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COMMISSION IMPLEMENTING DECISION

of 2.8.2013

on the Annual Action Programme 2013 in favour of Georgia to be financed from the general budget of the European Union

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument (ENPI)[1], and in particular Article 12 thereof,

Having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002[2] (hereinafter referred to as 'the Financial Regulation'), and in particular Article 84(2) thereof,

Whereas:

(1) The Commission has adopted the ENPI Strategy Paper 2007-2013[3] for Georgia and the Multiannual National Indicative Programme for the period 2011-2013[4], point 2 of which provides for the following priorities: democratic development, rule of law and good governance; trade and investment, regulatory alignment and reform; regional development, sustainable economic and social development, poverty reduction; and support for peaceful settlement of conflicts.

(2) The objectives pursued by the Annual Action Programme are: 1) to improve efficiency, transparency and accountability of public finance policy and management in Georgia; 2) to contribute to the growth and development of all Georgian regions and the reduction of regional disparities; 3) to continue to effectively support Georgia in the implementation of its new contractual relations with EU and in meeting the objectives set out in the EU-Georgia ENP Action Plan.

(3) This Decision complies with the conditions laid down in Article 94 of Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (hereinafter referred to as 'the Rules of Application').

(4) The Commission may entrust budget-implementation tasks under joint management (indirect management with an international organisation) to the entities identified in this Decision, subject to the conclusion of a contribution agreement. The responsible authorising officer has ensured that these entities comply with the conditions of Article 53d of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the

[1] OJEU L 310, 9.11.2006, p. 1
[2] OJ L 298, 26.10.2012, p. 1.
[3] C(2007)672
[4] C(2010)1144

Financial Regulation applicable to the general budget of the European Communities[5] (hereinafter referred to as 'the Financial Regulation 1605/2002') and of Articles 35 and 43 of its Implementing Rules[6].

(5) It is appropriate to acknowledge that grants may be awarded without a call for proposals by the responsible authorising officer who ensures that the conditions for an exception to a call for proposals according to Article 190 of the Rules of Application are fulfilled. Where the reasons for and potential beneficiaries of such award are known at the moment of the adoption of this Decision, they should be identified therein for reasons of transparency.

(6) This decision should allow for the award of grants in the form of lump sums and/or unit costs and/or flat-rate financing for the reasons and amounts set out in the Annexes on the basis of Article 124 of the Financial Regulation and Article 182 of the Rules of Application.

(7) The maximum contribution of the European Union set by this Decision should cover any possible claims for interest due for late payment on the basis of Article 92 of the Financial Regulation and Article 111(4) of the Rules of Application.

(8) The Commission is required to define the term "non-substantial change" in the sense of Article 94(4) of the Rules of Application to ensure that any such changes can be adopted by the authorising officer by delegation, or under his or her responsibility, by sub-delegation (hereinafter referred to as the 'responsible authorising officer').

(9) The measures provided for in this Decision are in accordance with the opinion of the ENPI Committee set up under Article 26 of Regulation (EC) No 1638/2006,

HAS DECIDED AS FOLLOWS:

Article 1

Adoption of the programme

The Annual Action Programme 2013 in favour of Georgia, constituted by the actions identified in the second paragraph, is approved.

The actions, the description of which is set out in the attached Annexes 1 to 3, respectively, shall be:

– Support to Public Finance Policy Reforms (PFPR);

– Support to Regional Development – Phase II;

– Framework programme in support of EU-Georgia agreements.

Article 2

Financial contribution

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[5] OJ L 248, 16.9.2002, p.1. These provisions remain applicable until 31 December 2013 according to Article 212 of the Financial Regulation.

[6] Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities. OJ L 357, 31.12.2002, p.1. These provisions remain applicable until 31 December 2013 according to Article 212 of the Financial Regulation.

The maximum contribution of the European Union authorised by this Decision for the implementation of this programme is set at EUR 70 million to be financed from budget line 19 08 01 03 of the general budget of the European Union for 2013.

Article 3

Implementation modalities

The budget-implementation tasks under joint management shall be entrusted to the entities identified in the attached Annexes, subject to the conclusion of the relevant agreements.

Section 4 of the Annexes referred to in the second paragraph of Article 1 sets out the elements required by Article 94(2) of the Rules of Application.

Grants may be awarded without a call for proposals by the responsible authorising officer according to Article 190 of the Rules of Application. Where known at the moment of the adoption of this Decision, the reasons for this as well as the potential beneficiaries shall be identified in the attached Annexes.

The Commission authorises the use of lump sums and/or unit costs and/or flat-rate financing exceeding EUR 60.000 per beneficiary, in accordance with the conditions set out in the Annexes.

The financial contribution referred to in Article 2 shall also cover any possible interests due for late payment.

Article 4

Non-substantial changes

Increases or cumulated changes to the allocations of specific actions not exceeding 20 % of the contribution referred to in Article 2 shall not be considered substantial, provided that they do not significantly affect the nature and objectives of the actions.

The responsible authorising officer may adopt these non-substantial changes in accordance with the principles of sound financial managmeent and proportionality.

Done at Brussels, 2.8.2013

For the Commission
Cecilia MALMSTRÖM
Member of the Commission

ANNEXES

Annex 1: Support to Public Finance Policy Reforms (PFPR);

Annex 2: Support to Regional Development – Phase II;

Annex 3: Framework programme in support of EU-Georgia agreements.

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2013 in favour of the Republic of Georgia

Action Fiche for Support to Public Finance Policy Reforms (PFPR)

1. IDENTIFICATION

Title/Number	Support to Public Finance Policy Reforms (PFPR) *ENPI/2013/024-705*		
Total cost	Total amount of EU budget contribution: EUR 21 million, of which EUR 19 million for budget support EUR 2 million for complementary support		
Budget support			
Aid method / Method of implementation	Direct (centralised) management Sector Reform Contract		
Type of aid code	A02 – Sector Budget Support	Markers	BSAR
DAC-code	15111	Sector	Public Finance Management
Complementary support			
Aid method / Method of implementation	Direct centralised management (procurement of services)		
DAC-code	15111	Sector	Public Finance Management

2. RATIONALE AND COUNTRY CONTEXT

2.1. Summary of the action and its objectives

The main objective of the public finance policy reform programme is to improve efficiency, transparency and accountability of public finance policy and management in Georgia.

Given the technical progress achieved via EU-supported, Public Finance Management (PFM) -focused budget support programmes as well as via other donors' programmes, a strong emphasis will be put on increasing efficiency in the management of public funds with a specific focus on accountability and transparency by directly and publicly involving a higher level of political and institutional responsibilities within the country's system of checks and balances. The proposed programme will also facilitate a more informed oversight by non-state actors and citizens.

2.2. Country context

2.2.1. Main challenges towards poverty reduction/inclusive and sustainable growth

Georgia is a small developing economy with a population of about 4.5 million people and a gross national income (GNI) per capita of USD 3,136[7]. Over the past eight years Georgia undertook significant economic, social and governance reforms resulting, inter alia, in progress in reforming the role of the state vis-à-vis the private sector, in reducing corruption, and in developing a more favourable environment for business. Sound fiscal and monetary policies supported by structural reforms supportive of supply-side dynamics also contributed to foster economic growth particularly in larger cities. The 2008 conflict with Russia together with the following global economic downturn and a sharp decrease of the foreign investments have altered this dynamic. Despite such shocks, Georgia has been capable to recuperate macroeconomic stability and to recover progressively. Current estimates for gross domestic product (GDP) growth are around 7 percent in 2012 and 6 percent in 2013. Current account deficit remains however relatively high (11.7% of GDP in 2012) and its medium-term outlook may represent a challenge to fiscal stability.

Poverty and unemployment (at about 27% and 15%, respectively) remain high and, as in many countries at a similar stage of development, also in Georgia there is an evident urban-rural gap with the incidence of extreme poverty in rural areas being almost twice than in urban areas. While agriculture is the primary source of employment in rural areas, the sector is still based on production methods with low productivity rates. Agriculture output thus accounts for 8%[8] of the GDP only, but still employs more than half of the total population. As a result, the average level of expenditures of one-fourth of the Georgian population - i.e. more then 1.2 million people - is estimated to be equivalent to less than 60% of (median) subsistence level.

2.2.2. Fundamental values

Fundamental rights are protected by Georgian Constitution and laws in line with international standards. Georgia took important steps towards ensuring freedom of religion. The law on Assembly and Demonstrations of July 2011 was praised by the Council of Europe Venice Commission as a significant improvement in the possibility to exercise of the freedom of assembly in Georgia.

2.3. Eligibility for budget support

2.3.1. Public policy

Georgia has been implementing far-reaching reforms since 2004 with impressive results. Prior to 2004, Georgia was one of the poorest performing economies in the region mainly due to conflict and governance issues, with 2003 GDP at 40 percent of the 1989 level. Starting in 2004, reforms undertaken to strengthen public finances, improve the business environment and social services, fight the then all-pervasive corruption, liberalize trade, and upgrade infrastructure, helped achieve an annual average growth of more than 9 percent over 2004-08.

The political programme of the coalition Georgian Dream "for Strong, Democratic, United Georgia" has become a basis for policy formulation after October 2012 when the coalition

[7] Geostat (www.geostat.ge) - GNI, 2011.
[8] Geostat - composition of GDP, 2011.

gained the majority of seats in the Parliament and formed the new Government. The party programme was reflected in the Basic Data and Directions (BDD) document which is the medium term budgetary policy document in place since 2005.

The BDD for the years 2013-2016 defines a set of key reform priorities across sectors. Public Finance Reforms are identified as one of the key components of economic policy with a special emphasis on efficiency, transparency and accountability of finances. PFM should play an active role in decreasing income disparities among different social groups of population. The BDD document was approved together with the 2013 annual budget law in December 2012.

The following ongoing reforms in the Public Finance Policy and Management should promote efficiency and accountability:

- Linkage between medium term and annual fiscal planning. The Basic Data and Directions (BDD) document, prepared and implemented gradually starting from 2004, is now systematically submitted to the Parliament together with the annual budget law and the consistency between the two set of documents is gradually improving. Furthermore, the introduction of programme budgeting is now on-going. It is expected that this complex and challenging policy process will take some years to be fully developed according to best international practices.
- Public internal control and audit systems. The relevant Public Internal Financial Control (PIFC) law, as amended in December 2011 by the Parliament, now includes essential components in line with EU-supported PIFC policy such as Internal Audit (IA), Central Harmonisation Unit (CHU) and Financial Management and Control (FMC) based on decentralised managerial accountability.
- Accounting systems. Starting from 2011, the Ministry of Finance (MoF) has developed International Public Sector Accounting Standards (IPSAS)-related implementation action plan with initial activities focusing on building capacity and skills of the Treasury staff, and prepared appropriate guidelines for modified cash-based IPSAS for the public sector.
- Revenue management. Following the entry into force of the new Tax Code in 2011, significant improvements are taking place in terms of simplification of procedures, especially for smaller business and for e-filing of declarations. Moreover, the Tax Ombudsman, also introduced in 2011, is now mandated to investigate violations of taxpayers' rights.

