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# Progress Report

## Economic Development and Poverty Reduction Program

Tbilisi, January 2005

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## 1. Introduction

The Economic Development and Poverty Reduction Program (EDPRP) has been developed in close consultation with the civil society, international organizations and donor countries. The EDPRP was discussed and approved in June 2003, and the government of Georgia subscribed to its implementation. The EDPRP is a comprehensive and a long-term strategy paper, which needs to be discussed on regular basis in view of adapting it to current developments in the country.

As a result of central political changes in November 2003, the rule of the old regime came to its end. After persuasive victory in the 2004 January elections the New President and the New Government came to power. They brought a new reform vision and a new strategy for statehood building; to ensure coherent implementation of the state reform program, a number of inter-related key principles were identified as priorities. The key priorities are:

- Eradication of corruption;
- Enhancement of transparency and public monitoring;
- Reduction of size of bureaucracy and its influence;
- Increase of public participation in decision making processes;
- Enhancement of professional qualifications of public servants;
- Ensuring the supremacy of the law and equality of all before the law;
- Protection of human rights;

By setting up these principles the government of Georgia takes over a moral responsibility to base its reforms on the justice and equality principles. The stated principles are in full correspondence with the key principles of the EDPRP that have been acknowledged by the Cabinet of Ministers. Thought, the reforms and the development strategy designed by the new government prompted the need for reconsideration of the three-year action plan envisaged by the EDPRP.

The acceptance of the EDPRP principles and priorities by the new government was reflected in strategy documents developed following the “Rose Revolution”. The government plan of 2004-2009 alongside the statement of the government of Georgia at the donor conference in Brussels in June 2004 once again demonstrated the readiness of the government to target the national development policy on overcoming poverty and achieving sustainable and rapid economic growth.

Both documents that have been mentioned above emphasize that there is a need for effective implementation of the reforms envisaged by the EDPRP to decrease around social inequality, which is a result of poverty. The government of Georgia understands that the poverty eradication is a necessary precondition for restoration of the country’s unity and its establishment as a modern European state.

The government has also committed to making a substantial contribution to achieving millennium development goals. The Draft Report on Millennium Development Goals for Georgia developed in cooperation with civil society representatives and UN agencies in Georgia proved the need for a comprehensive and targeted policy to ensure the alleviation of extreme poverty and the establishment of adequate social-economic conditions for the population of Georgia.

It is important that the first goal of the Millennium Development Declaration of the UN – reduction by half the proportion of people who live below the poverty line – fully coincides with the goal of the EDPRP, in particular: reduction of extreme poverty level from 15% to 4-5% and reduction of poverty level ratio to the official living wage from 52% to 20-25% by 2015. According to the basic report, the government will have to put serious effort and implement a coherent policy to achieve the outlined goals. The government’s policy shall be focused on the most effective utilization of the results of the economic growth .

Considering the afore-mentioned the government of Georgia, observing the participation principle, intends to prepare the next three year EDPRP action plan, which will fit in the mid term expenditure framework and lay grounds for result oriented implementation of the reform.

The present EDPRP progress report has been prepared on materials submitted by line ministries and government agencies. An intergovernmental working group that included representatives from ministries, government agencies and independent experts was set up to prepare the draft. The Ministry of Economic Development coordinates the process.

## **2. Key trends of economic development**

Based on the preliminary data of the State Department of Statistics, GDP in Georgia amounted to Lari 9800.0 million (5148.8 million US\$) in 2004, i.e. GDP per capita of approximately Lari 2160.8 (1135.3 US\$). Real GDP growth was 8.4 percent. The sustainability of high economic growth is a positive tendency in the economy of Georgia. The key contributors to high GDP growth were traditionally sectors such as industry, construction, transport and communication. Negative growth was observed in agriculture.

The central driver of economic growth was the Baku-Supsa-Ceyhan (BTC) pipeline construction. The project had a positive impact on the development of construction and service sectors in Georgia. The BTC project also allowed for the employment of many people, which substantially increased the income of the population and pushed the demand on the domestic market.

