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Report No. P-6062-GZ

**MEMORANDUM AND RECOMMENDATION**  
**OF THE**  
**FRESIDENT OF THE**  
**INTERNATIONAL DEVELOPMENT ASSOCIATION**  
**TO THE**  
**EXECUTIVE DIRECTORS**  
**ON A**  
**PROPOSED CREDIT**  
**IN AN AMOUNT EQUIVALENT TO SDR 7.3 MILLION**  
**TO THE**  
**REPUBLIC OF GEORGIA**  
**FOR AN**  
**INSTITUTION BUILDING PROJECT**

MAY 25, 1994

MICROGRAPHICS

Report No: P- 6062 GE

Type: ~~ER~~

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## CURRENCY EQUIVALENTS

Currency Unit - Coupons

### EXCHANGE RATES: PER \$

(End of Period)

Dec.	1992	400	Rubles
Jun.	1993	900	Rubles
Aug.	1993	7,000	Coupons
Dec.	1993	120,000	Coupons
Jan.	1994	200,000	Coupons
Apr	1994	1,200,000	Coupons

January 31, 1994      SDR 1 = US\$1.38

## WEIGHTS AND MEASURES

Metric System

## ABBREVIATIONS AND ACRONYMS

AMU	= Aid Management Unit
BAFS	= Broadly Adapted Financial Statements
EU	= European Union
CBN	= The Central Bank of the Netherlands
CIS	= Commonwealth of Independent States
CSEI	= Committee for Social and Economic Information
FSU	= Former Soviet Union
MOE	= Ministry of the Economy
MOF	= Ministry of Finance
NBG	= National Bank of Georgia
PIU	= Project Implementation Unit
SCFER	= State Committee for Foreign Economic Relations
SNA	= System of National Accounts
SOE	= State-Owned Enterprise
STI	= State Tax Inspectorate
SPM	= Ministry of State Property Management
USAID	= United States Agency for International Development
UNCTAD	= United Nations Conference on Trade and Development

## GEORGIAN FISCAL YEAR

January 1 to December 31

REPUBLIC OF GEORGIA  
INSTITUTION BUILDING PROJECT

Credit and Project Summary

Borrower: Government of the Republic of Georgia

Credit Amount: SDR 7,300,000

Terms: Standard IDA terms (thirty-five years, including ten years of grace)

Project Duration: Implementation will start July 1994 and last through June 1997

Project Objectives: Assist the Georgian government in its efforts to move to a private market economy through strengthening public institutions in three functional areas: (a) financial sector, (b) economic management, and (c) privatization and enterprise reform

Financing Plan: US\$million

	Local	Foreign	Total
Government	0.2		0.2
IDA		10.1	10.1
Grant*		0.6	0.6
<b>Total</b>	<b>0.2</b>	<b>10.7</b>	<b>10.9</b>

\* The Government of the Netherlands

Economic Rate of Return: Not applicable

Poverty Category: Not applicable

Staff Appraisal Report: Not applicable

Map: IBRD No. 24286

**MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT  
OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE EXECUTIVE DIRECTORS  
ON A PROPOSED CREDIT TO THE REPUBLIC OF GEORGIA  
FOR AN INSTITUTION BUILDING PROJECT**

1. I submit for your approval the following memorandum and recommendation on a proposed development credit to the Republic of Georgia for SDR 7,300,000, the equivalent of about US\$10.1 million, on standard IDA terms with a maturity of 35 years, to help finance institution building activities.

2. Georgia is a relatively small country with a population of 5.4 million situated in the southern part of the Caucasus region. It was the first of the non-Baltic states to declare independence from the former Soviet Union (FSU), on April 9, 1991. Formal contacts between the World Bank and the Republic of Georgia (hereinafter referred to as Georgia) began in March 1992, and the country joined the World Bank in August 1992. A Country Economic Memorandum, entitled "Georgia, From Crisis to Recovery: A Blueprint for Reforms" (Report No. 11275-GZ) was distributed to the Board in May 1993.

3. Soon after its independence Georgia became embroiled in political and civil strife which had a devastating effect on the economy. The intensity of the armed conflict abated in late 1993, and the government has since refocused its attention on establishing law and order and rebuilding the economy. The government has requested IDA support in its efforts to design and implement stabilization and market reforms. The proposed operation is in response to that request. It would constitute the first operation by the World Bank Group in Georgia.

4. **Background.** Prior to the breakup of the FSU, Georgia was a relatively well-off state with a strong tradition of entrepreneurship. The Georgian economy's sources of strength included agriculture (citrus, tea, wines) and agro-industries (processed food, fertilizers), tourism (the Black Sea coast), and natural resources (e.g., manganese). Georgia was also a relatively large producer of steel pipes, electric motors, synthetic fibers, roofing materials, textiles, and shoes. Furthermore, the country's location made it a primary transit conduit for goods shipped elsewhere in the Caucasus. External trade, largely with the republics of the FSU, played a large role in the economy. Georgia relied heavily on imports of energy from other republics, notably Russia (electricity, crude oil) and Turkmenistan (natural gas). Imported energy amounted to about 95 percent of the total energy supply in 1992-93. Wheat, sugar, and some heavy machinery were the other major imports. Georgia's main exports included citrus, tea, tobacco, wine, and mineral water.

5. Since independence, Georgia has suffered from intense civil conflict. The war in Abkhazia continued throughout 1992-93. The conflict has resulted in a large influx of refugees from the Abkhazia region to the other parts of Georgia, worsening the economic plight of the country. A ceasefire is now in effect and negotiations have been initiated to resolve the dispute. During the period, the government was also fighting against supporters of the deposed President Gamsakhurdia. This threat was eliminated only by end-1993. Finally, the situation in South Ossetia remains calm but fragile.

6. The war had a devastating effect on the Georgian economy. It directly affected Georgia's main exports of tea and citrus and almost wiped out earnings from tourism. In addition, recession in the FSU, adverse terms of trade movements, the breakdown of marketing channels and trade, an earthquake, and strikes and political violence accelerated the economic

decline. The per capita GNP is estimated to have declined from US\$1,640 in 1991 to less than US\$800 in 1992; output declined further by 40 percent in 1993. The fiscal deficit in 1993 is estimated to have reached nearly 35 percent of GDP in 1993 and deteriorated further in the first quarter in 1994. Inflation accelerated from 80 percent per annum in 1991 to an average of 60 percent per month in the first two months of 1994. The Georgian coupon, proclaimed as the only legal tender in August 1993, had virtually collapsed by early 1994: the rate of exchange for one U.S. dollar rose from about 7,000 coupons in August 1993 to 1,200,000 by the end of April 1994. Increasingly, only Russian rubles and hard currencies are accepted as means of payment. There has been an erosion in the government control on the economy (revenue collection accounted for only 3 percent of GDP in 1993), and there is evidence of a growing underground economy. The erosion of government control also contributed to a deterioration in the crime situation in the country, which is now beginning to improve.

7. Not surprisingly, the economic decline has resulted in a sharp deterioration of social conditions. Living standards have plummeted. Rationing for basic commodities was introduced in December 1993. Central heating in Tbilisi was discontinued for the winter, and electric power has been rationed -- with more than 12 hours of daily power shutdowns. The shortage of fuel and electricity has forced cuts in public transport, and the influx of refugees from Abkhazia and western Georgia has aggravated the housing situation.

8. Since the beginning of 1994, the government has begun to consolidate its control over the country. Armed opposition to the government has abated, there is an improvement in the law and order situation, and a new team is in place which has renewed efforts to rebuilding the economy through market oriented reforms. Already progress has been made in implementing structural reforms in several areas: virtually all housing has been privatized, and progress have been made in privatizing agricultural land. The government has initiated small-scale enterprise privatization through auctions and leasing. Most prices (except energy and food products) have been liberalized and the import regime is relatively open. However, Georgia's transition to a stable market economy will require strong monetary and fiscal measures to ensure macroeconomic stability, further price and trade liberalization, deeper structural changes in the enterprise and banking sector, including acceleration of medium-scale and large-scale enterprise privatization and financial sector reform. Better means to protect the most vulnerable population during the transition period will be necessary. The government has asked for IDA's assistance with the design and development of these reforms and to strengthen its economic management capacity.

9. This project was originally prepared and negotiated in early 1993, but could not be presented to the Board at that time because major changes took place in the government and the civil strife in the country intensified soon after the negotiations. With return of relatively peaceful conditions in early 1994, a mission visited Georgia in April 1994 and held detailed discussions with government officials on the urgent priorities for this project. The proposed project addresses these priorities.

10. The project will facilitate the design and implementation of reforms, establish the institutional framework for effective management of a private market economy, and develop a framework for coordination of technical assistance. This project is not envisaged as a comprehensive technical assistance framework for the country -- it addresses only high priority needs in those sectors that are essential to building the foundation for further reforms. It is entirely likely that diagnostic efforts in some areas, particularly banking and the social sector, will lead to the identification of needs for technical assistance that may go far beyond the scope

of this project. Once IDA gains more experience through this project on the economic, political, and institutional constraints in the country, other sector specific technical assistance projects would be considered for IDA or other support.

11. **Government Strategy for Institutional Development.** The government is trying to put into place a reform strategy that balances the need to establish the capabilities and institutions appropriate to a market-based economy with the pressures to address immediate concerns to moderate the social and economic costs of the economic decline. While Georgia has a relatively skilled and educated work force in both the public and private sectors, the reform process is constrained by the lack of adequate experience and institutional capacity to design and implement structural reforms and to manage a private market economy. The technical staff developing the details of reform are not adequately prepared or trained, and are severely overextended. Reform program details are being developed by a number of agencies within the government, but these are not efficiently coordinated. The government has recognized this and has concluded that substantial institution building is required to achieve its goals of market reforms. Three priority areas have been identified in which IDA support is required: (i) financial sector; (ii) economic management; and (iii) privatization and enterprise reform. In addition, grant funding has been secured from the European Union (EU) for the restructuring and targeting of the social assistance and administration. The following paragraphs review the situation in these areas.