The Budget Code of Georgia establishes the framework for reporting on budget execution. The Government submits quarterly budget execution reports to the Parliament while the earlier are also available to the public through the MoF website. The annual budget execution report is subject to Parliament's formal approval.

Budget execution reports contain narrative and financial information regarding the execution of state programmes and sub-programmes. The budget format is broadly "input oriented" and outlines only general policy objectives for each line ministry. Introduction of programme budgeting from 2012 should improve reporting on policy outputs and results.

Apart from budget execution reports, the Ministry of Finance and the State Audit Office prepare quarterly reform execution reports. These reports are discussed in PFM Coordination Council meetings and serve as a basis for tracking progress.

2.3.2. *Macroeconomic policy*

Political and economic reforms only marginally improved employment and living conditions of the poor. Poverty and unemployment remains traditionally high in the country (about 27.8% and 15,1%). In terms of the distribution of the poor and unemployed persons across urban and rural areas, rural rates are higher than urban ones, and the incidence of extreme poverty in rural areas is almost twice than in urban areas. While rural areas largely depend on agriculture to generate revenues, the farming sector in Georgia is still based on archaic production methods with low, if not negative, productivity rates, merely allowing for subsistence crops. As a result, agriculture output only accounts for 7.9%[9] of the GDP but employs almost 60% of the population. As a result, the consumer expenditures of 23% of the Georgian population - or over 1.2 million people- were below the 60% of median subsistence level.

The real GDP growth could amount to 7% in 2012 and is planned to reach 6% in 2013. Real growth was posted notably to the following sectors: financial Intermediation (16.8%), hotels and restaurants (11.3%), manufacturing (19.7%), communication (11%), real estate (19.4%).

Prices of key consumer price index (CPI) basket components have been stable, having marginal deflation to -0.9 % (year to year) in December. In order to avoid economic slow down, the National Bank of Georgia has implemented relevant monetary measures decreasing the refinancing rate in November to 5.25%.

External trade data for January-November of 2012 show that exports of goods and services slightly decreased year-on-year (amounting to USD 1,320 million), however imports slightly increased (amounting USD 4,347 million). It has to be noted that Georgia traditionally has large trade deficit that is counterbalanced by remittances, foreign direct investment (FDI) and External assistance. The current account deficit is projected to 10.8% of GDP, which is 1% better than in 2011.

The major macroeconomic challenge continues to be to sustain economic growth while promoting balance of payments adjustment. This requires increase of private capital inflows and domestic lending in support of investment projects

Maintaining macroeconomic stability and promoting investment remain key priorities of the Government's new Strategy "for Strong, Democratic and United Georgia".

FDI is predicted to be maintained at least at 6% of GDP. The Government also aims to invest in large scale infrastructure projects in transport and communal services, as well as in agriculture.

A 24-month Stand-By Arrangement (SBA) and a 24-month arrangement under the (concessional) Stand-By Credit Facility (SCF) were approved by the International Monetary Fund (IMF) Executive Board on April 11, 2012. Under the program, Georgia has access to IMF credits of up to SDR 250 million (250 percent of quota, or about USD 386 million), evenly divided between the two arrangements. The authorities are treating the program as precautionary, and accordingly did not request the disbursement of the SDR 25 million made available at the time of the program approval. Performance under the program is monitored through semi-annual reviews.

[9]Geostat, Composition of GDP, 2011.

On March 13, 2013, the Executive Board of the IMF completed the first and second reviews under the SBA and the SCF arrangement for Georgia.

According to its related press release it is stated that[10] : "*Macroeconomic developments have been generally positive, with growth remaining strong and inflation subdued. The fiscal deficit target was met comfortably and reserve accumulation was in line with program objectives".*

Fiscal policies of the government aim at putting public debt firmly on a downward path. The general government deficit would go from 3.5 percent of GDP in 2012, to 3.0 percent in 2013, and drop below 3.0 percent in 2014. As a result, public debt would decline from 34 percent of GDP in 2011 to 31 percent in 2014, and remain on a downward path thereafter.

Revenues are projected to decline over the medium term, reflecting the phasing out of grant support and non-recurrence of one-off tax intakes. During the 2013-2016 period, revenues will decline from 28.8% of GDP to 25.8%. Thus, tax revenues will decline from 25.3% to 23.9% of GDP.

The vulnerability of the economy will grow if deterioration of global growth will continue accompanied by lower prices of Georgian commodity exports (metals), lower remittances and lower private capital inflows, including FDI.

Under the impact of weaker external demand and lower investment (linked, in part, to lower FDI), the loss of real GDP relative to the baseline would follow a similar pattern as for the rest of the world. The IMF estimates that the external shock would open a cumulative balance of payments gap of USD 827 million in 2012–14, and USD 108 million in 2015–17.

2.3.3. Public financial management

The PFM sector has undergone a number of positive changes in the areas of budgeting and accounting of state funds since 2008. Georgian legislation now defines better the division of power among the Government, the external control and Parliament. The budget law determines the appropriations to the spending units, and commitment control mechanism is in place. A medium Term Expenditure Framework (MTEF) has been developed to strengthen the link between government development priorities and the annual budget. There are however, areas in the existing internal and external control system, personnel and payroll, public procurement, and reporting of high quality consolidated financial statements that are in need of continued reforms.

For better capturing the results of implemented reforms during last three-four years, Ministry of Finance conducted a new Public Expenditure and Financial Accountability (PEFA) self-assessment in summer 2012 that is sent for quality check and validation to the World Bank office. EU Delegation and the authorities have agreed that the report will be available to

[10] http://www.imf.org/external/np/sec/pr/2013/pr1375.htm.

public in late spring 2013. Publication of the PEFA report will be followed by the updated PFM reform strategies and action plans, that forms the platform for new Public Finance Policy Reform Support programme.

It is also expected that significant improvements will be reported in almost all areas of PFM.

Key quantitative progress in the past three years is as follows:

- Introduction of programme budgeting at State, as well as at autonomous and local government levels
- Introduction of risk based tax audit system
- Improving the law on Internal Audit and development of key methodological documents in this area
- Development of Financial and Performance Audit manuals by the State Audit Office and conducting audits according to international standards
- Conducting PEFA self-assessment by the Ministry of Finance
- Cutting budget deficit down to 3.3% of GDP (from 9% in 2008)

On the basis of the analysis of the PFM progress in Georgia during the current year i.e. 2012, as well as positive developments during 2009-2011 it can be concluded that the main actions of the Government are directed to address the least developed areas of Public Finance Management in Georgia. Therefore the direction of change points towards well targeted actions in line with overall commitment under the existing strategy and action plan.

2.3.4. Budget transparency and oversight of the budget

Since 2005, the Government is regularly publishing the annual State Budget laws and quarterly/annual budget execution reports on the Ministry of Finance website[11]. The published material contains not only general budgetary data but also detailed information on revenue sources and budget appropriations by spending agencies. The annual budget law also contains info on state transfers allocated to local-self governments as well as public debt targets.

Apart from annual budgeting, a medium term expenditure framework has been introduced in Georgia: since 2005, the government prepares a MTEF that contains multi-annual fiscal targets and expenditure ceilings for the next 4 years. From 2009 onwards, the MTEF and the draft annual budget law are submitted to the Parliament in one package for approval and there is high degree of consistency between the two documents. The MTEF is also available to the public through the Ministry of Finance website.

Georgia scores 55 out of 100 in the Open Budget Index 2012, which is higher than the average score of 43 for all 100 countries surveyed, according to the global report released by the International Budget Partnership in January 2013.

Based on the main findings, Georgia is consistent in publishing four of the eight key budget documents measured by the OBI: Pre-Budget Statement, Executive’s Budget Proposal, Enacted Budget, and Audit Report. However, the Georgian government provides its citizens with only some information on the country’s state budget and financial activities, making it challenging for the citizens to track how public money is managed.

[11] www.mof.ge.

At the same time, despite a generally strong oversight of planning and implementation of the national budget there is still a need to further strengthen the oversight powers of the Georgian Parliament and the Supreme Audit Office.

2.4. Lessons learnt

Lessons learned from the previous Budget Support (BS) Programmes, and especially via the PFM-related programmes (EC Sector Policy Support Programme 2007-2009 and the subsequent 2010-2012 phase) have shown that Georgia continues to qualify for BS and that the BS system is now well understood and indeed appreciated by the authorities and considered by them as an important support and driver for the design and implementation of jointly agreed reforms. This being said, experience from previous programmes highlights, on the one hand, the importance of being realistic and progressive in the development of public finance reforms, and the role of institutional capacity building and, on the other hand, the capacity of BS to contribute to sustain the on-going development of policy dialogue as a necessary element for reforms to achieve their stated objectives.

Assessment of programmes implemented by the authorities via different types of bilateral cooperation show that the reforms in the areas of public finance have been pursued, albeit with varying degree of success, by the responsible authorities, and reforms have indeed ensured the achievement of a solid foundation in public finance policy and management which, combined with satisfactory stability-oriented macroeconomic policy and an improved business environment, have contributed to progressively improve the quality of the country economic governance.

Finally, it is worth noting that the commitment of the authorities to further reforms in public finance policy and management has not been compromised after the recent Parliamentary elections. The new Government has engaged in a constructive dialogue and publicly stated its commitment to public finance-related reforms as critical to further progress, especially needed in times of fiscal consolidation, in terms of efficiency, transparency and accountability of public finances.

2.5. Complementary actions

Key donors such as the EU, World Bank, SIDA[12], GIZ[13] and the Netherlands are involved in supporting reforms in the area of public finance policy and management, while international assistance is mainly focused on addressing weaknesses in the PFM area. In addition, the EU is also engaged on the reform priorities of the European Neighbourhood Policy and Action Plan for Georgia.

The EU is providing sector policy support to PFM-related reforms since 2007. The first PFM Sector Policy Support Programme (SPSP), of EUR 15 million, was in place during 2007-2009 and was focusing on treasury and revenue reforms, and on the establishment of the foundations for external and internal audits. The second phase of programme (EUR 11 million) was implemented in 2010-2012 period and contributed to support further progress in PFM reform areas covered during the first phase.

Apart from budget support programmes, the EU is providing direct technical assistance to the MoF in the area of customs to further strengthen institutional capacity and guidelines in line

[12] Swedish International Development Cooperation Agency
[13] Deutsche Gesellschaft für Internationale Zusammenarbeit

with the EU best practices. The EU is also planning to launch two additional twinning projects in the public finance management area as follows:

- Twinning with the State Audit Office will focus on the areas of 1) Corporate and Resource Management, 2) Financial and compliance auditing and reporting, and 3) Staff Professional Development and Performance Appraisal.

- Twinning with the Finance Academy of the MoF will focus on 1) Strategic management, including quality management systems, 2) Human resources management (HRM) in public service, 3) Training management and design and 4) External relations.

Consideration is also given to supporting the MoF in the areas of investigation of tax frauds. Finally, the Comprehensive Institutional Building (CIB) under the Eastern Partnership Initiative provides opportunities to support institutions that are central in respect of relevant actions related to, for example, "Oversight cluster".

