

**Country Strategy Paper 2002 - 2006**

**National Indicative Programme 2002 - 2003**

**Georgia**

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## Summary

The Georgia Country Strategy Paper (CSP) was adopted by the Commission on 27 December 2001, and provides the strategic framework within which EC assistance will be provided for the period 2002-2006. The CSP follows the guidelines set out in the Framework for Country Strategy Papers, and takes its basis from the Regulation for the provision of assistance to the partner countries in Eastern Europe and Central Asia (Council Regulation EC, Euratom N° 99/2000 of 29 December 1999). The CSP constitutes the Indicative Programme as described in article 3.2 and 3.3 of the Regulation and revises and updates (as foreseen in article 3.6 of the Regulation) the Indicative Programme for 2002-2003 adopted in 2000. The CSP sets out EC cooperation objectives, policy response and priority fields of cooperation based on a thorough assessment of policy agenda and political and socio-economic situation of Georgia. The National Indicative Programme (NIP, Chapter 6 of the CSP) sets out the response in more detail, highlighting objectives, expected results and conditionality for Tacis in the priority areas of cooperation for the period 2002-2003.

Georgia is committed to the implementation of the Partnership and Cooperation Agreement with the European Union which entered into force in July 1999<sup>1</sup>. Georgia's political situation is dominated by two internal conflicts, widespread corruption and increasing divergences between reformers and conservative forces which resulted in a major political crisis in November 2001, loose relations between Tbilisi and the Autonomous Republic of Adjara, strained relations with the Russian Federation, potential for confrontation in regions where national minorities are local majorities, and an unstable regional context; its economic situation is critical, with the shadow economy generated by illicit trafficking through the separatist regions estimated at 35% of GDP at least; its social situation has deteriorated over the last decade. A member of the Council of Europe since January 1999, Georgia's respect for democracy, the rule of law and human rights is not free from criticism, in particular with regard to religious minorities, criminal procedure and electoral codes.

The CSP is in line with the Statement on Development Policy, adopted by the Commission and the Council in November 2000 which, for developing countries like Georgia, identifies poverty reduction as the primary focus of the EC's development assistance. The EU Food Security Programme will continue to remain a priority for Georgia.

In line with the General Affairs Council's conclusions of 26/02/01, the EU will look for further ways in which it could support efforts to prevent and resolve conflicts as well as in post conflict rehabilitation in Southern Caucasus, including Georgia. An eventual breakthrough in the internal conflicts (Abkhazia and Tskhinvali region/South Ossetia) will be considered in this respect.

The Tacis programme 2002-2003 can effectively assist Georgia by focusing on two priority areas: **(1)** support for institutional, legal and administrative reform, including: implementation of the EU-Georgia PCA; reforms in key sectors supported by the EU Food Security Programme; development of the Georgian National Health Programme and training of medical and administrative personnel; restructuring of the Georgian Border Guards; **(2)** support in addressing the social consequences of transition, in particular through investments in the primary healthcare reconstruction programme. The development of transport infrastructure networks, specifically a contribution to the construction of the "Goresha bridges", along the Traceca road could be a third priority if but only if the conditions agreed under the previous Tacis Action Programme are fulfilled.

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<sup>1</sup> Published in the Official Journal L205 of 04 August 1999.

The indicative budget for Tacis assistance to Georgia for the period 2002-2003 is € 14 million.

## 1. EU/EC policy objectives

Based on the Partnership and Cooperation Agreement (PCA), the EU's cooperation objectives are to build a relationship with Georgia in which the respect of democratic principles, the rule of law and human rights, as well as the consolidation of a market economy are fostered and supported.

The enlargement process will bring the EU frontier closer to Georgia and the southern Caucasus.

The EU has both direct trade and indirect political interests in promoting regional cooperation and establishing an effective regional market of 15 million people or more, fully integrated physically and economically.

It is paramount to establish a **business climate conducive to foreign and domestic investments**, removing obstacles, and importantly, dealing with **widespread corruption**.

The PCA provides for trade liberalisation and cooperation in a wide range of areas. **Tacis** is the main financial instrument supporting the implementation of the PCA and providing grant assistance for projects in priority areas that are defined on a biannual basis.

Georgia is a developing country. As reasserted by the Commission and the Council in the **Statement on Development Policy** of November 2000, the objective of **poverty reduction** is the primary focus of the Commission's development assistance.

In the light of the above, the EU/EC main policy objectives are:

- to continue the work on the **implementation of the PCA**, with a focus on approximation of legislation and reforms;
- to contribute to creating the conditions for **poverty reduction and sustainable economic growth**, raising the deteriorating social standards and improving the poor living conditions over the longer term;

**The EU/EC has an interest in Georgia developing in the context of a politically stable and economically prosperous southern Caucasus.** In this respect, the **conflicts in Abkhazia** (where new serious clashes with casualties among civilians, as well as the shot-down of a UN helicopter and the death of the nine people on board occurred in October 2001) **and Tskhinvali region/South Ossetia** remain a major impediment to development in Georgia and contribute to regional instability. The EU/EC supports the principle of Georgian territorial integrity.

The decision by the Council of Ministers in 2001 with respect to conflict resolution in the southern Caucasus has intensified the EU's political commitment to the region. The EU stands ready to look for further ways in which it could contribute to conflict resolution, as well as post-conflict rehabilitation.

Over the time horizon of this Country Strategy Paper, the EU/EC will assist Georgia in creating the political, economic and social environment necessary for the country to fully exploit its natural comparative advantages at the crossroad of important transport and energy corridors between Europe and Central Asia. This will be done in the context of further promotion of regional cooperation and integration, which is the key to success in Georgia and in the southern Caucasus.

## 2. Policy agenda of Georgia

In general terms, the main difficulty for Georgia is to deliver on the expressions of good intentions that characterise the analysis and the rhetoric of its leaders and politicians. There is an excellent understanding of the problems and the issues at stake. Equally, for the various sectors good action plans exist, aimed at overcoming difficulties and drawbacks. However, for an inextricable mixture of internal and external factors, tangible results are rare, and the situation remains stagnant for the time being.

Georgia has reiterated that its main target in foreign policy is "**progressive integration into EU models and standards.**" A member of the **Council of Europe** since April 1999, Georgia is formally committed to democracy and the respect of human rights. However, concerns exist in relation to real guarantees offered by the criminal procedure code, amended after joining the Council of Europe, the electoral code<sup>2</sup> and the protection of religious minorities.

Georgia recognises that the **two internal conflicts are a major impediment to development. Relations with the Russian Federation are complex**, but Georgia will have difficulties in solving the internal conflicts without Russia being persuaded of the longer-term merits of playing a constructive role, a process that the EU/EC has every interest to support. Georgia is negotiating a new comprehensive framework treaty with Russia and its **relations with all other neighbouring countries are good.**

At the **crossroad of Europe/Central Asia transport and energy corridors**, Georgia wants to exploit this natural advantage along the Silk Road, and asserts itself as an alternative transportation route for trade, as well as oil and gas resources, from the Caspian and Central Asia, an ambition seriously hampered by arbitrary interventions by corrupted (but also unpaid!) traffic police.

The Government adopted measures and strategies to address **corruption, reform the judiciary, improve tax and customs collection, and accelerate the privatisation process.**

A member of the **WTO** since June 2000, Georgia is still completing the process of adopting all required legislation. The economy has largely developed in the shadows of illicit trafficking (estimated to amount to at least 35% of GDP). This is mainly generated by the vacuum offered by the internal conflicts, but also by the fluid links between Tbilisi and Batumi, autonomous republic of Adjara, the gateway to lucrative businesses with Turkey, which does not contribute with remittances from taxes and customs duties to the central budget.