12. **Financial Sector.** Georgia, like other FSU republics, follows the inherited Soviet institutions, laws, policies, accounting standards, and banking practices, which are not suitable for a market economy. In addition to the National Bank of Georgia (NBG), there are 5 specialized state banks and 202 "commercial banks" in the country. The banking system is highly concentrated, with the five state banks -- the Agricultural Bank, the Bank for Industry and Construction, the Trade Bank, the Social Bank, and the Savings Bank -- controlling 85% of the credit. The Trade Bank has been converted into a joint stock bank but with only 25 percent private ownership. Of the 202 "commercial banks" started since 1989, about half have state enterprises as principal owners. The NBG continues to play a significant role in directing and guaranteeing commercial credits, with refinancing credits from the NBG constituting the bulk of lending by the banks. The NBG lacks staff and skills to provide even a minimal banking supervision role: there are only 3 staff in the supervision department to supervise the whole banking sector. The financial institutions in Georgia are keen to assume new roles and functions in the market economy but lack experience in modern banking practices. New financial laws, infrastructure, accounting standards, and operating practices are needed to facilitate the decentralization of financial decision making and the introduction of a commercial banking system.

13. **Economic Management.** The economic decision making process in the country is not coordinated. The Cabinet of Ministers is responsible for making all economic decisions but the roles and functions of the different government agencies that are required to provide input in the process are far from clear. The government's capacity for economic policy analysis is presently very limited and represents a major constraint to the design of appropriate economic reform policies and programs. Building an effective capability for economic policy analysis represents a considerable challenge to the government but will be essential if progress with reforms is to continue. Also, the government's data collection and analysis tools are outdated and not reliable for decision making in the context of a market oriented economy. There is a need to redefine the government's methodology for collecting social and economic data and to strengthen public sector capacity in generating and maintaining essential economic data needed for policy making and for monitoring their impact.

14. In order to mobilize external aid resources and effectively utilize them in its reform efforts, the government needs to strengthen skills of its newly established Aid Management Commission and its Secretariat. Domestic resource mobilization is also hampered by an inefficient tax administration and a lack of a central treasury system. Also, monitoring of international trade flows and collection of import duties suffer from an outdated customs administration. The government has a rudimentary tax collection system: there are problems of systematic tax avoidance, with which the government is not equipped to deal. The tax structure needs to be streamlined, new tax regulations more suitable for a market economy have to be developed, tax monitoring and collection systems needs to be automated, and the State Tax Inspectorate (STI) needs to be strengthened. In Georgia, as in other FSU republics, the management of government expenditures took place through multiple bank accounts in the central bank. This arrangement made the budget execution cumbersome and counterproductive for efficient macroeconomic management. A central Treasury system needs to be established to streamline the budget management.

15. The present tariff policy of a simple customs duty of 2 percent on all imports, 8 percent on exports, and 20 percent on barter exports is compatible with the existing limited administrative capabilities. However, taxing and subjecting exports to quotas and licenses is inconsistent with export facilitation and promotion. These export restrictions need to be abolished, and import duties need to be reviewed. The management and staff of the Customs Department in Georgia are almost without customs training or experience, and are not prepared to deal with a growing private, market-based economy. To promote external trade and collect duties efficiently, the government would need to establish trade and tariff procedures and regulations compatible with a liberalized trade environment, strengthen the administrations responsible for duty collection and ensure the collection and availability of accurate and timely trade statistics needed for economic and fiscal planning.

16. Privatization and Industrial Enterprise Reform. Through its Program of Privatization of State and Municipality Owned Enterprises, Georgia is attempting to pursue a multi-track approach to privatization: privatization of all small-scale enterprises through auctions and competitive bidding; introduction of a mass privatization program; and case-by-case privatization of selected large enterprises. So far the government has focused its attention on the privatization of small-scale enterprises (with a book value of less than Rbl 30 million as of January 1993). Privatization of small-scale enterprises started in early March 1993, and by February 1994, 900 out of 5,000 enterprises approved by the Council of Ministers for privatization -- including vehicles, gas stations, small trading shops, breeding farms, food processing plants, and printing facilities -- had been privatized. In addition, 270 small-scale and medium-scale enterprises have been leased, and will be subject to future privatization. The government intends to follow a voucher scheme in support of mass privatization, and other approaches such as direct sales to local and foreign investors and management buyouts. While this represents a substantial start, the government needs technical assistance to further design and implement the privatization program, particularly for medium- and large-scale enterprises. In addition, the bulk of enterprises that will remain under state ownership in the near term are to be converted to joint stock companies, and mechanisms need to be developed to improve their performance.

17. In addition to the above priorities, there is a need to restructure social administration system to assist the vulnerable groups during the transition period. The government's ability to develop and deliver a minimum social safety net is critical to successful economic transformation. Since the breakup of the Soviet Union, the difficulties of financing social programs have greatly

increased. These difficulties stem from (i) a shrinking revenue base as the state enterprise sector collapsed; (ii) an increased claim on social expenditures to protect the growing number of poor and unemployed; and (iii) additional expenditures on refugees displaced by the civil conflicts in 1992-93. Reforming the social protection system is essential to re-establish balance in the fiscal accounts and to respond to the needs of an economy in transition. Given the financial constraints, resources will have to be focused on the most vulnerable groups, namely the unemployed, low income families, elderly persons, and marginal groups. The government has asked the EU for assistance in this sector on a grant basis. The EU's project (1.4 million ECU), which is already under way, aims to strengthen the institutional capacity in the areas of labor and social security, legal framework, organizational structure, employment services, targeting of benefits, and training. The EU will also finance limited equipment for the Ministry of Labor and Social Affairs.

18. **World Bank Role and Strategy.** The Republic of Georgia requires substantial financial and technical assistance from the international community in its transition to a market economy. The World Bank proposes to provide IDA resources through this project to assist the government in establishing an institutional basis in designing and initiating the reform measures.

19. It is recognized by the government and the Bank that this project cannot cover all the technical assistance needs of Georgia. The project is designed to be only a first step in building a foundation for market reforms: to identify institutional constraints in the key sectors of the economy, and to provide quick assistance in designing and initiating urgently needed reform measures. The Bank will continue to assist the government in identifying its further assistance requirements and in mobilizing resources from the international community to address them in the near term.

20. The short-term objective of this credit would be to: (i) build capacity in the public sector for fundamental economic management; (ii) identify the most urgent problems in the key sectors of the economy and provide recommendations that can be implemented in the near-term; and (iii) assist the government in designing and establishing a basis for implementing market reforms, coordinating aid resources from other donors, and serving as a catalyst to mobilize other financing. The longer-term objective of the project would be to help the government develop the institutional capacity to independently manage a private market economy. Both IDA and the government view the technical assistance under this project as a substitute for specific skill shortages and inadequate local expertise during a limited period of time while local capacities and institutions are strengthened and enhanced. Hence, training and computerization form an integral part of this project.

21. While the World Bank does not yet have project experience with Georgia, it has had substantial experience with institutional development operations elsewhere. Reviews of past institution building operations suggest that for the success of such projects: (i) the government should have clear commitment to market reforms; (ii) the individual beneficiary agencies should be involved in designing the project; (iii) the procurement process needs to be started very early in the project implementation cycle; (iv) the project implementation should be assisted with experienced procurement experts; (v) procurement of computers should be supported with a proper computerization plan; and (vi) the project should be coordinated with the technical assistance provided by the other donors. The design and implementation plans for this operation have incorporated these lessons: government commitment was confirmed; all project components were developed in close consultation with the beneficiary agencies; to ensure timely and expedient implementation, the procurement process has already been initiated; provisions were made for

external procurement and computer experts to assist the Project Implementation Unit (PIU); and the project preparation was coordinated with all relevant donor agencies.

22. **Project Description.** On the basis of the economic and sector work already completed, further work undertaken in preparing the project, and in agreement with the government, this Institution Building Project would assist in the following areas.

A. **Financial Sector Reform [US\$2,325,000]**

a. **Financial Sector Infrastructure:** The institution building and technical assistance program will focus on preparing the institutional framework for financial sector reforms. The IDA project will finance consulting services and equipment to: (i) introduce and implement Broadly Adapted Financial Statements (BAFS), an internationally acceptable accounting and auditing system; (ii) conduct diagnostic studies of five state-owned banks and make recommendations for further actions; and (iii) review existing payment system and make recommendations for steps to streamline the system. In addition, within the framework of the proposed project, the Central Bank of the Netherlands has agreed to provide technical assistance on a grant basis for strengthening the banking supervision system and the development of a legal framework for the banking sector, and the IMF will provide a senior level advisor to the President of the NBG. The project will be coordinated with the on-going activities of the other donors: the EU is conducting training seminars for banking and accounting professionals; and USAID is developing a training program for commercial bankers.

B. **Economic Management [US\$5,660,000]**

b. **Economic Policy Formulation:** Support will be provided to the Office of the Deputy Prime Minister (responsible for economic reforms) to design a strategy for the restructuring and reform of the government's economic management agencies, particularly the Ministries of Finance and Economy, and to strengthen economic policy formulation and analysis. The British KnowHow Fund has agreed to finance a short-term adviser to provide an initial assessment for this restructuring. In addition, the Government of the Netherlands has agreed to provide grant funds to finance a sectoral economist to work as an adviser to the Deputy Prime Minister. This adviser will be in addition to the macroeconomist who was originally envisaged under the proposed IDA project, and who has already been in place under grant funding from USAID.

c. **Statistical Services:** The government has requested assistance to strengthen its capacity for data collection and analysis. The project will support consulting services, training, and equipment to assist the Committee for Social and Economic Information (CSEI) in (i) reviewing the methodology used for generating and maintaining national accounts and initiating steps to introduce the internationally acceptable System of National Accounts (SNA); and (ii) designing and conducting an improved household survey in the city of Tbilisi.

d. **Tax Administration:** Technical assistance is needed to help the government design the tax modernization program, the computerization of the tax offices and the training of the State Tax Inspectorate (STI) staff. The project is expected to be completed in two phases: a pilot project for the modernization and computerization of the central STI and the Tbilisi City Inspectorate; and extension of the computerization and

training to the rest of Georgia. The IMF has agreed to provide consulting services to streamline the tax administration system, develop a computerization plan, and oversee the implementation of the modernization in the first phase, and is expected to continue its support to the second phase as well. The IDA project will finance computing equipment for the first phase. Further modernization activities may be planned on the basis of the outcome of this pilot project.