The World Bank has completed its third Development Policy Operations (DPO) in mid-2012. The last DPO was focusing on the following policy areas: (i) mitigate the impact of the economic downturn in the short-term; and (ii) facilitate recovery and prepare Georgia for post-crisis growth in the medium-term. Complementary technical assistance was also implemented by the programme of the World Bank-led Public Sector Financial Management Reform Support (PSFMRS) project. The project has been co-financed under a pooling arrangement and the project end date, originally 2010, was extended by two more years.

While the IMF does not implement specific technical assistance (TA) projects with the government, it can be noted that "Structural Benchmarks" related to public finance were set under well-progressing IMF programmes.

GIZ is helping the State Audit Office in drafting the performance audit methodology. It is also providing management support to the State Procurement Agency. In addition, GIZ is in the process of providing technical assistance and training to the Ministry of Finance to help in development of audit methodology according to Institute of Internal Auditors (IIA) standards.

In the last two years, the National Audit Office of Sweden and the State Audit Office of Georgia have been closely cooperating to develop financial audit manual and to conduct pilot audits moving towards International Standards for Supreme Audit Institutions (ISSAI). Georgia's State Audit Office (SAO) has also established good cooperation with SAIs of Latvia and Lithuania so as to carry out, with the assistance of those colleagues, pilot audits in order to test relevant methodologies.

2.6. Risk management framework

Main risks: (1) internal Political instability may weaken the capacity and divert the attention of the Georgian Government from being engaged in substantial sectoral reforms. (2) Government continues adherence to stability oriented macroeconomic policy objectives after the parliamentary elections (3) establishment of new extra-budgetary funds may weaken fiscal position of the government

Mitigation measures: (1) Close monitoring of political situation and media and continued political dialogue with the Georgian Authorities. (2) The government and the Parliament maintain a market-oriented economic policy together with an appropriate control of the budget balance. (3) The government will include extra-budgetary funds in the consolidated financial statements and quarterly financial reporting to the Parliament

3. DETAILED DESCRIPTION OF THE BUDGET SUPPORT CONTRACT

3.1. Objectives

General objective: Improve efficiency, transparency and accountability of public finance policy and management in Georgia.

Specific objective: Improve policy and institutional capacity of key public finance players by supporting the implementation of relevant strategies, policy measures and action plans.

3.2. Expected results

Expected results: A strong emphasis will be put on increasing efficiency in the management of public funds with a specific focus on accountability and transparency by directly and publicly involving a higher level of political and institutional responsibilities within the country's system of checks and balances. The proposed programme will also facilitate a more informed oversight by non-state actors and citizens.

Implementation of the public finance policy reform programme shall strengthen the institutional and policy framework. It will contribute to enhancing **Policy-based budgeting** via:

- improved quality and reporting of programme and capital budgets
- strengthened medium-term strategic planning framework duly reflected in the annual fiscal planning
- supported fiscal consolidation and transparency including via the inclusion of Legal Entities of Public Law in annual financial statements.

The programme will also contribute to **external scrutiny and accountability** of the government via:

- Annually prepared and published "Citizens' Guide to the Annual State Budget"
- Increased accountability of the Government in respect of Parliament's recommendations.

Public internal financial control will be further strengthened via:

- Improved public sector internal financial control and audit
- Audit units established in all line ministries, and financial and performance audits implemented according to international standards.

Georgia will review the current status and the perspectives of the **Fiscal Governance** in relation to EU fiscal rules as well as Georgia's perspectives of **fiscal decentralization**. The study will be published and allow broad based, participatory discussions related to approximation of Georgia's PFM systems to EU in the medium and long term perspective.

Strengthening **external audit** is one of the key results of the programme. The focus in on:

- Increased harmonization with International Organisation of Supreme Audit Institutions (INTOSAI) Lima and Mexico Declarations with specific attention on Independence, Objectivity and Impartiality and on improving SAO services to Parliament and citizens
- Developed and implemented financial and performance audit standards according to international best practises
- Developed and implemented external communication with a special attention to the public and to the Parliament.

Public oversight over the executive will be promoted via:

- Improved financial oversight through a reinforced Budget Office capable to provide members of Parliament with an independent review of main budget policy issues
- Improved communication and visibility through scheduled public hearings on SAO and on Government's budget execution reports.

3.3. Rationale for the amounts allocated for budget support

The total amount allocated to the Public Finance Management sector under the ENP is EUR 21 million to be delivered under the present budget support programme. This amount is based on

- Commitment of the Government of Georgia and Parliament (Budget and Finance Committee) to allocate state budget resources (including EU budget support) in line with the government's medium term strategy and objectives (as indicated in the BDD) and to follow budget procedures;
- Effectiveness, value for money and impact on the public finance policy making process that budget support will bring in achieving Government of Georgia's policy objectives (as indicated in the BDD and PFM reform policy vision for 2009-2013 and action plans);
- Track record of previous PFM sector budget programmes implemented during 2007-2009, 2010-2011 and absorption capacity of past disbursements and how effectively Government of Georgia have met agreed objectives (90-95% compliance) achieved with past PFM budget support operations;

3.4. Main activities

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development.

3.4.1. Budget Support

EUR 19 million allocated to support the Public Finance Policy Reform (PFPR) Programme in Georgia. This amount will be allotted in three annual disbursements, each disbursement being dependent on the compliance with conditions outlined in section 4.

3.4.2. Complementary support

Technical assistance (TA) will be used to help the authorities in their implementation of the Programme. In this framework, activities will include strengthening of institutional capacity of the Ministry of Finance, State Audit Office and Budget and Finance Committee of the Parliament in the areas of strategic planning, programme budgeting, internal financial control, external accountability and communication. TA will be delivered through on-the-job training and TA team will also help the beneficiaries in preparing strategies/action plans and drafting guidelines on specific subjects.

The complementary assistance to the budget support will also promote civic engagement and participation in the public finance policy and management processes. Namely, the EU will promote regular organisation of public meetings and policy discussions among public officials, experts, NGO representatives and academia on actual ("hot") topics of financial policy and management.

Finally, TA will be used for carrying out periodic reviews by independent experts aimed at assessing the level of compliance progress in relation to the conditionalities of the budget support component.

3.5. Donor coordination

The local capacity to effectively coordinate reforms across the various sectors is generally still weak in Georgia. While more should be done – and efforts are on-going - it should however be acknowledged that the Government of Georgia is in the driver's seat in terms of formulation and implementation of PFM-related reforms.

Discussions and consultations are on-going between the authorities and donors (including World Bank, the Netherlands, GIZ, SIDA, etc.) also during the PFM Coordination Council meetings which are organized and led by the Ministry of Finance. In addition, meetings among interested donors take place in Tbilisi on a regular basis.

3.6. Stakeholders

The main stakeholders of the programme are the Ministry of Finance (MoF), the Budget Committee of the Parliament, and the State Audit Office of the Republic of Georgia. It is also important to note that all main stakeholders will commit to increase, via the proper and timely implementation of this programme, transparency and accountability vis-à-vis civil society organizations, citizens and markets.

Other active stakeholders include bilateral donors and International Financial Institutions involved in different forms of support to public finance reforms and, as importantly, local civil society organisations which have been, and will be kept closely involved throughout the preparation and implementation of this Programme. In this context, it is worth noting that civil society organizations actively involved in the scrutiny and oversight of public finances have expressed, in different occasions, their support for the undertaking of this programme.

3.7. Conclusion on the balance between risks (2.6.) and expected benefits/results (3.2.)

The risk of non-intervention may weaken domestic and international focus to Public Finance Policy and Management reforms. Continuation of supporting PFM reforms will bring Georgia closer to EU and international standards and norms, making public financing more transparent and efficient, contributing to better governance of the country.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of the Financial Regulation.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.4. and 4.4. will be carried out, is 48 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3. Criteria and indicative schedule of disbursement of budget support

The General and Specific Conditions for disbursement of each of the individual tranches will be defined in detail in the policy matrix attached to the Financing Agreement. Disbursements linked to the budget support component of the programme will be released only after positive assessment by an external and independent review carried out to assess the level of compliance with the general and specific conditions.

General Conditions of the disbursement are linked to implementation by the government of Georgia of stability oriented macroeconomic policy, public finance policy and management, as well as progress in transparency and oversight of the budget.

Specific Conditions of the disbursement are linked to implementation of reforms in the areas of policy-based budgeting, external scrutiny and accountability of the budget, public internal financial control, fiscal governance, external audit and public oversight.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on fiscal year of the partner country.

Country fiscal year	Year 2015				Year 2016				Year 2017				
Type of tranche	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total
Base tranche		1.0				1.0				1.0			3.0
Variable		4.2				5.2				6.6			16.0

tranche													
Total		**5.2**				**6.2**				**7.6**			**19.0**

4.4. Details on complementary support

Complementary support will be implemented through service contracts.

4.4.1. Procurement (direct centralised management)

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
Technical Assistance to the MoF, the State Audit Office and the Budget and Finance Committee of the Parliament	Services	Up to 2	Q2, 2014
Supporting PF policy debates among key stakeholders	Services	Up to 2	Q2, 2014 Q4, 2015
Budget support conditionalities compliance review	Services	3	Q4, 2014 Q4, 2015 Q4, 2016
Evaluation and audit	Services	Up to 3	According to needs (see section 4.8)
Communication and visibility	Services	Up to 2	According to needs (see section 4.9)

4.5. Scope of geographical eligibility for procurement

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article ENPI 21(7) on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.6. Indicative budget

Module	**Amount in EUR million**
3.3. – Budget support Sector Reform Contract	19.0
4.4.1. – Procurement (direct centralised)	1.6
4.8. – Evaluation and audit	0.3

4.9. – Communication and visibility	0.1
Totals	**21.0**

4.7. Performance monitoring

Monitoring of the proposed programme will be entrusted to the PFM Coordination Council under the Ministry of Finance, which functioning is a general pre-condition for the budget support. The Council will organise sector coordination meetings four times a year, involving the EU Delegation, the Ministry of Finance, State Audit office and other line ministries and agencies to assess progress in the implementation of the Programme. Regular technical and financial monitoring will be ensured by the MOF which shall establish internal monitoring system to the programme, responsible for preparing progress reports and other analysis.

Overall, this programme will be monitored through the Results-Oriented Monitoring (ROM) system for EU funded projects and programmes.

4.8. Evaluation and audit

Audits and evaluations will be carried out by the Commission. A final evaluation and final audit will be carried out at the end of the programme.

Evaluations, verifications and/or audits of the TA projects under this programme can be requested at any time.

4.9. Communication and visibility

Communication will focus on the achievements and impact of the action. In order to maximise the impact of communication efforts, both the government and the implementers of the different projects under this programme will produce a communication and visibility plan in accordance with the Communication and Visibility Manual for EU External Actions. These plans will be agreed with the EU Delegation.

