

**FOR  
AGENDA**

EBS/08/107  
Supplement 1

September 10, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Georgia—Request for Stand-By Arrangement—Informational Annex**

The attached informational annex is being issued as a supplement to the paper on a request for a Stand-By Arrangement for Georgia (EBS/08/107, 9/10/08), which is tentatively scheduled for discussion on **Monday, September 15, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Georgia indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Ms. Coronel (ext. 38119) and Ms. Dieterich (ext. 35425) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat forthwith; and to the European Bank for Reconstruction and Development, the European Commission, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

GEORGIA

**Request for Stand-By Arrangement**

**Informational Annex**

Prepared by the Middle East and Central Asia Department

September 10, 2008

	Contents	Page
I.	Relations with the Fund .....	2
II.	Relations with the World Bank .....	7
III.	Relations with the EBRD .....	14
IV.	Statistical Issues .....	20
V.	Tentative Work Program.....	25

**ANNEX I. GEORGIA: RELATIONS WITH THE FUND**

(As of July 31, 2008)

I. **Membership Status:** Georgia joined the Fund on May 5, 1992.

II. <b>General Resources Account:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
Quota	150.30	100.00
Fund holdings of currency	150.30	100.00
Reserve position in Fund	0.01	0.01
III. <b>SDR Department:</b>	<b>SDR Million</b>	<b>Percent of Allocation</b>
Holdings	6.25	N/A
IV. <b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
PRGF Arrangements	144.97	96.45

V. **Latest Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn SDR Million)</u>
PRGF	6/4/04	9/30/07	98.00	98.00
PRGF	1/12/01	1/11/04	108.00	49.50
PRGF	2/28/96	8/13/99	172.05	172.05

VI. **Projected Payments to Fund:** (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Principal</b>	7.91	17.96	14.10	17.90	19.90
<b>Charges/interest</b>	<u>0.35</u>	<u>0.63</u>	<u>0.56</u>	<u>0.47</u>	<u>0.38</u>
<b>Total</b>	8.26	18.59	14.66	18.37	20.28

VII. **Safeguard Assessments:**

Under the Fund's safeguards assessment policy, the National Bank of Georgia (NBG) is subject to an updated safeguards assessment in the context of the proposed 18-month Stand-By Arrangement. A full safeguards assessment with respect to the PRGF arrangement approved on June 4, 2004 was completed on December 10, 2004, and it concluded that safeguards in place at the NBG appear generally adequate in most safeguards areas. Certain vulnerabilities were, however, identified in the internal audit and internal controls areas, and the safeguards assessment recommended measures to address them. The subsequent ongoing monitoring of the NBG indicates that it has met the key requirements of the Fund's safeguards policy, namely: (i) its financial statements comply with a recognized accounting

and financial reporting framework (i.e., International Financial Reporting Standards); (ii) the financial statements are audited by international firms in compliance with International Standards on Auditing, and receive a "clean" opinion (latest opinion is for the year ended December 31, 2007); and (iii) the audited financial statements are published in the NBG's Annual Report and on its website.

**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):**

Not Applicable.

**IX. Implementation of HIPC Initiative:**

Not Applicable.

**X. Exchange Arrangements:**

(a) Since April 29, 1993, the Tbilisi Interbank Currency Exchange (TICEX), established by the NBG and a group of commercial banks, has conducted periodic auctions to determine the exchange rate of the domestic currency vis-à-vis the U.S. dollar. These auctions are conducted daily. Foreign exchange bureaus are allowed to buy and sell foreign currency bank notes. Georgia's exchange rate regime is classified as "managed floating." A temporary de facto exchange rate peg to the U.S. dollar was introduced in the wake of the early August armed conflict.

(b) Georgia maintains no exchange restrictions on the making of payments and transfers for current international transactions except for exchange restrictions maintained for security reasons, and notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

**XI. Article IV Consultation:**

The 2006 Article IV consultation was concluded on March 31, 2006.

**XII. FSAP Participation:**

Two FSAP missions visited Tbilisi during May 1–15, and July 24–August 7, 2001. An FSAP update mission visited Tbilisi during February 15–28, 2006.