e. Treasury: The government has decided to establish a modern Treasury which will provide better expenditure management and will also consolidate currently idle government balances with the banks into a single Treasury account with the NBG. The Ministry of Finance has been working with the IMF on the design of the treasury system. The project is expected to be carried out in two phases: in the first phase, a central treasury function will be established in the Ministry of Finance and a regional branch in the city of Tbilisi; in the second phase, regional treasuries will be established throughout Georgia. The IMF will provide consulting services to oversee the initial work. The IDA project will finance computers for the establishment of the central Treasury office and the regional office in the city of Tbilisi.

f. Debt Management and Economic Analysis: The Ministry of Finance has requested assistance in strengthening its debt management and economic analysis capacity. The project will finance short-term advisers and equipment to assist the Ministry of Finance in (i) setting up a debt management system, and (ii) training the staff of the Department for Macroeconomic Analysis. UNCTAD is expected to execute the debt management component of the project: a computerized system will be installed in the Ministry of Finance, and hands-on training will be conducted in maintaining a modern debt management system. For the macroeconomic analysis, experts will assist the Ministry staff in developing computer based economic models, streamline data collection and analysis tools, and prepare economic projections.

g. Strengthening of Customs Administration: This component will assist in the establishment of a customs administration suitable for a private, market economy. Support will be provided to the Customs Committee in (i) simplifying and reforming the organization and procedures of customs operations; (ii) modernizing customs management; (iii) training the customs staff in the customs management and the computerization; and (iv) computerizing customs clearance procedures, accounts, and statistics at Tbilisi headquarters and at the Tbilisi airport as the first pilot site. This component has been prepared with the assistance of and would be executed by UNCTAD.

h. Aid Coordination: The government has decided that the newly established Secretariat to the government's Aid Management Commission will work as the Aid Management Unit (AMU) of the country. The project will finance a long-term external adviser and equipment to assist and train the staff of the AMU in carrying out its functions. The adviser(s) will assist the AMU in maintaining donor information, understanding donor procedures, coordinating country's external aid priorities consistent with the national development objectives, and communicating those with the external aid agencies. Also, the project will finance experts to assist the government staff in analyzing sectoral information with an objective to design and develop projects that will be acceptable to the donor community. Both the EU and the UNDP have expressed

interest in supporting the initial establishment and functioning of the AMU on a grant basis.

i. **Project Implementation:** The project will finance: (i) an external procurement consulting firm to assist the PIU with the preparation of procurement and disbursement documents under this project, and to ensure that all procurement under the project follow the World Bank's procurement guidelines; and (ii) a computerization expert to assist and train the government staff in developing detailed computerization plans, and implementing the equipment purchased under this project.

C. **Privatization and Enterprise Reform [US\$2,270,000]**

j. **Support for Privatization:** The credit will finance activities which will help accelerate implementation of privatization in Georgia. Since the government has already made significant progress on small-scale privatization, this project will focus on the development of a broad privatization strategy and on initiating mass privatization. The project will finance: (i) one short-term senior level adviser to assist the Ministry of the State Property Management (SPM) and the Office of the Deputy Prime Minister in reviewing the current privatization plan, and in identifying impediments to its progress; and (ii) experts and equipment to (a) assist in formulating the mass privatization program and the voucher scheme; (b) assist in the design and implementation of a public information campaign to support the mass privatization campaign; (c) assist in the development of a privatization methodology and implementation through a pilot privatization of selected large enterprises; (d) provide training aimed strengthening the institutional capabilities of SPM in carrying out privatization and enterprise diagnostics; and (e) review and further develop a legislative framework for privatization. The privatization component will be coordinated with the already on-going activities of the EU and the German Government. In addition, equipment will be provided to both the SPM and the Ministry of Industry to facilitate their work in the privatization process.

23. **Project Administration.** This credit will be administered in Georgia by the Institution Building PIU, comprising a project manager and two specialists -- one on procurement and another on disbursements. In addition, the project will finance an experienced procurement consulting firm to assist the PIU for the first 12 months of the project. The administrative burden placed on government staff has been minimized to the extent possible by packaging the operation into as few contracts as possible. The project has provided extensive funding to conduct in-country training as well as external training of the government staff from all the beneficiary agencies. Two project components will be executed under directed-source arrangements with a UN specialized agency (customs administration and Debt Management: UNCTAD), in accordance with World Bank guidelines, thereby further reducing the administrative burden on the government.

24. As was noted above, parallel financing will be provided by the Government of the Netherlands for a sector economist to support the Office of the Deputy Prime Minister. The British KnowHow Fund will finance a short-term adviser for restructuring of the government economic management agencies. Technical assistance has been arranged on a grant basis from the Central Bank of the Netherlands for banking supervision and legal infrastructure. The IMF will provide technical assistance for three areas in the economic management component (Tax, Treasury, and adviser for the NBG). The project will be coordinated with the on-going activities

of the USAID, Germany, and the EU in the areas of economic analysis, bankers' training, and privatization. Further donor coordination efforts will continue.

25. At this juncture it is not possible to identify all of the country's essential assistance requirements. New needs are likely to arise during the implementation period of this operation which should be supported by this credit. To provide flexibility in project implementation, it was agreed that the project funds can be reallocated among identified project components on the basis of mutual agreement between the government and the Bank.

26. The project will be carried out over a period of three years at a total cost of US\$10.9 million equivalent. The proposed credit, together with grants from other donors, would finance 100 percent of the foreign exchange costs. A breakdown of costs and the financing plan are shown in Schedule A. Amounts and methods of procurement and of disbursements are shown in Schedule B. A timetable of key project processing events and the status of Bank Group operations in Georgia are given in Schedules C and D, respectively. More detailed information on the project is provided in the Technical Annex. A summary of key project activities is given in Attachment 1. A map is also attached.

27. **Environmental Aspects.** As this project is not expected to have any significant negative environmental impact, it has been placed in category C for the purposes of OD 4.01, and does not require an environmental assessment. Assistance would be provided to help the government develop a strategy for settling environmental liability questions under the privatization component. In addition, the project will finance environmental audits for the early candidates for large-scale privatization as required.

28. **Program Objectives.** The project is under the Economic Management (EA) category.

29. **Actions Agreed.** The government has confirmed the scope of work to be financed from the proposed project. During negotiations, agreement was obtained on: (i) a financing plan, including cofinancing from the Government of the Netherlands; (ii) terms of reference and short lists for all consulting assignments; and (iii) coordination and implementation arrangements. It was also decided that (i) the Secretariat of the Government's Aid Management Commission in the Office of the Deputy Prime Minister will work as the AMU, and (ii) the PIU was established under the SCFER.

30. **Benefits and Risks.** The proposed credit would conduct diagnostic analysis and identify urgent problems in the key economic sectors. The assistance provided through this project will train the government staff in the design and implementation of stabilization policies and market reforms. It would thus strengthen the institutional framework for managing a private market economy. It would also provide a vehicle for coordinating technical assistance and, through that assistance, accelerate the process of reform in Georgia. In addition, this program will lay the foundation for further public administration and civil service reforms which will have to be addressed over the medium term.

31. The risks relate to the possible consequences of a renewal of armed conflict, political instability, and of implementation difficulties. The government is still in the process of consolidating its power and determining institutional responsibilities. To minimize potential problems, the project has been kept small, focused on most important needs, and concentrated on central institutions. Possible implementation delays are being minimized by reducing the number of contracts as much as possible, initiating procurement activities very early in the project

cycle, focusing on those core activities that can have a demonstrable impact in a short time, defining the program as fully as possible prior to its initiation, and training the government staff in the Bank's procurement and disbursement procedures. Since this is the World Bank Group's first operation in Georgia, and considering that the government lacks experience in international procurement procedures, about 30 staff-weeks of supervision efforts are planned for FY95.

32. **Recommendation.** I am satisfied that the proposed credit would comply with the Articles of Agreement of IDA and recommend that the Executive Directors approve it.

Lewis T. Preston  
President

Attachments  
Washington, D.C.  
May 25, 1994

**REPUBLIC OF GEORGIA**  
**INSTITUTION BUILDING PROJECT**  
**Estimated Costs and Financing Plan**

(US \$ '000)

<u>Estimated Costs</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Financial Sector Reform	20	2,305	2,325
Economic Management	140	5,520	5,660
Privatization and Enterprise Reform	40	2,230	2,270
<b>TOTAL BASE COST</b>	200	10,055	10,255
Price and Physical Contingencies		662	662
<b>TOTAL PROJECT COST</b>	<u>200</u>	<u>10,717</u>	<u>10,917</u>

**Financing Plan:**

Government	200		200
IDA		10,117	10,117
Government of the Netherlands		600	600
<b>Total Financing Plan</b>	<u>200</u>	<u>10,717</u>	<u>10,917</u>

**REPUBLIC OF GEORGIA**  
**INSTITUTION BUILDING PROJECT**

**Procurement Method**

<b>Project Element</b>	<b>ICB</b>	<b>Other</b>	<b>N.B.F.<sup>a/</sup></b>	<b>Total Cost</b>
1. Goods	2,000	1,300		3,300
1.1 Computers and other goods, equipment, and supplies	2,000	1,200 <sup>b/</sup>		3,200
1.2 Vouchers		100 <sup>c/</sup>		100
2. Consultancies and other technical assistance		6,817	600	7,417
2.1 Expert assistance		6,242	600	6,842
2.2 Training		575		575
3. Government contribution			200	200
<b>TOTAL</b>	<b>2,000</b>	<b>8,117</b>	<b>800</b>	<b>10,917</b>

a/ Non-Bank financed (cofinanciers and government).

b/ Estimated to be International Shopping (US\$1,000,000) / Local Shopping (US\$100,000)/Direct Contracting (US\$100,000).

c/ International Shopping.