In response to locally identified needs, and in line with recommendations from the IFIs, Georgia has begun the process for the preparation and elaboration of a **Poverty Reduction and Economic Growth Programme (PREGP)**. The interim PREGP (iPREGP) was published in November 2000. The full PREGP is expected to be completed by mid-2002. It confirms the existence of widespread poverty (**60% of the population is below the poverty line**, which means that out of a population of 5.2 million people, more than 3 million Georgians consume less than € 2 per day) and indicates that Georgia will have to embark on a long-term and concentrated effort, if poverty is to be significantly reduced.

The main strategic directions are:

- To improve the conditions in the **social sector. Health and education are the most fragile sectors.** The predicament of the health sector is particularly acute, with indicators for children and youth deteriorating, and **expenditures on healthcare amounting to just 0.9% of GDP in 1999.**

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<sup>2</sup> Parliamentary elections in 1999 and the last presidential elections in 2000 were criticised by international observers. Amendments to the electoral code are being discussed in the Parliament with a view to adoption before the next local elections (those scheduled for November 2001 have been postponed).

- To **raise revenues and reduce the budget deficit to 1.2% of GDP by 2003**, and to improve financial management and control over budgetary expenditures. The Government will **maintain price stability and a floating exchange rate** as a precondition for growth. This has ensured a stable exchange rate at around 2 Georgian Lari to € 1 in 2000 and it should result in 4% annual inflation rate by 2003.
- To strengthen **the agricultural sector**, mainly through the development of rural infrastructure and agro-processing enterprises, but also by adopting effective measures to preserve soil fertility, to establish a rural credit policy, as well as to optimise the existing tax and customs regime in accordance with the WTO and within a regional context. Land management will have to be improved by further privatisation of vacant state-owned land and purchasing of rented agriculture land, as well as by the introduction of a cadastre and land registration system, and the development of land and real estate markets involving the banking and insurance systems. **Agriculture is the mainstay of the Georgian economy, accounting for about 30% of GDP and about 60% of the labour force.**
- **Governance, public administration reform and the fight against corruption.** The draft national anti-corruption programme was adopted by Presidential Decree in July 2000 and an ad hoc commission has been established in April 2001. A number of specific measures are indicated for each of the six targeted areas, which are: liberalisation of the business environment; strengthening the financial management of state resources; increasing the effectiveness of the state management system; improving law enforcement bodies and the judiciary; developing representative democracy; raising the next generation's legal conscience and sense of civic responsibility. The first convincing results are still to come.

### 3. Country analysis

Area (70.000 km <sup>2</sup> )	Population 5 million in 2000	GDP/capita 595 USD in 2000
Real GDP growth rate 1.9% in 2000	Real level of 1999 GDP as % of 1989 GDP: 34%	Inflation rate 4% in 2000

#### 3.1 Political situation

Over its millennial history, until independence from the Soviet Union in 1991, Georgia had experienced democracy during a period of three years only (1918-1921). Apart from the notoriously painful socio-economic consequences associated with the Soviet legacy, Georgia has gone through two interethnic conflicts which have claimed thousands of lives, divided the country and generated more than 250,000 internally displaced persons, as well as repeated acts of terrorism. Criticism with regard to the democratic performance of a government which has nevertheless managed to ensure relative stability over the last six years must be placed in this context.

The 1995 Constitution establishes a system based on the division of powers between a strong executive led by the President, a powerful parliament<sup>3</sup> (235 deputies) and an independent judiciary. The executive power is the responsibility of the President, elected by popular vote for a five-year term. In the absence of a post of Prime Minister, the President is both the head of state and the head of government.

**The conduct of 1999 parliamentary and 2000 presidential elections** highlighted the need to revise the electoral code. Legislation on local self-governments and the electoral committees has been adopted in 2001. However, according to many political parties this legislation is controversial and furthermore, the local elections that were scheduled to take place in 2001 have been postponed. **Improving local self-government** is important, but the process must take into account the situation in **areas within Georgia where national ethnic minorities are local majorities** (Samtskhe-Javakheti in particular, predominantly inhabited by Armenians and whose economy depends on the Russian military base at Akhalkalaki<sup>4</sup>).

Freedom of the media remains essential. At the same time, the consolidation of a professional, responsible and objective press and TV will be essential to a young and fragile democracy like Georgia.

**Eduard Shevardnadze**, the politician respected for his wisdom in guiding Soviet foreign policy during the federation's collapse in 1990-1991, helped save his native and newly independent Georgia from possible disintegration during the civil guerrilla war of 1992-1993, and remains the single most important player in Georgian politics. He now faces the enormous challenge of keeping together a state threatened by separatism, and to conduct in practice a successful policy in the critical areas of the fight against corruption, democratisation, human rights and reforms.

This is also why the **President's commitment to establish a cabinet of ministers and the post of Prime Minister** is welcomed by most political forces. However, the opposition, also on the wave of fragmentation within the majority party (Citizens' Union of Georgia, from the chairmanship of which President Shevardnadze resigned in September 2001), might wish to obtain something in exchange, such as, for example, improved legislation on local self-government, limiting the authority of the President to appoint district heads and mayors of cities, and further privileges for the autonomous region of Adjara.

The animated debate on measures to effectively fight the plague of corruption, within the context of the strategy adopted by the Government, has resulted in the resignation of key "reformer" Ministers, including the Justice Minister, Mr. Mikheil Saakashvili, as well as in a dramatic open appeal from the Chairman of the Parliament, Mr. Zurab Zhvania to the President. These were followed, at the beginning of November 2001, by the most serious political crisis that Georgia experienced in the last six years. Under pressure from street crowds asking for the resignation of Interior Minister Khaka Targamadze, President Shevardnadze dismissed the whole Government. Mr. Zhvania also resigned from his post. Constitutional reforms and the appointment of a new government are essential (November 2001).

**A new comprehensive Russia/Georgia framework treaty is being negotiated**, focussing on cooperation in the struggle against terrorism. This might eventually result in the lifting of the visa regime imposed by Russia on Georgian citizens (with exceptions for the two separatist regions) and possibly in concessions by Georgia regarding Russian military bases. As concerns withdrawal from these bases, Russia has been backtracking from commitments made in 1999 at the Istanbul OSCE Summit. The EU

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<sup>3</sup> The Constitution declares that Georgia is a presidential republic with a two-chamber parliament. However, the second chamber, the Senate, will exist only when Georgia's territorial integrity is restored, i.e. once the conflicts in Tskhinvali region/South Ossetia and in Abkhazia have been resolved.

<sup>4</sup> In line with the Commission's communication on conflict prevention - COM(2001) 211 of 11.04.01, the EU/EC has an interest to prevent the risk of unrest in this area, where the potential for social disorder and ethnic confrontation is already high.

and the international community have an interest in supporting the principle of Georgian territorial integrity, rejecting any illegitimate external pressure. New tensions in Abkhazia in October 2001 (see point 1 above) have resulted in reciprocal Russian/Georgian accusations, but also in an encouraging direct dialogue between Presidents Putin and Shevardnadze that the EU has interest in supporting. President Shevardnadze has also appointed the leader of Adjara, Mr. Abashidze, as his personal representative for the conflict in Abkhazia.

Georgia has difficulties in controlling its borders. OSCE **monitors the border** between Georgia and the Chechen republic of the Russian Federation, in order to avoid a spill-over of the Chechen conflict. The EU contributed to this operation by providing equipment to the border guards protecting the unarmed OSCE monitors. However, this type of intervention is not sustainable in the longer term and there is a need to seriously consider an overall reform of the way the Georgian Border Guards are organised and function. Up to 7,000 refugees from Chechnya are estimated to live in the Pankisi valley, an area in the eastern part of the country that Tbilisi does not control. The presence of Chechens rebels in Abkhazia is creating enormous problems. This situation has the potential to result in an uncontrollable eruption of violence and to exacerbate Georgian/Russian relations.

