Board Meeting of October 21, 1997
Statement by Michael Marek

GEORGIA: Country Assistance Strategy

1. We greatly welcome this country assistance strategy for Georgia. Much credit should be given to the government of Georgia whose strong commitment to and ownership of an ambitious reform program introduced in mid-1994 has yielded impressive results. While achievements of the Bank and Fund supported stabilization and structural reform program have been remarkable, many challenges remain. Fundamental weaknesses exist, fiscal fragility is all too real, as is the risk of the emergence of structural poverty.

2. We commend staff for a well-crafted CAS, clearly focused on necessary, albeit broad priorities: consolidate stabilization, strengthen and implement structural reforms, and sustain economic recovery with due regard to social and environmental protection. We support the Bank’s $320 million three year program; with over 40 percent adjustment lending; a social protection loan each year; two environment projects; three infrastructure projects; and three private sector development projects. We believe this program is well balanced to meet key development objectives and makes best use of the Bank’s comparative advantage, including a wide array of economic and sector work.

3. We share the Bank’s optimism that the high-case program is the most likely, but not without risks of reversal. Integral to the high scenario is strengthening the weak fiscal situation with emphasis on improved tax and customs collection and administration. Hand in hand with strengthening public revenues is improving the targeting and access to social services, particularly health and education. Closely linked and necessary for private sector led growth and to meet the goal of private participation in much needed infrastructure projects are removal of barriers to private sector investment, transparent privatization of medium and large scale enterprises, building a sound financial sector, and strengthening the judicial and legal framework.

4. Noteworthy in this CAS is the consultative process by which it was developed and endorsed. Strong partnerships with other development institutions and civil society are essential to design the right strategy and to achieve its objectives. I am compelled to quote from those consultations in Box 3 on page 17 that it was “the unanimous view that corruption was widespread and a serious detriment to private sector growth”. We greatly welcome the strong leadership
of President Shevardnadze to combat corruption. We would appreciate comment from Bank staff on specific measures the Bank is planning to assist in this effort. We would be particularly interested in activities to increase transparency in the energy sector, where reform has stalled. An area that was neglected in the CAS and deserves sufficient treatment is gender impact analysis, especially in the poverty assessment, education sector study, and labor market study.

5. Privatization and reform of the energy sector (power, oil, and gas) is critical to sustain Georgia’s recovery and provide for economic growth. While the CAS could have focused more attention on this sector, we realize that deepening reforms in the energy sector are conditions under the recently approved second structural adjustment credit and will continue to be part of future adjustment programs. We also understand that removing barriers to private investment, particularly in infrastructure, and combating corruption will be on the agenda for the next Consultative Group meeting in December.

6. The United States Government is optimistic that Georgia will continue to make progress on stabilization and structural reform, despite lingering concerns about fiscal fragility. As a sign of our enduring support for Georgia’s economic reform efforts, we expect that the U.S. Government will continue strong support in our bilateral assistance to Georgia. Some of this assistance would aid the victims of the Abkhaz conflict. The bulk, however, would aim to stimulate further market economic and democratic reform in Georgia. This assistance is complementary to the Bank’s programs and overarching goal of reducing poverty.