues are complex and may not be best dealt with by large scale, “heavy” projects. First of all, reliable information on the small farmers’ circumstances is needed: we recommend that a very light but efficient system to monitor the transformation process in smallholders agriculture be established (possibly at the level of the existing farmers’ associations), as a base for policy decision making. Secondly, we recommend that specialised training and advice to the existing associations be foreseen, in order to build up common services (including the possibility of limited guarantee schemes to facilitate access to credit by small farmers’ unions) and to improve the quality of their activities.

5. ENERGY

5.1 The Context

Stabilisation of the energy situation is a high priority, and a significant problem, for the GoG. At independence, Georgia inherited an energy intensive economy, highly dependent upon imported fuels. Turkmenistan has traditionally been the main source of gas, and Russia the main source of oil. Georgia has some domestic hydropower, but this is insufficient to meet winter demand. There are limited domestic supplies of oil, gas, and coal. Some exploration is underway, but has not yet identified any new significant domestic sources which can be commercially exploited.

The rise in fuel prices following the collapse of the FSU, together with the collapse of Georgian industry and hence the balance of payments position, led to Georgia running up large arrears with its international fuel suppliers.

The Government has had to undertake fundamental reform of the energy sector. The GoG's short and medium-term energy strategies (covering 5-7 year period) are:

- to demonopolise and restructure the energy utilities to enable the effective conduct of their privatisation;
- to establish independent regulatory bodies to regulate the natural monopolies in the sector;
- to establish and improve responsibility for energy policy-making body;
- to establish the legislative and regulatory (normative) framework for the sector once reformed;
- to raise tariff levels to achieve cost-recovery;
- to improve the rate of collection of arrears and payments for energy.

These strategies are reflected in the recent GoG statements on the next stage of economic reform (See Box).

Box 5-A Second Stage of Economic Reform (Energy)

A recent (October 1997) Presidential Decree sets out the GoG's intentions for the energy sector as:

- the comprehensive establishment of a wholesale energy market;
- reduction of the energy deficit;
- the payment of the consumed energy cost at the level of 90% at least (sic);
- the structural transformation of the power engineering system;
- the stimulation of entry of the private capital into the gas industry, the oil-extracting and coal-mining industries, as well as the petroleum supply system;
- the application of alternative sources of energy;
- measures intended to turn Georgia into an energy exporting country in the nearest future.

Source: Decree No. 600 "On the Basic Directions of the Second Stage of the Economic Reform"

To date the principal achievements have been the preparation of comprehensive and market-oriented energy laws (Box). An energy law was passed by the Parliament of Georgia and the Head of State on October 11, 1994, setting out the principles of a national energy policy, including the development of market mechanisms, priority given to the use of indigenous resources and the possibility to privatise

state-controlled energy sector enterprises. Subsequent legislation in 1996 and 1997 approved a privatisation strategy for electricity generation and distribution companies, and provided greater independence to the Energy Regulatory Committee.

Reform is needed in all industries within the energy sector: electricity, oil, coal and gas. Restructuring and reform is most advanced in the electricity sector, where (with donor TA and support) the GoG has:

- privatised over 15 small and medium hydropower plants since 1993;
- reorganised the vertically integrated Sakenergo monopoly into three financially independent companies responsible for power generation, power transmission & control, and power distribution;
- transformed the generation enterprises (power stations, their groups, service and maintenance enterprises for power producers) into joint stock companies (JSC). Currently the shares remain state property;
- grouped power distribution enterprises according to the territorial principle into JSCs, the shares of which remain state property. These distribution enterprises will be the first to be privatised;
- established power transmission and control as the responsibility of the financially independent enterprise “Sakenergo” which is to remain subordinated to the Ministry of Fuel and Energy and will not be subject to privatisation in the medium term.

Despite the progress made with recent restructuring and reform, the energy situation is still difficult. Energy production costs need to fall further and losses reduced, while revenue collection needs to be improved.

In terms of investment, the most urgent need is for rehabilitation and rationalisation of the use of existing resources, rather than for extra generation capacity: only about one quarter of installed electricity generation capacity is now in operation, mainly because of a lack of maintenance. Overall, the condition of the electricity transmission system is acceptable, except the parts damaged during the civil war and conflict in Abkhazia. The condition of the distribution system (110KW and below) is not as good. There are problems with cables and some parts of the system need replacement. Persistent non-payments for energy used by consumers have led to Sakenergo’s loss-making status, leading to lack of investment, inadequate maintenance, operational inefficiency and wage arrears.

Over the longer term, the chief priorities of the long-term strategy of energy policy (covering the two first decades of the next century) are as follows:

- maximum development of competitiveness in the sector (establishment of open market for fuel and energy, liberalisation of energy resources, transit flow, etc.);
- improvements in the mechanism of taxation;
- improvement of legal and regulatory frameworks; international integration (particularly, with Europe);
- wider development of hydro-energy;
- development of thermal power capacities and wind and solar energy (newest technologies);
- development of efficient and environmentally sound systems of heating and air conditioning;
- constant growth of the energy efficiency level by means of the introduction of newest energy saving technologies;
- promotion of high level training.

5.2 Overall Logical Framework: Tacis Activities in the Energy Sector

This section considers Tacis activities in the development of the Energy Sector in Georgia. Table provides a synopsis of the logical framework of Tacis interventions in the energy sector as it may be identified from both the planning documents and the actual practice. Table provides information about interventions.

Table 5-1 Logical Framework: Energy Sector

CONTEXT	<ul style="list-style-type: none"> • Collapse of sector affecting the whole economy • Strong dependence on external providers • Weak technologies and high level of consumption 			
WIDER OBJECTIVES	<ul style="list-style-type: none"> • To assist the Government in the development of a national energy policy • To improve energy efficiency in both production and final use • To contribute to the development of an economically viable oil and gas transport sector 			
SPECIFIC OBJECTIVES AND MAIN TACIS ACTIVITIES	RELEVANCE	OWNERSHIP	IMPACT	EXTERNAL FACTORS
<i>OBJECTIVE 1: Development of a national energy policy and strengthening and training of the local authorities with responsibility for energy policy</i>	<i>Strong direct relevance; solution of energy crisis depends on the sound definition of an appropriate energy policy and the right institutional framework. The TA has overlooked the crucial issue of privatisation</i>	<i>There has been a significant contribution by the Georgian organisations, and parts of the Energy policy management project have been largely or completely carried out by them, which gives good indications for its sustainability.</i>	<i>Ministry of Energy has been established, and is supportive of the energy policy developed by the Tacis project. The outcomes of the project are used by other donors.</i>	<i>Acceleration of privatisation process, in the distribution of electricity. New electricity law has been carried out with assistance of USAID.</i>
Energy policy management TA to the Ministry of Fuel and Energy				
<i>OBJECTIVE 2: Improvement of energy efficiency</i>	<i>The inefficiencies and losses in industrial and domestic consumption are key problems, but they should be addressed on a more commercial basis</i>	<i>Great interest of local authorities: probably excessive expectations. Attention to alternative use of local resources (wood and coal).</i>	<i>It is not visible.</i>	<i>Need for co-ordination with the policy reform and other donors' activities.</i>
Assistance on the Industry and Consumer Level				
Creation of Energy Efficiency Centre				

continued...

<p>OBJECTIVE 3: Integrate Electricity Supply Networks of the region</p>	<p><i>Relevant to wider objectives. There are significant opportunities to develop the integration of Electricity Supply Networks of the region: Caucasian countries and Turkey.</i></p>	<p><i>All participants to the "Interconnection of Caucasian and Turkey Electricity Supply Networks" project from Armenia, Azerbaijan and Georgia have demonstrated willingness and ability to co-operate in spite of the political situation in the Caucasus.</i></p>	<p><i>The technical constraints to run in parallel the Russian Unified Power System (UPS) and the Turkish grid have been identified as main restrictions when optimising the options for interconnections</i></p>	
<p>Improvement of the System, Operational Planning, Operations and Control Practices in Caucasus and Central Asia Countries</p>				
<p>Technical and Organisation Requirement for extended Economy and Security of the Power System Operation</p>				
<p>Interconnection of Caucasian and Turkey Electricity Supply Networks</p>				
<p>OBJECTIVE 4: Development of oil and gas transport sector</p>	<p><i>Highly relevant to wider objectives. The Strategic Project for transportation of major oil of the Caspian region via pipeline through the territory of Georgia is proceeding. Support to GIOC should focus increased transparency in company management and external investment</i></p>	<p><i>GIOC authorities emphasise that Tacis projects are well designed to accommodate GIOC needs. There is political support for better management and accountability.</i></p>	<p><i>Rehabilitation of Pipeline Baku-Supsa is on going</i></p>	<p><i>WB is financing an Institutional Building project, which includes: feasibility study of "the major oil pipeline", on-the-job training, pipeline negotiations advisory service. Feasibility study for refinery in Supsa provided by USAID.</i></p>
<p>Establishment of short term expert service for the provision of advice on oil and gas business administration and contract negotiations to the GIOC.</p>				
<p>Technical Assistance to GIOC in environmental assessment of pipeline Baku-Supsa</p>				
<p>TA to the Georgian Oil and Gas Sector</p>				
<p>Oil and Gas Pipelines</p>				

Source: DRN

Table 5-2 Tacis Projects in the Energy Sector

Project Title	Contractor	Action Prog.	Start	End	Status	Partner	ECU
Restructuring and adaptation to the market economy	ESB (Ireland)	1993	4/93	1/94	C	Electricity Board of Georgia	399,000
Energy policy management and extension (networks)	SEED-KANTOR (France-Greece)	1992	3/94	7/96	C	State Committee of Science	600,000
TA to the Ministry of Fuel and Energy	COWI (Denmark)	1995	8/97	11/98	O	Ministry of Fuel and Energy	1,300,000
Assistance on the industry and consumer level	Jaakko Poyri (Finland)	1995	2/97	8/98	O	Ministry of Economy (Science and Tech. Dpt)	1,000,000
Energy Efficiency Centre and Natural Energy Resources study	-	1996			signed	MFE Black Sea Basin	2,000,000
TA to the Georgian Oil and Gas Company	-	1996			exp.12/97	GIOC	1,500,000
Oil and Gas pipelines	SOFREGAZ-SOFRECID (France)	Emnergy	1/95		O	Dpt Sakgaz; Dpt Saknavtobi	250,000
Power Station Investment Plan	FIDIMI (Italy)	Energy	92	92	C	Sakenergo	27,120
Improvement of the system: Operational planning; Operation and Control; Practices in Caucasus and Central Asia	ENDESA (Spain)	Inter-State Pr..93	95	97	C	Sakenergo	1,100,000
Technical and Organisational requirements for extended Economy and Security of the Power System Operation	ELSAMPROEKT (Denmark)		95	97	C	Sakenergo, Stock company Pontoeli	1,650,000
Interconnection of the Caucasian and Turkey Electricity Supply Networks	Verbunden Lahmeyer Int (Austria)	Inter-State Pr..94	96	11/97	O	Sakenergo	300,000
Rehabilitation, Modernisation and Rationalisation of Oil and Gas Pipelines in NIS		Inter-State Pr..97				Governments of NIS	12,000,000
Establishment of short term advice in oil and gas business administration and contract negotiations to the GIOC	G&Fint (Italy)		6/97	2/98	O	GIOC	149,000
TA to GIOC: environmental assessment pipelines Baku-Supsa	Aquater (Italy)		1/97	3/97	C	GIOC	

Source: DRN

5.3 Priorities and Action Plans of Other Donors

Donor investment in the energy sector in Georgia has been substantial. Initially several donors provided shipments of “mazout” (fuel oil) as part of the humanitarian assistance programmes particularly for the winter months. Other supports, including technical assistance, have focused on restructuring and on potential investments.

An investment programme in the power sector (Table) has been identified as a joint effort of GoG and various multilateral and bilateral financing agencies (WB, The German Financial Co-operation Fund via KfW, EBRD, USAID, OECF of Japan, Government of Switzerland and the Italian Trust Fund).