### 3.2 Economic situation

In 2000, Georgia's **real GDP grew by less than 2%**, down from 3.0% in 1999, mainly as a result of a 15% fall in agricultural output, following a severe drought. As recalled above, agriculture accounts for about 30% of GDP and about 60% of the labour force. About 85% of the total arable land is farmed privately (58% is privately owned and 25-30% is leased by private individuals or legal entities). It is against this background, and also in order to reduce poverty that the EU is supporting, and will continue to support, a Food Security Programme, which currently provides up to 65% of the budget of the Ministry of Agriculture.

**The Georgian trade balance registered a deficit of some € 360 million (12% of GDP) in 2000**, when Turkey became the most important trading partner. The financial crisis in Turkey did not have a major impact on Georgia. D, UK and I are the main trading partners among the EU MS. **Inflation was 4.6% in 2000 (end of the period). Interest rates remain very high** (above 20%). The national currency, the Lari (GEL), is relatively stable at about 2 GEL to € 1.

In 2000 the official **unemployment rate was 6%** (most likely close to 25% in reality). Total net foreign direct investment (FDI) in 2000 amounted to an estimated € 150 million, which is twice the level of FDI in 1999. The budget deficit in 2000 was about 4.1% of GDP (target deficit under the 2001 budget is 3.9%).

**External debt amounted to 53.4% of GDP in 2000**, and its servicing is the cause of serious concern according to the IMF and the WB. Georgia's fragile external financing position makes it strongly dependent on concessional external financing and debt reschedulings (in 2001 Georgia obtained a rescheduling of its Paris Club).

According to IMF estimates, **Georgia collects around half of potential revenue from the existing tax system**. The most difficult area for collection continues to be excise tax (oil, alcohol, tobacco), while profit taxes, VAT, customs tax and social contributions have increased in real terms. The practice of advance tax collection, affecting in particular foreign businesses, remains a means to achieve budget fulfilment.

**About 16,500 small enterprises have been privatised**. Of the 1,300 medium and large enterprises, about 80% had been privatised by the end of 2000. **Privatised and private companies produce more than 74% of Georgia's GDP**. The main sectors targeted by the current wave of privatisation are: transport (Poti port), telecommunications and energy. However, privatisation is not proceeding at the expected speed, which raises concerns *inter alia* with regard to budget implementation. IMF support, to which the

EU exceptional financial assistance and food security programme are also linked, is related directly to budget implementation.

### 3.3 Social situation

As recalled above, 60% of the population is below the poverty line. The transition period has had a negative impact especially on the children of poor and IDP families, orphans and the disabled, as well as on households with five or more members.

In 2000, in various sectors of the economy the average monthly salary was in the range of € 40, which is about 60% of the minimum wage for a person with working capacity.

Over the last decade, the share of wages decreased continuously, and the country has sustained itself through humanitarian assistance, international charity and migrating workers. Public **expenditure on health and education has decreased by 95% since 1990 and in 1999 it represented only 0.9% (with state financing of less than € 8 per capita<sup>6</sup>) and 2.2% of GDP respectively**. However, despite these figures and in light of the positive inheritance from the Soviet era in this respect, the illiterate population is less than 1%, and more than 25% of the population have higher education.

The Government aims at increasing the expenditure on the healthcare system to 7% of GDP, but the situation remains extremely difficult. The Government can only finance 30% of direct costs, and patients must pay the remaining 70%. Substantial work has been carried out already, mainly with support from the World Bank.

Reforms have been adopted and the Government established a health programme in 1999. However, much remains to be done, mainly in terms of infrastructure development and in order to put mechanisms in place that allow access to basic services for the poorest strata of the population. The equipment and technical instrumentation are obsolete and the majority of buildings, especially in the regions outside Tbilisi, require considerable repairing.

There is a **strong inequality in the distribution of wealth**. This can be attributed to the apparent collapse of formal wages and income opportunities, and the consequent explosion of self-employment as the main source of household incomes, as well as increased corruption and the consequences of mismanagement in the early days of the privatisation. "Self-employed" (such as rural dwellers with 1 hectare or more of land) account for some 55% of people with a job. The informal sector of the economy, where labour efficiency and social guarantees are extremely low, employs a vast portion of the working force.

Undoubtedly **family and "clan" allegiances**, which also play a large role in political life, have provided the social safety net for many in Georgia where the state has simply ceased to function. Outside of the capital Tbilisi, society has strong traditional structures and **women play a secondary role** to men. The decline of the healthcare system has put back the cause of women particularly in rural society.

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<sup>6</sup> According to the World Health Organisation, it is not possible for the healthcare system to function properly without at least € 60 financing per capita.

## 4. Overview of past, ongoing and planned cooperation issues

### 4.1 EU/EC instruments

Since independence the EU has given Georgia € 301.28 million in grants which are summarised in the table below.

1992 to 2000	Total €m	% of total
Tacis National Allocations	70	23.23
Rehabilitation in conflict zones	12.50	4.14
ECHO	80.23	26.62
FEOGA food aid	62.55	20.76
Food security	46	15.26
Exceptional Financial Assistance	19	6.30
Exceptional Humanitarian Aid	6	1.99
Aid to mitigate effects of Russian crisis	4	1.32
CFSP Assistance to Border Guards	1	0.33
<b>Total</b>	<b>301.28</b>	

See Annex I for breakdown of assistance on an annual basis.

#### A. Tacis National Programme

The 1998-99 Tacis programme for Georgia was evaluated during 1999-2000. Overall the findings were positive. The evaluation recommended concentrating on a limited number of key priorities, instead of multiplying the number of smaller projects. In addition, there must be a focus on projects and initiatives which have a clear EU flavour, underlining the added value and the specificity of EU actions.

All of these recommendations have been built into the 2000-2001 Tacis National Action Programme (AP). This AP (total € 15 million) concentrates on three priority areas, namely: (1) support for institutional, legal and administrative reforms; (2) support to the private sector development and assistance for economic development and (3) development of infrastructure networks.

Projects financed under the 2000-2001 AP are summarised in the table in Annex II.

#### B. Tacis Regional Programmes

The regional programmes have both direct and indirect linkages to the national technical assistance programme. A more detailed analysis of the results of regional programmes so far is provided in the new Tacis Regional Indicative Programme.

#### Energy: INOGATE

The regional dimension of energy is reflected in the work carried out under the aegis of the INOGATE programme, originally conceived to ensure continuity of oil and gas supply to the EU through the promotion of multiple routes. The initiative has been successful in bringing the countries involved around the same table and in providing some support to minor infrastructure. For Georgia, participation in Inogate is crucial in order to assert its role as a transit country for oil and gas transportation from the

Caspian and Central Asia, which will be an important source of much needed revenue for the state budget. At the same time, the EU/EC has an interest in a balanced development of this sector, which will be important in order to contribute to the security of energy supplies to an enlarged EU.

#### Transport: TRACECA

There are strong linkages associated with the reform of the transport and related sectors (customs, for example), which is important for the economic diversification of Georgia, as well as the overall regional development. Important infrastructure links also needed to be re-established, such as, for example, the Red Bridge at the border between Georgia and Azerbaijan. Much of the work has been carried out in the context of the TRACECA regional programme, recognising the critical importance of the south Caucasus countries to the recreation of the Silk Road to Central Asia. A major project is the supply of an optical cable system for communications to the three countries in the Caucasus. The major lessons to be gained from the exercise is that regional co-operation is possible where there are sufficient convergent national interests. However, regional transport cooperation cannot be addressed in isolation from the overall context of each individual country. In this respect, as already recalled, unnecessary and repeated controls over the Traceca road by corrupt (but unpaid) traffic police, are a serious menace to the effectiveness of the concept.