As a result of measures implemented by the government to improve tax obedience, the demand on the national currency increased in Georgia, which led to the appreciation of Lari nominal exchange rate. The National Bank of Georgia successfully used monetary instruments at hand and through regulating broad money it maintained price and exchange rate stability. The fiscal situation significantly improved in 2004. For first the time ever in past years, actual revenue collections exceeded planned levels by 14 percent in Q1-04, whilst actual budget expenditures were 26 percent high than in the previous year. The spending was directed mainly on public administration, social security and debt servicing. The share of salary payments in total spending was noticeably high, which reflected the reform-oriented efforts of the government in managing human resource of the public sector.

## **3. Poverty level**

Demographic and social conditions radically changed in Georgia in the past decade. The size of the population, following a trend observed in past years also, was decreasing in the reporting period though with less intensity than in the 90s. As a result of negative natural and mechanic developments in the population (dropping birth rates, intense external migration, high share of reproductive age people among migrants and etc) the ageing of the population increased.

External migration still remains a key factor leading to a dropping rate of the population. Migration is mostly prompted by economic reasons. The social and economic hardship in the country, the shortage of highly paid jobs and a less favorable entrepreneurial environment forces people to search for a living outside Georgia. Their remittances are one of the most important sources of household incomes. Migration vis-à-vis poverty in short-term perspective is more of a result than a cause, however if maintained at such levels, it could become one of the reasons for deteriorating conditions in the country. The latter might lead to such adverse developments as dropping share of economically active population, which strains the labor force balance, increases social-demographic pressures on the employed strata of the population alongside the number of dependents on them (above and under economically active age).

According to the SDS data, in 2003 poverty level was 54.5 percent to subsistence level and increased by 2.4 percent points against 2002, which can be considered a substantial increase. The increase in the poverty level was contributed by high rural poverty (increased by 7.7%) though urban poverty decreased by 2.7 percent.

The level of poverty reduced to 52.3 percent in the first 9 months, however we estimate the change to be seasonal. The growth of rural poverty took an irreversible pace in the past period, which may be clearly observed in the dynamics of extreme poverty. Extreme poverty made 17.4 percent in the first 9 months of 2004 which is 0.8 percent high than in 2003. The dynamics of extreme urban poverty demonstrates that urban poverty, unlike rural, is not linear, nor uni-dimensional, and is reducing.

**Table 1. Official and extreme poverty levels in 1996-2003 and 9 months of 2004 (urban and rural)**

	Urban	Rural	Average
<b>Official poverty level</b>			
1996	56.4	46.7	52.1
1997	46.9	45.4	46.2
1998	54.4	45.3	50.2
1999	60.5	41.8	51.8
2000	57.0	46.1	51.8
2001	54.4	47.6	51.1
2002	55.4	48.5	52.1
2003	52.7	56.2	54.5
2004	51.3	53.4	52.3
<b>Extreme poverty level</b>			
1996	16.8	10.4	14.0
1997	10.5	9.2	9.9
1998	16.2	11.1	13.8
1999	18.1	11.8	15.2
2000	14.4	14.1	14.3
2001	14.2	13.4	13.8
2002	15.3	15.0	15.1
2003	15.2	18.0	16.6
2004	15.0	19.8	17.4

Source: Department of Statistics, the Ministry of Economic Development

As for poverty indicators according to regions, poverty is high in Kvemo Kartli where 78 percent (3/4) of the population lives under the poverty line and 1/3 in extreme poverty.

The level of poverty is lower in Kakheti and Adjara, where 68.5 percent and 64.7 percent of households live under the official poverty line. The level of poverty is the lowest in Tbilisi and Imereti, where 44.5 percent and 39.6 percent of the population live under the official poverty line. In summary, the poverty level by regions is not uniform.