**REPUBLIC OF GEORGIA**  
**INSTITUTION BUILDING PROJECT**

**IDA Disbursements**

<b>Category</b>	<b>Amount (SDR'000)</b>	<b>% of Expenditures to be Financed</b>
Consultants' services, fellowships, and training	5,000	100% of expenditures
Computers, equipment, other materials	2,300	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 75% of expenditures for other items procured locally
<b>Total</b>	<b>7,300</b>	

**ESTIMATED IDA DISBURSEMENTS**  
**(US\$'000)**

	<b>FY 95</b>	<b>FY 96</b>	<b>FY 97</b>	<b>FY98</b>
<b>Annual</b>	2,500	3,400	2,600	1,617
<b>Cumulative</b>	2,500	5,900	8,500	10,117

**REPUBLIC OF GEORGIA**  
**INSTITUTION BUILDING PROJECT**

**Implementation Schedule**

Estimated Annual Contractual and Other Payments  
(US \$10.9 million equivalent)

Loan Timings

Signing and Effectiveness      July 1994  
Closing                                      Dec. 1997

Procurement (US\$'000)

Project Elements	Project Year				Total Payment	Remarks
	1	2	3	4		
<b>1. Consultancies and Training</b>						
a. Financial Sector	300	600	370	480	1,750	Bank/donor guidelines
b. Economic Management	1,400	1,200	850	526	3,976	"
c. Privatization	500	600	400	290	1,790	Bank guidelines
<b>2. Equipment / Vouchers</b>	<b>700</b>	<b>1,000</b>	<b>1,000</b>	<b>500</b>	<b>3,200</b>	<b>Bank guidelines</b>
<b>3. Government contribution</b>	<b>30</b>	<b>70</b>	<b>50</b>	<b>50</b>	<b>200</b>	
<b>Totals</b>	<b>2,930</b>	<b>3,470</b>	<b>2,670</b>	<b>1,846</b>	<b>1,091,6</b>	

**REPUBLIC OF GEORGIA**

**INSTITUTION BUILDING PROJECT**

**Timetable of Key Project Processing Events**

(a)	Time taken to prepare:	20 months*
(b)	Prepared by:	Government/ Bank assistance
(c)	First preparation mission:	September 1, 1992
(d)	Appraisal mission departed:	February 25, 1993
(e)	Negotiations:	June 1, 1993
(f)	Project update and re-negotiations:	April 15, 1994
(g)	Scheduled Board date:	June 16, 1994 (tentative)
(h)	Planned date of effectiveness:	July 30, 1994
(i)	List of relevant PCRs and PPARs:	Not applicable

\* Project preparation was initiated in September 1992. The Project was originally negotiated in June 1993 but was put on hold because of the eruption of civil strife in Georgia soon thereafter.

**REPUBLIC OF GEORGIA**

**INSTITUTION BUILDING PROJECT**

**Status of Bank Group Operations in Georgia**

**A. STATEMENT OF WORLD BANK LOANS AND IDA CREDITS**

As of May 25, 1994 lending to Georgia had not yet commenced.

**B. STATEMENT OF IFC INVESTMENTS**

As of May 25, 1994, Georgia is not a member of the IFC.

**REPUBLIC OF GEORGIA**

**INSTITUTION BUILDING PROJECT**

**Technical Annex**

**A. PROJECT DESCRIPTION**

1. The Institution Building activities supported through this project would help the Georgian Government in three areas critical to its economic development: (i) financial sector reforms; (ii) economic management and aid coordination; and (iii) privatization and enterprise reform. The project's overall administration would be the responsibility of the Project Implementation Unit (PIU) which is located in the State Committee for Foreign Economic Relations (SCFER). Implementation would be spread over a three-year period. The total project cost is US\$10.9 million.

**PART ONE: FINANCIAL REFORM**

**I. FINANCIAL SECTOR**

(US\$2,325,000 )

2. Georgia, like many other FSU republics, follows the inherited Soviet institutions, laws, policies, accounting standards, and banking practices, which need to be radically reformed to make them suitable for a market economy. In addition to the National Bank of Georgia (NBG), there are 5 specialized state banks and 202 private "commercial banks" in the country. The banking system is highly concentrated, with the five state banks -- the Agricultural Bank, the Bank for Industry and Construction, the Trade Bank, the Social Bank, and the Savings Bank -- controlling 85% of the credit. The Trade Bank has been converted into a joint stock bank but with only 25 percent private ownership. Of the 202 "commercial banks" started since 1989, about half have state enterprises as principal owners. The NBG continues to play a significant role in directing and guaranteeing commercial credits, with refinancing credits from the NBG constituting the bulk of lending by the banks. The NBG lacks staff and skills to provide even a minimal banking supervision role: there are only 3 staff in the supervision department to supervise the whole banking sector. The financial institutions in Georgia are keen to assume new roles and functions in the market economy but lack experience in modern banking practices. New financial laws, infrastructure, accounting standards, and operating practices are needed to facilitate the decentralization of financial decision making and the introduction of a commercial banking system.

3. The proposed technical assistance program will support the reforms in key financial institutions and operations, and will strengthen policy-making capacity in the state banking sector. IDA's financial sector support, in coordination with the IMF and other bilateral donors, will focus on identifying current sectoral constraints and developing restructuring strategies for the sector. Further financial sector technical assistance would be considered on the basis of these constraints and restructuring strategies.

4. Accounting and Auditing. The international community has already gained substantial experience in the areas of accounting reform from other parts of the FSU. These experiences are directly relevant to the situation in Georgia. The introduction of new, modern accounting and

auditing systems will provide a more meaningful assessment of the financial condition of the Georgian banks and will make the supervision and regulation of the banks more effective. Foreign experts will be placed in the NBG to coordinate the work of adapting the new accounting standards, and to assist in revising the appropriate legislation and in developing new certification standards and training programs. High priority will be given to the rapid adoption by all financial institutions of the Broadly Adapted Financial Statements (BAFS) and the accompanying new Chart of Accounts. IDA activities in this area will be coordinated with the European Union (EU) and the IMF.

5. Banking Supervision. There are several areas of immediate concern for the new banking supervision department -- lax licensing standards, rapid proliferation of small banks owned by state enterprises that are lending to their owners, excessive loan concentration, inadequate prudential regulations, and weak monitoring of the operations of the banks -- as a result of which the financial system in Georgia has become very unstable. The Central Bank of the Netherlands (CBN) has agreed to provide technical assistance on a grant basis to strengthen the NBG's supervision and regulatory capabilities. Areas that will need strengthening will include: (i) licensing and exit policies and procedures; (ii) prudential regulations and standards on lending exposure, capital adequacy, loan classification and provisioning, liquidity requirements; (iii) on-site examination and auditing; and (iv) off-site surveillance and reporting requirements for the commercial banks.

6.. Legal Framework. The development of a legal framework necessary for a commercial and competitive financial system was identified as a high priority for technical assistance under this project. Expert assistance will be provided to establish a legal and regulatory environment, and a skills base that would allow the banks to operate within a "safety and soundness" framework. The CBN will provide the technical assistance on a grant basis to review the current legislative framework and assist the government in developing new prudential regulations.

7. Computerization Planning and Equipment. Funds from this project will also be provided to upgrade equipment for day-to-day operations in key areas of the NBG, including information management and processing, bookkeeping and accounting, and security systems. Automation and computerization planning expertise will be provided to assist the NBG in designing and implementing efficient automated and computerized systems for bank supervision, accounting, payment clearance and transfers, general central banking operations, and to ensure that the necessary hardware and software applications are procured, installed, tested, and properly maintained.

8. Diagnostic Studies. The project will finance diagnostic studies of the five state-owned Banks to develop a comprehensive understanding of the problems besetting these banks. The studies will provide a basis for prioritizing and developing strategies for further institutional strengthening and restructuring of the financial sector.

9. Payment System. The current payment system in Georgia is inefficient and outmoded, resulting in revenue losses because of delays in payment clearances, transfers, and settlements. Expert assistance will be provided to determine the current institutional constraints of the payment system, including the regulatory, operational, and technical constraints. The review will identify current problems and will develop alternative solutions that can be implemented in the current economic and political environment.

10. Policy Adviser. The project will support a senior policy advisor to the President of the NBG to assist him in the areas of monetary policy, Banking supervision and regulation, and general central banking operations. IMF has agreed to coordinate this support.

## **PART TWO: ECONOMIC MANAGEMENT**

### **II. ECONOMIC POLICY FORMULATION/AID COORDINATION**

(US\$5,660,000)

11. The government's capacity for economic policy analysis is presently very limited which is a major constraint to the design of appropriate economic reform policies and programs. The reasons for this situation include: (i) the centralization of economic decision-making under the Soviet Union; and (ii) the inappropriate training and experience of the government staff in the areas of economy and finance. Building an effective capability for economic policy analysis represents a considerable challenge to the government but will be essential if the economic reform program is to remain on track.

12. The collapse of the Georgian economy since the breakup of the Soviet Union and the need for wide-ranging structural reforms will require substantial inflows of external assistance to support the transition to a market economy. Assistance is already being provided by the EU, the United States, Turkey, and Germany. Other multilateral organizations and bilateral agencies can be expected to commence assistance operations in the near future. To effectively utilize these aid resources and to mobilize further assistance from the international community, the government needs to establish a strong and clearly defined aid coordination mechanism in the country.

13. A number of government ministries and agencies are currently responsible for various aspects of economic policy formulation and aid coordination. The most important of these are: (i) the Ministries of Finance, which has departments responsible for macro and sectoral policy/program development and international relations; (ii) the State Committee for Foreign Economic Relations (SCFER), which, when created in April 1992, assumed responsibility for aid coordination but is now focusing primarily on trade and foreign investment facilitation while retaining responsibility for coordination of the German aid; (iii) the EU Technical Assistance Coordination Unit, which is under the direction of a deputy minister in the SCFER but is operationally independent; and (iv) a Humanitarian Aid Coordination Unit operating out of the Ministry of Health and nominally responsible to the Cabinet of Ministers. There is a need for considerable rationalization of these structures.

14. The project will finance international consultants, training, and equipment to assist the government in the following areas.

Reform and Restructuring of the Economic Management Agencies. Short-term consultancy assistance will be provided under the program (four person-months) to assist the Office of the Deputy Prime Minister (responsible for economic reforms) in planning the reform and restructuring of its economic management agencies. The exercise will focus primarily on the "core" Ministries of Finance and the Economy but will also consider arrangements for economic and financial management functions at the line ministry level. The study will propose a new organizational structure, prepare detailed departmental "mandates," and identify staffing requirements and suggest how these can

most appropriately be met. The British KnowHow Fund has agreed to finance a short-term expert for initial assessment of needs in this area.