#### Environment: Regional Environment Centre (REC)

The REC, based in Tbilisi, had a difficult start. The refusal of the Azeri side to cooperate with Armenia almost lead to the collapse of the project. The lesson to be learnt is that with care and the correct choice of partners, low-level cooperation projects that are apolitical have some chances of success.

#### **C. Exceptional financial assistance**

In July 1998, Georgia cleared its arrears towards the Community (€ 131 million) and subsequently benefited from a new assistance package consisting of a new loan of € 110 million and a total grant amount of € 65 million to be disbursed over the 1998-2004 period. The new loan and grant tranches for a total of € 19 million were disbursed in 1998 and 1999. A further grant disbursements of € 6 million is foreseen before the end of 2001. These grants are linked to early repayment by Georgia of part of its existing debt towards the Community, amounting to € 100 million at the end of October 2001. The exceptional financial assistance to Georgia will continue in 2002-2004. It is important to note that, whereas most of the macro-financial conditionalities attached to the programme are based on IMF requirements, the programme includes specific conditionalities which reflect EU policy objectives to promote progress in the reform of the following sectors: tax and budgetary issues; business climate; privatisation; energy; telecommunication; land ownership.

#### **D. Food Security Programme (FSP)**

Over the period 1996 to 1999 the FSP disbursed € 24 million to Georgia. The counterpart funds in the budget were mainly used in support of agricultural services aimed at increasing productivity, i.e. support to primary irrigation rehabilitation, veterinary services and crop protection. Funds were also allocated to the State Department of Land Management in support of land titling and completion of the registration process. Implementation of the FSP was interrupted from mid-1999 to the end of 2000 due to the difficulties the country had in reaching agreement with the IMF on a reform programme. Since 2000, the FSP has partially reoriented the support in favour of a complementary poverty alleviation component through the social safety net in the form of: (a) allocation of resources and further targeting of the family poverty benefit; (b) institutional care. A further area of reflection during the hiatus of the suspended IMF programme was in the area of public expenditure allocation and management. The use of the FSP counterpart funds through the budget of the Ministry of Agriculture had highlighted a number of shortcomings common to all spending departments in the Georgian government system.

A new FSP financial proposal to cover the period 2002-2003 is being elaborated. The precise mix between budget assistance and technical assistance will depend also on the degree to which complementary technical assistance can be provided under Tacis to support institutional reforms in the key sectors supported by the FSP. An illustrative example of such synergies is in the area of institutional reform and capacity building, where Tacis is currently engaged in a project to develop best-practice programme budgeting and internal audit methods in the Ministry of Agriculture.

#### **E. Rehabilitation**

EU assistance to Georgia under the rehabilitation programme concerns both the Tskhinvali region (South Ossetia, SO) and Abkhazia (Enguri hydropower plant). These are commonly recognised as extremely useful confidence-building mechanisms in the areas afflicted by the conflicts. They also allow the EC/EU to develop policy instruments, since rehabilitation activities can be offered in exchange for reciprocal concessions and mutual cooperation between the parties to the conflict. One of the main lessons learnt in this highly complex and particularly sensitive area is the need for a neutral project delivery mechanism, like the one that NGOs are able to offer.

**SO.** In 1997, the EC proposed to grant € 5 million for the rehabilitation of infrastructure in the post conflict area of SO, and in order to stimulate the peace-process between SO and Georgia proper. The EC is now proposing a new grant of € 2.5 million (1999 budget), upon the approval and fulfilment of conditionalities. Given the dynamics created by its programme, the EC has participated in the Joint Control Commission (JCC) on SO since April 2001. This quadripartite body (with Georgia, SO, North Ossetia and Russia) is conducted by the OSCE.

**Enguri.** In 1997, the EC proposed to grant € 10 million for urgent repairs at the Enguri hydropower plant (HPP), in two tranches of € 5 million and under its rehabilitation budget. This assistance is complementary to the rehabilitation program of Enguri financed from an EBRDR loan of some € 44.5 million.

#### **F. Humanitarian Assistance (ECHO)**

ECHO has been present in the NIS region since the early 1990s, in accordance with its core mandate (humanitarian assistance in response to natural or man-made disasters). From 1993 to 1999, ECHO's operational funding in the southern Caucasus has been considerable, with € 64.255 million of humanitarian aid going to Armenia, € 83.34 million to Georgia and € 82.96 million to Azerbaijan.

From a humanitarian actor's perspective, however, it has to be observed that the limits of what can reasonably be provided to the target populations in the form of short-term relief projects have been reached. The solutions for the persisting difficulties are to be identified by the local communities themselves and should to some extent be addressed by other types of external assistance. For this reason, ECHO's withdrawal from post-emergency programmes in southern Caucasus started in 1996 and was completed in 2000 with a last allocation of € 3.855 million for the three countries.

In 2000 and 2001 ECHO provided a total € 1.65 million as a contribution to alleviating the consequences of the drought in Georgia.

#### **G. Support to the Georgian Border Guards**

Through a Joint Action in the framework of Common Foreign and Security Policy, the EU provided equipment worth € 1 million to the Georgian Border Guards (GBG) in 2000, aimed at protecting the unarmed OSCE monitors at the border between Georgia and the Chechen Republic of the Russian Federation.

## **H. Research and Technological Development**

Georgia participates in the EU Framework Programmes activities, in particular INCO-Copernicus, as well as in INTAS projects. Moreover, Georgia is taking an active part in projects financed by the International Science and Technology Centre based in Moscow, which target the conversion of scientists formerly involved in research related with weapons of mass destruction.

### **4.2 Programmes of other donors**

Annex III illustrates in a matrix the main sectors in which EU Member States and other donors are active.

In January 2001, Georgia concluded a 3-year financial arrangement with the **IMF**, for an overall amount of some € 162 million. This made possible an agreement with Georgia's Paris Club creditors to restructure the country's external debt over a period of 18-20 years. Plans are underway with the **WB** to hold negotiations for a fourth Structural Adjustment Credit (SAC IV). SAC III, approved in 1999 for a total of some € 69 million, is ongoing.

The **World Bank** has been active, mainly through loans, in all sectors covered also by EU cooperation instruments. In fiscal years 2002 to 2004 the **WB's** assistance strategy for Georgia will focus on attaining stronger and more broad-based growth, including removing obstacles to private sector development, and on developing further the human capital and providing minimum social protection. The **WB's** lending programme, which varies from some € 103.4 million (low-case scenario) to a high-case lending scenario of some € 281.6 million, includes: revenue mobilisation; expenditure management; civil service reform; market reforms in agriculture; energy; public infrastructure (but not in the health sector); environment; education; continued reforms in the health sector, and social protection.

By the end of 2000 **EBRD** had signed 14 investments in Georgia, some of them prepared by technical assistance provided by Tacis, focussed on electricity supplies, removal of transport bottlenecks (Tbilisi airport, railways rehabilitation, ports of Batumi and Poti), post-privatisation support for SMEs, private sector investment, agriculture. Energy, telecommunications, industry and transport are the main sectors for prospective projects. Total cumulative commitments amount to € 252 million (of which 60.3% have been disbursed), with about 60% of the portfolio in the private sector.