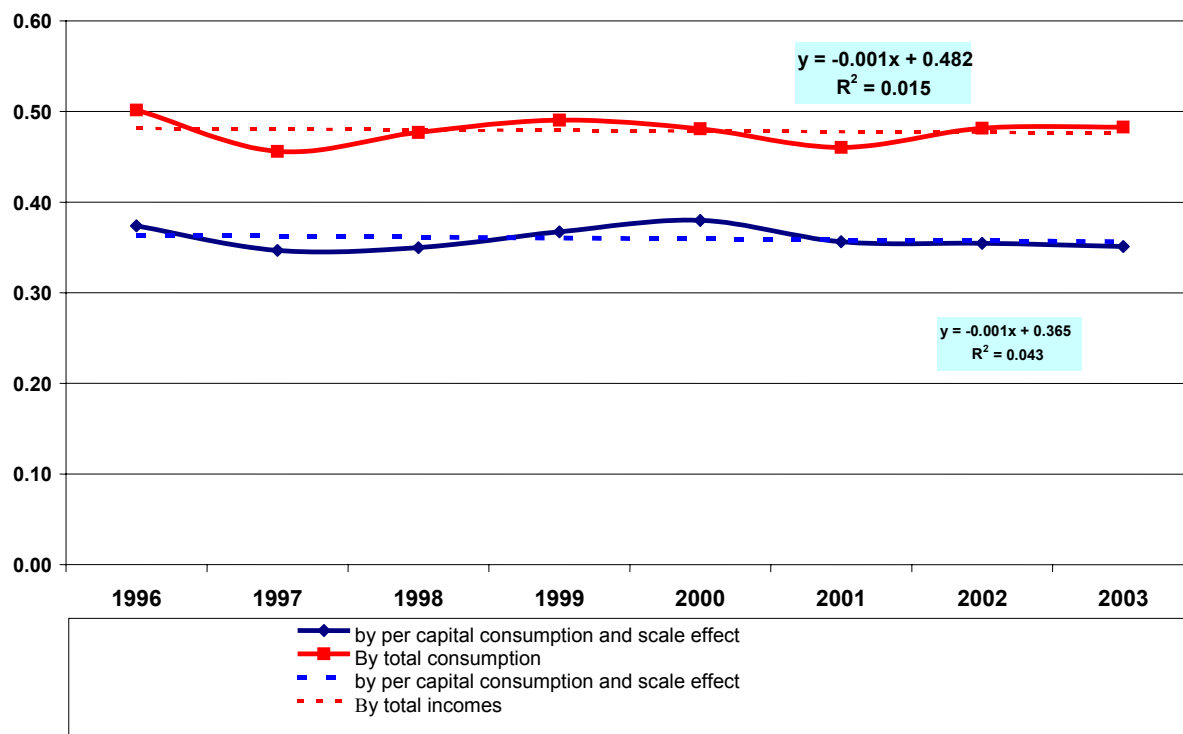
According to 9 months' period data, the average monthly income of one household made lari 300.2, which is 6.6 percent high than last year, but if we take into consideration developments in consumer prices, than real incomes have decreased. The average monthly expenditures of households increased by 8.4 percent in the reporting period and made lari 356.2, though increased by 0.8 percent in real terms. The share of groceries in household expenditures is 60 percent which is 3-times high than in developed countries.

The GINI index made 0.35 in 2003 per capita, which means it practically did not change since the comparable period in 2002.

The GINI index was 0.48 by total incomes, which also remained unchanged compared to the previous year. The GINI index by incomes, as usual, is high than by consumption. Using both distributions, the GINI index follows downward trend.



Graph No. 1: Change in the GINI index



Source: the Ministry of Economic Development

The GINI index substantially differs by regions: per capita consumption Shida Kartli 0.29 and Kakheti 0.36.

The difference in GINI index between regions is more vivid by total incomes. The highest inequality is observed in Tbilisi and Adjara where GINI index is 0.53 and 0.51 respectively, though the difference between Guria and Samegrelo is less: 0.41 and 0.43 respectively. The inequality level has increased in Samegrelo in comparison to past years. As a rule, the GINI index in Samegrelo region was relatively lower than in other regions, and the tendency has been maintained in 2003 also, but if we reckon a slight decrease in average national index, then rising inequality in Samegrelo is observable.

The GINI index per capita consumption is identical in rural and urban levels and makes 0.35. Pursuant to the household survey, GINI index follows a downward tendency at urban level, and an upward trend at rural level, which points to rising inequality due to increasing poverty levels in rural areas. The latter points to distressing hardship and an irreversible deterioration of conditions in rural areas.































































