Table 5-3 Proposed Investments: Energy Sector

Project	Cost (US\$ million)	Financing (Agency)
Gardabani thermal power plant	58,6	IDA, KfW, Local
Hydro Power Plants		
<i>Short-term rehabilitation</i>		
Vartsikhe	14,6	not identified
Tkhibuli	2,7	not identified
<i>Long-term rehabilitation</i>		
Vartsikhe	52,3	not identified
Tkhibuli	10,8	not identified
Lajanuri	15,5	OECF, Gov. of Italy
Khrami II	11,9	OECF, Gov. of Italy
Inguri - priority measures	5	Gov. of Switzerland and Taiwan
Control Centres	4,7	OECF, Gov. of Italy
Communication Systems	4,3	OECF, Gov. of Italy
Electrical Meters	2,5	EBRD
Total cost	182,9	

Source: Staff Appraisal Report – Georgia: Power Rehabilitation Project – WB (May 8, 1997)

In addition, USAID is now appraising a new project (the "Least Cost Development Plan"), the main goal of which will be to identify cheaper ways to meet power demands in Georgia (by reducing consumption, improvement of supply system, etc.).

The largest single energy-related foreign investment project is the plan by the Azerbaijan International Operating Corporation (AIOC) to invest about US\$ 130 million to rehabilitate an oil pipeline through Georgia and build a terminal at Supsa near Poti to export the so-called "early" oil from Azeri oil fields. The project carries hopes for significant spin-off investments, and its high international profile could help improve Georgia's image as a stable and reliable place in which to invest. Initial state revenues from the project, however, are likely to be lower than anticipated, with forecasts of around US\$8 million per year, less than state revenues from domestic oil production. There are still considerable uncertainties about the project, and a final decision on how the subsequent main bulk of oil will be transported from Azeri fields has not yet been made.

5.4 Development of a National Energy Policy; Strengthening and Training of the Local Authorities with Responsibility for Energy Policy

5.4.1 Tacis Actions

Principal Tacis support for policy reform was the "Development of an Energy Policy for Georgia" project (1994 - 1996). Through this project Tacis was a pioneer in supporting energy sector restructuring and reform.

The overall objective of the project was to assist the Government in the development of a national energy policy consistent with establishing secure supplies of primary energy, market oriented energy pricing, and an energy conservation programme. The immediate objectives of the project extension were to: reorganise Government responsibilities; speed up the corporatisation of energy supply organisations; solve priority issues and implement emergency measures; introduce legislative framework; and introduce methods and software to support the preparation of energy policies. Tacis support helped to establish the new Ministry of Fuel and Energy (MFE), and to separate policy and regulatory affairs from power operations.

Currently, Tacis is continuing to support the GoG, through the project of "Technical Assistance to the Ministry of Fuel and Energy" (started August 1997 with a duration of 15 months), whose objectives are:

- to assist the Ministry of Fuel and Energy in its role to plan and implement energy policy, to develop an adequate legal framework, to specify and facilitate investment;
- to improve transparency and monitoring of cash flows in the energy sector;
- to ensure a coherent and consistent co-ordination between the actions undertaken by the Government in the energy sector, projects implemented within the framework of Tacis, and actions taken by other international donors.

5.4.2 Relevance

Policy and strategic advice is particularly important, given the far-reaching changes needed to prepare the sector to operate in a market economy. Tacis' energy policy management project was important and timely. The separation of policy and operations and the establishment of a new institutional framework were highly relevant objectives. However the project design and the project management overlooked the financial resources needed for deep restructuring in the sector and the necessity to address private investors since the early stages of the restructuring process.

5.4.3 Ownership

There was a strong sense of ownership by the counterpart in the energy policy project. The Tacis experts appear to have won a good reputation with senior Georgian officials for their effective and appropriate advice in energy policy and restructuring:

"The Contractor worked directly with a wide range of Georgian official organisations, including the Energy Corporation, the Ministry of Economy, the Parliament, the Power Sector Restructuring Committee and Sakenergo, Saknakshiri, and to a lesser extent Sakgaze and Saknaftobi, the operational departments in charge of fuel and energy supply. The Energy Efficiency Foundation, an unofficial group of experts, also worked on the energy surveys and sector analyses. There has been a significant contribution by the Georgian organisations, and parts of the project have been largely or completely carried out by them, which gives good indications for its sustainability." (Tacis Monitoring & Evaluation Programme - Kiev office - End of project assessment report no. 7 - 17 October 1996).

Ownership has, however, been identified as a potential issue for the current project supporting the Ministry of Fuel and Energy:

“The main constraints related to the energy policy and planning component is that the consultant will fail to achieve involvement of MFE in the work. (TA to the Ministry of Fuel and Energy - Inception report).

Given that transparency issues are central to this project, the success of the project will depend upon the success of the contractor - and Tacis managers - in building MFE's commitment to tackle difficult issues in the management, reporting and control of the energy sector.

5.4.4 Impact

The best way to measure the impact of Tacis support to development of a national energy policy is to consider the structural and institutional changes originated by the project. The main change was the establishment of a Ministry of Energy, with a Minister familiar with and (generally) supportive of the energy policy developed by the Tacis contractor. Other potential impacts were noted by the Tacis M&E team:

It is a fact that the following positive changes can be detected as it was recommended in the project:

- both electricity and gas tariffs have been raised and will in the future be raised
- import of LPG and kerosene for use in individual heaters and cookers distributed by the private sector.
- installations of central heating boilers in hospitals and schools
- discontinue operations of all part of energy supplying or energy using activities where energy losses are more than 20 percent above what could reasonably be expected (this recommendation is implemented only for district heating).
- Ministry of Fuel and Energy has been established
- reforms schedule drafted
- privatisation has started
- donors activity increased
- cost of electricity increased
- collection of payments increased
- information campaigns have been started

.....[the] Contractor's recommendations - especially the proposed Investment Plan - are used as a tool by the World Bank and other donors for deciding which projects to support and finance.

Source: M&E Unit - sector review - September 1997

Overall, we conclude that Tacis policy advice proved valuable to GoG. The World Bank, IMF and USAID have, however, all vigorously pushed for similar energy reforms, and it is difficult to isolate the impact of Tacis advice from that of others. In some policy areas, Tacis advice was seen to conflict with that of other technical assistance teams. The most important example is the restructuring of Sakenergo, where other donors (USAID in particular) have placed emphasis on faster privatisation, and won agreement with GoG for policy shifts favouring more rapid privatisation. In this case, Tacis advice has not been adopted.

The current project "TA to the Ministry of Fuel and Energy" is likely to be an important vehicle to deepen Tacis' dialogue with GoG on energy matters. In addition, the EC Delegation hosts a weekly co-ordination meeting between donors in the energy sector. This initiative is well regarded, and keeps Tacis in Georgia well informed of developments in the sector.

5.5 Improvement of Energy Efficiency

5.5.1 Tacis Actions

Tacis support for improvement of energy efficiency has comprised different projects; the most important is “Assistance on the Industry and Consumer Level”. This project is under implementation and consists of four components:

- energy saving measures in industry;
- support local manufacturing of equipment and appliances for energy use;
- to improve energy efficiency at household level;
- to improve the use of wood fuel resources to supply the rural areas with energy in a sound environmental context;
- to promote the use of Tkibuli coal deposits for energy purposes taking into account the related environmental aspects.

The project output will mainly consist of pilot experiences and technical guidelines. In 1998 a new project to establish an Energy Efficiency Centre will start.

5.5.2 Relevance

Improving energy efficiency is a highly relevant objective in Georgia. The achievement of energy efficiency represents a strategic goal for Georgia that could increase competitiveness of the whole country system, saving energy. Currently, Georgian industry needs 3-4 times more energy than Western Europe industry, per unit of production.

However, in the present policy framework, the priority should be given to market incentives for investment in energy saving products and techniques. Whilst the project emphasis is on technical experimentation.

The Energy Efficiency Centre should avoid this unrealistic approach of the present project. It should focus on energy efficiency policies and the needed incentives for the modernisation of the urban heating systems. In this respect a closer collaboration between Tacis projects in energy efficiency and the TA to the Ministry seems necessary.

Other energy efficiency projects are implemented by other donors in Georgia (mainly USAID and the World Bank). There appears to be no major duplication of activities with other donors.

5.5.3 Ownership

The official project partner is the Department of Science and Technology within the Ministry of Economy which has demonstrated good collaboration with the contractor and the final beneficiaries. This has not been an easy task because several changes in the energy sector, including the establishment of the Ministry of Fuel and Energy and the closure of the Ministry of Coal, have occurred since the beginning of the project.

5.5.4 Impact

It is too early to assess impact.

The actual improvement in energy efficiency within enterprises and within households will, however, also depend on policy and practice in electricity pricing. For as long as the actual cost of power to

enterprises or families is low (or zero if payments are avoided) there will be little incentive to adopt energy saving measures. Moreover, there are strong incentives for major power users to lobby GoG for special treatment or for favourable terms for payment of power costs and arrears (particularly enterprises in "strategic" industries or in areas of few alternative employment opportunities).

5.6 Integration of Electricity Supply Networks of the Region

5.6.1 Tacis Actions

Interstate projects which have contributed to the integration of Electricity Supply Networks of the region were:

- "Technical and Organisational Requirements for Extended Economy and Security of the Power Systems Operation in all the CIS Countries". The objective of this project was to define and analyse the technical and organisational aspects of the combined operation of the national power systems in the 12 CIS countries;
- "Improvement of the System Operational Planning, Operation and Control Practices in Caucasus and Central Asian Countries"; the main objective was to assist each national utility to adapt to the new context of system operation and control.

The Tacis energy supply integration project currently active in Georgia is "Study of the Interconnection of the Caucasus Countries with Turkey". The immediate objectives are to assess the advantages, in comparison with the present situation, of co-operation in the planning and operation of the interconnected electric generating and networks systems of Turkey and Caucasus countries, and the potential for interconnection to remedy the latter's electric power supply deficits.

5.6.2 Relevance

Although much of the region suffers overall energy deficits, there may be significant opportunities to integrate electricity supply networks in the region - between and within the Caucasus countries and Turkey. There might be the possibility to provide peak load transfers across the systems, considering the different times in which they occur. And, if the interconnection is completed also on the Russian side, according to the project proposals, the whole system could be sustainable.

In Georgia, according to Sakgeneration, only 45% of the actual demand can be supplied, and peak demand of 2,200 MW could be matched with generation in 2010 provided that sufficient funding for rehabilitation can be raised. The power system of Turkey has a peak load of about 18,000 MW; the annual growth in demand is estimated to be 7%, and no new stations are planned before 2001. The northern parts of Turkey need more peak load capacity.

5.6.3 Ownership

The "Interconnection of Caucasian and Turkey Electricity Supply Networks" project is of significant political and technical importance for the region. In our interviews there was considerable enthusiasm for the interconnection project. All participants from Armenia, Azerbaijan and Georgia have demonstrated willingness and ability to co-operate in spite of the political situation in the Caucasus. The need to remedy the power supply deficit is common for all Caucasus countries.

5.6.4 Impact

It is probably early to discuss the impact of the project. Evaluation of impact, however, should consider the capacity of the project in facilitating external investment as needed.

The technical constraints to run in parallel the Russian Unified Power System (UPS) and the Turkish grid have been identified as main restrictions when optimising the options for interconnections. The costs of the transformers to allow interconnections will be considerable, but the project benefits are difficult to quantify. The implementation of the recommendations of the project will therefore require the elaboration of a detailed bankable feasibility study and subsequent financial arrangements (e.g. payments for transmission of power across national networks, purchasing methods, and the pricing of power depending upon seasonal or daily peaks). Then adequate financial mechanisms with the participation of EBRD and commercial investors should be established.

5.7 Development of Oil and Gas Transport Sector

5.7.1 *Tacis Actions*

Two short-term Tacis projects supported the newly formed Georgian International Operating Company (GIOC) in the last year, namely:

- assistance to environment assessment of the small pipeline Baku-Supsa during the first months of 1997;
- provision of a short term expert service for the provision of advice in oil and gas business administration and contract negotiations to the GIOC (currently under implementation).

A new project is planned for 1998, titled "Support for Oil Transit and Transport Infrastructure and Institution Building for the GIOC". The project objective is to assist the development of an economic, efficient, and commercially viable oil transport system and transparent management structure in Georgia. An improved infrastructure and institutional capacity will allow Georgia to compete successfully for oil transportation contracts.