ANNEX 2

of the Commission Implementing Decision on the Annual Action Programme 2013 in favour of the Republic of Georgia

Action Fiche for Support to Regional Development – Phase II

1. IDENTIFICATION

Title/Number	Support to Regional Development – Phase II *ENPI/2013/024-707*		
Total cost	Total amount of EU budget contribution: EUR 30 million, of which EUR 26.0 million for budget support EUR 4.0 million for complementary support		
Budget support			
Aid method / Method of implementation	Direct (centralised) management Sector Reform Contract		
Type of aid code	A02 – Sector Budget Support	Markers	BSAR
DAC-code	15110	Sector	Public sector policy and administrative management
Complementary support			
Aid method / Method of implementation	Direct centralised management (grants – calls for proposal; procurement of services)		
DAC-code	15110	Sector	Public sector policy and administrative management

2. RATIONALE AND COUNTRY CONTEXT

2.1. Summary of the action and its objectives

The proposed programme will contribute to reduce regional disparities in Georgia through the improvement of regional policy instruments. This includes in particular formulating and implementing a Regional Development Programme for 2015-2017, which will allow to coordinating the most relevant policies (*i.e.* infrastructure, economic development, agriculture and education) towards the reduction of regional disparities. By emphasizing the reinforcement of financial management and control systems for regional development expenditures, the programme will substantially complement ongoing efforts to improve the Public Finance Management (PFM) system as a whole.

2.2. Country context

2.2.1. Main challenges towards poverty reduction/inclusive and sustainable growth

Georgia is a **small developing economy** with a population of about 4.5 million people and a gross national income (GNI) per capita of USD 3,136[14]. Sound fiscal and monetary policies supported by structural reforms created supply-side dynamics which positively impacted upon economic growth in the larger Georgian cities, e.g. Batumi and Tbilisi. Despite August 2008 conflict and the following global economic downturn, Georgia has maintained macroeconomic stability and recovered from the crises. Preliminary figures for GDP growth are set at 6.1% in 2012 and at about 6% in 2013. **Poverty and unemployment** however remain high in the country (about 27.8% and 15,1%) with a high rate of self-employed workforce mainly working on a subsistence basis. It is higher among the highly-educated workers (20.9%), the young generation (36.7%) and the urban population (27.2%). **Poverty is unevenly distributed** with higher rates in rural areas than in urban ones; the incidence of extreme poverty in rural areas is almost twice that in urban areas. Consumer expenditures of 23% of the population (i.e. over 1.2 million people) are below 60% of median subsistence level. **Regional economic imbalances** remain high in Georgia, particularly between the capital city and the rest of the country: in 2011 the gross value added was GEL 9,914 million in Tbilisi, with Imereti/Racha-Lechkhumi/Kvemo-Svaneti ranking second (GEL 2,552 million)[15]. In 2012, according to the most recent figures, Tbilisi's share in total business turnover was 72.2% (73.8% in 2011).

2.2.2. Fundamental values

Fundamental values of democracy and human rights are protected by the Georgian Constitution, in line with main international standards. Georgia is considered to be a country adhering to the rule of law, although improvement is still expected in the areas of enforcement of judicial decisions and the independence of the judiciary.

2.3. Eligibility for budget support

2.3.1. Public policy

a) Main Regional Development policy features

The State Strategy for Regional Development for 2010-2017, coordinated by the Ministry of Regional Development and Infrastructure (MRDI) was adopted on 25 June 2010[16]. The Strategy sets as key objectives to develop a consistent regional policy framework, improve quality of living in Georgian regions and increase the role of innovation, new technologies and entrepreneurship in regional development with a specific focus on agriculture and tourism. The Strategy is complemented by a 2011-2014 Action Plan. Characterised by over-centralisation, largely focused on infrastructure development, and lacking the baseline information on regional cohesion necessary for proper planning and evaluation, the system currently in place has not become an effective tool for policy formulation and implementation. Regional and local governance is **a key component of the reform programme of the new government**. An in-depth decentralization process is to be launched, that should give local self government an increased capacity to make decisions on large investments (e.g infrastructure) and improve the provision of services to the citizen. The 2010-2017 State Strategy for Regional Development (SSRD) covers most of the new Government's priorities. The related 2011-2014 Action Plan, however, is largely focused on infrastructure development. The Action Plan does not yet reflect an integrated approach towards regional development that the new authorities are promoting, in particular with

[14] Geostat (www.geostat.ge).
[15] Geostat.
[16] Resolution of the Government of Georgia 172, 25/06/2010
See http://www.mrdi.gov.ge/?page=lawv&id=4&lang=2.

regard to co-ordinating activities of other line ministries. The current **regional policy performance monitoring framework** is weak. At regional level, this task is to be fulfilled by the Regional Development Councils (RDCs), although the exact scope of their competences and practical mechanisms are yet to be defined. At central level likewise, the Governmental Commission for Regional Development did not yet assume its responsibility as the overall monitoring body for regional development. Steps towards **participative development**, such as the creation of consultative planning bodies at regional level **(Regional Development Councils, RDCs)**, are to be noted. They were to a large extent fostered by the on-going Sector Policy Support Programme (SPSP) on regional development and contribute to increased involvement of civil society organisations (CSOs) and business associations as actors of regional economic development and thus improve local governance overall. It is the view of most stakeholders, including the Donor Community, that what is needed now is the creation of effective implementing instruments which allow coordinating various sectoral policies in order to have, in the medium-term, a real and sustainable impact on development in the regions and on regional cohesion.

b) Policy relevance

Georgian authorities keep a high level of capital investment in the regions. The amount to be spent through the Fund for Projects to be Implemented in Regions of Georgia (FPIR) was set at GEL 449 million for the year 2013, a sharp increase compared with 2012 GEL 410 million. The Village Support Programme (VSP) will amount to GEL 50 million. These public funding instruments are part of the State budget and have been set up during the preparation of the State Strategy for Regional Development, in 2008. The VSP is a programme fully managed by the MRDI which supports small/medium scale infrastructure projects identified by village dwellers. The FPIR, sometimes referred to as "Regional Development Fund", is a budget line aiming at financing infrastructure development at regional level (projects covering one ore more municipalities). Under a decree adopted recently by the Government of Georgia[17], the rules of procedure of the FPIR have been modified, allowing the Governmental Commission for Regional Development to give an opinion on proposals. Although both instruments make a huge contribution to the development of Georgian regions, they constitute only part of a wider scope of policies and programmes contributing to reduce regional imbalances in the country.

c) Policy credibility

Following the 2009 Budget Code reform, the **budgeting processes at central and municipal levels** is based on programme- and capital-based budgeting. This step should allow for better planning and co-ordination between line ministries activities in the regions. The entry into force of programme budgeting in all self-government units of the country, complemented by a progressively implemented decentralization process, including fiscal, should on its part contribute to increase the consistency of expenditures for local and regional development. **The MRDI is the Government of Georgia second largest spending unit**; its budget accounts for about 10.3% of the State budget. The MRDI is directly in charge of supervising or implementing regional and municipal infrastructure including water supply systems. The MRDI is also coordinating the allocation of funds through the FPIR and the VSP. The **2013 budget of the Ministry of Regional Development** and Infrastructure was set at GEL 901 million (2012 - GEL 717 million). Total transfers to municipalities will amount to GEL 761 million, plus the additional funds foreseen for the FPIR (GEL 449 million) and the VSP (GEL 50 million). The amount of public expenditures dedicated to regional and local development is therefore above the 20% level. It should be noted that the

[17] Decree 23 of 7 February 2013 on Approval of Selection Procedures and Criteria for Local Self-Governance and Regional Projects to be financed from the "Funds for Projects to be implemented in Regions of Georgia" envisaged in the state budget of Georgia. It is to be noted that for the year 2013, GEL 200 million only will be spent following the new procedures, and 249 million will be spent on on-going operations.

share in real term is much higher, as line-ministries budgets are not disaggregated in regional allocations.

Available **statistical indicators** do not form a clear picture of economic and social cohesion. Nor do they allow for the assessment of the sustainability of public spending or the impact of development projects on regional growth. The on-going SPSP (budget support until 2013 and technical assistance until 2015) contributes to improving the statistics and information system and puts particular emphasis on the development of basic regional economic and social development indicators. Relevant statistical instruments will be used to prepare the baselines for the proposed programme. The present regional development technical assistance team is actively engaged to support the Georgian authorities to develop a set of regional statistical indicators which shall be applied in policy formulation (baseline information) and monitoring and evaluation (outcome and impact indicators).

Based on the assessment above, it is confirmed that there is a credible and relevant sector development strategy that supports the objectives of poverty reduction, sustainable and inclusive growth, and democratic governance.

2.3.2. Macroeconomic policy

In 2012 **GDP real growth** amounted to 6.1% and estimated growth for 2013 is set at 6%. In 2012 the high rates of real growth was posted in the following sectors: manufacturing (16.4%), financial intermediation (15.0%), hotels and restaurants (11.8%), construction (11.4%), communication (9.6%). **Prices of key consumer price index (CPI) basket** components have been stable, with marginal deflation equivalent to 0.9 % (year to year) in December 2012. In order to counter economic slow down, the National Bank of Georgia has been implementing relevant monetary measures, including by reducing the refinancing rate to 5.25%. External trade data for January-November of 2012 show that exports of goods and services slightly decreased year-on-year while imports have slightly increased. It has to be noted that Georgia traditionally has large trade deficit that is counterbalanced by remittances and foreign direct investment (FDI). The current account deficit in 2012 amounted to 11.4% of GDP in 2012, which is about 1% less than in 2011. The **major macroeconomic challenge** remains the need to sustain economic growth while promoting balance of payments adjustment. This requires increase of the inflow of private capital and domestic lending in support of investment projects. While FDI is predicted to remain constant at around 6% of GDP, the government aims at supporting investment in large scale infrastructure projects in transport, communal services and agriculture. **Maintaining macroeconomic stability and promoting investment remain key priorities** of the new government. Finally, it is worth noting that Georgia has an ongoing Stand-By Arrangement (SBA) and Stand-By Credit Facility (SCF) with the International Monetary Fund (IMF) with a total access of SDR 250 million (about USD 390 million) and that according to the December 2012 IMF review[18]: "*Performance under the SBA/SCF arrangement has been good…*"

Based on the assessment above, it is confirmed that Georgia pursues a credible stability-oriented macroeconomic policy.

2.3.3. Public financial management

Georgia is performing relatively well in implementing structural reforms and this positive development is also due to improvements in its public finance policy and management framework. This positive trend contributes to confirm the commitment of the authorities in the continuous modernization of public finances. Moreover, the Parliament enacted a new Budget Code in 2009 aimed at progressively improving, inter alia, budgeting

[18] Source: http://www.imf.org/external/np/sec/pr/2012/pr12493.htm.

processes at State and municipal levels. Another substantial policy change is also the political decision to gradually move to more advanced forms of programme and capital budgeting, and to further strengthen the linkages between annual and medium-term fiscal planning. This overall positive trend can also be noted in terms of **international recognition** with Georgia receiving relatively high scores in relevant international assessments. For example, the country is ranked amongst the first top 10 countries in the world in the World Bank "Ease of Doing Business" ratings (2013 report). Transparency International Reports indicate that the perceived level of corruption has decreased, and Georgia's position in the "Open Budget Index" has improved from 33 in 2006 to 55 in the 2010 and 2012 surveys. The track record related, inter alia, to IMF-Georgia programmes and to large scale investment projects co-financed with International Financial Institutions indicates that, overall, the country has a relatively satisfactory situation in terms of pursuing a stability-oriented macroeconomic policy as well as in term of public finance policy and management.

Based on the assessment above, it is confirmed that Georgia pursues a credible and relevant strategy to improve public financial management.