- Macro and Sectoral Policy Analysis. The establishment of an economic advisory function to the Cabinet of Ministers will require two long-term economic advisers. First, an experienced general sector economist will be funded by the Government of the Netherlands on a grant basis for a period of one to two years to assist the Office of the Deputy Prime Minister (responsible for Economic Reforms) in designing and developing the sectoral work program of the government, including developing sector economic analysis capabilities in the line ministries. Second, a senior level macroeconomist funded by USAID (originally envisaged under the framework of this project) has been in place for the last several months in this office. These consultants will also assist the government with the preparation of its public sector investment program. In addition, a group of three senior level policy advisers (in aid management, macroeconomics, and project preparation) have been put in place by the EU in the Office of the Head of the State.
- Statistics on Living Standards. Short-term consultants will be engaged to assist the Committee for Social and Economic Information (CSEI) in improving the analysis of existing household survey data and in redesigning the family budget survey. The aim of this assistance would be to adapt or replace the current system to give the government a reliable source of information on income distribution and the incidence of poverty. The project will finance experts and equipment to assist the government staff design and conduct a household survey in the city of Tbilisi on a pilot basis, which can later be extended to other areas through local resources. The survey would strengthen the CSEI's skills in this area and would provide reliable household data that would also feed into the development of the benefit-targeting criteria and other social sector assistance work presently under way with EU assistance. In addition, the project will finance a review of the current national accounts system and introduce the government to the UN System of National Accounts (SNA).
- Tax Administration. The State Tax Inspectorate (STI) is not equipped to work with a private, market economy. In 1993, the government's tax collection was only 3 percent of the total GDP. Technical assistance is needed to help the government design the tax modernization program, the computerization of the tax offices, software development, and the training of the State Tax Inspectorate (STI) staff. The project is expected to be completed in two phases: a pilot project for the modernization and computerization of the central STI and the Tbilisi City Inspectorate; and extension of the computerization and training to the rest of Georgia. The IMF has agreed to provide consulting services to streamline the tax administration system, develop a computerization plan, and oversee the implementation of the modernization in the first phase, and is expected to continue its support to the second phase as well. The IDA project will finance computing equipment for the first phase. Further modernization activities may be planned on the basis of the outcome of this pilot project.
- Treasury. The government has decided to establish a modern Treasury which will provide better expenditure management and will also consolidate currently idle government balances with the banks into a single Treasury account with the NBG. The Ministry of Finance has been working with the IMF on the design of the treasury system. The project is expected to be carried out in two phases: in the first phase, a central treasury

function will be established in the Ministry of Finance and a regional branch in the city of Tbilisi; in the second phase, regional treasuries will be established throughout Georgia. The IMF will provide consulting services to oversee the initial work. The IDA project will finance computers for the establishment of the central Treasury office and the regional office in the city of Tbilisi.

- Debt Management. The Republic of Georgia does not have many external debts at this time, but with the present economic situation, this could change rapidly. In order to monitor all external debts, a modern debt management system should be set up in the Ministry of Finance. While a unit has been created in the Ministry to monitor external debt, its staff lacks the tools and skills needed to work efficiently. The proposed project will finance short-term advisers and equipment to assist this unit in strengthening its debt management capacity. This component will be executed with the assistance of UNCTAD. The UNCTAD will provide a computerized system and hands-on training to the Ministry staff in operating a modern debt management system.

- Economic Analysis. The Ministry of Finance and the Ministry of Economy have requested assistance in conducting economic analyses of macroeconomic data and in improving their skills in economic projections. The project will finance short-term experts and equipment to review current data collection and analysis practices, identify problems with the existing data and develop recommendations on analytical tools to be used, help the government staff in understanding modern data analysis and projection methodologies, and help set up a computer system to develop and maintain economic models.

- Customs Administration. The technical assistance to be supported under this project is directed to ensuring introduction of trade and customs procedures compatible with the requirements of a market economy and in conformity with international practices and norms. It is also to provide early assistance in laying a sound foundation for a modern Customs Administration that would efficiently collect revenues, trade statistics, and contribute to trade facilitation and promotion. The EU's program of assistance will complement the IDA's assistance by ensuring general training for a selected number of staff, providing advisers in modernization of customs laws and regulations, and building up efficient investigation and enforcement units. The proposed project will support: (i) Trade/Customs Management. A senior expert will work with the Director General of Customs on all matters related to establishing a modern Customs Department; (ii) Modernization of Customs Laws and Regulations. A senior customs legislation consultant will examine and make recommendations for the improvement and modernization of customs policy and the tariff law; (iii) Training in Customs Operations and Computerization. The IDA project will support local seminars and workshops, with assistance from UNCTAD and the EU, on such topics as: customs classification and valuation; customs clearance procedures for the trading community; EDP (Electronic Data Processing); and computer training - especially on UNCTAD's ASYCUDA (Automated System for Customs management and Data); (iv) Customs Computerization. Adoption and implementation of a Customs Software Package developed by UNCTAD will be supported under the project. This will include computers for the Customs HQ and one pilot clearance office (Tbilisi airport), together with support equipment, and translation of the ASYCUDA system and its manuals and documents. The government has requested that this component be carried out by the UNCTAD.

Aid Coordination. On the basis of strengths of the country, the government expects the international community to show substantial interest in assisting Georgia in its economic development. In order to mobilize and effectively utilize these external aid resources, the government wishes to strengthen its capacity for external aid coordination. An Aid Management Commission -- chaired by a Deputy Prime Minister and comprising Minister of Finance, Chairman for SCFER, the President of the NBG, the President of EXIM Bank, and the Head of Finance, Credit and Taxation Policy Department of the Cabinet of Ministers -- has been created to make policy level decisions on the external aid requirements and proposals. As has been stated above, this commission will be assisted by a Secretariat (AMU) that has been set up in the Office of the Deputy Prime Minister. The AMU will assist, train, and coordinate various government agencies in preparing projects for external aid and will ensure compliance with reporting and other requirements of the donor agencies. The proposed IDA project will finance a long-term expert and office equipment to assist this unit in its aid management function.

Procurement Adviser. The government has agreed to set up a Project Implementation Unit (PIU) in the SCFER to manage procurement and disbursement under the proposed project. Since the government has no experience with World Bank procurement procedures, an experienced procurement consulting firm will be retained to assist and train the PIU staff in international procurement procedures.

### **PART THREE: PRIVATIZATION AND INDUSTRIAL ENTERPRISE REFORM** (US\$2,270,000)

15. Privatization represents a substantial aspect of the government's strategy toward moving to a market-based economy. The first steps toward the implementation of privatization were initiated in August 1991 when the government began to adopt the relevant laws and decrees. The legislation enacted over the past two years includes an enterprise privatization law, an entrepreneurship law, a law on bankruptcy, and a housing privatization law. Decrees and regulations effected in the past two years include those on auctions and competitive sales; valuation of assets for privatization; and commercialization and transformation of enterprises into joint stock companies.

16. The Ministry of State Property Management (SPM) is responsible for overseeing and managing state-owned property in Georgia and for determining privatization strategies and recommending their adoption by government. The SPM is also responsible for designing and implementing the mass privatization programs, participating with the overseeing ministries in the process of privatizing large-scale enterprises, reviewing enterprise privatization plans, and assisting the local government structures to carry out small-scale enterprise privatization.

17. About 1,365 enterprises/assets, including large, medium, and small enterprises, were identified in August 1992 for privatization by the SPM and the local authorities. Beyond setting out an initial strategy for privatization during 1992 and 1993, the SPM did not achieve its privatization goals over the period. However, in the past few months the implementation of auctions and other sales of assets has begun. The SPM is following a multi-track approach to privatization, which will cover small-scale enterprises, large individual enterprises, and mass privatization through a voucher scheme. Significant policy decisions are still pending with regard to the distribution, usage, and trading regulations of the vouchers. Privatization of small-scale enterprises through auction started in March 1993. Since that time a number of other auctions and competitive sales have been undertaken in Tbilisi and elsewhere in the country. As of

February 1994, about 900 small-scale objects, including gasoline stations, trading enterprises, stock breeding farms, and a large number of trucks, buses, and other vehicles have been privatized. In addition, two older, small hydropower stations have been sold to private buyers. The objective of this component of the Project is to provide critical elements and a framework of technical assistance for the further design and accelerate implementation of the privatization program for medium-scale and large-scale enterprises (defined by the government as enterprises with a net book value above Rbl 30 million as of January 1993).

18. Support to the Ministry of State Property Management. This component will include a comprehensive training program intended to build the local capacity to carry out privatization and to undertake enterprise diagnostics. Support will also be provided in the form of computers, printers, copiers, and other equipment, to both the Ministry of Privatization and the Ministry of Industry. Technical assistance will be provided in the following areas.

- Legal Adviser. An essential aspect of the development of privatization strategy is the establishment of an appropriate legal basis. As has been noted above, the government has already passed and adopted a number of basic laws and regulations. Long-term legal experts will assist the SPM in reviewing the existing privatization and anti-monopoly laws and drafting others.
- Voucher Scheme for Mass Privatization Program. The project will finance short-term consultants to assist the SPM in designing and implementing a mass privatization program. This would include assistance with designing a voucher scheme, printing vouchers, and designing the distribution and exchange mechanism for the vouchers. The consultants would prepare a detailed overall strategic design, a critical path analysis, and a detailed work plan for implementing a mass privatization program.
- Public Information Campaign. To build public understanding of and support for privatization and to monitor the public perception of the reforms, the government has decided to develop a privatization communication strategy. The assistance under this component will provide short-term consultants to (i) conduct pre-campaign research on existing attitudes to the privatization program and prepare a media monitoring system; (ii) develop a marketing campaign; and (c) disseminate the key messages through press conferences, media briefings, press releases, and media presentations.
- Pilot Privatization of Selected Large Enterprises. The project will provide technical assistance to the SPM staff in the development of a privatization methodology and process through the pilot privatization of selected large enterprises. The objectives of this pilot project would be to (i) assist the SPM in designing a privatization methodology that could be replicated across the country; (ii) train the SPM staff and the employees of the enterprises in the technical aspects of preparing privatization plans, information memoranda, valuation methodologies, and business plans; and (iii) provide important lessons for broader privatization of large enterprises. The consultants will work closely with the SPM and the Ministry of Industry. The following principles would be followed in the pilot privatization: (i) the process should be transparent, competitive, and open to outsiders; and (ii) privatization of enterprises with a monopoly position would not be carried out before their demonopolization. The experts would assist the SPM in the following areas: (i) selection of enterprises to be included in the pilot privatization; (ii) development of privatization plans and post-privatization business plans; (iii)

implementation of recommended sales strategies and negotiating transactions; and (iv) dissemination of the lessons learned.