5.7.2 *Relevance*

The strategic project for transportation of the major oil outputs of the Caspian region via pipeline through the territory of Georgia is proceeding; a Committee for the implementation of the project was formed in November 1997.

Therefore, the planned Tacis activities to contribute to the development of oil and gas transport sector, through the project "Support for Oil Transit and Transport Infrastructure and Institution Building for the GIOC", are highly relevant. The project aims, *inter alia*, to facilitate the role that the transit country, Georgia, can play in the transport of oil from Azerbaijan and other hydrocarbon producing NIS in the Caspian Region, via its territory.

Several other Tacis projects are under development which include components specifically related to this goal; "Support for Oil Transit and Transport Infrastructure and Institution Building for the GIOC" must be co-ordinated in particular with the project "TA to the Ministry of Fuel and Energy". At the same time, progress on projects from other international donors, in particular the WB who is carrying out the institutional building of GIOC, must be followed and taken into account.

5.7.3 *Ownership*

Generally, Tacis activities seem relevant and well identified to meet the real and practical needs of GIOC. We were told:

"Tacis projects are designed to accommodate GIOC needs Terms of Reference of the Long Term Assistance to GIOC project have been designed to be complimentary to other assistance projects under implementation and planned" (Beneficiary: GIOC).

5.7.4 Impacts

It is too early to assess impacts from the Tacis inputs into GIOC. However, the key outcome desired is that GIOC is seen as a credible, transparent and reliable state company. It is important therefore that steps are taken sooner rather than later to set up effective financial and audit systems in the company.

5.8 Conclusions & Recommendations: Energy

Analysis shows that much more remains to be done to complete the reform of the energy sector, in the face of serious constraints - financial, institutional, political (for example the Inguri dam is under Abkhazia control), and technical. The resulting inability of the sector to deliver sufficient, reliable power at normal voltage levels is a serious constraint to business growth, enterprise reform, economic growth and exports.

Initial Tacis actions in energy policy were - in general - relevant and valuable. The new project assisting the Ministry of Fuel and Energy is receiving strong support from the EC Delegation and Task Managers. It is important that Tacis uses the opportunity of this project to deepen and re-establish its dialogue with policy-making in the energy sector. This is particularly urgent, because, in the 12 month gap between the energy policy management project and current support to the Ministry, Tacis was not directly involved in the development of energy policy. Given the likely long-term need for support to the energy sector, we recommend that Tacis develop a sector strategy paper which revisits GoG's needs in the light of recent policy changes, and identifies ways in which Tacis can assist in prioritising Georgian and regional investment requirements, as well as alternative ways in which investment financing can be attracted.

Investments proposed for the energy sector, and for building regional interconnections are large. Given the size of investments, we recommend that Tacis assist GoG to bring together electricity investments into public sector planning, through PSIPs, perhaps through a EES input.

In future, GoG policy shifts may require technical assistance for privatisation and post-privatisation support to the various energy companies. Although USAID is providing technical assistance for privatisation itself, the MFE and the national regulatory body will also require sustained help in the processes of regulating privatised energy enterprises and in ensuring effective competition in electricity markets. This may include issues of licenses, the definition of tariff-setting principles, and in solving problems related to:

- protecting consumers against monopolistic prices;
- efficiency and transparency in internal operations, accounting, reporting and management practices;
- other aspects of state policy in regard to priority consumers for electricity supply, and to subsidies.

Tacis energy efficiency activities should adopt a more realistic and business-like approach to the problems being faced. Pilot initiatives should be representative, and provide appropriate cost-effective solutions to inefficient electricity consumption. Potential beneficiaries recognise, however, that the market for energy efficiency centres may take time to develop:

"If Energy Efficiency Centre is done as they did in other countries it will be useless in other countries these centres were set up for providing (selling) consultancy services, when the demand for these services (from enterprises and families) doesn't exist [in Georgia] therefore,

they must realise a centre able to provide operative and practical services (for the development of joint-ventures, enterprises incubators, etc.)" (Expert of counterpart in a Tacis project).

We recommend that the project activities be closely monitored, in order to evaluate their capacity to enhance new businesses in the sector, and to redirect the project resources if necessary. The evaluation team would support efforts to strengthen the involvement of private sector partners in pilot projects. For example, the collapse of the former district heating systems presents both a challenge and an opportunity for energy efficiency. The rehabilitation of heat and hot water supply systems in Georgia has potential to both address inefficient heating systems and to improve welfare and living standards. In many cases, however, the old heating systems will be beyond repair, and new technologies will need to be introduced through joint ventures or imports.

Finally, donor co-ordination and dissemination of information is vital at all levels. For example, in determining options to either rehabilitate district heating, or to introduce other technologies to replace district heating, it is important to co-ordinate Tacis activities with those of other donors. Despite weekly donor meetings, the mission found a lack of knowledge and a need for improved co-ordination in interviews with USAID project contractors in the energy sector with similar goals to "Assistance on the Industry and Consumer level".

6. TRANSPORT

6.1 The Context

6.1.1 TRACECA

TRACECA is a major Tacis initiative to develop a transport corridor on an West-East axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia. Initially TRACECA covered eight republics of the former Soviet Union (FSU), namely Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tadjikistan, Turkmenistan and Uzbekistan. In 1996 Ukraine and Mongolia joined the programme.

The objectives of the TRACECA programme are:

- to promote the Central Asian - Trans Caucasian - Europe Transport Corridor;
- to stimulate co-operation among the participating Republics in all matters pertaining to the development and improvement of trade within the Region;
- to identify problems and deficiencies in the region's trade and transport systems;
- to define, in terms of contents and timing, a Technical Assistance Program to be financed by the European Union.

In recent months Georgian politicians repeatedly expressed the importance of TRACECA. In addition, Georgian newspapers gave TRACECA much coverage, including a new monthly supplement "TRACECA in Georgia" in the independent newspaper "Retch".

Section 6.2 below provides a description of the major Tacis activities. Section 6.3 analyses the interventions carried out in the logical framework of the sector; the methodological effort has been to isolate and evaluate the projects' influences on Georgian transport sector.

6.2 The Context

6.2.1 A Shifting Institutional Environment

In early 1994 the Ministry of Transport (MoT) was dismantled. Four modal agencies (rail, road, ports and air) reported to a Deputy Prime Minister responsible for the infrastructure sectors, and a fifth, the road construction sector (Highway Concern) reported directly to the Council of Ministers. In January 1996 the Transport Co-ordination Council was formed as a transport policy making body. In June 1996 the Co-ordination Council was dismantled and MoT was established again.

In June 1997, the state road organisation (Highway Concern) was reorganised as the State Department of Roads with a similar status to a ministry. The fact that the Department of Roads was not subordinated to the MoT, signals that the mandate of the Ministry is still limited.

Transport legislation is being intensively developed.

Since 1991/92 Tacis has undertaken over 30 projects in rail, road, maritime and air transport (see Table) working with a wide variety of transport institutions. The current situation for each transport mode is summarised in the sections which follow.

Table 6-1 Summary of Tacis Actions

PROJECT TITLE	CONTRACT OR	ACTION PROGR.	STARTING DATE	END DATE	STATUS	PARTNER	PROJECT VALUE ECU
Port of Poti Development and Freight Traffic Reorganisation		1991	2-09-1996		C	Poti Port Authority/Ministry of Transport	472.831
Modernisation of Transport Infrastructure Organisation in Georgia		1991	2-05-1996		C	Road Transport Development	280.000
Senaki Airport Development		1992	11-02-2000		C	Civil Aviation Authority	630.000
Air Traffic Control Training and Development of Air Routes in the Southern Ring		1993			C	Civil Aviation Department	4.500.000
Air Traffic Contr. Train. and Devel. of Routes in the Southern Ring		1994	16-07-2000		O	Civil Aviation Department	2.500.000
Transport Policy Advice		Tacis Pol. Adv. Prog.			C	Deputy Prime Minister	526.000
Rail Tracker Freight Monit. Syst.		TRACECA	1992				850.000
TRACECA Trade Facilitation	SWK	TRACECA	19-02-1996		C	Ministry of Transport	800.000
Joint Venture on Caucasian Railways	TEWET	TRACECA	12-06-1995		C	Railway Department	2.000.000
Railway Tariff and Timetable	SISIE	TRACECA	1-07-1996	1-02-1998	O	Railway Department	1.500.000
TRACECA Coordination Team-1	TRACTEBEL	TRACECA	19-09-1996	20-09-1997	C	Ministry of Transport	750.000
Immediate Training	NethenConsult	TRACECA	Dec-95		C	Ministry of Transport	1.549.744
Rehabilitation of Caucasian Railways	TRANSTEC	TRACECA	1-09-1995		C		5.000.000
TRACECA management Team		TRACECA	1992		C		1.000.000
Improvement of Road Transport Services (Caucasus)	DHV	TRACECA	24-11-1995		C	Road Transport Department	250.000
Intermodal Transport	BCEOM	TRACECA	13-12-1995		C	Institute of Transport Problems	500.000
Transport Management Training	Nethenconsult	TRACECA	Jan-96		C	Ministry of Transport	900.000
Regional Tariff Forecasting Model	WS ATKINS	TRACECA	21-12-1995		C	TRACECA Corridor. Co.	700.000
Transport Legal and Regulatory Framework	SWK	TRACECA	7-12-1995	DEC-1997	O	Ministry of Transport	1.500.000
Implementation of Pavement Management System	KOCKS	TRACECA	7-12-1995	DEC-1997	O	Sakavtogza	1.000.000
Rolling Stock Maintenance	SYSTRA	TRACECA	19-12-1995		C	Railway Department	700.000
Railways Infrastructure Maintenance	TEWET	TRACECA	22-12-1995		C	Railway Department	1.200.000
Feasibility Study on New Terminal Facilities in Georgian Ports	HPTI	TRACECA	25-08-1997	1-08-1998	O	Ministry of Transport	2.000.000
TRACECA Coordination Team-2	TRACTEBEL	TRACECA	25-09-1997	25-09-1998	O	Ministry of Transport	900.000
Rehabilitation of the Red Brigade and Reconstruction of a new TRACECA bridge	WS ATKINS	TRACECA	10-03-1997	1-05-1998	O	Concern Sakavtogza	2.500.000
Roads Maintenance	FINROAD	TRACECA	24-07-1997	1-11-1998	O	Concern Sakavtogza	3.000.000
TRACECA intermodal services	to be tendered	TRACECA	early 98			Ministry of Transport	1.600.000
Restructuring Azeri and Georgian Railways	to be tendered	TRACECA	early 98			Railway Department	1.000.000
Maritime connection Georgia-Ukraine port of Poti	mixed	TRACECA	early 98				5.000.000
Maritime connection Georgia-Ukraine port of Illicheysk	mixed	TRACECA	early 98				10.000.000
Maritime connection Georgia-Ukraine equipment	mixed	TRACECA	early 98				400.000
Maritime connection Georgia-Ukraine supervision		TRACECA	early 98				200.000
Maritime connection Georgia-Ukraine coordination	HPTI	TRACECA	early 98				200.000
Caspian sea project: monitoring	ATHENS LAW	TRACECA	early 98				200.000