2.3.4. Budget transparency and oversight of the budget

The October, 2012 elections and the programme of the new governing Georgian Dream Coalition "for Strong, United Georgia" emphasises **efficiency, transparency and accountability of public finances**. Finally, the Government has reaffirmed its commitments to further public finance reforms and has set itself ambitious goals such as the move to performance-oriented budgeting (see detailed assessment in section 2.2). **Georgia has received relatively good marks in various independent surveys related to budget transparency** in the last few years. Georgia scores 55 out of 100 in Open Budget Index (OBI) 2012, which is higher than the average score of 43 for all 100 countries surveyed. Of the eight countries surveyed in Central Asian region, Georgia’s OBI score of 55 is the second highest after Russia. Based on the main findings, Georgia is consistent in publishing four of the eight key budget documents measured by the OBI: Pre-Budget Statement, Executive’s Budget Proposal, Enacted Budget, and Audit Report.

The Government of Georgia has published the Executive's proposal and the enacted budget within the past budget cycles.

2.4. Lessons learnt

- The existing SPSP on regional development launched in November 2011 consists essentially in the implementation of a EUR 17 million budget support operation tackling the four areas below:

    1. Regional policy planning and implementation framework;
    2. Human resources management;
    3. Regional Infrastructure and innovation capacities development;
    4. Statistics and information for Regional development.

At this stage, the programme has allowed **laying the basis of a consistent policy framework** and will continue to do so in 2013. This is particularly true with regard to participative planning (area 1 above) and financing of regional development (areas 1 and 3). A set of standards has been developed in areas under municipal competences (e.g. local roads and pre-school education infrastructure and services) allowing local self-governments to better budget and plan their expenditures while simultaneously ensuring quality of goods and services they deliver (area 1). In the area of human resources development (area 2), a training/re-training system is now in place.

Challenges remain ahead however, as confirmed by the independent Review Mission which assessed the Government of Georgia performance in fulfilling the current SPSP 2nd tranche's indicators in 2012. Enhancing information systems, increasing efficiency of public spending, improving strategic analytical capacities, and making economic and social cohesion a core principle of policy making are all areas in which effort needs to be undertaken. The coordination of sectoral strategies is also amongst the issues in need of substantial improvement. Furthermore, it emphasises the issue of improved infrastructure quality standards, including at municipal level, as a way to increase public expenditures' efficiency.

2.5. Complementary actions

The EU is the main donor in this area and has been providing support through budget support as well as technical assistance since 2008. The proposed programme will accordingly allow for a high degree of synergy with several other EU assistance activities in Georgia, on-going or under preparation, in particular:

a) The on-going (AAP 2010) **EU SPSP on regional development**, which the proposed programme will continue and expand in scope. The role of the technical assistance (TA) project currently implemented will be instrumental in assisting Georgian stakeholders to be able to fulfil their tasks in the proposed programme.
b) The on-going (AAP 2010) and proposed **EU SPSP on Public Finance Management** (AAP 2013), in particular with regard to Policy-based budgeting, i.e. improved quality and reporting of programme and capital budgets; strengthened medium term strategic planning framework that is fully reflected in the annual fiscal planning and supported fiscal consolidation via including Legal Entities of Public Law and other extra-budgetary organizations in annual financial statements.
c) The large **EU agriculture/rural development programme** (ENPARD, AAP 2012) which is about to be launched. This operation will impact all rural areas of the country and therefore contribute to a sustainable and inclusive growth in Georgian regions.
d) The on-going (AAP 2009) and proposed **EU SPSP on Vocational Education and Training** (2013), in particular those activities supporting better linkages with labour markets.
e) The on-going SPSP (AAP 2011) on **Internally Displaced People** (IDP IV), especially those activities related to increasing livelihood among IDPs through livelihoods strategies/action plans and their implementation. Coordination between both initiatives is already ensured through a common TA project.

Several **USAID** initiatives contribute to a sustainable and inclusive growth in Georgian regions through support to municipal and local infrastructure development, as well as support to SMEs (agriculture, manufacturing, services). Assistance is provided to the Municipal Development Fund (MDF) to improve its capacities to oversee infrastructure projects design and implementation. USAID also supports several Georgian municipalities to improve budgeting and build overall management capacities at municipal level, including economic planning. In December 2012, the **UNDP, Swiss and Austrian Cooperation agencies** have launched a joint USD 7.5 million TA project targeting the improvement of regional and local governance systems as well as capacity building of regional and local authorities in four regions of Georgia. **GiZ** carries out similar activities in three of them. The **World Bank** is actively engaged in two regional development programmes based on municipal and local infrastructure rehabilitation and tourism development. Activities are implemented in Kakheti (Eastern Georgia) and Kutaisi/Tskhaltubo (Centre). Other International Financial Institutions (IFIs), e.g. Asian Development Bank, KfW, EBRD and EIB, finance infrastructure development across the country, including renewable energy, with the support of the Neighbourhood Investment Facility (NIF).

2.6. Risk management framework

Risks:

1) Geopolitical tensions in the Caucasus rise or the deterioration of the macro-economic situation divert Government's focus and resources allocated to reform in regional development.

2) Local self-governments capacity to deliver services to the population is reduced following 2014 municipal elections (e.g. high staff turnover) and the entry into force of the decentralization reform (e.g. increased workload of municipal staff linked to the implementation of newly devolved competences). Similarly, and for the same reasons (staff turn over, increased workload and weakening of the decision chain following political changes) municipal capacities to act as partners in regional development activities are provisionally reduced.

Assumptions:

1) Macro-economic environment remains stable during the implementation period;

2) Strong commitment of the Government of Georgia to increasing the effectiveness, efficiency and transparency of the regional policy as evidenced *i.a.* by the results achieved within the on-going SPSP;

3) Continued shared understanding by all political level regarding the implementation of a policy aiming at regional cohesion of the country through an effective regional policy.

4) Sectoral and territorial strategies and plans consistency increases.

5) The Donor Coordination Group on Regional Development and Local Governance keep providing advice to the Georgian authorities allowing for an efficient implementation of the decentralization reform.

Mitigating measures:

1) A substantial deterioration of the geopolitical or macro-economic situation during the implementation period would lead to a revision of the programme's conditions;

2) The EU Delegation continues its policy dialogue with the Government of Georgia and other relevant stakeholders, in particular the Parliament.

3) The programme's TA component will, together with other Donors' operations (e.g USAID, UNDP) assist to maintain municipalities' capacities to deliver public services and fully engage in regional development activities in the newly decentralized environment.

3. DETAILED DESCRIPTION OF THE BUDGET SUPPORT CONTRACT

3.1. Objectives

The main objective of the State Strategy for Regional Development of Georgia is to create a favourable environment for the socio-economic development of the regions and improve living standards and conditions of the population.

The Overall objective of the proposed SPSP is to contribute to the growth and development of all Georgian regions and the reduction of regional disparities[19].

[19] See State Strategy for Regional Development, Preamble.

The specific objective is to strengthen the capacity of the Georgian authorities at central and regional/local level to formulate and implement effective regional development policies and programmes.

The programme will support cross-cutting issues such as preservation of the environment and biodiversity as well as disaster preparedness and climate change mitigation/adaptation policies.
The programme will be geared with a view to contribute to alleviating gender and minorities-related imbalances through, in particular:

- Promotion of equal opportunities for women and men to take an active part in regional development matters
- Fostering minorities participations in planning and implementation of regional/local development strategies;
- Improving the capacity of information systems to reflect gender and minorities participation in regional and local economic development activities.

The proposed programme should be considered as the **application of the PRDP[20] initiative in the Georgian context**. In particular, it aims at gradually harmonizing key principles and implementation standards underpinning Georgia's regional policy with those used within the EU regional policies instruments, e.g. the Cohesion Fund or the European Regional Development Fund. In particular, the *concentration of resources* on poorest regions and the *concentration of efforts* on most demanding issues will be supported by the programme. Policy development and implementation through *partnerships* will be further promoted as well, i.e the involvement of central and local authorities together with private actors. Should political circumstances allow it, the benefits of the programme shall be extended to the breakaway regions.

3.2. Expected results

Based on the above, the proposed programme will focus on four main areas which are core elements of the State Strategy for Regional Development.

Area 1 – Promotion of regional cohesion
Rationale for the intervention

Given the current stage of development of Georgia, regional disparities are mainly due to uneven availability of and access to basic services (e.g. in areas such as infrastructure development, support to agriculture, to VET[21] and SME[22] development), which reflect on economic opportunities open to citizens dwelling in different parts of the country.

Expected results

Specific indicators and targets will be identified by line ministries involved in the implementation of the Regional Development Programme and finalised based on an up-coming baseline study on regional disparities. Their final identification is a pre-requisite to the signature of Financing Agreement for the proposed programme. The fulfilment of these targets by each responsible line ministry will be part of the programme's set of conditions.

- Infrastructure Development - Ministry of Regional Development and Infrastructure
- Support to economic development in the regions - Ministry of Economy and sustainable Development

[20] Pilot Regional Development Programme: the Communication (COM(2008)823) on the Eastern Partnership proposed the conduct of a regional policy dialogue and cooperation with partner countries on Pilot Regional Development Programmes (PRDPs) modelled on the EU Cohesion policy.
[21] Vocational Education Training.
[22] Small and medium sized enterprises.

- Support to agriculture/rural development - Ministry of Agriculture
- Support to professional education - Ministry of Education and Science

Area 2 - Strengthened policy framework
Rationale for the intervention

The programme will assist in improving the linkage between national and sectoral strategies, notably in the fields of infrastructure, economic development, agriculture and education, and developing a coherent integrated set of actions. This integrated Regional Development Programme (RDP) which will cover the period 2015-2017[23], thus following the existing Action Plan which expires in 2014, will set out what is to be done, by whom and with what resources to improve regional cohesion. It will also establish clear targets in terms of the results that the RDP is expected to achieve. The budget support will also support the set up of appropriate implementation structures.

Expected results

- Regional Development Programme[24] prepared, including budget allocations, and implementation modalities
- Appropriate implementation structures and processes in the Government and at sub-national levels are in place
- An appropriate monitoring system is established

Area 3 - Reinforced financial management and control systems
Rationale for the intervention

The programme will assist in financial management by integrating national and sector strategies in the MTEF[25] ("Basic Data and Directions") and by ensuring that the budget allows the implementation of policy objectives set in the RDP. It will also assist Georgian authorities to follow that financial allocations are properly disbursed by each line ministry involved. Close coordination with the relevant PFM operation will be maintained.

Expected results

- Appropriate systems for objective and transparent appraisal of projects are built into the RDP and applied in order to ensure transparency, objectivity and best value for money.
- Appropriate financial provisions for the implementation of the Regional Development Programme will be made in the State Budget;
- Based on proper and timely expenditure reporting, Regional Development Programme execution, including financial, demonstrates continued increase of implementing agencies' capacities to fulfil planned objectives;
- Systems and processes established to allow for an improvement of infrastructure quality, including in particular in the MRDI Road Department, Department of Infrastructure, State Construction Company, MDF, etc).