The **USAID** programme for Georgia focuses on economic restructuring (credit to SMEs; development of commercial, tax and fiscal legislation; accounting reform; capital markets and banking sector; development of business association; land privatisation and agriculture development; privatisation of state-owned enterprises); energy and environment; democracy and governance (including in collaboration with Tacis in the field of judiciary); humanitarian response and social transition, especially for IDPs. In fiscal year 2001, the indicative budget is in the range of € 92 million, two thirds of which are for humanitarian assistance.

**Germany** has announced a new development strategy which envisages an allocation of some € 50 million for the three Caucasus countries in 2001-2002.

Donor coordination takes place mainly on the spot in Tbilisi, including at the initiative of the Georgian Government. EU Member States and major donors have been extensively consulted in the course of the elaboration of this country strategy paper.

## 5. EU/EC response strategy

The EU/EC response to the challenges that Georgia faces is to target a number of key priorities making full use of available policy and assistance instruments. The main EU policy objectives are described in Chapter 1 above and their achievement will reinforce the link between trade and development, a cross cutting priority. Georgia benefits from the EU GSP system and has a textile agreement with the EU. With a view to fostering trade and investment, the EU has interest to support the effective participation of Georgia in the WTO, including through support for completing the appropriate legislative framework and ensuring its implementation. Equally, the EU/EC will continue to promote regional integration and cooperation, including in the areas of environment, transport, energy and telecommunications. Priority will be given also to the strengthening of a regional approach in the fight against terrorism and organised crime.

In terms of technical assistance to be provided over the period 2002-2003, the EU/EC response will take the following into account:

- (1) **Political, economic and social developments in Georgia**, and in particular the need to support the country's iPREGP in sectors that are key to economic and social development. The health sector is the top priority. The possibility offered by the Tacis programme to finance investment when addressing the social consequences of transition will be fully exploited;
- (2) **EU policy towards Georgia**, adopting an integrated approach with regard to all instruments available. In this respect, **Tacis will concentrate on a number of limited priorities** and, whenever appropriate, it will support other Community instruments, and the Food Security Programme in particular, in order to strengthen the overall impact and increase the effectiveness. The EU/EC will fully exploit the framework provided by the PCA in all areas and technical assistance will continue to be provided in this respect. Legislative approximation is the highest immediate priority for the PCA in this context. The main overall objective is to assist Georgia to create the conditions to fully benefit from increased regional integration and cooperation;
- (3) **Lessons learnt from past assistance**. These suggest, for example, that, at this stage of development, creating the conditions for a business climate conducive for foreign investment can benefit from regular political dialogue, especially in the context of the PCA. There is a need to enact (and enforce) appropriate legislation, for which Tacis will continue to provide support, as well as to insist on conditionalities associated with the exceptional financial assistance. Continuing to finance ad hoc consultancy projects and/or to fully subsidise state agencies with no clear perspective of becoming self-sustainable in a reasonable period of time brings very limited results;
- (4) **Actions by EU Member States and other international players**. Not only is there the usual imperative not to duplicate efforts but it is crucial to develop synergies in order to allow Georgia to fully benefit from the assistance received. This is why, given the heavy emphasis put by other donors – the WB in particular, but also ongoing Tacis projects - on private sector development, there is no need for the EC to provide further support. There is instead a need for the EC to build upon work and reforms already carried out with the support from other donors, when targeting areas related to poverty alleviation as contribution to the implementation of the iPREGP.
- (5) The need to carry on **commitments already included in the framework of the previous Tacis Action Programme**, insofar as all the conditions are fulfilled. This means that, depending on the results of ongoing Tacis projects, there might be a need to devote part of the financial resources over the period 2002-2003 to follow-up activities concerning, in particular, the construction of key transport facilities.

The EU/EC shall, in the light of the General Affairs Council's conclusions of 26/02/01, continue to follow closely, with all interested parties, developments on the peace process concerning the **internal conflicts (Abkhazia and Tskhinvali region/South Ossetia)**, including with a view to support efforts to resolve

the conflict as well as in post conflict rehabilitation. Support to key infrastructure, especially in the energy and transport sectors, is relevant in this context. **De-mining actions** will also form an important element of reconstruction programmes in order to ensure restoration of normal living and working conditions.

Interventions from the **European Community Humanitarian Office (ECHO)** will continue to in case of natural or man-made disasters affecting the country, as appropriate.

The development of civil society and democracy will be given priority under the **European Initiative for Democracy and Human Rights (EIDHR)** which will focus on projects related to conflict prevention, effectively meeting the gap in the Tacis national programme, as well as addressing the issue on a broader regional scale. Work will be carried out by the Council of Europe and the OSCE/ODHIR.

In parallel to the Tacis programme, the **Food Security Programme** shall remain an essential instrument contributing to: the poverty reduction policy; land reform; the related market reform and information policy; support to social sector; agricultural reform, including post-privatisation issues; good governance in public finance and public expenditure. Food security is one of the six priority areas for EU/EC support to poverty reduction objectives.

In the light of the above, **it is proposed to concentrate Tacis activities for 2002-2003 on the following priority areas** (reference to areas indicated in Annex II of Regulation 99/2000):

- Support for institutional, legal and administrative reform (priority area 1);
- Support in addressing the social consequences of transition (priority area 3), and in particular investments in the health sector (social reconstruction, within priority area 3);
- Development of infrastructure networks (priority area 4) only with regard to commitments undertaken under the Tacis Action Programme for 2001, and provided that all the conditions attached to the relevant project are fulfilled.

Particular attention will also be paid to opportunities for achieving horizontal environmental benefits in the activities proposed for Tacis 2002-2003.

## **6. Tacis National Indicative Programme 2002-2003**

### **6.1 Support for institutional, legal and administrative reform (area of cooperation 1)**

#### **6.1.1 Support to PCA implementation**

##### **Background and justification**

The Georgian Government gives the highest priority to the implementation of the PCA and, in conformity with Article 43 of the PCA, to approximation of legislation in particular. The Georgian Parliament has unanimously adopted a resolution on approximation of Georgian legislation to that of the EU. A Governmental commission on EU-Georgia Partnership and Cooperation, chaired by the Minister of Foreign Affairs, has been established and meets regularly. The work of this commission is essentially based upon the activity carried out by the Georgian-European Policy and Legal Advice Centre (GEPLAC), supported by Tacis. Substantial results have been achieved already and GEPLAC has clearly identified a wide range of issues, in the areas covered by the PCA, which require further work. Progress is also reported regularly to the EU-Georgia Cooperation Council.

Without further EC assistance to this process, it is extremely unlikely that sufficient financial resources can be mobilised from the Government's own resources and/or from other donors. It is also necessary to continue to provide this kind of assistance in order to maintain the necessary political pressure, at the highest level, to promote the implementation of the PCA and the approximation of legislation, an essential pre-requisite in the light of Georgia's aspirations to "integrate further into EU models and standards". Among other things, this could offer opportunities for increased exports to the EU, for example in the area of spirits and quality wines, which requires Georgia to reinforce its legal, administrative and technical capacity.

If and when plans to establish a Cabinet of Ministers materialise, this can be taken into consideration in the framework of the assistance that will be provided under this project.

##### **Objectives**

To build effectively on activities already undertaken and assist the Government in PCA implementation, and approximation of legislation to EU and WTO standards in particular, on the basis of the areas for further work identified by GEPLAC.

##### **Description**

Provision of further assistance to GEPLAC in the form of expertise and software. The beneficiary is the Governmental Commission on EU-Georgia partnership and cooperation. . Subject to further discussions with the Georgian authorities, assistance can be provided as appropriate. The indicative budget for the period 2002-2003 is € 1.3 million.

##### **Expected results**

Implementation of the PCA, and in particular approximation of Georgian legislation to that of the EU in the areas defined by Article 43 of the PCA.