PROJECT TITLE	CONTRACTOR	ACTION PROGRAMME	STARTING DATE	END DATE	STATUS	PARTNER	PROJECT VALUE
Port of Poti Development and Freight Traffic Reorganisation		1991	2-09-1996		C	Poti Port Authority / Ministry of Transport	472.831 ECU
Modernisation of Transport Infrastructure Organisation in Georgia		1991	2-05-1996		C	Road Transport Department	280.000 ECU
Senaki Airport Development		1992	11-02-2000		C	Civil Aviation Authority	630.000 ECU
Air Traffic Control training and Development of Air Routes in the Southern Ring		1993			C	Civil Aviation Department	4.500.000 ECU
Air Traffic Contr. Train. and Devel. of Routes in the Southern Ring		1994	16-07-2000		O	Civil Aviation Department	2.500.000 ECU
Transport Policy Advice		Tacis Pol. Adv. Progr.			C	Deputy Prime Ministry	526.000 ECU
Rail Tracker Freight Monit. Syst.		TRACECA	1992				850.000 ECU
Traceca Trade Facilitation	SWK	TRACECA	19-02-1996		C	Ministry of Transport	800.000 ECU
Joint-venture on Caucasian Railway	FEWET	TRACECA	12-06-1995		C	Railway Department	2.000.000 ECU
Railway Tariff and Timetable	SISIE	TRACECA	1-07-1996	1-02-1998	O	Railway Department	1.500.000 ECU
Traceca Coordination Team-1	TRACTEBEL	TRACECA	19-09-1996	20-09-1997	C	Ministry of Transport	750.000 ECU
Immediate Training	Nethconsult	TRACECA	dic-95		C	Ministry of Transport	1.549.744 ECU
Rehabilitation of Caucasian Railways	TRANSTEC	TRACECA	1-09-1995		C		5.000.000 ECU
Traceca Management Team		TRACECA	1992		C		1.000.000 ECU
Improvement of Road Transport Services (Caucasus)	DHV	TRACECA	24-11-1995		C	Road Transport Department	250.000 ECU
Intermodal Transport	BCEOM	TRACECA	13-12-1995		C	Institute of Transport Problems	500.000 ECU
Transport Management Training	Nethconsult	TRACECA	gen-96		C	Ministry of Transport	900.000 ECU
Regional Traffic Forecasting Model	BS ATKINS	TRACECA	21-12-1995		C	Traceca Corr. Prob. C	700.000 ECU
Transport Legal and Regulatory Framework	SWK	TRACECA	7-12-1995	DEC-1997	O	Ministry of Transport	1.500.000 ECU
Implementation of Pavement Management System	KOCKS	TRACECA	7-12-1995	DEC-1997	O	Sakavtogza	1.000.000 ECU
Rolling stock maintenance	SYSTRA	TRACECA	19-12-1995		C	Railway Department	700.000 ECU
Railways Infrastructure Maintenance	FEWET	TRACECA	22-12-1995		C	Railway Department	1.200.000 ECU
Feasibility Study on New Terminal Facilities in Georgian Ports	HPTI	TRACECA	25-08-1997	1-08-1998	O	Ministry of Transport	2.000.000 ECU
Traceca Coordination Team-2	TRACTEBEL	TRACECA	25-09-1997	25-09-1998	O	Ministry of Transport	900.000 ECU
Rehabilitation of the Red Bridge and Reconstr. of a new Traceca bridge	BS ATKINS	TRACECA	10-03-1997	1-05-1998	O	Concern Sakavtogza	2.500.000 ECU
Roads Maintenance	FINROAD	TRACECA	24-07-1997	1-11-1998	O	concern Sakavtogza	3.000.000 ECU
TRACECA intermodal services	to be tendered	TRACECA	early 98			Ministry of Transport	1.600.000 ECU
Restructuring Azeri and Georgian railways	to be tendered	TRACECA	early 98			Railway department	1.000.000 ECU
Maritime connection Georgia-Ukraine port of Poti	indexed	TRACECA	early 98			Ministry of Transport of Georgia	5.000.000 ECU
Maritime connection Georgia-Ukraine port of Illichevsk	indexed	TRACECA	early 98			Ministry of Transport of Ukraine	10.000.000 ECU
Maritime connection Georgia-Ukraine equipment	indexed	TRACECA	early 98				400.000 ECU
Maritime connection Georgia-Ukraine supervision	TRACECA	TRACECA	early 98				200.000 ECU
Maritime connection Georgia-Ukraine coordination	HPTI	TRACECA	early 98				200.000 ECU
Caspian sea project: monitoring	ATHENS LAW	TRACECA	early 98				200.000 ECU

Source: DRN

6.2.2 Railways

The current situation of the railways is bad: tracks are old, embankments are not well maintained, overhead lines are in need of repair, most structures and buildings are more than 80 years old, and rolling stock is in an even worse state. The deterioration is mainly due to the worsening financial position, while restructuring and commercialisation of the railways has not yet started.

Georgia's land trade with the FSU was mostly by rail (37.8 million tonnes in 1988, against 2 million tonnes moved by truck). After independence the contribution of railways in total turnover changed significantly.

The total length of the rail network is 1,470 km. The main industrial enterprises and centres were necessarily linked to the major railways, connecting the Caspian and Black Seas in an east-west

direction. Recent civil strife, including the events in Abkhazia and Chechnya weakened the position of the railways as principal means of transportation of export/import freight via the Russian Federation. Much less cargo now comes by rail from Russia. Another trading partner of increasing importance, Turkey, has no direct railway link with Georgia so that trade relies mainly on road transport via Batumi. This situation may be changed in the future if the proposed rail link from Ahalkalek to Kars (Turkey) is constructed, together with upgrading of the track to Tbilisi. Plans for this rail connection exist, and bidding for design is underway, but at first sight financing may prove difficult to arrange.

In November 1997 - after the agreement between MoT and EBRD on an investment plan to repair war damage and upgrade railways infrastructure (see Section 6.3) - a new law on Georgian Railways has been approved by the Parliament. It provides for rail restructuring measures; *inter alia*: the separation of policy and operating responsibilities, with the railways agency being established as a functional department of MoT, and the creation of a government-owned operational company²².

6.2.3 Roads

The renamed "Department of Roads" (the former Highway Concern) is the main institution supervising roads. It is separate from the MoT structure and reports directly to the State Minister. Part of the responsibility for road conditions also lies with municipalities. Road construction and maintenance companies, which were state-owned in the past, are being privatised.

A Road Fund²³ has been established, but insufficient income has been generated to fund road maintenance. In September 1995 the parliament approved legislation establishing a cost recovery system based on specific road user charges, aiming at generating revenues for road construction, maintenance and rehabilitation. In 1996 US\$ 16 million was collected. Discussions are still ongoing as to proper road user charges (including a fuel tax, as is common practice in Western countries), but so far no results have been achieved.

In 1996 about US\$ 5 million has been spent on road rehabilitation, in the context of the World Bank programme. This programme has also an institutional component, which will assess the future investment and operating needs of the Department of Roads for road rehabilitation and maintenance.

The importance of road transport is steadily rising. Physical factors partly explain this, particularly the blocking of the main railways leading to Russia and the increased trade with Turkey. As important is the greater flexibility of road transport, which is much better suited to a more responsive market economy than the huge and cumbersome state-owned railways.

The structure of road transport is also changing. The Road Transport Department no longer plays a direct role in road transport operations. At independence, the road transport (truck) fleet consisted mainly of Soviet made, low capacity, units (about 90 per cent of them below 10 tonnes). They are fuel-inefficient (the bulk working on petrol) and have low durability. Private sector operators have invested in newer, more fuel-efficient vehicles, ranging from used heavy trucks of EU manufacture for international trucking, and new or used light weight trucks for local deliveries.

6.2.4 Maritime

There are three main ports in Georgia. The port of Sukhumi in Abkhazia, which was earlier involved mainly with passenger traffic, has limited cargo facilities and now is out of the control of the central government. Two other ports, Batumi and Poti, are currently handling the total traffic in and out of Georgia.

²²Tacis may finance TA for the restructuring programme, related to the loan.

²³ The Policy Framework Paper for the IMF's ESAF proposes that the Road Fund would be consolidated with the central government budget during 1997-1998.

Both Poti and Batumi ports²⁴ need modernisation. In the meantime a Tacis financed feasibility study has started and GTZ finances a technical assistance project. The train ferry project from the ports of Poti and Batumi is being completed, with Tacis investment funds amongst others. Regular automobile ferry services to Illichovsk and Odessa in the Ukraine, Bourgas in Bulgaria and Gioia Tauro in Italy are operational.

Recently the ports together with the shipping fleet were considered to be under the jurisdiction of the Shipping Department, its head being at the same time the president of the Georgian Shipping Company (GSC), which is responsible for all out-bound cargo. In August 1996 the President issued a decree, which established the Maritime Administration as a state policy and regulatory body.

In May 1997, the Third Pan-European Transport Conference agreed on the continuation of the VIII and IX transport corridors from Constansa (Romania) and Odessa (Ukraine) to Poti Port. In September 1997 agreement between TRACECA countries and the VIII Pan-European Transport Corridor Countries has been signed, according to which the VIII Transport Corridor has been continued from Port Bourgas to Poti Port, making Poti Port part of three European Transport Corridors.

6.2.5 Air Transport

The Air Transport Department of MoT is responsible for policy matters in civil aviation. Air traffic services are carried out by Sakaeronavigation, which operates as a state enterprise.

The major airports are Kutaisi, Batumi, Senaki, Poti and the international airport of Tbilisi. The Tbilisi airport passenger terminal has been rebuilt, with an EBRD loan of US\$ 12 million. The capacity of Tbilisi airport is 600-1,000 persons per day.

In February 1994, Georgia acceded to the ICAO. Until today 13 aviation companies have been registered, on the basis of leasing of aeroplanes belonging to the Government. However, all of them are in a difficult financial situation because of lack of experience in management and marketing.

Two Georgian airlines operated international flights, Orbi and Air Georgia, both privately owned. Orbi went bankrupt and a new, 100 percent state-owned, company has been established (Georgian Airlines). It seems to be the intention that Georgian Airlines will also operate the route Tbilisi-Frankfurt, presently operated by Air Georgia.

6.2.6 GoG Priorities

Reform of the transport sector presented major challenges to GoG policy-makers and officials, and to operational managers in the transport sector. All lacked sufficient experience to give relevant solutions for issues like: definition of government responsibilities, reorganisation of management of the transport sector, redefining and decentralising responsibilities, establishing of modern management system, competition and anti-monopoly policy and the elaboration of new multi-lateral international transport agreements.

In September 1997, a decree of the President on "conception of transport policy of Georgia" identifies the major issues for the transport sector, as follows:

- integration in TEN (Trans European Network);
- sustainable development of transport;

²⁴ The two ports reportedly handled about 11,5 million tonnes of cargo in 1988, 10,2 million tonnes in 1990 and continued to slow down further: in 1996 Batumi handled 0,6 million tonnes and Poti 1,7 million tonnes. The first indications are that 1997 will be a turning point.

- achievement of safety in transport system;
- implementation of training programmes;
- support of the transport system for the tourism sector;
- development and improvement of legislation;
- joining international training issues;
- development of different transport modes;
- improvement of training management system.

Box 6-A Second Stage of Economic Reform (Transport)

The President of Georgia Decree No. 600 (October 1997) defines as follows the next major steps for the transport sector:

“With the purpose of actual putting into operation of the transport corridor "Europe-Caucasus-Asia" the realisation of strategic landmarks specified by the concept of the transport policy of Georgia shall be effected, in particular:

- the strengthening of the system of management of the processes of the new transport system formation;
- the establishment of the legislative base necessary for international cargo shipments;
- its harmonisation with the respective legislation of Transcaucasian and Central Asian states;
- the restructuring of railroad, motor-road, marine and air transport branches;
- the elaboration and implementation of appropriate infrastructure development programs;
- the efficient operation of various transport facilities within the country”.

Source: Decree No. 600 "On the Basic Directions of the Second Stage of the Economic Reform"

6.3 Logical Framework of Tacis Actions in the Transport Sector

Table provides a synopsis of the logical framework of Tacis interventions in the transport sector as it may be identified from both planning documents and actual practice. A description of Tacis actions is considered in the following chapters of the present section of the Mid-Term Evaluation.