- Policy Support to the SPM. The project will finance one short-term senior-level privatization adviser who will assist the SPM on the policy issues related to implementing the current privatization program, identifying impediments to its progress, and recommending modifications to the program. This adviser will work closely with the Office of the Deputy Prime Minister on the policy level issues.

19. Environmental Aspects of Privatization. Because the lack of clear rules on environmental liability can be a serious obstacle to privatization, especially where foreign investors are concerned, the government has indicated its plan to establish flexible environmental liability procedures to be used in privatization of both large enterprises and small hydro plants, which the government also hopes to privatize, taking into account the evolving experience in Central and Eastern Europe. Short term consultants would be provided to assist the government in developing its procedures, and determining how environmental liability should be allocated during the privatization process. In addition, funds would be provided to conduct pilot environmental audits of selected enterprises where such audits would be useful in illustrating potential environmental liabilities.

## **B. PROJECT ADMINISTRATION AND IMPLEMENTATION**

20. For this first credit to Georgia, the government has determined that administration will be handled by a Project Implementation Unit (PIU), which will be located in the SCFER. The project will finance the services of an experienced procurement consulting firm for about one year as well as equipment to help the government set up the unit. The external experts will assist the head of the PIU in conducting procurement and disbursement functions under the project. Procurement and disbursement training of the government staff started in 1993 (government staff attended disbursement and procurement seminars sponsored by the World Bank during April 1993) and will be followed up with on-the-job training by the external advisor and through supervision missions.

21. The administrative burden placed on the government staff has been minimized to the extent possible by focusing on the most urgent needs of the country and packaging the operation into as few contracts as possible. The customs administration strengthening component will be executed under directed-source arrangements with UNCTAD. This will reduce the administrative burden on the government as well as on the Bank staff.

22. The Government of Georgia will contribute directly to the program through the provision of a small amount of in-kind and local financing. This represents the extent of the capacity of the Georgian government to assist in the project financing. Parallel financing will be provided by the Government of the Netherlands for the position of a sector economist and assistance with the banking supervision and legal framework for the financial sector. The British KnowHow Fund has agreed to finance a short-term expert for assessing the need for restructuring the government's economic management agencies. In addition, the IMF will provide a policy adviser to the President of the National Bank and technical assistance for tax administration and establishment of the treasury system; USAID is providing financing for a macroeconomic adviser to the Cabinet of Ministers; the EU is funding reforms in the social sector and, along with the UNDP, is interested in financing technical assistance and equipment for the initial setting up of the AMU.

23. In view of the concerns about government's fundamental capacity to absorb the assistance proposed, the project proposes, in areas of critical need but where no alternatives exist, a small number of long-term experts to fill specific skill shortages. This assistance would last for a limited period and would include the strengthening of institutional capacities as a primary objective. In addition, to assist the government in preparing projects in a way that would attract financing from the international community, a Project Preparation Fund (PPF) was provided to assist in the preparation of a project (telecommunications). The World Bank missions have reviewed and determined that the existing infrastructures in the country are adequate to host the long-term experts funded under this project. Similarly, for assistance requirements in other areas, the individual and institutional structures are on balance sufficient to make use of short-term consultancies. Particular attention will be paid to this issue during supervision.

24. At this juncture it is not possible to identify all of the essential assistance requirements of the country, and it is likely that new needs will arise during the implementation period of this operation which should be supported by this credit. To provide flexibility in project implementation, the government has agreed with the Bank that the project funds will be reallocated if such new needs arise. Decisions on reallocation would take place during supervision of the project.

### **C. PROJECT COST, FINANCING, DISBURSEMENTS, AND REPORTING AND AUDITING**

25. Project Cost. The total project cost is estimated at US\$10.9 million equivalent. Details of the cost estimates have been included in Schedule A. All local costs have been converted to U.S. dollars at an exchange rate of 1,200,000 coupons per dollar. Costs under the credit have been subjected to contingencies of seven percent to cover physical and price contingencies. The estimates for studies, consultancy, assignments, and training are based on typical current costs for such assignments. There would be a substantial involvement of internationally recruited consultants in all the project components. The project would provide for computers and other equipment as well.

26. Financing. A summary of the project financing plan is shown in Schedule A and in more detail in Attachment 2. The foreign exchange cost requirements are estimated at US\$10.9 million. The local currency requirements (equivalent of US\$0.2 million) would be met by the borrower from its own resources. The IDA credit would finance about 94 percent of the foreign exchange cost, the balance to be provided by the Government of the Netherlands. The support provided by the IMF, USAID, and UNDP is in the form of technical assistance and has not been monetized.

27. Disbursements. Disbursements would be administered by the project implementation unit. The proceeds of the IDA credit would finance 100 percent of consultants' services and training; 100 percent of foreign expenditures for computers, equipment, and other goods and materials; 100 percent of local expenditures (ex-factory) for computers, equipment, and other goods and materials manufactured locally; and 75 percent of local expenditures for other items procured locally. Withdrawal applications would be fully documented, except for expenditures against contracts valued at less than US\$50,000 equivalent which would be made on the basis of certified statements of expenditures detailing the individual transactions. The documentation to support these expenditures would be retained by the PIU for at least one year after receipt by IDA of the audit report for the year in which the last disbursement was made. This documentation would

be made available for review by the auditors (see section below on "Reporting and Auditing") and IDA upon request.

28. The estimated disbursement schedule for the proposed credit is shown in Schedule B. The project is expected to be completed by June 30, 1997 and the Closing Date would be December 31, 1997. Retroactive financing of up to US\$500,000 would be provided to cover expenditures, primarily for the early appointments of advisers, for equipment procured through local shopping, and for training, incurred after May 1, 1994.

29. Special Account. To facilitate project implementation, the Borrower would establish a special account in U.S. dollars in a commercial bank on terms and conditions satisfactory to IDA to cover IDA's share of eligible expenditures. The authorized allocation of this account would be US\$500,000 equivalent, representing about two months of average expenditures under the credit. At the request of the Borrower and, based on project needs, IDA would make an initial deposit or deposits into the special account, up to the amount of the authorized allocation. Applications for replenishment of the special account would be submitted monthly, or when one-third of the amount deposited has been withdrawn, whichever occurs earlier. Documentation requirements for replenishment allocations would follow the same procedure as described in the above section on "Disbursements." In addition, monthly bank statements of the special account which have been reconciled by the Borrower would accompany all replenishment requests.

30. Reporting and Auditing. During negotiations assurances were obtained that the special account, all project accounts, and statements of expenditure would be audited at the end of each fiscal year by independent auditors acceptable to IDA. Such audits would be carried out in accordance with international standards undertaken by auditors qualified for this task. Audit reports for the preceding calendar year would be made available to IDA no later than by the end of June of each year. The project will finance the expenses for conducting the audit.

31. To enable the PIU to monitor the progress of project implementation, it was agreed during negotiations that the PIU would furnish IDA with a series of reports on a regular basis. These reports will include: (i) quarterly progress reports on implementation in a format and degree of detail acceptable to IDA; (ii) audited financial statements within six months after the close of each Georgian fiscal year; and (iii) records, financial statements, other progress reports, or other types of information that IDA may request from time to time. On the basis of information provided by the various beneficiary agencies, the PIU will prepare its contribution to the Project Completion Report within six months of the Closing Date, covering all related activities during project implementation.

#### **D. PROCUREMENT**

32. Both the public and the private sectors in Georgia have very little experience with the types of procurement used in the market economies and are not familiar with the Bank's procurement and disbursement procedures. Procurement experts would be provided under the credit to help the PIU and the project agencies handle procurement and disbursement under the project. Also, the PIU staff would be given the opportunity to participate in World Bank procurement seminars and to attend others, as appropriate.

33. Procurement of goods, materials, and equipment will be in accordance with the Bank's Guidelines for Procurement (May 1992), and the Bank's Standard Bidding Documents for Goods will be used. Procurement of consultants' services will be in accordance with the Bank's

Guidelines for the Use of Consultants, and the Bank's Standard Form of Contract for Consultant Services will be used. A summary list of the goods, materials, and services to be procured under the Project, their costs, and the methods of procurement is given in Table 1, below.

34. Goods and Equipment. Goods, materials, and equipment to be procured under the project will consist of computers, peripherals, software, and office equipment. Contracts with a contract value of US\$300,000 or greater would be procured through International Competitive Bidding (ICB) using the Bank's Standard Bidding Documents for Goods and Computers, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the project. It is expected that there will be two separate ICBS -- to accommodate needs and implementation schedule of the beneficiary agencies -- to a total estimated value of about US\$2.0 million.

35. The remaining contracts for equipment, goods, and materials to cost more than US\$20,000 but less than US\$300,000 would be procured through international shopping (IS), to a total aggregate of US\$1.0 million, requiring price quotations from a minimum of three vendors from three different countries; contracts valued at less than US\$20,000 up to a total aggregate cost of US\$100,000 will be procured through local shopping (LS) on the basis of at least 3 quotations from qualified local suppliers. Equipment that is of proprietary nature or requires standardization with existing equipment will be procured through direct contracting, up to a total value of US\$100,000. In addition, the government has requested \$100,000 to support the printing of vouchers, which will be procured on the basis of IS.

36. Consultant Services. All consulting contracts for technical assistance, training, and studies to be financed from the proceeds of the credit would be procured by the government from among individual consultants or consulting firms in accordance with the World Bank's Guidelines for the Use of Consultants (August 1981). All consulting contracts will be based on the Bank's Standard Form of Contract for Consulting Services. Consulting firms will be procured on the basis of competitive selection from a list of three to six firms, and individual consultants will be hired on the basis of competitive selection from at least three CVs. UNCTAD will be retained to provide support for the customs administration and for the debt management in accordance with the procedures acceptable to the Bank. Specific details of various consultancy assignments appear in Table 2. Use of local consultants will be limited given the scarcity in Georgia of the requisite experience and background.

