Georgia: Country Assistance Strategy

We welcome the opportunity to discuss the first full CAS for Georgia and commend the Management and the Staff for this well prepared document.

The document contains a thoughtful analysis of the recent economic and social developments in the country as well as an extensive discussion of the difficult challenges remaining ahead. The paper assesses frankly the economic and political risks associated with Georgia’s development plans and the new program of Bank assistance.

We are pleased to note that since March 1995 (when a limited CAS was approved by the Board), Georgia has been performing above the then envisaged medium-case level. A dramatic improvement has been achieved in terms of macroeconomic stabilization and substantial progress has been made on structural reform. As a result, after several years of continued decline GDP growth resumed, reaching 10.5 percent last year. Notwithstanding this remarkable turnaround, Georgia’s economic recovery is still fragile, and the agenda for the consolidation of macroeconomic stability and structural reform remains to be daunting, including a significant enhancement of government revenues, a major enterprise restructuring and privatization, land reform, social sector reforms, etc.

The Georgian authorities are strongly committed to moving forward with an ambitious reform program. We support the CAS focus on four thematic priorities which are consistent with the Government’s development agenda: (i) strengthening public finance; (ii) deepening and diversifying sources of growth; (iii) protecting the environment; and (iv) reducing poverty. In particular, we welcome the Bank’s intention to assist the country to put in place an appropriate institutional infrastructure that could facilitate a competitive and transparent market system which would be attractive for private investment, including foreign direct investment. In parallel we believe that IFC should pursue project opportunities in Georgia more aggressively. Georgia seems to be a good and promising case for IFC extended reach program.

The well being of the population was severely affected by the transition and internal armed conflicts. Unfortunately, at the moment a comprehensive analysis of the poverty situation in Georgia has not
yet been prepared. However, it is quite clear that transitional poverty remains widespread, the social safety net is minimal, and the risk of the emergence of structural poverty is very high. While we firmly support the poverty alleviation thrust of the CAS, let us make some specific comments on this important theme.

According to para. 39, one of the main expected results of the CAS implementation is a rapid reduction in poverty. Taking into account the extreme complexity of the task under the prevailing country circumstances, such expectations for the three-year CAS period seem to me somewhat overoptimistic. Of course, I would be very pleased if the Staff could convince me that this is not the case.

As CAS consultations with the civil society and other development partners have indicated, there is a need for special attention to the issue of alarming impoverishment of the remote mountainous regions. Some elements of the agreed strategy to redress regional imbalances are mentioned in the paper (box 3, p.17). However, we believe the issue deserves a more focused approach and closer cooperation between the Government and the Bank. Hence, further comments on that would be appreciated.

Sustainable economic growth is the key prerequisite and the most effective way for income recovery and poverty reduction, as well as for increasing budget revenues and strengthening social services. It is commendable that output growth has picked up, at a rather high pace. One should bear in mind, however, that the previous contraction of output was extremely sharp, so, to restore the pre-reform level of output, the high growth rates will need to be sustained for quite some time. But, economic growth does not automatically translate into poverty reduction. In order to ensure such a link, a deliberate and skillful policy is absolutely essential. We encourage the Bank to be actively involved in aiding Georgian authorities on this front.

As the paper correctly emphasizes, the stock of human capital is the country’s most valuable asset. Therefore very serious attention should be given to the prevention of its deterioration. I believe the Bank’s expertise and financial support can make a substantial contribution to the achievement of this important objective. In this regard I welcome its intention to deal with this problem over the CAS period through non-lending services, adjustment credits and investment operations in education and health sectors.

We welcome the discussion on the aid coordination, where the Bank is playing a lead role, and the partnership with other bilateral and multilateral donors, which is characterized as excellent. To make the overall picture more complete, I would like to add that the Russian Federation is also among Georgia’s development partners; it provides significant financial support, including debt rescheduling on concessional terms. Inter alia, Russia is helping to finance post-conflict reconstruction works in South Ossetia.

We support the new Bank assistance program envisaged in the high-case scenario. Along with other considerations, our support is based on the following. The Government has convincingly demonstrated its commitment to reform and ownership of the previous Bank assistance program. The performance of Bank-financed projects has been good and
has exceeded initial expectations. In addition, the implementation of Institutional Development Fund grants has been quite effective.

The proposed mix of adjustment and investment lending and gradual shift over the CAS period from the former to the latter seem quite appropriate. We agree with the policy reform and performance triggers with the understanding that they will be employed with reasonable flexibility. In particular, this relates to the quantitative indicators of the privatization process.

I am pleased to learn from para. 49 of the CAS paper that the Bank will stand ready to expand its assistance program in response to the immediate reconstruction needs that would emerge from political settlement with regard to South Ossetia and Abkhazia. Though a sustainable solution to the conflicts in these two regions of Georgia has yet to be worked out, I find this early and clear message from our institution extremely important and relevant.

My final point relates to the following important subject for both the Government and the Bank. The CAS is virtually silent on the potential problems in the financial sector. We believe that already at this stage the Bank should carefully monitor situation in this area in order to be able to react adequately and timely in case of negative developments.