Table 6-2 Logical Framework: Transport Sector

CONTEXT	<ul style="list-style-type: none"> • Serious damage and degradation of the existing infrastructure • High transit potential, due to the Georgia strategic location 			
WIDER OBJECTIVES	<ul style="list-style-type: none"> • Integration of Georgian transport system in TRACECA and in TEN • Restructuring of institutional framework and development of the legal and regulatory system • Rehabilitation of basic infrastructure 			
SPECIFIC OBJECTIVES AND MAIN TACIS ACTIVITIES	RELEVANCE	OWNERSHIP	IMPACT	EXTERNAL FACTORS
<i>OBJECTIVE 1: Rehabilitation and maintenance of transport system</i>	<i>Very high relevance of the objective and partially of the activities carried out. Dramatic position of the railways makes of paramount importance an assessment of the rehabilitation needs and the preparation of investment projects</i>	<i>The counterpart was not aware of all project activities. Rolling stock maintenance project seems to be very appropriate for the Partner Organisations</i>	<i>Studies used for EBRD railways loans. Pavement management and bridge management computer systems have been established. The impact has been limited from the low level of investment</i>	<i>Law of railway restructuring passed recently in Parliament. Agreement between EBRD and MoT about an investment program for Georgian railways (32 US\$ millions).</i>
Rolling stock maintenance				
Railways Infrastructure Maintenance				
Pavement Management Systems				
Road Maintenance				
Rehabilitation of the Red Bridge				
<i>OBJECTIVE 2: Sector strategy and legal frameworks</i>	<i>Harmonisation of legislation of all TRACECA countries is an important task to assure the viability of the whole corridor. The concept of inter-modal transport is virtually unknown, but scope for introduction exists. The key strategic issue of the involvement of the private sector has not been addressed</i>	<i>Not all the projects did really address the needs of the recipients. Operation and maintenance of the forecasting model does not seem to be sustainable.</i>	<i>Proposed drafts of some TRACECA projects are under discussion in the recipient countries. Part of recommendations about trade facilitation have been implemented; project produced first an awareness of the changes needed.</i>	<i>In September 1997, decree of the President on "conception of transport policy of Georgia" identify the major issues for the transport sector. The cost of Georgian railway transport of freights is the highest in the region.</i>
Trade facilitation				
Multimodal Transport Systems				
Transport Legal and Regulatory Framework				

continued...

Regional Traffic Forecasting Model				
<i>OBJECTIVE 3: Institutional Strengthening</i>	<i>Improve efficiency of transport system should increase competitiveness of both TRACECA corridor and regional economic system</i>	<i>In some cases, it proved to be difficult to design an appropriate project</i>	<i>The lack of commercial attitude and marketing will have a negative impact on the sustainability of the projects</i>	<i>In September 1997, a decree of the President on "conception of transport policy of Georgia" identificate the major issues for the transport sector</i>
Improvement of road transport services, Caucasus				
Joint venture for Trans-Caucasus railway				
Air Traffic Control training and technical assistance				
<i>OBJECTIVE 4: Promote and develop maritime connection in Black Sea</i>	<i>High relevance</i>	<i>Integration of Georgian transport system in TEN (Trans European Network) has been identified by GOG as one of the major issues for the transport sector</i>		<i>Memorandum of understanding between USAID and GoG on cooperation to create a plan to restructure and privatize Poti sea port</i>
Maritime connection Georgia-Ukraine: port of Poti				
Maritime connection Georgia-Ukraine: port of Illicheysk				
Maritime connection Georgia-Ukraine: equipment				
Maritime connection Georgia-Ukraine: supervision				
Maritime connection Georgia-Ukraine: co-ordination				
Caspian sea project: monitoring				

Source: DRN

6.4 Priorities and Action Plans of Other Donors

The other main donors supporting transport reform in the Caucasus are the European Bank for Reconstruction and Development (EBRD) and the World Bank. Key actions have been as follows:

- the EBRD has provided a loan of US\$ 11.0 million to finance the rehabilitation of Tbilisi Airport;
- in October 1997 EBRD and MoT reached an agreement on a railway project consisting of:
 - priority investments to repair war damage and upgrade infrastructure on the Georgian section of the Trans-Caucasian Rail Link;
 - railway restructuring measures which will result in the commercialisation of Georgian Railways and the adoption of strategies to improve its commercial performance.
 Investment components and financing resources will be as set out in Table .

Table 6-3 Components of the Proposed Railway Rehabilitation Project

	EBRD Loan (US\$)	EU-Tacis Grant (US\$)	Georgian Railways (US\$)	Total (US\$)
Track renewal	10,5		1,7	12,2
Track renovation	1,0		1,0	2,0
Bridge repairs	1,0		0,5	1,5
Ballast cleaner repair			0,3	0,3
Tamping machine			1,5	1,5
Signalling installation	6,5			6,5
Overhead powerline	1,0			1,0
Communications link		6,0	1,0	7,0
Total	20,0	6,0		32,0

The Bank considers that restructuring of the railway sector is essential to provide a sound commercial basis against which to lend;

- the World Food Program (WFP) funded technical assistance and rehabilitation of the railway track and locomotives to facilitate the delivery of humanitarian aid to the Caucasus. The WFP/Caucasus Logistics Advisory Unit (CLAU) terminated its activities in the region on 30 June 1997 as its mandate had been completed. WFP is, however, continuing its support for a further 12 months until TRACECA takes over direct technical and financial assistance;
- the World Bank's support of the Transport Rehabilitation Project (TRP) started in January 1996 and presently 50 percent of the credit (US\$ 12 million) has been committed. The Transport Reform and Rehabilitation Centre (TRRC) is the implementation unit of the project. The loan will mainly be used for rehabilitation of roads and Georgian Railways, and for consultancies. Several consultancy inputs already provided include:
 - railways: a study for restructuring and eventual privatisation (CieConsult, Ireland);
 - road transport: the organisation of technical inspection units (SweRoad, Sweden);
 - maritime transport: recommendations for restructuring and privatisation of Georgian Shipping Company (Scott Wilson Kirkpatrick, UK);
 - legislation: a study for deregulation of the Georgian transport sector;
- a second World Bank operation has been pre-identified. The very tentative components are: (i) technical assistance (US\$ 5 million); (ii) roads (US\$ 25 million, plus guarantee facility); (iii)

railways (US\$ 10 million); and (iv) ports (US\$ 5 million). The loans will be accompanied by major conditions in the field of restructuring and reform;

- German bilateral assistance (GTZ) funded technical assistance for the railways. The railway study ('Planning of Infrastructure') has been finished in January 1997. This study is a third phase of the project 'Food Aid Shipments to the Caucasus: Support of Georgian Railway's Operation'. Reports on first two phases were submitted earlier. GTZ also financed a study on the reorganisation of ports in Poti and Batumi. The report was submitted in April 1996 and a technical assistance project was started in 1997;
- USAID considers Poti Port privatisation as a high profile privatisation and an important signal of overall market reform in Georgia. The USAID-funded Poti Port privatisation work is divided into two phases:
 - phase 1, carried out with the GoG, is to devise a plan to restructure and privatise Poti Port. On November 25, 1997, a *Memorandum of Understanding* signed between USAID and MoT on co-operation regarding Poti sea port, states that the parties intend to:
 - develop a restructuring and privatisation plan for Poti Sea Port;
 - inform key GoG officials, the public and the media on the various options for a privatisation plan that will attract both domestic and foreign investors;
 - secure appropriate GoG approval for a government-operated port authority; and,
 - propose an effective and transparent legal and regulatory structure for Poti Sea Port operations that will protect the national interest of Georgia once Poti Sea Port is privately operated.;
 - phase 2 - if GoG will agree to privatise at least 51% of the shares of Port of Poti - will start with the implementation of the mutually agreed privatisation plan; this phase may include training of appropriate port personnel, and drafting and implementing the legal and regulatory structure of the port authority.

6.5 Rehabilitation and Maintenance of Transport System

6.5.1 Tacis Actions

The economic and political situation in Georgia (and in overall Caucasus) has lead to a back-log of rehabilitation work and inadequate maintenance. Tacis intends to play a catalyst role to improve the operational and financial performance of transport networks through introduce maintenance authorities to "best practice" management approaches and techniques.

The objectives of Tacis activities in transport rehabilitation and maintenance were to:

- carry-out pre-investment study for the main Transcaucasian rail route between Azerbaijan and Georgia (Baku-Tbilisi-Batumi-Poti);
- provide recommendations to improve rolling stock maintenance and supply of spare parts (short term recommendations for the maintenance management, and proposals for long term investment plans for maintenance and manufacturing facilities);
- introduce regional roads maintenance authorities to the appropriate, improved pavement management techniques and to advise on financing systems
- carry out feasibility studies for selected sections of the Baku-Black Sea road (in Azerbaijan and Georgia), in order to attract funding from international financial institutions.

Currently under implementation are the "Rehabilitation of the Red Bridge and Reconstruction of a New TRACECA Bridge" and "Road Maintenance" projects. The first is financing the completion of the new

bridge, preservation works on the existing bridge, and associated border crossing infrastructures. Thus a significant part of the budget is to be devoted to construction work rather than consultancy services. The "Road Maintenance" project has the overall aim to improve the rational allocation of limited road maintenance funds.

6.5.2 Relevance

The poor technical and financial position of the railways and roads makes it essential to identify external financing sources and modalities for rehabilitation and restructuring. As far as they facilitate investment, Tacis activities to support rehabilitation and restructuring are very relevant and appropriate inputs. More efforts however should be done to identify and enhance the conditions to attract private investment in the sector.

Given the deplorable state of the track and the problems with the rolling stock, rehabilitation investments are, therefore, needed. Thus the rolling stock maintenance project seems to be very appropriate for the Partner Organisations. This is also recognised by the railway companies involved.

6.5.3 Ownership

Despite their high relevance, Tacis projects in rehabilitation and maintenance have not always secured full support: some Partner Organisations have not shown much interest in some projects and the contractor has not been able to attract the interest of the partner organisations. This has limited the impact of those projects.

For example, until recently, there was little enthusiasm for restructuring railways within GoG, suggesting that the sustainability of Tacis' rail projects would be poor. This is changing, however, and a new law of railway restructuring passed in Parliament.

6.5.4 Impacts

One immediate impact of Tacis' rail sector studies is their use by EBRD in identifying priority investments to repair war damage and upgrade infrastructure on the Georgian section of the Trans-Caucasian Rail Link.

Ultimately, however, investment is needed, without which the impact on railways performance will be limited. The key measure of Tacis' success will be the extent to which it triggers real investment through IFIs or direct private sector investment. This is true of both rehabilitation and maintenance. For example, the Tacis M&E units sector analysis noted:

"So far the [Rolling Stock Maintenance] project has not led to implementation of the recommendations (anyway not in the Caucasus) and as such the contribution of the project to the wider objective ("improvement of the rolling stock maintenance") has been extremely limited. "

A similar situation exists in road transport, where pavement management and bridge management computer systems have been established (although not yet fully and satisfactorily operational), and local personnel trained. Good bases have been created to carry out road rehabilitation feasibility studies in the region, with the purpose of offering proposals to IFIs. The World Bank has shown interest in financing the road sections in Georgia, and the EBRD the road sections in Azerbaijan, but financing has yet to be fully secured.

6.6 Sector Strategy and Legal Frameworks

6.6.1 Tacis Actions

The FSU's unique transport legal system was ill-adapted to free markets, and to international transport operations. At the same time, the concept of demand forecasting as essential to transport planning and investment, was lacking in the centrally planned system.

Moreover, with the break up of the FSU, long distance traffic in the Caucasus and Central Asia region has attained a new international dimension with the creation of additional national boundaries, and separate rail operating companies in each state. The transport system of the region needs to be redefined and rationalised with the use of modern transport technologies in order to improve efficiency and fulfil the demands of customers. Thus it will be possible to increase the competitiveness of both the TRACECA corridor and the regional economies.

The objectives of Tacis activities to develop legal framework and of sector strategy were, *inter alia*:

- to promote operational efficiency through the introduction of customs and trade documentation in accordance with UN and international standards;
- to provide technical assistance and data base support in the field of transport legislation;
- institutional strengthening of the road transport sector;
- to assemble the data elements and model required to forecast transport demand on all modes across the region;
- encouragement of trade, through tariff and timetable co-ordination between the various railways of TRACECA Region;
- to provide a comprehensive view of the nature of multimodal sector problems, and design appropriate strategies and investment projects to develop freight movements by container;
- to identify logistical problems in Caucasus and Central Asia countries.

6.6.2 Relevance

Harmonisation of transport and trade legislation of all TRACECA countries is a critical but difficult task, and is essential for the viability of the whole TRACECA corridor.