Area 4 - Improved management capacities and information systems
Rationale for the intervention

[23] The Regional Development Programme will introduce features of Operational Programmes used, for instance, in the ERDF. These are e.g. a integrated approach (several line ministries will be concerned) clear definition of responsibilities and sources of funding, a reliable system for monitoring and evaluation.
[24] The Regional Development Programme is actually the SSRD Action Plan for the period 2015-2017.
[25] Medium-Term Expenditure Framework.

Special attention will be paid to enhancing the Georgian authorities' analytical capacity in terms of territorial management, leading to building up an informed regional development decision-making process.

Preparatory activities

The SPSP technical assistance team is currently working with Geostat, MRDI and other relevant line Ministries to determine the most appropriate indicators for regional development purposes.

Expected results

Based on the result of the current Regional Development SPSP, a regional policy strategic information system is developed. Following the 2014 census, reliable and relevant data is made available for regional policy purposes.

3.3. Rationale for the amounts allocated for budget support

The total amount allocated to the Regional Development sector under the NIP is EUR 30 million of which 87% is to be delivered under the present budget support programme. This amount is based on:

- The Government of Georgia, including at Prime Minister's level, has firmly committed itself to improving the situation of Georgian regions and reducing regional disparities through the implementation of a proper regional policy, as demonstrated inter alia by the large amounts allocated to infrastructure regional projects, and the improvement of financial management of the relevant funds. Thus, Georgia' commitment is high to allocate national budget resources (including EU budget support) in line with development strategy and objectives and to follow standard national budget procedures;
- The proposed programme will allow for the effective commitment and spending of several line ministries in the regions (at least the ministries of regional development and infrastructure, of agriculture, of education and of economy) in the framework of a single regional development programme approved by the Government of Georgia, while in parallel establishing effective and efficient policy-making instruments (planning and programming, implementations modalities and financial management, monitoring and evaluation). Effectiveness, value for money and impact of the specific added value that budget support will bring in achieving the partner country's policy objectives;
- Two tranches of the current budget Regional Development SPSP were disbursed in 2011 (100%) and 2012 (92%) and demonstrate a reasonably high level of commitment on the side of the coordinating ministry (MRDI). Objectives agreed within the framework of the existing programme were met for most of them and the MRDI demonstrates increasing capacities as a sector reform co-ordination institution. Track record and absorption capacity of past disbursements and how effectively agreed objectives were achieved with budget support operations.

3.4. Main activities

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development.

3.4.1. Budget Support

EUR 26.0 million will be allocated to the Support Regional Development in Georgia – Phase II programme. This amount will be allotted in 3 individual tranches, dependent on compliance with the general and specific conditions outlined in section 4.

3.4.2. Complementary support

As anticipated from the current SPSP, technical cooperation will remain crucial to gear the policy course towards best EU practices, especially, but not exclusively, with regard to policy implementation mechanisms and financial control and management. The amount foreseen for technical cooperation is EUR 4.0 million (i.e. about 13% of the programme total budget). Technical cooperation will tackle the following areas:

<u>1) Regional Development Policy implementation</u>

The Georgian authorities will require technical support to the implementation of the Regional Development Programme, including setting up relevant structures, establishing effective inter-agencies coordination and helping to develop and implement a strategic information system. This will be achieved through the provision of technical assistance (service contract). Additionally, grant contracts will be used for financing independent studies and other actions on regional development by the Academia and/or relevant CSOs and think tanks.

<u>2) Quality of infrastructure</u>

For the time being, infrastructure development is a key tool to reducing regional disparities in Georgia. It is therefore important to support the Government of Georgia's endeavours to ensure that public money is spent efficiently in this area, for instance by introducing modern planning techniques, including adequate provisions for maintenance and integrating environment considerations. Support in this area will be provided through Twinning[26].

<u>3) Performance evaluation and programme technicalities and visibility</u>

Part of the complementary support will be used for reviewing the Government of Georgia's performance in fulfilling the programme's indicators, for visibility, and for a final audit and evaluation.

The operational duration of the programme (60 months) should allow for carrying out programme follow up activities, including the preparation and formulation of a possible next support operation as well as contracting the technical cooperation projects described above.

3.5. Donor coordination

On the donor side, a **Donor Coordination Group for Regional Development** has been formally established in 2011, which aims at increasing the overall effectiveness of development assistance in this sector. The Group is coordinating donor support so that it is aligned with the strategic directions of the Government of Georgia, in particular as delineated in the 2011-2014 Action Plan for regional development, and the new Government economic development and decentralization strategies.

3.6. Stakeholders

The Ministry of Regional Development and Infrastructure (MRDI), which co-ordinates the work of the Governmental Commission for Regional Development, shall be the main stakeholder of the proposed programme. Regional policy however, is a cross-cutting and multi-level policy. The co-ordinating role of the MRDI, therefore, will need the full co-operation of 1) the Ministry of Finance (financial management and control systems); 2) line ministries (i.a. Ministries of Agriculture,

[26] However, should the option of TA through service contract prove more appropriate at formulation stage, the latter will be considered.

Education, Economy and sustainable Development, and Agriculture); 3) Geostat; 4) local self-governments as local policy implementers; 5) the Parliament; 6) civil society organisations and academic/research institutions.

3.7. Conclusion on the balance between risks (2.6.) and expected benefits/results (3.2.)

The budget support programme will follow up the existing SPSP which has made possible the launch of a regional development policy in Georgia, but not yet fully achieved the conditions for operating an effective and sustainable regional policy. The risks of not supporting regional development in Georgia would be an increase of territorial disparities, and further deterioration of the living conditions in remote areas, which eventually would negatively influence social stability and security in the country.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of the Financial Regulation.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.4. and 4.4. will be carried out, is 60 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3. Criteria and indicative schedule of disbursement of budget support

The **General and Specific Conditions** for disbursement of each of the individual tranches will be defined in detail in the policy matrix attached to the Financing Agreement. Disbursements linked to the budget support component will be released only after positive assessment by an external and independent review carried out. **General Conditions** of the disbursement are linked to implementation by the Government of Georgia of a Regional Development Programme 2015-2017, the monitoring of its implementation by the State Commission for Regional Development and the preparation of a new State Strategy for Regional Development (the existing one will expire in 2017) as well as the continued implementation by the Government of Georgia of a credible stability-oriented macroeconomic policy; satisfactory progress in the implementation of the Support to Public Finance Policy Reforms programme; satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

Specific Conditions of the disbursement are linked to (a) promoting regional cohesion through improved access to infrastructure and public services; (b) Strengthening the framework for regional policy making; (c) reinforcing financial and control systems; and (d) improving management capacity and information systems.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on fiscal year of the partner country.

Georgia	*2015*	*2016*	*2017*	

Type of tranche	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Total*
Base Tranche		*1.0*				*1.0*				*1.0*			*3.0*
Variable tranche		*5.0*				*9.0*				*9.0*			*23.0*
Total		***6.0***				***10.0***				***10.0***			***26.0***

4.4. Details on complementary support

4.4.1. Grants: call for proposal "Academic and scientific studies and analysis on regional development issues" (direct centralised management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

Financing independent studies and other actions on regional development by the Academia and/or relevant civil society organisations and think tanks.

(b) Eligibility conditions

Potential applicants include academia and civil society organisations, including think tanks.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 80%.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of the Financial Regulation and 109 of the Financial Regulation of the 10th EDF if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative trimester to launch the call

3rd quarter of 2014.

4.4.2. Grants: call for proposal for Twinning projects (direct centralised management)

Under the present programme, it is expected to conclude one Twinning grant contracts.

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The Twinning calls for proposals modality will be used for implementing action under section 3.4.2.2 (quality of infrastructure).

(b) Eligibility conditions

In line with Article 15(2)(a) ENPI, participation in Twinning calls for proposals is limited to public administrations of the EU Member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant.

The essential award criteria are the technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

The rate of co-financing for Twinning grant contracts is 100%[27].

(e) Indicative timing to launch the calls

3rd quarter of 2014.

(f) Use of lump sums/flat rates/unit rates

Twinning contracts include a system of unit costs, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. This system of unit rates exceeds the amount of EUR 60,000 per beneficiary of a Twinning contract.

4.4.3. Procurement (direct centralised management)

Subject	**Type**	**Indicative number of contracts**	**Indicative trimester of launch of the procedure**
Support for Georgian authorities	Services	Up to 2	Q2, 2014
Review of the implementation of the programme	Services	Up to 3	2 quarters ahead of budget support disbursements
Evaluation and audit	Services	1	Q2, 2017
Communication and visibility	Services	Up to 2	According to needs (see section 4.8)

4.5. Scope of geographical eligibility for procurement

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article ENPI 21(7) on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.6. Indicative budget

Module	**Amount in EUR**

[27] As foreseen for in the Twinning Manual.

	millions
3.3. – Budget support - Sector Reform Contract	26.0
4.4.1. – Call for proposals - Twinning (direct centralised)	0.5
4.4.2. – Call for proposals - Twinning (direct centralised)	1.0
4.4.3. – Procurement (direct centralised)	2.0
4.8. – Evaluation and audit	0.4
4.9. – Communication and visibility	0.1
Total	**30.0**

4.7. Performance monitoring

Oversight of the proposed programme will be entrusted to the Governmental Commission for Regional Development chaired by the Ministry of Regional Development and Infrastructure, which continuous sector monitoring is a general pre-condition for the budget support. The Governmental Commission will organise quarterly sector coordination meetings, involving the EU Delegation and other relevant agencies (including but not limited to all ministries and agencies represented in the Governmental Commission, the Prime's Minister's Office, the Office of the State Minister for Euro-Atlantic integration).

Sector coordination meetings will be an opportunity to assess progress in the implementation and deciding of any modification of the Programme by the Steering Committee. The Steering Committee will include all members of the Sector coordination meetings mentioned above, and will be open to observers (i.e. development partners involved in the sector, amongst others Member states representatives, IFIs and CSOs).

Regular technical and financial monitoring will be ensured by the MRDI, which shall establish internal monitoring system to the programme, responsible for preparing progress reports and other analysis.

Overall, this programme will be monitored through the Results-Oriented Monitoring (ROM) system for EU funded projects and programmes.

4.8. Evaluation and audit

Audits and evaluations will be carried out by the Commission. A final evaluation and a final audit are foreseen for the programme.

Additional evaluations, verifications and/or audits of the TA projects under this programme can be requested by the EU at any time.

4.9. Communication and visibility

Communication should focus on the achievements and impact of the action. In order to maximise the impact of communication efforts, both the government and the implementing partners for the complementary support will adopt a communication and visibility plan in accordance with the Communication and Visibility Manual for EU External Actions and in agreement with the Delegation of the European Union to Georgia within six months after the signature of the Financing Agreement or as an annex of the Inception report for TA project(s). The communication plan will be endorsed by the relevant Steering Committees of the Budget Support Programme which will include representatives of the Delegation of the European Union to Georgia.

As part of promoting mutual accountability and transparency as well as enhancing the visibility of its support, the EU will publish relevant information on the budget support financing agreement and performance reviews (including disbursement conditions and assessments in agreement with the partner country). This should also include publication of press releases – jointly with other budget support donors wherever possible – regarding budget support payments made and results achieved (and reasons for non or only partial payment where applicable).