##### **Conditionalities, risks and assumptions**

Respect for the implementation of the PCA and continued attention by the Government through regular meetings of the Governmental Commission on EU-Georgia partnership and cooperation.

## **6.1.2 Support to the implementation of the Food Security Programme (FSP)**

### **Background and justification**

Agriculture is the mainstay of the Georgian economy, accounting for about 30% of GDP and about 60% of the labour force. About 85% of the total arable land is farmed privately (58% is privately owned and 25-30% is leased by private individuals or legal entities). It is against this background, and also in order to reduce poverty, that the EU is supporting and will continue to support a FSP, which currently provides up to 65% of the budget of the Ministry of Agriculture.

Since 2000, the FSP has been supporting not only agricultural services aimed at increasing productivity, but also poverty alleviation through the social safety net in the form of allocations to the family poverty benefit and institutional care. Georgia is in fact classified as a low-income food-deficit country, with a food import bill in 1999 amounting to about 8% of GDP.

The FSP provides both budget assistance and technical assistance. Budget assistance is crucial, especially with regard to the Ministry of Agriculture (MoA). Strengthening the budgetary expenditure capacity of the MoA and the other Ministries that benefit from the FSP is also essential. A Tacis programme has been successfully launched as a pilot example in this field. Equally, there is a need to flank budgetary support being provided by the FSP with adequate reforms that would allow the FSP itself to perform under better conditions, at the same time bringing benefit to overall economic development in Georgia. Tacis can provide technical assistance aimed to achieve institutional reforms in the key sectors supported by the FSP. This would allow the EC to re-balance the mix between budget assistance and technical assistance provided by the FSP in favour of an increased budget support to agriculture and to the social sector. Of course, this will continue to be made in the overall context of an IMF-supported programme.

### **Objectives**

To provide technical assistance for reforms in the key sectors supported by the FSP.

### **Description**

Strengthening the budgetary expenditure capacity of Ministries and agencies targeted by the Food Security Programme, on the basis of the pilot project developed under the 2000 Tacis programme in the Ministry of Agriculture. Definition of appropriate institutional and administrative reforms in the same Ministries and agencies. Assistance to the Ministry of Agriculture to develop its longer-term strategic thinking in the basic services supported, i.e. irrigation, veterinary services and plant protection. Explore the possibilities of reducing the state's role in providing resources to these activities, either through user charges or privatisation. Software equipment necessary for the implementation of the project will be provided. Beneficiaries will be the Ministry of Agriculture, the Ministry of Health, Labour and Social Affairs, and any other Ministry and state agency as appropriate according to the contents of the new allocations to the FSP to cover the period 2002-2003, under elaboration. The indicative budget for the period 2002-2003 is € 1.2 million.

### **Expected results**

Strengthened budgetary expenditure capacity in Ministries targeted by the FSP. Increased direct budget support, in particular to the Ministry of Agriculture, in the allocations made under the FSP as a direct consequence of the reduced technical assistance component. Establishment of the best conditions for a less dominant state role in providing support to the basic services.

### **Conditionalities, risks and assumptions**

New FSP covering the period 2002-2003 in place. Macro-economic performance of the country in line with IMF recommendations. The overall impact of Tacis activities in this sector might be mitigated by lack of progress in the establishment of an effective land market in Georgia. Although there is private land ownership, there is in fact no land market, mainly because of lack of cash and high interest rates, with the

result that agriculture has effectively become a surrogate social safety net. The assumption is that reforms in this respect, supported by all IFIs and donors (mainly USAid and the WB), produce the expected results;

### **6.1.3 Assistance to reforms in the health sector**

#### **Background and justification**

The iPREGP lists a large number of areas in which further reforms are needed. There is an area where Tacis contribution, in connection with what is proposed for support in addressing the social consequences of transition (see point 6.2 below) will be most relevant: the health sector.

Assistance in this sector will have to be coordinated closely with past and planned works carried out through WB soft loans, and it will aim at contributing to the implementation of Georgia's 1999 National Health Programme.

Since 1995, reforms have been launched in the sector with the support of the World Bank Health Care Rehabilitation Project. It was envisioned that Georgia would move to a system of social health insurance through a combination of payroll tax (4%, i.e. 3% employer, 1% employee) and central government allocations for the poor and the vulnerable. The organisation and management of health services would also undergo major changes to create incentives for the staff aiming at timely and high-quality services. The role of the government would shift from being in charge of all aspects of health financing and delivery to regulation, financing of public health programmes and a basic package of clinical services, and policy making, while a growing non-governmental sector would provide the services.

The reforms also targeted a shift in the orientation of the health system, from specialised, high-end, tertiary care to one built upon the foundation of a strong primary and preventive health care system.

There is also a strong need for training of medical and administrative personnel.

#### **Objectives**

In coordination with the WB and in line with the national health programme, to contribute to the implementation of the iPRSP insofar as institutional, legal and administrative reforms in the health sector are concerned.

To improve the qualification of medical and administrative personnel and promote exchanges and contacts with EU medical structures.

#### **Description**

Assistance to the Ministry of Health, Labour and Social Affairs in implementing the Georgian National Health Policy in aspects directly linked to priorities identified in the iPRSP in relation to the health sector, including development of regulations and legislation, with a focus on primary healthcare and access to basic services for the poorest strata of the population in the regions outside Tbilisi. Training of specialised medical and management personnel, in Georgia and in the EU, will be also considered. This assistance will have to be closely coordinated with work already carried out and/or planned in the framework of the soft loans provided by the World Bank to the health sector in Georgia. The indicative budget for the period 2002-2003 is € 1.3 million.

If appropriate, in the elaboration of the detailed Tacis 2002-2003 Action Programme, the activities to support reforms in the health sector can be merged in a single "package" with the investments envisaged in the health sector categorised as measures addressing the social consequences of transition.

**Expected results**

Improved legislative and regulatory framework for access to basic healthcare services by the poorest strata of the population, especially in regions outside Tbilisi.

Better trained medical personnel.

**Conditionalities, risks and assumptions**

Completion of the PRSP within the expected time frame (mid-2002) and commitment to its implementation. The risk is minimised by the fact that the sustainable development of the health sector is key to poverty reduction and overall economic development.

The assumption is that the public expenditure for the sector will increase, as foreseen in the iPRSP.

**6.1.4 Support to the Georgian Border Guards (GBG)****Background and justification**

Georgia has difficulties in controlling its borders. The OSCE monitors the border between Georgia and the Chechen republic of the Russian Federation, in order to avoid a spill-over of the Chechen conflict. Up to 7,000 refugees from Chechnya are estimated to live in the Pankisi valley, an area in the eastern part of the country that Tbilisi does not control. Russia claims that Chechen rebels are among these refugees and that they have easy access to Chechnya through Georgia.

Through a Joint Action in the framework of Common Foreign and Security Policy, the EU provided equipment worth € 1 million to the Georgian Border Guards GBG in 2000, aimed at protecting the unarmed OSCE monitors at the border between Georgia and the Chechen Republic of the Russian Federation. The action was highly appreciated by everybody, including for its evident political significance. However, this type of intervention is not sustainable in the longer term and there is a need to seriously consider an overall reform of the way the GBG are organised and function. Whereas possible future operations of this kind will have to be assessed in close coordination with the EU Member States, the OSCE and the Georgian Government, there is a need to look at the longer term overall restructuring of the GBG, a task that can be envisaged under Tacis.

**Objectives**

To conduct an in-depth study on the best approach and methodology for the reform of the GBG, with implications also for other interior forces.

To train personnel and promote exchanges and contacts with EU countries.

