

## 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<br><i>ENPI/2013/024-707</i>   |         |  |
| Total cost                                  | Total amount of EU budget contribution: EUR 30 million, of which<br>EUR 26.0 million for budget support<br>EUR 4.0 million for complementary support |         |  |
| <b>Budget support</b>                       |  |         |  |
| Aid method /<br>Method of<br>implementation | Direct (centralised) management<br>Sector Reform Contract  |         |  |
| Type of aid code                            | A02 – Sector Budget<br>Support   | Markers | BSAR   |
| DAC-code                                    | 15110  | Sector  | Public sector policy<br>and administrative<br>management |
| <b>Complementary support</b>                |  |         |  |
| Aid method /<br>Method of<br>implementation | Direct centralised management (grants – calls for proposal;<br>procurement of services)  |         |  |
| DAC-code                                    | 15110  | Sector  | Public sector policy<br>and administrative<br>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<sup>1</sup>. 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)<sup>2</sup>. 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<sup>3</sup>. 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 regard to co-ordinating activities of other line ministries. The current **regional policy**

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<sup>1</sup> Geostat ([www.geostat.ge](http://www.geostat.ge)).

<sup>2</sup> Geostat.

<sup>3</sup> Resolution of the Government of Georgia 172, 25/06/2010  
See <http://www.mrdi.gov.ge/?page=lawv&id=4&lang=2>.

**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 or more municipalities). Under a decree adopted recently by the Government of Georgia<sup>4</sup>, 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 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

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<sup>4</sup> 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.

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<sup>5</sup>: "*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 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

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<sup>5</sup> Source: <http://www.imf.org/external/np/sec/pr/2012/pr12493.htm>.

"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 2<sup>nd</sup> 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:

- 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.
- 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.
- 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.
- 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.
- 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<sup>6</sup>.

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<sup>7</sup> 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

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<sup>6</sup> See State Strategy for Regional Development, Preamble.

<sup>7</sup> 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.

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<sup>8</sup> and SME<sup>9</sup> 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 upcoming 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
- 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<sup>10</sup>, 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<sup>11</sup> 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

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<sup>8</sup> Vocational Education Training.

<sup>9</sup> Small and medium sized enterprises.

<sup>10</sup> 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.

<sup>11</sup> The Regional Development Programme is actually the SSRD Action Plan for the period 2015-2017.

### **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<sup>12</sup> ("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**

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;

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<sup>12</sup> Medium-Term Expenditure Framework.

- 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:

##### 1) Regional Development Policy implementation

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.

##### 2) Quality of infrastructure

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<sup>13</sup>.

##### 3) Performance evaluation and programme technicalities and visibility

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.

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<sup>13</sup> However, should the option of TA through service contract prove more appropriate at formulation stage, the latter will be considered.

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, 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.

| <i>Georgia</i>          | <i>2015</i> |            |           |           | <i>2016</i> |             |           |           | <i>2017</i> |             |           |           |              |
|-------------------------|-------------|------------|-----------|-----------|-------------|-------------|-----------|-----------|-------------|-------------|-----------|-----------|--------------|
| <i>Type of tranche</i>  | <i>Q1</i>   | <i>Q2</i>  | <i>Q3</i> | <i>Q4</i> | <i>Q1</i>   | <i>Q2</i>   | <i>Q3</i> | <i>Q4</i> | <i>Q1</i>   | <i>Q2</i>   | <i>Q3</i> | <i>Q4</i> | <i>Total</i> |
| <i>Base Tranche</i>     |             | 1.0        |           |           |             | 1.0         |           |           |             | 1.0         |           |           | 3.0          |
| <i>Variable tranche</i> |             | 5.0        |           |           |             | 9.0         |           |           |             | 9.0         |           |           | 23.0         |
| <b><i>Total</i></b>     |             | <b>6.0</b> |           |           |             | <b>10.0</b> |           |           |             | <b>10.0</b> |           |           | <b>26.0</b>  |

#### 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

3<sup>rd</sup> 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%<sup>14</sup>.

(e) Indicative timing to launch the calls

3<sup>rd</sup> quarter of 2014.

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

Twining 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.

**4.4.1. Procurement (direct centralised management)**

| <b>Subject</b>                                | <b>Type</b> | <b>Indicative number of contracts</b> | <b>Indicative trimester of launch of the procedure</b> |
|---|-------------|---------------------------------------|--|
| 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                     |

<sup>14</sup> As foreseen for in the Twinning Manual.

|                              |          |         |                                      |
|------------------------------|----------|---------|--------------------------------------|
|                              |          |         | 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 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                    |
| <b>Total</b>  | <b>30.0</b>            |

#### 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).