The concept of inter-modal transport is virtually unknown, but scope for its introduction exists. The infrastructure is basically in place, but investments are needed in railway terminals and ports. A major problem is organisational (because of the current mono-modal approach):

"in the long run multi-modal transport has certainly good prospects; in the short run, however, it seems that more emphasis has to be placed upon restructuring and reform (before embarking on complex introduction of multi-modal transport)." Tacis M&E Unit Sector Report

Part of the Tacis recommendations about trade facilitation have been implemented already during the course of the project, but more time is needed for most of them. In principle the Partner Organisations should be able to proceed themselves, but it might be necessary that additional assistance is required for some of them.

The bottom line, however, is investment. Since TRACECA investment decisions will depend greatly upon traffic forecasts, Tacis support for a traffic forecasting within Georgia and the Caucasus has been both relevant and critical.

Other policy issues, however, should have been considered, to increase the relevance of Tacis action in this field, such as:

- the different possibilities to associate private sector and/or other specialised commercial companies in restructuring and rehabilitation;
- new ownership and management strategies for railways, roads and ports, to ensure investment and efficiency.

Tacis could have been a vehicle to transfer to GoG the multiple policy alternatives in transport management presently under discussion in EU member states, in order to facilitate an independent choice of the most suitable options by the Georgian counterparts

6.6.3 Ownership

Although multi-modal transport may be somewhat premature for some of the TRACECA countries, but the project has familiarised a small group of persons with the concept of multi-modal transport.

Partner Organisations in the three Caucasian states consider the trade facilitation project to be one of the most successful TRACECA projects and all of them are committed to achieve the project objectives. Implementation of the recommendations is, however, proceeding slowly.

6.6.4 Impacts

Impacts have been mixed. On the Legal and Regulatory Framework Project draft proposals are under intensive discussion in the recipient countries, however, with different degrees of progress. The best measure of success will be the extent of agreement on harmonisation of laws and policies by TRACECA and Black Sea countries at the planned summit during the first half of 1998.

The impact of the trade facilitation project, has been, first and foremost, an improved awareness in the TRACECA countries of the changes needed. In addition it can be noted that the project offered the involved authorities of the TRACECA countries the possibility to meet each other and to exchange information, documentation, etc. Tangible results were achieved:

- some of the recommendations regarding the border posts (e.g. telecommunication and electricity) are being implemented. Lack of finance is, however, the major obstacle for the more costly recommendations;
- the basic ingredients for the establishment of Freight Forwarder Associations and Customs Consultative Councils have been produced (step-by-step plan, standard articles of association). Freight forwarders associations have been created in Georgia, Azerbaijan and Uzbekistan.

The impact and prospects for sustainability of the traffic forecasting project are, as yet, poor. In the long run the users should pay for the services/data, but in the short run this is unlikely to materialise because of extreme budget constraints. The Tacis M&E units sector analysis noted:

"Normally the project should have provided the data base and traffic forecast for the other TRACECA projects. Unfortunately the project started too late and has experienced delays. So far it has not produced any significant contribution to the wider objectives of the TRACECA programme in general and to the other projects in particular. This means that these other projects are themselves trying to make a relevant traffic forecast, which is difficult, given the limited budgets and partial approach of the projects. In addition, the traffic forecasts of these other projects often differ, causing confusion for the Partner Organisations."

In our interviews with Georgian users of the forecasting model, we found that they did not use the model, claiming problems of either cost or complexity.

6.7 Institutional strengthening

6.7.1 Tacis Actions

Both public sector institutions and private sector operators in the transport sector require development and strengthening if transport in the region is to support economic growth. The previous vertically integrated state structures have to be restructured, and made more flexible and responsive, and new policy and regulatory roles designed for the state. Measures which will accelerate the commercialisation of Georgian transport operators, and improve their commercial performance are also essential.

Tacis activities to strengthen operators and institutions involved in transport therefore aimed:

- to facilitate development of the domestic and international road transport industries;
- to assist viable private/to be privatised or state autonomous operators in gaining an equitable market share of international traffic;
- to study the possibility of developing joint ventures between the three Transcaucasian Railways and a possible European partner;
- provide TA in preparing and putting into operation a high-quality international freight service;
- to put into operation a high-quality freight service between Baku and Poti via Tbilisi (the “Logistic Express”);
- to improve the standard of air traffic controllers; to bring Air Traffic Control (ATC) procedures into line with International standards; to train the trainers (for training the other ATC staff);
- technical assistance for the introduction of new air routes;
- to promote co-operation between the Caucasian airlines in order to create economically viable air services in the Caucasus.

6.7.2 Relevance

All the Tacis actions outlined above are relevant to both GoG stated priorities, and to the TRACECA plans. Two example will illustrate,

In all three Caucasus countries a deep lack of knowledge has been identified by the road transport services project and, therefore a training programme has been prepared, in co-operation with the World Bank sponsored training programme in Georgia. It is recognised, however, there is no prospect that in the near future the assisted companies will gain a significant market share in international traffic.

There was no regular freight service between Azerbaijan and Georgia and considering the operational difficulties some traffic diverted to road transport, especially in container transport. The establishment of the Logistic Express can therefore be considered an important step for the development of commercially oriented rail transport. In general terms the specific objectives of the Logistic Express, namely the establishment of a high-quality scheduled freight train service, based upon reliability, realistic price levels, reduced product losses, sufficient operating capacity and reduced delays, have been reached. The project has helped Georgian railways and Azeri railways staff to adapt their institutions, systems and procedures, and is highly relevant to both the needs of the two countries, and the wider TRACECA network.

6.7.3 Ownership

Regarding the Road transport services project, as in other cases, it proved to be difficult to design an appropriate project, given that the focus of the project had to be changed twice in a period of 10 months. Although the component of institutional strengthening was generally appreciated, the overall feedback from the recipients is that the project did not really address their needs and as such it can not be considered to have won a high degree of ownership.

6.7.4 Impacts

The road transport services project aimed to facilitate development of domestic and international road transport industries within the recipient states (Armenia, Azerbaijan and Georgia). Impact to date has been limited; there are few tangible results.

Although a new service has been set up, the sustainability of the Logistic Express in its present form is doubtful. Reorganisation, management techniques, training and institutional strengthening alone have not been enough to foster a sufficiently commercial, market-oriented, attitude in the two railway companies. It is therefore proposed to establish a new, and independent, operating company, through the TRACECA project, concerning joint venture(s) for the Caucasian Railways. Unless this new company succeeds the prospects for the Logistic Express are not good.

6.8 Promote and Develop Maritime Connection in Black Sea

6.8.1 Tacis Actions

The overall objective of Tacis activities on maritime connections across the Black Sea is to promote the full use of the TRACECA corridor for rail and road transport and its interlinkage with the TEN-9 European network. This is to be achieved by improving multi-modal rail and container handling facilities for a recently established ferry service between the Ukrainian port of Illiychevsk and the Georgian port of Poti.

The TRACECA projects in this sector are as follows:

- establishment of a ferry cargo movement computer system, for the ports of Illiychevsk and Poti;
- improvement of the existing rail ferry terminal, and design and construction of additional facilities for the port of Illiychevsk;
- design and construction of a rail ferry facility in the port of Poti;
- supply and delivery of cargo and containers handling equipment for the cotton export logistic centre near Buchara (Uzbekistan), as well as for the sea ports of Baku (Azerbaijan), Turkmenbashi (Turkmenistan), Poti and Illiychevsk.

6.8.2 Relevance

In general, Tacis Black Sea actions are highly relevant. GoG has placed priority on linkages with European transport networks, as a transport policy goal.

The Black Sea transport links place much emphasis on the role of Poti port. Following GoG's decision to progress restructuring and privatisation of the port, there is a need to assess its impact on current and

planned Tacis projects involving Poti. Otherwise, the identified projects could be inadequate in the new situation and their relevance substantially reduced.

6.9 Conclusions and Recommendations: Transport

The evaluation mission confirms the strong relevance of the overall objective of TRACECA - namely to develop a transport corridor on an West-East axis from Europe. The competitiveness of TRACECA corridors in the Caucasus is related to the following features of the route:

- the corridor's area is all relatively well populated;
- it offers climatic advantages and lack of mountains (this route works all year);
- it is the shortest east-west route;
- there are likely to be lower levels of crime (e.g. hi-jacking of vehicles); and
- the route is already used by Central Asian countries.

One of the aims of the TRACECA programme is to trigger investment from other donors and IFIs to rehabilitate and modernise the transport infrastructure. Because domestic financial resources are insufficiently available the international financial institutions are to be involved. It is, however, obvious that the partner organisations are not familiar with the approaches and working methods of the international financial institutions. It would be useful if the rules, regulations and approaches of these institutions are more clearly presented to the partner organisations. We recommend that Tacis assist GoG in the integration of transport and infrastructure investments into future Public Sector Investment Plans (PSIPs). We also recommend that more attention is given to the institutional framework for transport sector organisations, as many of these should be largely self-financing in future years, if they are to be sustainable.

Our key short term recommendations are:

- to progress multi-lateral agreements between TRACECA and Black Sea (Romania, Bulgaria, Ukraine, etc.) countries on transport matters;
- to increase the orientation of TRACECA activities towards investment promotion;
- to strengthen the policy consistency of the projects, including analysis of the possibilities to better involve the private sector;
- to revisit the need for demand forecasting throughout the TRACECA states.

Demand forecasting is recognised by the TRACECA states as essential to transport planning and investment, in a free-market demand-led environment. Nevertheless our interviews support the concerns of the M&E Unit over sustainability of the current forecasting centre in Georgia.

In the absence of a common forecasting model, each transport project now generates its own estimates of traffic by mode. We recommend that Tacis identify some way to bring this forecasting activity back on track, as it is fundamental to the whole TRACECA programme. We would support a further project to build on work done to date, but recognising the forecasting needs of all TRACECA states, not just Georgia.

We recommend that Tacis continue to support transport improvements in all modes: rail, road, maritime and maritime projects. We note, however, that Georgian rail freight costs are the highest in the region. (Table); and that the GoG now appears committed to reduce the costs of rail transport for two reasons:

- first, there is a strong desire to develop the role of Georgia as a transit country and hence to improve the competitiveness of Georgian transport system within the TRACECA corridor;
- second, the GoG signed in 1996 an agreement between Georgia, Azerbaijan, Turkmenistan and Uzbekistan to reduce by 50% the cost of transport; later, other TRACECA states, Kazakhstan, Kyrgyzstan and Ukraine took part in the agreement.

Table 6-4 Comparative Rail Freight Transport Costs

Country	Costs
Russia	1,7 cents of US\$ per ton/km
Georgia	3,2 cents of US\$ per ton/km
Iran	1,9 cents of US\$ per ton/km
Azerbaijan	2,2 cents of US\$ per ton/km

Source: DRN; Interviews with TRACECA Co-ordination Team

With road transport having been demonopolised in the region, railways remain in need of urgent reform. Significant progress in strengthening competitiveness of TRACECA corridor, can therefore only be achieved through the implementation of railways restructuring projects. The mission would endorse expanded Tacis technical assistance in support of rail restructuring, in strict co-ordination with EBRD.

Following the new Memorandum of Understanding between USAID and GoG on co-operation to restructure and privatise Poti sea port, there should be some review of the current framework of the Tacis projects and policy concerning maritime connections through Poti. Given the importance of Poti to the TRACECA strategy, Tacis has a strong interest in ensuring that the privatisation process adopted by GoG in Poti will deliver a genuinely competitive environment for the port

In this respect, we stress that Poti Sea Port is not only a vital gateway for Georgian and Caucasian trade and commerce with international markets, it also has the potential to become Western Georgia's largest commercial centre and an engine for economic growth in that region.

7. PROGRAMME MANAGEMENT

7.1 The Tacis Programme in Georgia: Strategies

The mission met with many GoG beneficiaries and with other donors. One of our most striking observations was the limited level of strategic and policy input into planning, and programming. Other major donors (World Bank, IMF, USAID) and even NGOs (CARE) were able to show us examples of documents with a level of sector and policy analysis more detailed and coherent than that provided in the Tacis Indicative Programme, and the Action Programmes (which remain rather general and all-encompassing).