**Description**

Assist the Georgian authorities, in particular the GBG, to devise a strategic concept for the improved control of their national borders, and then to assist the GBG in producing a long term development plan covering all aspects and areas of their responsibility. Training and exchanges/contacts with relevant bodies in EU countries will be provided, in Georgia and/or in Europe, to selected personnel. As appropriate, software equipment will be provided. In order to eliminate overlap and improve efficiency and cost-effectiveness, the strategy will be dovetailed with other plans being developed for long term modernisation of state departments with related functions, e.g. the Ministry of Defence, the Interior Ministry and the Customs authorities. Coordination with assistance provided by other donors, and the US and Turkey in particular, will be ensured. The indicative budget for the period 2002-2003 is € 1 million.

**Expected results**

Strengthened capacity of Georgia to control her national borders.

### **Conditionalities, risks and assumptions**

Renewed support by the OSCE to the border monitoring operation, at least in the medium term, including possible extension to cover other sections of the border, for example the Ingush part of the border. There is a general risk linked to the evolution of the political situation and the willingness of the Government to carry out reforms in sensitive areas.

### **Other support under area of cooperation 1**

In addition to the activities described above, support may also be provided to Georgia through initiatives such as Tempus and the statistics programmes.

Tempus aims at supporting the reform and restructuring of the partner countries' higher education systems and their adaptation to the new socio-economic needs. It does so through interaction and balanced cooperation between institutions in the EU member States and the partner countries organised in consortia. Consortia create long term cooperation links between the partners which should evolve towards issues such as academic recognition, credit transfer and development of joint curricula. Priority areas of Tempus activities are jointly defined by the European Commission and national authorities in line with the areas of cooperation in the mainstream Tacis programme. Projects address in particular: (1) issues of curriculum development and renewal in priority areas; (2) reform and modernisation of the structure and management of higher education institutions in view of strengthening their role in the society; (3) development of skills-related training to address specific higher and advanced level skills shortage during the economic reform, in particular through improved and extended links with industry; (4) contribution of higher education and training to citizenship and the strengthening of democracy.

## **6.2 Support in addressing the social consequences of transition, through investments in the health sector (assistance to social reconstruction within area of cooperation 3).**

### **Background and justification**

Longer term social and economic development will not be achieved without dramatic improvements in the health sector. Public expenditure on health has decreased by 95% since 1990 and it represented only 0.9% (with state financing of less than € 8 per capita<sup>7</sup>) of GDP in 1999.

The Government aims at increasing the expenditure on the healthcare system to 7% of GDP, but the situation remains extremely difficult. The Government can only finance 30% of direct costs, and patients must pay the remaining 70%. In the medium term, the link with the overall strategy of poverty reduction is obvious and calls for solidarity from the international community. The equipment and technical instrumentation are obsolete, and the majority of buildings, especially in areas outside Tbilisi, require considerable repairs.

However, investment in the health sector only makes sense if it proceeds in parallel with the implementation of the structural reforms carried out in Georgia since 1995. Assessments from major players like the WB suggest that there is genuine political commitment to carry out the reforms adopted and that the pace of the reforms - which however needs to be placed in the overall economic difficulties that the country faces - is satisfactory.

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<sup>7</sup> See also footnote 7 above.

A detailed reconstruction programme for both primary healthcare and hospitals exists. This plan, elaborated essentially with support from WB and USAid, is being implemented mainly through: WB loans; minor donations (UK DFID, S SIDA and others); the Government's privatisation funds. The programme includes the reorganisation of the sector through rationalisation; for example, the total number of hospitals is to be reduced from currently 270 to 56 (from currently 55 to 12 in the capital). Whilst the efforts of the Government in the hospital reconstruction programme are focussed on Tbilisi, and the state budget will continue to finance the 12 hospitals there, including 8 specialised ones, the primary healthcare programme targets some 400 "points" throughout the country. WB loans, other assistance and state resources will only allow for some 250 of these "points" to be effectively taken care of.

### **Objectives**

To support the completion of the primary healthcare reconstruction programme, targeting the (about 150) points that cannot be covered by WB loans, other assistance and state resources. Main target will be the remote areas where the poor and the vulnerable live.

### **Description**

Provision of equipment, technical instrumentation and building repairs for primary healthcare structures in the region outside Tbilisi. The selection of the precise sites for rehabilitation will be carried out in close coordination with the Georgian authorities and other donors, in particular the WB. The indicative budget for the period 2002 - 2003 is € 7.5 million (but see point 6.3 below).

### **Expected results**

Up to 150 "points"<sup>8</sup> for primary healthcare throughout the country will be brought up to acceptable standards in terms of basic infrastructure, equipment and technical instrumentation.

### **Conditionalities, risks and assumptions**

Rehabilitating primary healthcare structures cannot be an objective *per se*. The process must take place in the context of the commitment of the authorities to continue the implementation of the reforms in the sector. Also, there must be a commitment from the authorities to provide the poorest strata of the population with free of charge access to the structures that will benefit from Tacis assistance. Finally, the relevant authorities will have to subscribe to the commitment of ensuring the sustainability of the structures that Tacis will target, in terms of both provision of services and maintenance. The overall budget allocation over the period 2002-2003 will be broken down in order to allow for a review and an assessment after the first phase. This will determine whether all conditions are fulfilled to proceed with the second phase.

It is assumed that competent organisations and NGOs, with proven experience in Georgia in both provision of services and management of primary healthcare structures will be involved in the definition and the implementation of the programme.

Coordination with the EU Member States will also be a key to success. EU Member States provide occasional healthcare assistance in the form of doctors and physicians visiting the country during a few weeks every year and operating wherever there is a specific need. Ideally, mechanisms should be put in place in order to allow for this assistance to be provided at structures that will be rehabilitated under Tacis. This would contribute to reinforce the sustainability and the visible impact of the EU.

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<sup>8</sup> This is the maximum target, but actual possibilities will be carefully assessed taking into account detailed needs and financial resources available.

### **6.3 Development of infrastructure networks**

The development of infrastructure networks remains a priority under the Tacis 2002-2003 AP only insofar as the commitment undertaken by the two sides for the specific purpose of the construction of the missing links on the Traceca road (project referred to as “Goresha bridges”) is concerned. The terms and conditions for a possible Tacis contribution to this project under the 2002-2003 AP are defined in the Tacis 2001 Action Programme, approved by the Tacis Committee on 16 July 2001. In this respect, the feasibility study included in the Tacis 2000-2001 AP for Georgia will have to be completed by the end of June 2002, in order to allow for a final timely decision concerning the use of funds allocated to the Tacis 2002-2003 AP for Georgia. Should the results of the feasibility study and the other terms and conditions defined in the above-mentioned exchange of letters show that it is possible to contribute to the construction, the equivalent funds (up to a maximum of € 2.5 million) under the Tacis 2002-2003 AP for Georgia will be deducted from the support to addressing the social consequences of transition, as defined below, which would therefore have an indicative budget of € 5.0 million (see point 6.2 above).

## 7. Indicative Budget

The indicative budget for 2002-2003 amounts to a total of € 14 million, broken down as follows:

<i>Priority</i>	<i>Programme activity</i>	<i>Allocation (€m)</i>
<b>Priority 1 Support for institutional, legal and administrative reform</b>	PCA implementation through support to the Georgian-European Policy and Legal Advice Centre  Reforms in key sectors supported by the Food Security Programme  Support to development and reforms in primary healthcare  Support to the Georgian Border Guards  TEMPUS  Statistics	6.5
<b>Priority 3 Support in addressing the social consequences of transition - assistance to social reconstruction</b>	Support to the completion of the primary healthcare reconstruction programme	Between 5.0 and 7.5 <sup>9</sup>
<b>Priority 4 Development of infrastructure network</b>	Contribution to the construction of the Goresha bridges	Between 0 and 2.5 <sup>10</sup>
<b>Grand Total</b>		14.0

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<sup>9</sup> See points 6.2 and 6.3.