**Table 1: Summary of Proposed Procurement Arrangements**  
 (US\$10.9 million equivalent total financing)  
 (\$ '000)

Project Element	Procurement Method			Total Cost
	ICB	Other	N.B.F. <sup>a/</sup>	
1. Goods	2,000	1,300		3,300
1.1 Computers and other goods, equipment and supplies	2,000	1,200 <sup>b/</sup>		3,200
1.2 Vouchers		100 <sup>c/</sup>		100
2. Consultancies and other technical assistance		6,817	600	7,417
2.1 Expert assistance		6,242	600	6,842
2.2 Training		575		575
3. Government contribution			200	200
<b>TOTAL</b>	<b>2,000</b>	<b>10,117</b>	<b>800</b>	<b>10,917</b>

a/ Non-Bank financed (cofinanciers & government).

b/ Estimated to be International Shopping (US\$1,000,000)/Local Shopping (US\$100,000) / Direct contracting (US\$100,000)

c/ International shopping

37. IDA Review. Due to the centralization of procurement in the FSU, the knowledge of the project implementation agencies regarding international commercial practices and the World Bank's procurement procedures is almost nonexistent. Therefore, all procurement activities under the project will be coordinated by the PIU, which will be assisted by an external procurement consulting firm. To ensure compliance with the World Bank procurement guidelines, all ICBs, the first two contracts under international shopping, and all direct contracts will be subject to prior IDA review. The terms of reference for all consultant assignments, and all contracts for consultant firms valued at greater than US\$100,000 and for individuals valued at greater than US\$50,000, including the contracts with UNCTAD (customs and debt management), would be subject to IDA's prior review and approval. These limits would result in the prior review of over 95 percent of total procurement. All other contracts will be subject to selective ex-post review by IDA.

38. Procurement Administration. Since this is the first World Bank Group project in the country, PIU staff members would be given training in procurement through in-country training, the World Bank seminars, and through on-the-job training. The PIU would be staffed with a management team competent to assist with routine procurement administration activities. IDA missions would be called upon to assist in reviewing procurement documentation as part of regular supervision activities.

39. Country Procurement Assessment Report. A Country Procurement Assessment has not yet been completed. However, procurement proposed under the project would follow the World Bank's Procurement Guidelines.

40. Procurement Information. Statistics regarding procurement administration would be collected and recorded and would comprise prompt reporting of contract, status, and award information by the Borrower, and quarterly reports to IDA by the Borrower. These reports would indicate (i) revised cost estimates for individual contracts and the total project, including best estimates of allowances for physical and price contingency; (ii) revised timing of procurement actions, including advertising, bidding, contract award, and completion time for individual contracts; and (iii) compliance with aggregate limits on specified methods of procurement.

41. Conditionality: The government has met all the conditions for Board presentation.

**Table 2**  
**Cost Estimates by Major Contract and**  
**Schedule of Critical Procurement Steps Under The IDA Credit**

Component	Contract Type	Base Cost	Procurement Method	Critical Procurement Steps		
				Preparation of Bidding Documents/LOI	Issuance of Invitations to Bid / LOI	Signing of Contract*
<b>Financial Sector Infrastructure</b>		<b>925</b>				
<b>Contract 1</b> Accounting & Auditing	Consultants	375	Short list of 3/6 firms. Selection based on technical merit	May 1, 1994	Jun 1, 1994	Jul 1, 1994
<b>Contract 2</b> Diagnostic study of five banks		350		May 1, 1994	Jun 1, 1994	Jul 1, 1994
<b>Contract 3</b> Payment Systems		200		Jun 1, 1994	Jun 1, 1994	Jul 1, 1994
<b>Economic Management</b>		<b>1,525</b>				
<b>Contract 4</b> Economic Restructuring of central government	Consultants	100	Individual based on 3 CVs	Jun 1, 1994	Jun 1, 1994	Jul 1, 1994
<b>Contract 5</b> Aid Management Advisor	Consultants	300	Short list of 3/6 firms. Selection based on technical merit	Jul 1, 1994	Aug 1, 1994	Sep 1, 1994
<b>Contract 6</b> Redesign of Family Income Survey		275		Jul 1, 1994	Aug 1, 1994	Sep 1, 1994
<b>Contract 7</b> Review and modernize national accounts		100		Jul 1, 1994	Aug 1, 1994	Sep 1, 1994
<b>Contract 8</b> Procurement Advisor		250		May 1, 1994	Jun 1, 1994	Jul 1, 1994
<b>Contract 9</b> Computer Expert		300		Jun 1, 1994	Jul 1, 1994	Aug 1, 1994
<b>Contract 10</b> Debt Management Expert		100		Jun 1, 1994	Jul 1, 1994	Aug 1, 1994
<b>Contract 11</b> Macroeconomic analysis		100	Individual based on 3 CVs	Jun 1, 1994	Jul 1, 1994	Aug 1, 1994

\* Project has provision for retroactive financing

**Table 2**  
**Cost Estimates by Major Contract and**  
**Schedule of Critical Procurement Steps Under The IDA Credit**

<b>Privatization</b>						
<b>Contract 12</b>	<b>Consultants</b>	<u>1,750</u>				
Senior policy advisor		50	Individual based on 3 CVs	Jun 1, 1994	Jul 1, 1994	Aug 1, 1994
<b>Contract 13</b>						
Mass Privatization Experts		650	Short list of 3/6 firms. Selection based on technical merit	Jun 1, 1994	Jul 1, 1994	Aug 1, 1994
<b>Contract 14</b>						
Printing of Vouchers	<b>Goods</b>	100	International Shopping	May 1, 1994	Jun 1, 1994	Jul 1, 1994
<b>Contract 15</b>						
Design and initiate public campaign		150	Short list of 3/6 firms. Selection based on technical merit	Aug 1, 1994	Oct 1, 1994	Nov 1, 1994
<b>Contract 16</b>						
Legal Advisor		300	"	Jun 1, 1994	Jul 1, 1994	Aug 1, 1994
<b>Contract 17</b>						
Pilot privatization		500	"	Aug 1, 1994	Oct 1, 1994	Nov 1, 1994
<b>Customs Administration &amp; Trade Facilitation</b>						
<b>Contract 18</b>	<b>Consultants</b>	<u>1,455</u>	Contract with UNCTAD			
Contract with UNCTAD		1,455	on sole source basis	Jun 1, 1994	Jul 1, 1994	Aug 1, 1994
<b>Equipment<sup>1</sup></b>						
<b>Contract 19</b>	<b>Computers<sup>2</sup></b>	<u>1,000</u>	International Competitive Bidding	Aug 1, 1994	Oct 1, 1994	Jan 20, 1995
<b>Contract 20</b>	<b>Computers<sup>2</sup></b>	<u>1,000</u>	International Competitive Bidding	Jan 1, 1995	Feb 1, 1995	Apr 30, 1995
<b>Contract 21</b>	<b>Software<sup>2</sup></b>	<u>100</u>	Direct Contracting	Aug 1, 1994	Sep 1, 1994	Nov 1, 1994
<b>Contract 22</b>	<b>fax/copier<sup>2</sup></b>	<u>100</u>	Local Shopping	Aug 1, 1994	Sep 1, 1994	Oct 1, 1994
<b>Contract 23</b>	<b>fax/copier<sup>2</sup></b>	<u>250</u>	International Shopping	Jan 1, 1995	Feb 15, 1995	Apr 15, 1995
<b>Contract 24</b>	<b>Office Equip<sup>2</sup></b>	<u>275</u>	International Shopping	Aug 1, 1994	Sep 1, 1994	Dec 15, 1994
<b>Contract 25</b>	<b>Office Equip<sup>2</sup></b>	<u>240</u>	International Shopping	Jan 1, 1995	Feb 1, 1995	Apr 30, 1995
<b>Contract 26</b>	<b>Office Equip<sup>2</sup></b>	<u>235</u>	International Shopping	Jun 15, 1995	Jul 30, 1995	Oct 1, 1995

<sup>1</sup> Depending on the component or subcomponent, it may include some or all the following items: (i) computers, printers, LAN hardware, software, diskettes, paper, etc., installation and after-sale service, (ii) fax machines, photocopiers, paper etc, and service, (iii) UPS, generators etc and (iv) vehicles. To the extent possible, computer items will be packaged in only one contract, as will other items.

<sup>2</sup> Equipment, including installation and after-sale service.

**ATTACHMENT 1: SUMMARY OF PROJECT COMPONENTS**

*US \$*

Component	Total Requirements	IDA credit	Grants	Local Contribution* (US\$ equivalent)
1. Financial Sector Reform	2,325,000	2,005,000	300,000	20,000
2. Economic Management	5,660,000	5,220,000	300,000	140,000
3. Privatization & Enterprise Reform	2,270,000	2,230,000		40,000
<b>Base Cost</b>	<b>10,255,000</b>	<b>9,455,000</b>	<b>600,000</b>	<b>200,000</b>
<b>Contingencies</b>	<b>661,850</b>	<b>661,850</b>		
<b>Total Project Cost</b>	<b>10,916,850</b>	<b>10,116,850</b>	<b>600,000</b>	<b>200,000</b>

\* Local Contribution will be in kind — such as office space, furniture, logistics, and local staff costs.

*ATTACHMENT 1: Summary of Project Components*

Main Government Objective	Project Component Activity	Responsible Agency	Expected Results/Impact	Total Cost US\$	Out of Which		Timing
					IDA	Grants	
<b>I. FINANCIAL SECTOR INFRASTRUCTURE</b>							
1. Assist the government to establish the infrastructure needed for financial sector reform and to deal with operational problems in the short run that must be overcome to stabilize the financial sector.	Experts to assist implementation of international standards accounting and auditing standards for the banking sector and enterprises.	National Bank of Georgia (NBG).	Greater capacity in government to assist banks and enterprises to better report the financial position.	375,000	375,000		Aug 94- Oct 95
	Training and expert assistance for computerization planning	NBG	Capacity building in government.	280,000	280,000		Aug 94- Aug 95
	Equipment	PIU		250,000	250,000		Aug 94- Aug 95
	Experts to assist with banking supervision and legal framework	NBG	Enhanced capacity at NBG for banking supervision and prudential regulation, and a rationalized legal framework.	300,000		300,000	Aug 94- Mar 95

**ATTACHMENT 1: Summary of Project Components**

Main Government Objective	Project Component Activity	Responsible Agency	Expected Results/Impact	Total Cost US\$	Out of Which		Timing
					IDA	Grants	
	Experts to conduct diagnostic studies of five state-owned banks	PIU	Comprehensive report on the status of the state-owned banks and plans for further assistance.	350,000	350,000		Aug 94 - Dec 94
	Equipment for 5 state-owned banks	PIU		250,000	250,000		
	Experts to review the status of payment systems and recommend actions for modernization	NBG	Comprehensive report on the constraints of the existing payment mechanism, which will form a basis for further reform.	200,000	200,000		Aug 94 - Jan 95
	Policy advisor to assist the NBG in monetary policy and operational issues.	NBG	Enhance the capacity of the NBG in the regulation of monetary policy and operations which will be the basis for development.	300,000	300,000		Aug 94 - Aug 95
<b>Subtotal Financial Sector</b>				<b>2,305,000</b>	<b>2,005,000</b>	<b>300,000</b>	