Whatever the reason for uncertainty over strategies and priorities, the consequence in Georgia is:

- that Tacis enters into sectors, often doing vital and pioneering work, and then withdraws, leaving other assistance programmes to take up leadership within the sector. Examples in Georgia are privatisation (see Box), SME development, energy reform and civil service reform;

Box 7-A Starting Reform is Not Enough

An example is the “Tacis-1” privatisation project. Despite the fact that the Tacis was instrumental in getting privatisation reform started, privatisation stalled after the Tacis privatisation strategy project ended in 1996, and was not completed. Subsequent Tacis efforts emphasised post-privatisation development; both “Tacis 2” and “Tacis 3” focus on restructuring of (allegedly) private sector enterprises. A much more serious problem, however, was the failure of the government to accelerate privatisation during 1996 and 1997, when a combination of timely policy advice and implementation support from Tacis could have assisted.

The lesson is that fundamental, systemic reforms take time. If Tacis is to become involved in such reforms, then it may be preferable that it takes one or two areas of reform, and sees them through to completion a series of projects encompassing both policy advice and reform implementation.

- a relatively weak policy stance. Compared to other major donors, Tacis has a more ambiguous policy position. With few clear sectoral policy guidelines, Tacis managers²⁵ have a weaker base on which to debate and influence policy within GoG. As a result, Tacis - and hence the EU - has less impact within GoG than might be expected from the scale of Tacis investment in the country.

7.2 The Country Programme and Transitional (Systemic) Reform

The Tacis Regulations, the PCA and the White Paper all talk in terms of Tacis contributing to deep, irreversible change in the transitional economies of the CIS states. The ambition appears to have been clear - that Tacis interventions would lead to systemic (system-wide) changes towards a private sector-oriented, market economy.

In key areas, however, there appear to have been no such framework. For example, in Georgia, both the Government and Tacis lack a strategy for private sector development. On the GoG side, we were told:

“To be very frank, we have no strategy for private sector development. It is not talked about enough in Government” (GoG Beneficiary)

²⁵ We use the term “Tacis managers” to encompass Country Desk Managers, Task Managers and EC Delegation staff involved with Tacis programming

One of the first EES reports for Georgia²⁶ in 1994 identified a need for, and recommended, a private sector development strategy. This was not adopted, perhaps in part because of a wider failure within Tacis as a whole to develop policies and strategies for market reform:

“Clear market reform-oriented policy objectives for the various sectors did not emerge [during the early years of Tacis]...The present state of affairs is that concepts are unclear, well-argued philosophy is missing and rationalisations for changes remain unexplained (none of these are written down and fully justified)a comprehensive policy from the Commission on the use of Tacis as an instrument for promoting market-oriented economic reforms has not emerged” (Tacis - An Interim Evaluation. Tacis 1997)

The apparent lack of a strategy in this area is remarkable, given the alleged importance of the transition to a market economy for both parties.

Box 7-B What Would a Strategy for Private Sector Development Include?

A strategy for private sector development would, amongst other measures, include:

- measures to define and strengthen property rights, including measures such as land and property ownership, share registration, and transfer rights, voting mechanisms to provide protection for minority shareholders
- measures to improve collateral for lending
- business entry, start-up and registration
- business close down, insolvency, liquidation and bankruptcy, creditors rights
- business regulation & licensing - in particular de-regulation
- transparency and equal opportunities in privatisation (“insiders” vs. others), contracting, tendering, and investments
- opportunities for private sector involvement in infrastructure, for example, through privatisation, leasing, concessions, build-own-operate-transfer (BOOT) schemes
- opportunities for private sector involvement in service provision, including contracting out of government services such as cleaning, road maintenance, fleet management
- measures to ensure competition in markets, and effective regulation where competition is not assured or there are risks of monopolistic or oligopolistic pricing
- measures to facilitate financial transactions through effective capital markets

In our example, the lack of an overall approach on private sector development (PSD)- agreed with Government - has had an adverse impact on aspects of the Tacis programme in Georgia involving the private sector:

- with no coherent GoG policy on private sector development, and no Tacis PSD strategy, the *dialogue between the parties lacks foundations*;
- with no clear philosophy for PSD, *Tacis cannot itself provide policy leadership and a coherent set of projects in support of PSD*. For example, mechanisms by which Tacis can best support private sector investment and participation in the ownership, construction and management of infrastructure have not been defined;
- within the donor community, Tacis’ position is now essentially *reactive* in this key area. This is particularly the case now that there are clear strategic plans for market reform elaborated by other major donors;

²⁶ Policy Advisory Group. Project Preparation. Draft Report. Coopers & Lybrand, December 1994.

- *project selection* is less robust, and more likely to be influenced by short-term needs of the project partner, rather than mutually agreed long-term priorities and strategies;
- *project monitoring by the M&E unit is flawed*, as there is little reference to higher level goals (only to the perceived needs of the project partner or the immediate project objectives);
- *project implementation lacks guidelines*. When projects move off track, or if circumstances change, the programme is vulnerable. With no overall PSD strategy, neither Tacis managers nor contractors, are then easily able to answer the question “Is this really what we want to be doing?” It is not clear under which circumstances projects should be closed down²⁷.

7.3 Tacis Institutions: Roles and Responsibilities

There are four key bodies with responsibility for delivering the Tacis programme in Georgia. These are:

- the Tacis Co-ordinating Unit (CU). This is a GoG institution, headed by a National Co-ordinator, which is currently the Minister for Trade and Foreign Economic Relations. There is a secretariat, with an Executive Director and staff each of whom has sector responsibilities. The CU is supported by two Tacis-funded advisers;
- the EC Delegation in Georgia. The Delegation represents the political and economic interests of the EU in Georgia. However, considerable attention is given to Tacis projects, and staff within the delegation influence the progress of projects at all stages, from identification, to implementation (monitoring), and close-down/follow-up;
- the Tacis Monitoring Unit, based in Tbilisi, which regularly visits projects (usually every 4-6 months);
- the Brussels-based Task Managers (responsible for projects or facilities) and Country Manager (responsible for the country programme).

In addition individual projects will have a contractor, a partner organisation, and recipients (who may be different from the partner organisation), giving seven entities in total. Some beneficiaries perceived the structure which has evolved as somewhat complex:

“It is really not clear to me what functions are where” (GoG official who has been working with Tacis for 4 years).

7.4 The Role of the Co-ordinating Unit

Tacis CUs were created when EC had no Delegations in NIS and the NIS had no experience in aid co-ordination. They received a very large mandate, including administrative, operational and planning responsibilities. With the establishment of several EC Delegations (o/w an important one is in Georgia) and the creation of national institutions for aid co-ordination, like the CCIFEO at the State Chancellery, the role and the status of the CU need a deep reconsideration.

All the activities related to Tacis policy coordination in the country, including decisions on both ongoing and new projects, should regard on the one end the EC Delegation, including staff responsible for Tacis activities in the Delegation, and on the other end the national aid co-ordination authority.

²⁷ The recent Tacis interim evaluation noted that overall 13 per cent of projects were not found to be appropriate at completion, and noted: “such projects might have been expected to have been terminated during implementation”

The latter may be supported by an administrative and technical unit: this could be the new role of the CU, provided it is attached to the actual aid co-ordination authority and not, like in the present case, to a Ministry who has no specific responsibility in international aid co-ordination.

The mission found that the present ambiguities in CU's role jeopardise Tacis capacity to agree upon a transparent set of priorities with GoG. In the preparation of GoG inputs to the 1998/99 Action Programme, the CU has prepared a list of 30 projects as the result of a negotiation process between a number of institutional partners (Ministries, etc.) and beneficiaries (Companies, Universities, associations, etc.), and the Ministry of Foreign Trade, in charge of the Tacis co-ordination. The policy basis of such a negotiation was neither transparent nor explicit and did not necessarily reflect the priorities of both GoG and EC.

A change in the functions and roles of the CU needs also a strong support to aid co-ordination within GoG. We recommend that Tacis should:

- help GoG to strengthen and rationalise its aid co-ordination activities;
- assist GoG to bring together investment proposals into a public sector investment plans (PSIPs), which also recognise and account for the continuing recurrent costs associated with investments;
- help GoG to improve the quality of its policy-making, and in so doing deepen and strengthen the policy dialogue between GoG and Tacis.

7.5 Project Identification

On the evidence of the mission's visit to Georgia, just six weeks before the 1998/99 Action Programme is to be finalised, formal Tacis project identification processes are not working. In particular, the list of current project proposals tabled through the National Co-ordinator and the Tacis CU (i.e. through the formal mechanism for dialogue) was extremely weak, incomplete, unscreened, and not systematically analysed in relation either to GoG priorities, or to other donor actions.

A continuous work on sectoral policies – including the production of up-to-date position papers and a close dialogue between the EC Delegation and GoG aid co-ordination and sectoral policy makers would create the framework for a sound project identification process. This would limit a lot pressures and other not transparent practices to include weak projects in Tacis pipeline.

The problem does not wholly lie with Tacis, however. Unless GoG capacity in this area is strengthened, Tacis itself cannot operate effectively. The interim Tacis evaluation made a similar observation, and concluded:

“On the NIS side, there is room for improving the process of identifying and setting the priorities for multilateral and bilateral assistance in general and for Tacis assistance in particular. The current system of involving Co-ordinating Units as facilitators has practical merit. However this falls short when compared with the practice of Public Sector Investment Programmes (PSIP) linked with public expenditure reviews” (Tacis- An Interim Evaluation. Tacis 1997)

7.6 Project Design

In most projects evaluated as having some element of “failure”, there were weaknesses in project technical design, relevance or ownership, all issues which should be addressed during project definition. Nonetheless, Tacis has developed a reputation for working carefully and well with project counterparts. There is (usually) commendable attention given to gaining agreement on Terms of Reference, on shared

evaluation of the contract, and on putting together the right contractor team. However, once projects have started, time pressures on Tacis managers mean that:

- there is little opportunity for re-assessment of project progress, or for project redirection, relative to high level programme goals;
- contractors have weak relationships with the EC Delegation, the Tacis CU, or Task Managers. As a result on the one hand there is little support for contractors when trying to influence policy. On the other hand, there is little possibility for the Delegation to orientate, or re-orientate contractors, when they deal with sensitive policy issues, or to demand changes in key contractors' staff (e.g. team leaders) when they appear not adequate.

Although logical frameworks are, in theory, a central part of the Tacis project cycle management methodology, they were never referred to by Tacis managers. We recommend that Tacis consider strengthening the use of formal project appraisal and risk assessment tools, such as logical frameworks, at the project design stage.

In the case of large on-going projects, or projects already appraised, we recommend the introduction of a simplified scheme of project risk analysis²⁸. This would, first, identify risks which could lead the project to fail, including key staff quality; second, allocate responsibility for monitoring those risks ; and third, identify measures and procedures to be taken to avoid, manage or offset the impact of those risks.

Tacis projects do not usually include any conditionality on the host government. This is unfortunate, as the absence of conditionality probably leads to too little attention being paid to gaining “in-principle” agreement with the GoG on key steps to be taken for project success. As a result, there is excessive focus on meeting activity targets within projects, as substitutes for good definitions of project outcomes, and performance measures. If Tacis is to move to a more mature dialogue with GoG, as envisaged in the PCA, then more explicit and transparent mutual agreements (or memoranda of understanding) can be discussed and negotiated with some confidence.

Project design can also be improved by learning from successes and failures elsewhere. Both the Tacis and the Phare programmes have built up considerable expertise in technical assistance programme management and sector know-how within transitional economic. Unfortunately, the mechanisms to disseminate this knowledge are few²⁹ and, as a result, Tacis managers and consultants cannot always exploit previous experience. Examples of some quotes to us are:

“During 1993-94 Tacis prepared comprehensive sector studies on markets (sectors) in Russia...but we have no access to them. Such information would be extremely valuable to us ... Is there a library where this information is kept? We do not know.” (Tacis contractor)

“There are no cross-links with Phare, ...no way to gather people to exchange ideas and skills or project know-how” (Tacis manager)

7.7 Project Implementation

A frequent comment was delay between programming and project mobilisation. Delays can damage relationships between GoG and Tacis managers in-country, and will be source of frustration to beneficiaries and other Tacis managers. Although we have no evidence that Tacis in Georgia has been any worse than other donors, there is no doubt that Tacis line managers (and contractors) experience

²⁸ An adequate use of the Logical framework method would help in such a task.