Annex 3

of the Commission Implementing Decision on the Annual Action Programme 2013 in favour of the Republic of Georgia

Action Fiche for the Framework programme in Support of EU-Georgia Agreements

1. Identification

Title/Number	Framework programme in Support of EU-Georgia Agreements ENPI/2013/024-706		
Total cost	Total estimated cost: EUR 19 million Total amount of EU budget contribution: EUR 19 million		
Aid method / Method of implementation	Project approach Direct centralised management (grants – call for proposals and direct award; procurement of services) Joint management with UNDP		
DAC-code	15110	Sector	Public sector policy and administrative management

2. Rationale and Context

2.1. Summary of the action and its objectives

The overall objective of the programme is to continue to effectively support Georgia in the implementation of future agreements between Georgia and the EU: Association Agreement, Deep and Comprehensive Freed Trade Area, Visa Liberalisation and Readmission Agreements, and in meeting the objectives set out in the EU-Georgia ENP Action Plan. The Comprehensive Institution Building (CIB) will continue to support several selected public institutions involved in the preparation and implementation of the above mentioned agreements.

2.2. Context

2.2.1. Country context

2.2.1.1. Economic and social situation and poverty analysis

Georgia is a small developing economy with a population of about 4.5 million people and a gross national income (GNI) per capita of USD 3,136[28]. Georgia undertook economic, social and governance reforms over the past eight years. These include impressive progress in reforming the role of the state vis-à-vis the private sector, dramatically reducing corruption, and creating positive start-up environment for business. Sound fiscal and monetary policies supported by structural reforms were able to unleash the supply-side dynamics and positively impacted economic growth in larger Georgian cities, e.g. Batumi and Tbilisi. The August 2008 conflict and the following global economic downturn have altered the dynamic. Despite

[28] GNI of 2011 (www.geostat.ge).

sharp decrease of the foreign investments after the 2008 conflict, Georgia maintained macroeconomic stability and recovered from the crises.

However, political and economic reforms only marginally improved employment and living conditions of the poor. Poverty and unemployment remains traditionally high in the country (about 27.8% and 15.1%). In terms of the distribution of the poor and unemployed persons across urban and rural areas, rural rates are higher than urban ones, and the incidence of extreme poverty in rural areas is almost twice than in urban areas. As a result, the consumer expenditures of 23% of the Georgian population - i.e. over 1.2 million people- were below the 60% of median subsistence level.

The real GDP growth could amount to 7% in 2012 and is planned to reach 6% in 2013. Real growth was posted notably to the following sectors: financial Intermediation (16.8%), hotels and restaurants (11.3%), manufacturing (19.7%), communication (11%), real estate (19.4%).

Prices of key consumer price index (CPI) basket components have been stable, having marginal deflation to -0.9 % (year to year) in December. In order to avoid economic slow down, the National Bank of Georgia has implemented relevant monetary measures decreasing the refinancing rate in November to 5.25%.

External trade data for January-November of 2012 show that exports of goods and services slightly decreased year-on-year by (amounting to USD 1,320 million) however imports slightly increased (amounting USD 4,347 million). It has to be noted that Georgia traditionally has a large trade deficit that is counterbalanced by remittances, foreign direct investment (FDI) and external assistance. The current account deficit is projected to 10.8% of GDP, which is 1% better than in 2011. FDI is predicted to be maintained at least at 6% of GDP. The Government also aims to invest in large scale infrastructure projects in transport and communal services, as well as in agriculture.

The major macroeconomic challenge continues to be to sustain economic growth while promoting balance of payments adjustment. This requires increase of private capital inflows and domestic lending in support of investment projects

Maintaining macroeconomic stability and promoting investment remain key priorities of the Government's new Strategy "for Strong, Democratic and United Georgia".

2.2.1.2. National development policy

The political programme of the coalition Georgian Dream "for Strong, Democratic, United Georgia" has become a basis for policy formulation after October 2012 when the coalition gained the majority of seats in the Parliament and formed the new Government. The party programme was reflected in the Basic Data and Directions (BDD) document which is the medium term budgetary policy document in place since 2005. The BDD for the years 2013-2016 defines a set of key reform priorities across sectors, including Public Finance Reforms.

2.2.2. Sector context: policies and challenges

The European Neighbourhood Policy Action Plan (ENP AP), adopted in 2006, sets out the mutually agreed political priorities for cooperation between Georgia and the EU. It remains valid until replaced by the EU-Georgia Association Agreement (AA).[29] Since the entry into

[29] Should the Association Agreement enter into force during the implementation period of the activities set out in this action fiche, the AA will automatically become the reference document for activities.

force of the ENP AP, Georgia has made progress in implementing agreed reforms. Georgia's commitment to European integration remains strong.

In recognition of Georgia's European choice, negotiations on the Association Agreement were commenced in July 2010. Readmission Agreement entered into force in March 2011. Negotiations for the Deep and Comprehensive Free Trade Area (DCFTA) began in early 2012 and a dialogue on Visa Liberalisation with Georgia started in June 2012.

In the framework of the Eastern Partnership (EaP), the Commission has developed the Comprehensive Institution Building (CIB) to assist Georgia in preparing for the Association Agreement (AA), DCFTA, Visa Liberalisation (VL) and Readmission Agreement (RA) and subsequent implementation of obligations assumed under the agreements. The CIB focuses on the key institutions in implementing these agreements as defined within the CIB "Framework Document"[30]. These institutions are distributed across three clusters agreed as vital for the effective implementation of the future agreements:

1. Cluster of institutions in charge of reform co-ordination and negotiation of enhanced agreements (co-ordination cluster);
2. Cluster of institutions in the area of trade and on preparations for negotiations on the DCFTA (DCFTA cluster);
3. Cluster of institutions in the area of democratic development, good governance and human rights (oversight cluster);

All CIB institutions have developed Institutional Reform Plans (IRPs), which set out the key reforms required by each institution and, at the same time, provide a framework for EU and other donors' assistance.

2.3. Lessons learnt

The implementation of the CIB started successfully in Georgia in 2012 with projects supporting the IRPs of the Public Defender's office, the National Food Agency, the Civil Service Development Agency, and the Georgian National Agency for Standards and Metrology. It should be stressed that the quality and coherence of the Institutional Reform Plans (IRPs) are crucial for their sustainability and reliability. Experience showed that the quality of IRPs varies and some of the IRPs need update and adjustment especially concerning baseline, targets and result-oriented indicators.

This issue was identified and addressed on the occasion of the 1st CIB Steering Committee, held on 3rd July 2012. In consequence, concrete steps are currently undertaken to revise several IRPs in order to adjust them to the priorities and needs the new Government of Georgia that took office following the Parliamentary Elections on 1st October 2012.

2.4. Complementary actions

Support under the present programme, for both the new enhanced agreements and the ENP Action Plan, is complementary to existing bilateral assistance between the EU and Georgia. In Georgia, a significant proportion of bilateral assistance is provided through budget sector support in the areas of public finance management, regional development, criminal justice,

[30] The Framework Document entered into force on 2nd October 2010 at the signature of a CIB Memorandum of Understanding between the Government of Georgia and the Commission.

vocational education and training and support for Internally Displaced Persons (IDP). This support does not overlap with CIB actions even though some institutions are the same as care is taken that assistance is well-coordinated. Complementarity exists with the European Neighbourhood Programme on Agriculture and Rural Development (ENPARD Georgia) as well as with the future programme on Border management and migration funded under the Eastern Partnership Integration and Cooperation (EaPIC) programme.

The EU has been providing support for capacity development to Georgia through technical assistance and other instruments (Twinning and TAIEX since 2007 and SIGMA since 2008). There are currently 16 twinning projects at various stages ranging from preparation up to implementation. TAIEX remains by far the most popular instrument in Georgia with over 150 applications submitted to date. Several SIGMA projects have also been implemented in recent years and the priority areas for future projects are set. These institution building instruments are successfully applied by a number of beneficiaries, including the CIB institutions (like Georgian National Agency for Standards and Metrology, State Ministry for European and Euro-Atlantic Integration, etc).

Actions planned under this Programme are complementary to activities currently being implemented or planned by other donors. This is highlighted by the fact that several Member States and International Organisations have expressed their keen interest in the implementation of IRPs. Some EU Member States (Sweden, Germany), the United States, UN agencies and the Council of Europe are working with several beneficiaries of the CIB (such as Public Defender's Office, the National Food Agency, etc) and plan to assist in the implementation of the IRPs.

2.5. Donor coordination

Co-ordination is ensured by the active participation of donors, sometimes with the inclusion of the Georgian authorities. The EU Delegation regularly organises meetings of Member States' Development Counsellors and also coordinates as well as chairs sectorial donor co-ordination groups in a variety of sectors. In addition to these existing mechanisms, the EU Delegation has made a particular effort to keep all stakeholders, which provide support to CIB institutions, informed of the implementation of the IRPs. Co-ordination has been particularly active when it comes to the provision of support to the National Food Agency (NFA), the Public Defender's Office (PDO), the Parliament, the Public Service Development Agency, the National Accreditation Centre (NAC) and the Georgian Centre for Standards, Technical Regulations and Metrology (GEOSTM). The EU Delegation will continue to make full use of the existing donor structures to ensure co-ordination and complementarities of all actions under the Programme.

3. DETAILED DESCRIPTION

3.1. Objectives

The overall objective of the programme is to continue to effectively support Georgia in the implementation of new contractual relations between Georgia and the EU and in meeting the objectives set out in the EU-Georgia ENP Action Plan.

The specific objectives of this programme are the following:

- To ensure effective institution-building of a limited number of core institutions which are central in preparing the ground for and implementing the future Association Agreement, the DCFTA, and the Visa Liberalisation and Readmission Agreements;

- To support relevant institutions within the Georgian administration to comply with commitments set out in the EU-Georgia ENP Action Plan.

3.2. Expected results and main activities

To meet the above objectives, the following results are expected:

Result 1 – Strengthened capacity of CIB institutions to implement provisions of the new agreements.

Based on the CIB Framework Document support will provisionally focus on three clusters with the following indicative list of institutions:

- Institutions in charge of reform co-ordination and negotiation of enhanced agreements – the **co-ordination cluster**

- Institutions in the area of trade negotiation and implementation of the DCFTA – the **trade cluster**

- Institutions in the area of democratic development, good governance and human rights – the **oversight cluster**

The 2013 financial allocation (of EUR 12 millions) will build on work already carried out in previous years, in particular on the implementation of the Institution Reform Plans (IRPs[31]). It will supplement financial assistance under the 2011 and 2012 CIB financial allocations for some institutions under the above stated clusters (namely Civil Service Development Agency, National Food Agency; Georgian Agency for Standards and Metrology; Public Defender's Office, State Audit Office)

The need of further support to some institutions under the clusters has been intensively discussed during bi-lateral meetings with the Georgian institutions representatives, as well as at the ENP Committee meetings as the main decision making body on EU assistance in the Government of Georgia. It is also reflected in the adjusted IRPs for these institutions following the conclusions of the 1st Steering Committee on CIB.