<sup>10</sup> See points 6.2 and 6.3

## **8. Conditionalties**

Assistance in the period of 2000-2006 is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular respect of democratic principles and human rights, as well as the obligations of Georgia as set out in the Partnership and Co-operation Agreement.

## Selected economic and social indicators

### GEORGIA

#### *GENERAL*

Area (square km):	70,000
Population 2000 (million):	5
Urban Population (1999) :	60.2 %
Life Expectancy (1999) :	73 years
Population growth rate (1990-99) :	0.0%
Fertility Rate per woman (1998) :	1.3
Human Development Index (HDI) Rank:	76

#### *ECONOMY*

Nominal GDP 2000 (US\$):	3.0 billion
GDP per capita 2000 (US\$):	595
GDP Breakdown by sector value added (2000) :	
Agriculture:	24 %

Industry:	14 %
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Services:	62 %
Real GDP growth rate (2000):	1.9 %
Estimated real level of 1999 GDP as % of 1989 GDP:	34 %
Inflation:	
1997	7.0 %
1998	3.6 %
1999	19.1 %
2000	4.0 %
External debt stock:(2000: US\$)	1,617 million
Debt Service: (2000) :	10.2 % of exports of goods and services

All figures for 2000 in million US \$	All figures in million for 2000
Exports of goods & services: 1.142	Exports to EC: 60.8
Imports of goods & services: 1.412	Import from EC: 149
Current account balance: - 129	Trade balance with EC: - 88,2
FDI: 153	FDI of European origin: n.a.

### ***Social Development***

Adult Literacy Rate:	99.6%
Primary Enrolment Rate (1997):	89%
Secondary enrolment rate (1997):	76%
Infant mortality (1999):	19 per 1,000 births
Under 5 mortality (1999):	23 per 1,000
Contraceptive prevalence rate:	not available
Access to essential drugs :	30 %
Access to safe water:	76 %
Access to sanitation:	99 %
Under 5 malnutrition	not available
Number of doctors/100,000 people:	436

*Sources: World Development Report 2000/2001; Human Development Report 20001; UN Economic Survey of Europe 2001(1); Transition Report 2000 (EBRD); IMF World Economic Outlook (May 2001); World Bank website; EBRD Investment profile 2001.*

**ANNEX 1**Total EU grants to Georgia 1992-2000

	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Humanitarian Aid:</b>									
ECHO		11.77	17.81	27.47	10.17	5.80	3.96	3.00	3.25 <sup>11</sup>
FEOGA									
Exceptional Humanitarian Aid				41.00	21.55				
Aid against effects of Russian Crisis		6.00							
								4.00	
<b>Food Security Programme</b>					18.00	16.00		12.00	
<b>Tacis National Allocations</b>	9.00	4.00	4.00	6.00	8.00	8.00	8.00	8.00	15.0 <sup>12</sup>
<b>Rehabilitation in Conflict Zones</b>						8.50	1.50	2.50	
<b>Exceptional financial assistance<sup>13</sup></b>							10.00	9.00	
<b>CFSP Assistance to Border Guards</b>									1.00
<b>Total</b>	<b>9.00</b>	<b>21.77</b>	<b>21.81</b>	<b>74.47</b>	<b>57.72</b>	<b>38.30</b>	<b>23.46</b>	<b>38.50</b>	<b>10.1</b>

**Grand total 1992-2000: € 301.28 million**

<sup>11</sup> Including € 1.65 million in 2000-2001 to mitigate the effect of the drought.

<sup>12</sup> Allocation 2000-2001.

<sup>13</sup> Conditional on progress on macro economic reform.

**ANNEX II**Tacis projects under the 2000-2001 Action Programme (total € 15 million)

Project	Institutional, legal and administrative reform	Private sector and economic development	Development of (energy) infrastructure networks
Support GEPLAC	X		
Support judiciary/penitentiary reform (anti-corruption strategy)	X		
Support export promotion agency and investment centre		X	
Support to SMEs		X	
Batumi rail ferry			X
Railways rehabilitation			X
Development of gas sector			X
Support to Agro-Business Bank		X	
Policy Advice	X	X	X
TEMPUS	X		
Institution Building Partnership Programme	X	X	X

## ANNEX III

Area of cooperation	European Commission*		EU MS	Other donors				
	TACIS	Other tools		UNDP	EBRD	USAID	World Bank	Others
<b>Good Governance &amp; Rule of Law</b> <ul style="list-style-type: none"> <li>- Georgia-EU Policy and Legal Advice Centre</li> <li>- Judicial Reform</li> <li>- Statistics</li> <li>- Budget Management in the Ministry of Agriculture</li> <li>- Transborder Co-operation</li> <li>- Assistance to the Chamber of Control</li> <li>- Institution Building Partnership Programme</li> <li>- Reforms in support of Food Security Programme (FSP)</li> <li>- Reforms in the health sector</li> <li>- Reforms of the Border Guards</li> </ul>	O O+F E+F O O O F F** F** F**		F, D, NL, UK	X		X	X	
<b>Agriculture &amp; Food Security</b> <ul style="list-style-type: none"> <li>- Food Security Programme</li> </ul>		O (FSP)	F, I, D, UK, FIN			X	X	IFAD, FAO, Japan, CH, Turkey
<b>Private Sector &amp; Economic Development</b> <ul style="list-style-type: none"> <li>- Agrobusiness Bank</li> <li>- Support to Georgian Export Promotion Agency &amp; Georgian Investment Centre</li> <li>- Support to SMEs</li> </ul>	O O+F F		F, D	X	X	X	X	
<b>Macroeconomic &amp; Financial Support</b> <ul style="list-style-type: none"> <li>- Exceptional Financial Assistance</li> </ul>		O	NL	X			X	IMF
<b>Infrastructure</b> <ul style="list-style-type: none"> <li>- TRACECA</li> <li>- Batumi rail ferry</li> <li>- Railways Shulavery-Armenia</li> <li>- Goresha bridges</li> </ul>	O F F F				X		X	

<b>Energy</b> - INOGATE - Development of gas sector	O F		D	X	X	X	X	CH
<b>Environment</b> - Regional Environmental Centre (REC) - Joint River Management - Joint Environmental Projects - National Environmental Action Plan - Black Sea Environmental Project	O F O F F			X		X	X	CH, NATO, AIEA
<b>Conflict Prevention &amp; Rehabilitation</b> - South Ossetia - Abkhazia – Enguri Dam - Assistance to Georgian Border Guards		O (EIDHR) O O O+F	UK, F	X	X			CH, USA UNHCR, N OSCE, TK
<b>Social Consequences of Transition</b> <i>EDUCATION</i> - Tempus <i>HEALTH</i> - Support to the completion of the primary healthcare reconstruction programme	O  F**		F  F, UK, NL, D, S, I	X		X	X	
<b>Humanitarian Aid</b>		E (ECHO) O (FSP)	D, UK, I, FIN, F			X	X	CH, USA, UNHCR, WFP, NGOs
<b>Poverty Reduction &amp; Economic Growth Programme</b> - Assistance to PREGP	O		UK	X		X	X	
<b>Democracy &amp; Human Rights</b>		O (EIDHR)	NL	X		X		

\* = KEY:

E = Ending      O = Ongoing      F = Forthcoming under Action Programme 2000-2001      F\*\* = proposed under this CSP

As of July 2001