**XIII. Technical Assistance:**

See Table 1 of this Annex.

**XIV. Resident Representative:**

The fifth Resident Representative, Mr. Christiansen, took up his post on August 1, 2004 and ended it on August 31, 2008.

#### XV. National Bank of Georgia Resident Advisors:

Ms. Vance, MAE peripatetic banking supervision advisor to the NBG, commenced a series of visits to Tbilisi in September 1997. Mr. Nielsen, an MAE advisor, provided technical assistance to the NBG in May 1998. Mr. Viksnins was an MAE peripatetic advisor to the NBG president starting in October 1999. Mr. Fish was resident advisor on banking supervision from August 10, 1999 to January 31, 2002. Mr. Bernard Thompson provided peripatetic technical assistance in accounting and internal audit in March and August 2000. Mr. Wellwood Mason provided technical assistance on payment system issues on a peripatetic basis in 2002 and 2003. Mr. Howard C. Edmonds serves since September 2004 as a resident advisor on banking supervision issues.

#### XIV. Ministry of Finance Resident Advisors:

Mr. Sharma was an FAD resident advisor and assisted the authorities in the development of a Treasury beginning in May 1997. Mr. Sainsbury, an FAD advisor, assisted the ministry of finance from June 1998 to November 1999. Mr. Chaturvedi was FAD resident advisor in 2001 and 2002 to assist the authorities in continuing the development of the Treasury and the Treasury Single Account, in revising the legislative framework, expenditure control systems, and budgeting issues. Between 2001 and 2003, Mr. Welling was an FAD peripatetic advisor to assist the State Customs Department in preparing and introducing measures for the custom reform and modernization program. In March 2005, Mr. Zohrab started advising the authorities on treasury-related reforms, and his term ended in November 2006.

Table 1. Georgia: Fund Technical Assistance Missions, 2004–07

Subject	Type of Mission	Timing	Counterpart
<b>Fiscal Affairs Department (FAD)</b>			
Tax Policy	Review of tax policy	June 8–21, 2004	Ministry of Finance
Public Expenditure Management	Assessment of Treasury system.	Nov. 8–23, 2004	Ministry of Finance
Public Financial Management	Resident advisor (Zohrab)	Mar. 2005–Nov. 2006	Ministry of Finance
Tax Administration	Mission—review of modernization program	Nov. 8–21, 2005	Ministry of Finance
Tax Administration	Expert assistance	July 9–14, 2006	Ministry of Finance
Tax Administration	Expert assistance (Bosch)	Oct. 9–25, 2006	Ministry of Finance
Tax Administration	Follow-up mission	Jan. 17–30, 2007	Ministry of Finance
Tax Administration	Expert assistance	Jan/Feb and Apr/May 2008	Ministry of Finance

Table 1. Georgia: Fund Technical Assistance Missions, 2004–07

Subject	Type of Mission	Timing	Counterpart
	(Woodley)		
Budget Classification and Accounting Reforms	Expert assistance (Swarap)	June 11-22, 2007	Ministry of Finance
Budget Classification and Accounting Reforms	Expert assistance (Swarap)	Oct. 8-19, 2007	Ministry of Finance
<b>Monetary and Capital Markets Department (MCM)</b>			
Government Securities Market, Deposit Insurance, Anti-Money Laundering	Advisory	April 20–30, 2004	National Bank of Georgia
Monetary Operations, Banking Sector Competition	Advisory	Oct. 24–Nov. 5, 2004	National Bank of Georgia
Liquidity Management; Trends in Securities and Insurance Sectors	Advisory	April 18–29, 2005	National Bank of Georgia
FSAP Update	Assessment	Feb. 15–28, 2006	National Bank of Georgia
Monetary Operations/Monetary Policy/Foreign Exchange	Advisory	Feb. 16–Mar. 2, 2007	National Bank of Georgia
Consolidated Supervision	Advisory	Dec. 4–14, 2007	National Bank of Georgia
<b>Statistics Department (STA)</b>			
National Accounts	Follow-up assistance	April 26–May 7, 2004	State Department of Statistics
National Accounts	Follow-up assistance	April 18–29, 2005	State Department of Statistics
Price Statistics	Follow-up assistance	May 23–June 3, 2005	State Department of Statistics
Balance of Payments Statistics/International Investment Position	Follow-up assistance	June 15–28, 2005	State Department of Statistics and National Bank of Georgia
Price Statistics	Follow-up assistance	June 20–July 13, 2006	State Department of Statistics
Balance of Payments	Follow-up assistance	Sept. 6–19, 2006	National Bank of Georgia