Activities within the trade cluster will be targeting the following institutions:

The National Food Agency with a focus on further capacity building in the field of legislation alignment, including expertise in EU legislation, legal translation, elaboration of tables of correspondence, facilitation of legislation drafting; technical assistance and training to improve the NFA management systems and support legislation implementation and alignment process; technical assistance, training, materials and inventory for food safety, animal health and phyto-sanitary specific topics; enhancing information/communication capacities.

The Georgian Agency for Standards and Metrology focused on further institutional reinforcement of structures and administrative capacities of the necessary for the regulatory approximation with EU-related legislation and standards in the crucial areas of technical barriers to trade.

[31] As yet 8 IRPS have been developed and approved by the Georgian institutions, beneficiaries of the CIB. From February 2013 several IRPs are being revised (Coordinating cluster, Parliament of Georgia, GEOSTM, State Audit Office) following the requirements and priorities set by the new Government of Georgia

Activities within the oversight cluster will be targeting all three comprised institutions (Public Defender's office, Parliament of Georgia and State Audit Office) and be geared towards further reinforcement in monitoring and steering capacities of the approximation process based on the activities reflected in the respective IRPs.

Result 2 – Enhanced implementation of the EU-Georgia ENP Action Plan

Within this Programme continuous support will be provided provisionally to the priorities of rule of law (area 1), improving the business and investment climate (area 2), environment (area 3) and transport and energy (area 8) of the ENP Action Plan.

Under priority 1 it is provisionally foreseen to provide assistance in enhancing legal drafting and representation capacities of line ministries and the Ministry of Justice (MoJ) including through improved research capacities and interagency coordination; ensure effective implementation and monitoring of contracts, treaties and decisions of international courts (i.e. European Court of Human Rights/ECHR) as well as to strengthen capacities of the MoJ in litigation and representation in international courts and arbitration bodies; strengthen reporting capacities of the relevant authorities to respective international organizations. Support to the Ministry of Corrections and Legal Assistance of Georgia in sharing best EU practices within its remits is also provisionally foreseen hereunder.

Under priority 2 it is provisionally foreseen to provide assistance in enhancing capacities of the investigation services of the Ministry of Finance aimed at improvement the related legal framework for tackling tax crimes via approximation to the EU regulations; human resource management improvement, administrative capacity building activities.

Under priority 3 it is provisionally foreseen to provide assistance to the Ministry of Environment for joining the UNECE Convention on Environmental Impact Assessment in a Transboundary Context (Espoo Convention) and the Protocol on Strategic Environmental Assessment (The Kyiv [SEA] Protocol).

Under priority 8 it is provisionally foreseen to provide assistance in the areas of transport, namely in the field of civil aviation (the follow-up project of the ongoing twinning project in this field) as well as to the Georgian Maritime Transport Agency ensuring legal and institutional compliance with the requirements of the Maritime Labour Convention of 2006

It is also envisaged to support closer cooperation of relevant Georgian agencies with a number of interested EU Agencies (European Aviation Safety Agency (EASA), European Police College (CEPOL), FRONTEX, EUROJUST, EUROPOL), once the necessary arrangements are in place.

For all interventions relating to both the CIB and non-CIB activities, a proportionate part of the budget for each activity, in accordance with the Communication and Visibility Manual for EU External Actions, will be set aside in order to fund visibility and communication activities. Where applicable, beneficiaries/implementers will be asked to draw up communication plans. Visibility actions will be implemented in line with the existing requirements.

3.3. Risks and assumptions

- The following risks have been identified:

- Lack of political commitment to and quality of the reform process
- high turnover of staff;
- weak planning and coordination capacity;
- The success of the intervention will highly depend on a number of assumptions:
- Georgia will maintain its commitment to enhanced relations with the European Union and will be willing to pursue negotiations leading to the establishment of a DCFTA with the EU. Once the agreements are concluded, Georgia will remain committed to implement the obligations arising from the agreements;
- The selected institutions will allocate the necessary human, financial and technical resources to the implementation of the IRPs.

Risks and assumptions particularly related to the implementation of the IRPs can be mitigated by continuous policy dialogue as well as provision of the necessary technical support to those institutions.

3.4. Cross-cutting issues

All activities under this programme will be designed and implemented in accordance with principles of good governance and human rights, gender equality and environmental sustainability, public service reform and the inclusion of socially or economically deprived groups wherever these issues are of particular relevance to the institutions to be assisted.

3.5. Stakeholders

The stakeholders in the CIB are the beneficiary institutions, the Programme Administration Office (PAO) both as beneficiary and co-ordinating body from the Georgian side, the EU and its Member States, other donors and civil society representatives. As outlined above, the CIB has the potential to be highly participatory. Several Member States and international organisations already working with the CIB institutions have expressed an interest in further participating in the CIB, either by direct financing or through their own programmes. This applies primarily to the institutions included in the oversight and trade clusters.

Other stakeholders, such as civil society organisations and non-state actors, will be consulted in the implementation and monitoring of the CIB with a view to promoting reform, transparency and public accountability.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of the Financial Regulation.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.2. and 4.3. will be carried out, is 60 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. The duration takes into account the important number of contracts to be launched.

4.3. Implementation components and modules

The appropriate implementation modality will be selected in consultation with each beneficiary based on their needs and Commission services' assessment as to what contracting modality best meets the criteria of efficiency and effectiveness. In some cases, Twinning contracts are already ongoing and this will be the preferred option to continue. Taking this into account, it can be provisionally assumed that the implementation of the programme will be as described in the following modules.

4.3.1. Grants: call for proposal for Twinning projects (direct centralised management)

Under the present programme, it is expected to conclude up to 8 Twinning grant contracts.

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The Twinning calls for proposals modality will be used for implementing actions under objectives defined in section 3.1.

The activities and expected results of the Twinning calls for proposals will be in line with the expected results and activities defined in section 3.2.

(b) Eligibility conditions

In line with Article 15(2)(a) ENPI, participation in Twinning calls for proposals is limited to public administrations of the EU Member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant.

The essential award criteria are the technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

The rate of co-financing for Twinning grant contracts is 100%[32].

(e) Indicative timing to launch the calls

The launch of the calls for proposals is indicatively planned to start in the 3rd quarter of 2014, depending for each Twinning call for proposals on the time needed to finalise the Twinning fiches.

(f) Use of lump sums/flat rates/unit rates

Twinning contracts include a system of unit costs, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. This system of unit rates exceeds the amount of EUR 60,000 per beneficiary of a Twinning contract.

4.3.2. Grant: direct award (direct centralised management)

Under the present programme, it is expected to conclude up to 6 direct grant contracts with Georgian beneficiary institutions, wherever this can be assessed as the most appropriate way to reach objectives of the programme.

[32] As foreseen for in the Twinning Manual.

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results

Direct grants will be used for implementing actions under objectives defined in section 3.1.

The activities and expected results of the direct grants will be in line with the expected results and activities defined in section 3.2.

(b) Justification of a direct grant

Under the responsibility of the authorising officer by delegation, the recourse to an award of a grant without a call for proposals is justified when it is assessed that this is the most appropriate way for reaching the objectives of the programme, considering i.a. the specific technical competence, specialisation or administrative power of the public entities concerned.

(c) Eligibility conditions

Eligibility will be limited to those of the Georgian public entities that are involved in or targeted by the present programme, as listed in section 3 (non-exhaustive list).

(d) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the programme; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(e) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 80%.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of the Financial Regulation if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(f) Indicative trimester to contact the potential direct grant beneficiary

3rd quarter of 2014.

4.3.3. Procurement (direct centralised management)

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
Support to the implementation of IRPs	Services	3	3rd quarter of 2014
Activities related to priorities of ENP Action Plan and in new EU-	Services	4	4th quarter of

Georgia Agreements			2014
Evaluation and audit	Services	2	2nd quarter of 2016 3rd quarter of 2018
Communication and visibility	Services	Up to 3	According to needs (see section 4.8)

4.3.4. Joint management with an international organisation

The action aimed at effective institution-building and proper implementation of oversight function by the Parliament of Georgia will be implemented in joint management with UNDP.

This implementation is justified because of i) its specific competence to support implementation of the Institutional Reform Plan of Parliament of Georgia; ii) its previous successful experience in collaborating with the Parliament of Georgia; iii) it is selected in agreement with the beneficiary and following consultation with other relevant stakeholders on the basis of working consultations with these parties; and iv) an assessment of other actions in the sector confirming the relevance and appropriateness of choosing UNDP to implement this particular assignment.

Joint management with this international organisation in accordance with Article 53d of the Financial Regulation 1605/2002 is possible because the organization is bound by a long term framework agreement (FAFA)

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of budget-implementation tasks previously entrusted to the international organisation.

4.4. Scope of geographical eligibility for procurement in direct centralised and decentralised management

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article ENPI 21(7) on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realization of this action impossible or exceedingly difficult.

4.5. Indicative budget

Module	**Amount in EUR millions**
4.3.1. – Twinning Call for proposals (direct centralised)	6.20
4.3.2. – Direct grants (direct centralised)	6.50

4.3.3. – Procurement (direct centralised)	4.85
4.3.4. – Joint management with UNDP	1.00
4.7. – Evaluation and audit	0.20
4.8. – Communication and visibility	0.25
Totals	**19.00**

4.6. Performance monitoring

The Commission and the partner country will regularly review progress made in the implementation of the CIB through a special CIB Steering Committee (SC) which will meet twice a year. Apart from steering the overall process of CIB activities, the SC will also aggregate information about progress in implementing IRPs which will be made available to all relevant stakeholders. Beyond the immediate mandate of following CIB actions, the SC will also monitor other actions aimed at achieving objectives prioritised under the ENP Action Plan based on the results agreed during the project preparation phase.

At the level of the IRPs, one Management Committee (MC) per plan will be convened by the beneficiary institution involving the Commission and other co-financing donors. The committees will meet regularly to review progress on the basis of periodic reports.

In addition, the relevant sector sub-committees on Trade, Economic and Related Legal Affairs and Justice, Freedom and Security (JFS) that monitor the implementation of the EU-Georgia Partnership and Cooperation Agreement (PCA) will devote sufficient time to an annual review of the CIB either as part of their regular agenda or through dedicated sessions. The CIB will also be one of the points on the agenda of the annual meeting of the Co-operation Committee. This annual review may lead to a re-allocation of funds among the different Institutional Reform Plans. The involvement of Member States will be ensured through the established mechanisms.

4.7. Evaluation and audit

Evaluation and audit will be decided by the Commission and carried out with the support of external consultants. A mid-term evaluation and a final evaluation of the programme are envisaged with a particular emphasis on the CIB actions. Also a comprehensive audit will be carried out at mid-term and at the end of the programme.

For the part of the action implemented under joint management, the provisions included in the relevant framework agreement will apply.

4.8. Communication and visibility

For all interventions relating to both the CIB and non-CIB activities, a proportionate part of the budget for each activity, in accordance with the Communication and Visibility Manual for EU External Actions, will be set aside in order to fund visibility and communication activities.

Proper communication and visibility of the measure will be achieved via widespread dissemination of project achievements and results, as well as international visibility of twinning and technical assistance projects.

Each project will have its own communication and visibility component and budget.

For the part of the action implemented under joint management, the provisions included in the relevant framework agreement will apply.