Board Meeting of October 21, 1997
Statement by Juanita D. Amatong

GEORGIA Country Assistance Strategy

1. We thank the staff for this CAS document. We appreciate its clear description of the country’s political, economic and social developments as well as its sound analysis of the medium-term development challenges and prospects facing the country.

2. The government of Georgia has taken effective control of its development path. We commend the authorities for their single-minded efforts in rebuilding the economy and their impressive achievements in pursuing difficult and broad-based reforms. Especially noteworthy are its macroeconomic accomplishments resulting in the significant reduction of annual inflation rates from 14% in end-1996 to 4.6% by mid-1997 and the dramatic decline in current account deficit from 37% in 1995 to 7.6% in 1996.

3. We endorse the thrust of the Bank’s country assistance strategy for Georgia for FY98-00, which focuses on (a) strengthening public finances, deepening and diversifying the sources of growth, (c) protecting the environment, and (d) reducing poverty. We appreciate the consultations held with civil society and other development partners on the CAS to ensure ownership of the assistance strategy by a broader segment of society.

4. Given the Government’s sense of urgency in addressing the country’s development needs, their strong commitment to reform, and their good portfolio performance, we are optimistic that the high-case scenario proposed in the CAS may well be achieved. We support this and are pleased to note from Mr. Pieter Stek’s circulated statement the Government’s determination “to gain the status of creditworthiness” needed for Bank lending assistance. To further increase the likelihood of achieving such a scenario for the country, the Bank should continue to exercise an effective leadership role in coordinating and mobilizing external assistance.

5. That said, we would like to raise the following points:

   (a) **Strengthening Public Finance** — The document suffers from a lack of detailed description of specific measures envisioned in this area (paras 40-41, page 13).

   --- On the revenue side, what are the key aspects of the new Tax Code adopted by Parliament in June 1997? What is the
present tax structure and tax administration schemes and how will recent reforms affect these? what specific revenue schemes are envisioned to improve government revenue performance of 10.3% in 1997 to 15.5% in 2000?

--- On the expenditure side, we agree with the staff in recognizing that the Government must “maintain tight control over its expenditures - during the next three years” (para 41). We also endorse the policy directions and key expenditure priorities in the June 1996 Public Expenditure Review (PER). Given that the reforms in public expenditure management cannot and will not be made in a short period of time and given that the priorities identified are expected to remain, we wonder what would be the value-added of a proposed Public Expenditure Revenue (PER) in 2000?

(b) Sequencing of the Social Investment Fund (1998) -- It appears that Poverty Assessment may not necessarily be a considered an input in the design of the Social Investment Fund. How can effective targeting be designed in the Social Fund in the absence of key information on the characteristics and geographic nature of poverty in the country?

(c) Build-up of limited socio-economic indicators -- We note from the CAS annexes a serious lack of important socio-economic data. The 1998 Poverty Assessment should be able to provide a comprehensive profile of poverty characteristics in Georgia. We hope that the document will also highlight related gender issues.