Table 1. Georgia: Fund Technical Assistance Missions, 2004–07

Subject	Type of Mission	Timing	Counterpart
GDDS/Government Finance Statistics	Follow-up assistance	Nov. 8–22, 2006	State Department of Statistics, National Bank of Georgia, Ministry of Finance
Balance of Payments	Follow-up assistance	July 9-20, 2007	National Bank of Georgia
<b>Legal Department (LEG)</b>			
Tax Code	Follow-up assistance	Jan. 28–Feb. 9, 2001	Ministry of Finance, Tax Inspectorate of Georgia
Tax Code	Follow-up assistance	Jul. 13–24, 2001	Ministry of Finance, Tax Inspectorate of Georgia

## ANNEX II. GEORGIA: RELATIONS WITH THE WORLD BANK

### Partnership in Georgia's Development Strategy

1. Georgia joined the World Bank in 1992 and the International Development Association (IDA) in 1993. With borrowing of US\$939.3 million for 43 operations, Georgia is one of the largest IDA borrowers in the CIS. There are currently 19 IDA operations under implementation. The latest World Bank Country Partnership Strategy (CPS) of Georgia for FY06–09 was presented to the World Bank Board of Executive Directors in September 2005. The CPS, built on the Economic Development and Poverty Reduction Program (EDPRP) of the government (its PRSP), was designed to assist Georgia in the implementation of its reform program. A CPS Progress Report to assess the mid-term progress in the implementation of the CPS was presented to the Board in June 2008.
2. The Poverty Reduction Support Operation series of the last three years have been the cornerstone of the Georgia CPS Strategy and have supported further elaboration and implementation of the key elements of the government's poverty reduction strategy as described in the PRSP (EDPRP) Progress Report.
3. A Joint Staff Advisory Note was prepared—which, together with the second PRSP Progress Report—were presented to the Boards of IDA and IMF in September 2006. The IMF presented the staff report of the sixth and final review under the PRGF arrangement to the IMF Board in August 2007. The Third Poverty Reduction Support Operation (PRSO III), was discussed and approved by the Board in June 2007, and the PRSO IV (the last in a series of PRSOs) was approved on May 27, 2008.
4. The IMF has taken the lead in assisting Georgia in improving macroeconomic stability and pursuing fiscal reforms. The World Bank has taken the lead in the policy dialogue on structural issues, focusing on (i) strengthening public expenditure management; (ii) improving performance of the public sector; (iii) reducing corruption; (iv) deepening and diversifying sources of growth; (v) protecting the environment; and (vi) reducing poverty.
5. The PRSO program focuses on four central reform areas: (i) strengthening public sector accountability, efficiency, and transparency; (ii) improving electricity and gas sector services; (iii) improving the environment for private sector development; and (iv) improving social protection, education and health care services.
6. Other support has come in the form of project support and analytical and advisory activities across a broad spectrum of areas including education, health care, social protection, energy, roads, water and sanitation, agriculture, agricultural research and extension, irrigation and drainage, forestry, environment, biodiversity, enterprise development, municipal development, judicial reform, and cultural heritage. A Public Expenditure Review (PER) was

prepared in 2002, and a Trade Study in 2003. A Country Procurement Assessment Report (CPAR) was prepared in 2002 and a Country Financial Accountability Assessment (CFAA) in 2003. A Country Fiduciary Assessment (CFA) was prepared in 2007. A series of annual programmatic Poverty Assessments are being implemented with a report to be issued in 2008. A Programmatic Public Finance Policy Review (PPFPR) and a Country Economic Memorandum (CEM) are planned for FY09.