²⁹ There is a Tacis Dissemination Project, but this focuses on technical rather than programme or policy issues

delays and are dissatisfied with Tacis performance in this area. We saw examples in Georgia where these delays have lead to:

- inadequate attention to strategy. Tacis managers spend most of their time in contract negotiation, trying to get projects started, progress delays in current projects, and close down the administration of finished projects;
- projects being of reduced relevance, because the ToR addressed yesterday's situation or now overlap with other donor actions;
- reduced influence of Tacis within Government, if Tacis is unable to respond rapidly to meet urgent GoG needs or is not active when policy is being made;
- reduced ownership of the projects, both from Tacis managers (who may have to implement projects they did not design) and from GoG;
- inefficiency in that the inception phase requires re-working of the project design in order to correct or ameliorate the out-of-date ToR.

If delays occur in other Tacis countries (and evidence from the Tacis Interim Evaluation suggest this is the case³⁰), then there is strong argument for the “re-engineering” of internal Tacis administrative processes which generate these delays.

There is the possibility, however, to cut a significant part of these delays, by modifying the project typology currently adopted. An increased use of more flexible instruments, such as framework contracts and short-term policy missions financed through some of the existing Facilities (EES), will help in overcoming both the rigidities and the delays deriving from the present approach.

There was some concern expressed over the effectiveness of Tacis resourcing. Our observations would again support the findings of the Tacis Interim Evaluation, which concluded that Tacis was understaffed relative to its size and scope and that this adversely impacts project design and content, project supervision and implementation efficiency.

Clearly, contractor and counterpart performance also matters. Implementation problems because of the poor personal performance of either a contractor or a counterpart were reported by project monitors, in a number of projects. While it may be difficult to assess performance, it is clear that:

- the presence of a long-term resident expert is important. Projects where Tacis has appeared to influence systemic reform are associated with effective long-term team leaders;
- good working relationships between contractor and counterpart, are necessary (but not sufficient) to ensure project success or sustainability. A representative of the Ministry of Agriculture and Food, with extensive experience of Tacis projects, emphasised to us:

“..a successful project is a successful relationship” .

As discussed above, the procedures to change and/or adapt the project staff during the execution should be reviewed, since the success of a TA project relies very much on the quality of the human inputs³¹.

³⁰ The Tacis Interim Evaluation analysed a database of Tacis contracts and reported that: “..delay in programming has been a problem of Tacis since the beginning, in 1991. It has proved to be very difficult to bring the programming cycle forward...Disbursement for a Tacis programme year now seem to need more than five years to be realised, which seems to be excessively long, considering that most contracts have a duration of only 18 to 24 months”.

³¹ More flexible procedures for staff negotiation with the contractors should be allowed: the present tender system is highly constraining.

7.8 Conclusion: The Need for a More Flexible, Responsive Tacis Programme

Tacis in Georgia has become a rather inflexible, large-project driven programme. Our general recommendations to improve would be:

- expansion of *more flexible instruments*³², for example:
 - the EES, which is, in our view, a success story. Given the imbalance between policy assistance and technical assistance, the EES facility will allow Tacis to make more effective use of its technical projects, and to regain influence in policy. We believe that there is a case to expand the EES in Georgia (GEPLAC has specific objectives and will not have the flexibility to respond to policy inputs in the way that the EES can);
 - the Tacis Russia programme developed a small project facility “Bistro”, directly managed by the Moscow delegation/country desk, and which we understand to have been a relatively successful instrument. We suggest that this model which could be extended to other Tacis countries with a Delegation, such as Georgia;
 - more use of sectoral and local framework contracts.
- a shift to *annual programming* rather than biannual programming, so as to respond to the changing needs of a transition economy more quickly;
- improved *donor co-ordination*; that Tacis actively participate in donor co-ordination in sectors, to ensure that Tacis views and its project pipeline are shared³³. In addition, there could be much improved dissemination of information. We found examples of information known to senior donor officials but not known to contractors; donors who lacked short summaries or updates on Tacis programmes; and a general lack of knowledge of who was doing what and where;
- *strengthened policy dialogue with GoG*, in order to fully support the ambitions of the PCA and the White Paper. Although Parliament is becoming more influential, and a new generation of young Parliamentarians is emerging, the current reality is that key decisions are still made at the most senior levels of GoG. A lesson from Georgia is that relationships have to be maintained at a number of levels if the dialogue on reform is to be sustained over the longer term. Although it is not possible to predict how - or when - leadership of the policy dialogue within GoG will shift, it should be possible to identify the range of counterparts with whom Tacis ought to maintain a close, continuing relationship dialogue.

Although it may be beyond our Terms of Reference, evidence from Georgia also led the evaluation mission to conclude that there is a need to review, clarify and simplify responsibilities for Tacis operations. Such a review should consider the options for more decentralised, field management of Tacis activities, and streamlining (re-engineering) of administrative processes in order to improve efficiency within the need for accountability..

³² Current proposals within Tacis to replace facilities with SPPs (Small Project Programmes) will contribute to an expansion of more flexible instruments.

³³ Donor co-ordination, however, should involve also the field level, as an operational co-ordination among the contractors working on parallel projects funded by different donors. Often the most critical overlapping or trade off are registered at this level.

8. APPENDICES

Appendix A List of Persons Met

Nana	Adeishvili	Executive Director	CERMA
Tengiz	Akhobadze	Head of Inspection	Securities & Stock Exchange State Inspection
John	Allen	Chief Technical Adviser - Regional Programme for SMEs	UNDP Regional Bureau for Europe & the CIS
Jean-Charles	Ameels	Tacis Expert / Editor	Georgian Economic Trends
Chris	Badach	USAID Project Manager	Barents (Accounting Reform Project)
George	Bazgadze	Partner	Georgian Consulting Group Inc
George	Begiashvili	Partner	Begiashvili & Law Co. Ltd
F	Bensarsa	Task Manager, Energy	Tacis, DG1A
Elena	Belyanova	Monitor	Tacis Monitoring Office (Tbilisi)
Olivier	Breteche	Project Manager	Tacis Co-ordinating Unit - Georgia
Paul	Bruning	Resident Budget Policy Adviser	US Treasury Dept/Ministry of Finance
Jérôme	Cassiers	Deputy Head of Delegation / First Secretary	EC Delegation (Tbilisi)
M	Chantladze	Deputy Head, International Relations Department	Georgia Ministry of Transport
P	Daubresse	Economic Adviser	EC Delegation in Tbilisi
Anne Tillette	de Mautort	Tacis Expert	CERMA
Jan	de Voogd	Team Leader	Tacis M&E Unit (Georgia)
Avtandil	Djanashia	General Director	Isani JSC
Emir	Djugeli	First Deputy Minister	Ministry of State Property Management
Boris	Eisenbaum	Director	Minaret Group Investment Fund (Georgia)
Paula	Feeney	Country Representative	USAID (Tbilisi)
S	Garibashvili	Project Director	TA at Industry & Consumer level (Tacis Project)
David	Gelashvili	Deputy Minister	Ministry of State Property Management
Vasil	Gigolashvili	First Deputy Minister	Ministry of Finance
Tengiz	Gogelia	Monitor	Tacis M&E Unit in Tbilisi
Marika	Gogvadze	Manager	European Policy Advisory Group/Crown Agents
George	Gomelauri	Monitor	Tacis Monitoring Office (Tbilisi)
Zviad	Gonadze	Foreign Investment Advisory Council (FIAC)	State Chancellery
Gocha	Gunava	Office Director	Tacis M&E Unit in Tbilisi
Michael	Hancock	Deputy Head of Mission	British Embassy Tbilisi
Paul	Harnett	Tacis Expert / Managing Editor	Georgian Economic Trends
Bruce	Harries	Tacis Team Leader	SMEDA Tbilisi/BSC Kutaisi

Heidi	Hiltunen	Country Manager	Tacis, DG1A
Simon	Kadagidze	Director	Tbilisi Business School
George	Kakabadze	Director/ ex Deputy Director Chamber of Commerce	SMEDA Tbilisi
Roman	Kakulia	Head, Dept. of International Relations	Ministry of Agriculture & Food
Dr Merab	Kakulia	Vice President	National Bank of Georgia
Paata	Kalandadze	Deputy Executive Director	Tacis Co-ordinating Unit - Georgia
Irma	Khvedeliani	Project Administrator	Tacis Co-ordinating Unit in Tbilisi
Lia	Koghuashvili	Head of Personnel	National Bank of Georgia
M L	Koivunen	Project Manager	TA at Industry & Consumer level (Tacis Project)
A	Krause	Resident Project Manager	TA to the Ministry of Fuel and Energy of Georgia (Tacis Project)
Vladimir	Kreacic	Senior Enterprise Reform Specialist	World Bank
Lasha	Kukhalashvili	Director	Business Communications Centre (BCC)
Jesper	Larsen	ex-Tacis Team Leader	Deloitte & Touche (Overall Privatisation Strategy)
Leonora	Lowe	Projects Manager	EC Delegation (Tbilisi)
John	Lynn	Team Leader	Tacis Co-ordinating Unit - Georgia
Vazha	Maisuradze	Head of the Service	State Antimonopoly Service of Georgia
M	Margvelashvili	Project manager	Burns and Roe Enterprises, inc. (USAID project)
Connie	Max	Director, USAID Caucasus Micro-Credit Project	Shore Bank (Chicago)
Mariam	Megvinetuhutsesi	Mission Adviser	EBRD (Georgia)
Juergen	Mendritzki	Tacis Project Manager	CERMA
A	Mirianashvili	First Deputy Chairman	Dept. of Science and Technology of Georgia
Ben	Nupnau	Task Manager, Enterprise Development and Environment	Tacis, DG1A
David	Onapresashvili	Chairman	Parliamentary Commission on Economics
Joe	Owen	Resident Representative	World Bank Resident Mission (Georgia)
Udo	Phillip	Tacis Team Leader	Bank Akademie (Securities Project)
Ricardo	Pettinichi	Task Manager, Human Resources	Tacis, DG1A
Constantine	Rizhinashvili	Partner	Georgian Consulting Group Inc
Benedict	Rouget	Tacis Adviser (EES)	Parliament of Georgia
Tamariko	Saatashvili	Office Supervisor	European Policy Advisory Group, Georgia (EES)
Jurgen	Schramm	Resident Representative	EBRD (Georgia)
John	Scott	Tacis Policy Adviser (EES)	European Policy Advisory Group, Georgia (EES)
M	Stroobants	Task Manager, Transport	Tacis, DG1A
M.G	Tatunashvili	Deputy Minister	Georgia Ministry of Transport
Vakhtang	Tazishvili	Head of Foreign Relations Dept	Tbilisi Business School

Jean Louis	Terrier	Tacis Project Manager	Trade Promotion Policy (EES)
Bernie	Thompson	IMF Central Bank Accounting Adviser	National Bank of Georgia
Pat	Tierney	Team Leader	Tacis Civil Service Reform Project
Petre	Tsiskarishvili	Assistant to Minister	Ministry of Industry
Soso	Tsiskarishvili	Executive Director	Tacis Co-ordinating Unit - Georgia
Tamara	Tsulukidze	Project Administrator	Tacis Co-ordinating Unit - Georgia
Vadim	Turzeladze	Local expert - TRACECA	Tracetebe Development
G.	Tzagareli	Director of the problem centre on Eurasian transport corridor	Georgia Ministry of Transport
Vladimir (Kaha)	Ugulava	Head of Department	State Antimonopoly Service of Georgia
A	Ungiadze	Head of Department	Ministry of Fuel and Energy of Georgia
Revaz	Vachnadze	Executive Director	Tbilisi Bank Training and Support Unit (TBTSU)
Gary	vanderhoof	USAID Team Leader	Sibley (Accounting Reform Project)
G	Vashakmadze	Director General	GIOC (Georgian International Oil Corporation)
E	Vashakmadze	Economist	World Bank Resident Mission Georgia
Alison	Watts	Task Manager, Small Project Programmes	Tacis, DG1A
Kate	Whyte	Head of Information / Projects Manager	EC Delegation Tbilisi
Lee Ann	Wilson	Assistant Mission Director	CARE (CIS)
S	Zarandia	Head of Department	Dept. of Fuel and Energy of Ministry of Economy

Appendix B Terms of reference