*ATTACHMENT 1: Summary of Project Components*

Main Government Objective	Project Component Activity	Responsible Agency	Expected Results/Impact	Total Cost US\$	Out of Which		Timing
					IDA	Grants	
<b>II. ECONOMIC MANAGEMENT</b>							
1. Economic policy formulation	Experts on reform of central economic management agencies	Cabinet of Ministers: Deputy PM's office	Reform and better coordination of central economic agencies	100,000	100,000		Aug 94 - Dec 94
	Expert to provide economic advice and on-the-job training	Deputy PM's Office	Improved capacity for economic policy analysis within Government	300,000		300,000	Aug 94 - Aug 95
2. Economic Management and Aid Coordination	Experts to assist in the establishment of aid management secretariat	Cabinet of Ministers/SCFER	Set-up and initial training of an effective aid management unit	300,000	300,000		June 94 - Dec 95
	Assistance for project preparation for foreign financing	Ministry of Telecommunications	Internationally acceptable project preparation	450,000	450,000		1993- 1994
	Equipment for Cabinet of Ministers (AMU)/SCFER/Parliament/Ministry of Economy	PIU		245,000	245,000		

**ATTACHMENT 1: Summary of Project Components**

Main Government Objective	Project Component Activity	Responsible Agency	Expected Results/Impact	Total Cost US\$	Out of Which		Timing
					IDA	Grants	
3. Statistics	Experts to review and modernize National Accounts	Committee for Socio-Economic Information (CSEI)	Adoption of improved system for preparing National Accounts	100,000	100,000		Aug 94 - Dec 94
	Technical assistance for preparation of improved household income and expenditure survey	CSEI	Improved information on socio-economic impact of transition	275,000	275,000		Aug 94 - Aug 95
	Equipment	PIU		250,000	250,000		
	Training for CSEI staff	CSEI	Improved capacity for providing timely socio-economic data	200,000	200,000		Aug 94 - Aug 95
4. Project Management	External Procurement Advisor to set up and assist Project Implementation Unit	SCFER	Enhance government capacity in international procurement practices	250,000	250,000		Jul 94 - Jul 95
	Computer expert to assist beneficiary agencies with computerization and implementation plan	SCFER	Integrate computerization strategy for all government agencies	300,000	300,000		Oct 94 - Aug 95
	PIU equipment	PIU		25,000	25,000		

**ATTACHMENT 1: Summary of Project Components**

Main Government Objective	Project Component Activity	Responsible Agency	Expected Results/Impact	Total Cost US\$	Out of Which		Timing
					IDA	Grants	
5. Debt Management	Experts to review and modernize debt management system	MOF	Strengthen capacity to maintain a modern debt management system	100,000	100,000		Jul 94 - Dec 94
6. Economic Analysis	Experts to review and modernize economic analysis capability	MOF	Strengthen capacity of the macroeconomic analysis unit	100,000	100,000		Jul 94 - Dec 94
7. Tax Administration	Equipment to modernize tax administration in the city of Tbilisi on a pilot basis	PIU	Modernization of government's tax administration system	500,000	500,000		
8. Establishment of Treasury	Equipment to support establishment of a central treasury	PIU	Enhanced capacity for budget management	500,000	500,000		
	Equipment for MOF Operations	PIU		70,000	70,000		
9. Modernization of the customs administration	Experts to review and reform the organization, structure, and customs procedures	Committee for Customs Administration (CCA)	Modernized and streamlined structure, organization, and procedures	300,000	300,000		Sep 94 - Dec 95

**ATTACHMENT 1: Summary of Project Components**

Main Government Objective	Project Component Activity	Responsible Agency	Expected Results/Impact	Total Cost US\$	Out of Which		Timing
					IDA	Grants	
	Experts to review transit management activities	CCA	Improvement in efficiency of transit management	80,000	80,000		Sep 94 - Dec 94
	Experts to develop modernization plan	CCA	Computerization of customs function	400,000	400,000		Sep 94 - Dec 94
	Training for customs staff	CCA	In-country training for customs officers, and external training for selected staff	175,000	175,000		Sep 94 - Apr 95
	Equipment	PIU		500,000	500,000		
<b>Subtotal: Economic Management</b>				<b>5,520,000</b>	<b>5,220,000</b>	<b>300,000</b>	
<b>III. PRIVATIZATION AND ENTERPRISE REFORM</b>							
1. Improve efficiency of productive sector through privatization and enterprise reform	Senior privatization advisor to review existing constraints and recommend modifications	Cabinet of Ministers: Deputy P.M. office	Formulation of improved, transparent policies	50,000	50,000		Aug 94 - Dec 94
	Experts to assist in formulation and design of mass privatization program	Committee for State Property Management (SPM)	Development of mass privatization program with voucher scheme.	750,000	750,000		Aug 94 - Feb 95
	Public information campaign	SPM	Increased public awareness and support	150,000	150,000		Oct 94 - Mar 95

*ATTACHMENT 1: Summary of Project Components*

Main Government Objective	Project Component Activity	Responsible Agency	Expected Results/Impact	Total Cost US\$	Out of Which		Timing
					IDA	Grants	
	Legal advisor to review and further develop legislative framework on privatization	SPM	Improved legislative framework for privatization	300,000	300,000		Aug 94 - Aug 95
	Training for SPM staff	SPM	Strengthening of professional skills	100,000	100,000		Aug 94 - Aug 95
	Equipment for SPM/ Ministry of Industry	PIU		380,000	380,000		
	Experts to assist SPM staff in development of privatization methodology and process through pilot privatization of selected enterprises	SPM/Ministry of Industry	Development of privatization methodology, and privatization of selected enterprises	500,000	500,000		Aug 94 - Feb 95
	<b>Subtotal Privatization</b>			<b>2,230,000</b>	<b>2,230,000</b>		
	<b>TOTAL ALL COMPONENTS</b>			<b>10,055,000</b>	<b>9,455,000</b>	<b>600,000</b>	
	Contingencies at 7%			661,850	661,850		
	<b>GRAND TOTAL</b>			<b>10,716,850</b>	<b>10,116,850</b>	<b>600,000</b>	

INSTITUTION BUILDING PROJECT  
FOREIGN COST ESTIMATE IN US\$'000

Component/Sub-component	Experts	Training	Equipment, Goods & Materials	Total	Financing	
					IDA Credit	Grant
<b>PART ONE: FINANCIAL SECTOR REFORM</b>						
Policy Advisor for financial reforms (12 m-m)	300			300	300	
Banking Supervision & Legal framework (12 m-m)	400			300		300
Accounting & Auditing (15 m-m)	375			375	375	
Training for NBG		280		280	280	
Equipment for NBG			250	250	250	
Review of payment systems (8 m-m)	200			200	200	
Diagnostics of 5 state-owned banks (14 m-m)	350			350	350	
Equipment for state-owned banks			250	250	250	
<b>Sub-total</b>	<b>1,625</b>	<b>280</b>	<b>500</b>	<b>2,305</b>	<b>2,005</b>	<b>300</b>
<b>PART TWO: ECONOMIC MANAGEMENT</b>						
Reform Econ. Mgmt. Agen. (4 m-m)	100			100	100	
Sector Economist (12 m-m)	300			300	0	300
Equipment			245	245	245	
Project Preparation Fund	450			450	450	
Aid coordination advisor (12 m-m)	300			300	300	
Procurement Advisor (10 m-m)	250			250	250	
Equipment for PIU			25	25	25	
Equipment for a pilot tax admin project			500	500	500	
Equipment for a pilot treasury project			500	500	500	
Computer Expert for automation planning (12 m-m)	300			300	300	
<i>Strengthening Statistical Services</i>						
Redesign of Family Income Survey (11 m-m)	275			275	275	
Review of National Accounts (4 m-m)	100			100	100	
Training for Statistical unit		200		200	200	
Equipment for statistical unit			250	250	250	
<i>Ministry of Finance</i>						
Debt Management Support	100			100	100	
Economic Analysis	100			100	100	
Equipment			70	70	70	
<i>Customs Administration</i>						
Trade/Customs Management (12 m-m)	300			300	300	
Transit Management (3 m-m)	80			80	80	
Customs Training		175		175	175	
<i>Computerization Support to Customs</i>						
Experts for software adaptation & training	400			400	400	
Computers			500	500	500	
<b>Subtotal</b>	<b>3,055</b>	<b>375</b>	<b>2,090</b>	<b>5,520</b>	<b>5,220</b>	<b>300</b>
<b>Page 1 Total</b>	<b>4,680</b>	<b>655</b>	<b>2,590</b>	<b>7,825</b>	<b>7,225</b>	<b>600</b>

**GEORGIA  
INSTITUTION BUILDING PROJECT  
FOREIGN COST ESTIMATE IN US\$'000**

Attachment 2

Component/Sub-component	Experts	Training	Equipment, Goods & Materials	Total	Financing	
					IDA Credit	Grant
<b>PART THREE: PRIVATIZATION AND ENTERPRISE REFORM</b>						
Privatization Advisor (2 m-m)	50			50	50	
Design of Mass privatization Prog (26 m-m)	650			650	650	
Printing of vouchers			100	100	100	
Privatization of selected enterprises (20 m-m)	500			500	500	
Public Information Campaign (6 m-m)	150			150	150	
Legal Advisor (12 m-m)	300			300	300	
Equipment for SPM/Min of Industry			380	380	380	
Training to SPM/Min of Industry staff		100		100	100	
<b>Total Page 2 total</b>	<b>1,650</b>	<b>100</b>	<b>480</b>	<b>2,230</b>	<b>2,230</b>	<b>0</b>
<b>TOTAL BASE COST Page 1 and 2</b>						
	<b>6,330</b>	<b>755</b>	<b>3,070</b>	<b>10,055</b>	<b>8,455</b>	<b>600</b>
Contingencies'	417	50	202	662	662	
<b>GRAND TOTAL</b>	<b>6,747</b>	<b>805</b>	<b>3,272</b>	<b>10,717</b>	<b>10,117</b>	<b>600</b>