7. Georgia became a shareholder and a member of IFC in 1995, and IFC has financed projects in the financial, infrastructure, oil and gas, and manufacturing sectors. IFC's portfolio in Georgia as of January 2008 stands at about \$93 million with seven clients. In the financial sector, IFC has focused on supporting the development of the housing finance market, providing investment and technical assistance to three leading banks—TBC Bank, the Bank of Georgia, and Bank Republic. To reach small and medium enterprises, IFC helped to establish ProCredit Bank of Georgia, the country's first bank specializing in lending to micro and small enterprises. IFC has also provided a credit line to TBC Leasing to support the rapid growth of their portfolio of SME clients. In FY08, IFC also supported GRDC in their financing of the development of office and retail space. IFC continues to look for opportunities to support these clients, as well as other emerging financial market leaders to deepen the financial sector and increase the range of financial products available.

8. In the real sector, IFC's most recent transaction is a loan to TAV to support their construction of new airport terminals in Tbilisi and Batumi. In oil transit, IFC has provided equity and credit to local and international companies, including investments by British Petroleum and other sponsors in the construction of the Baku-Supsa Early Oil Pipeline and the Baku-Tbilisi-Ceyhan Pipeline. Other investment projects have been in electricity distribution (AES-Telasi), mineral water (GGMW), and glass bottle production (Ksani Glass Factory). In the real sector, IFC continues to look for opportunities to support the growth of the private sector, particularly in export-oriented companies or those that support overall private sector development. Sectors of interest include agribusiness, infrastructure, manufacturing, and the development of natural resources.

9. IFC has also provided donor-supported technical assistance to strengthen its client banks and introduce new financial products (including leasing and housing finance). IFC is currently providing technical assistance in Georgia to improve the business climate and corporate governance practices. The World Bank-IFC Doing Business report has ranked Georgia as a top reformer in its Doing Business 2008 report, and the government is actively engaged with IFC to make further progress on reforms for the business enabling environment.

10. The division of responsibilities between the two institutions is described in the next section. In a number of areas—for example, the social sectors, rural development, environment, and infrastructure—the World Bank takes the lead in the dialogue. The World

Bank is also leading the dialogue on private sector development and energy. In other areas—the financial sector, public expenditure management, and civil service reform—both institutions are working together. Finally, in areas like monetary policy and domestic customs revenue, the IMF takes the lead.

### **IMF-World Bank Collaboration in Specific Areas**

#### **Areas in which the World Bank leads and there is no direct IMF involvement**

11. In the **social sectors**, IDA updates Georgia's Poverty Assessment based on quarterly household survey data. IDA's focus has been to improve execution of budgetary expenditures for health, education and poverty benefits and to raise the efficiency in the use of scarce public resources. Through the Social Investment Fund credits, IDA is focusing in particular on areas with high poverty levels to provide basic infrastructure to the poorest communities. Through the PRSO program, IDA is strengthening the dialogue with the government on social protection reform (safety nets, pensions, poverty benefits, labor market institutions and policies). Under the PRSO program, a poverty benefit targeted for the extreme poor is being implemented.

12. In **education**, the Adaptable Program Credit of Education System Realignment & Strengthening Program (APL #1 and APL #2) addresses a broad spectrum of educational reform issues aimed at improving learning outcomes of primary and secondary students through curriculum reform, development of a national assessment and examination system, training of teachers, provision of learning materials, and development of capacity to make better use of physical, financial, and human resources. It also tackles key financing issues through the introduction of a per-capita based formula for financing basic education. The second phase of the program provides continued assistance to the implementation of the institutional and policy framework adopted under phase one of the program and includes support to schools in emergency conditions. The PRSO program is supporting the government's efforts in institutionalizing systemic changes initiated with its education reform strategy.

13. In **health**, IDA credits support the government in improving provision of primary health care services by providing training, equipment and supporting the health information system, as well as capacity building in management. IDA is supporting the provision of health insurance coverage for the poor and has conducted the initial impact evaluation of this program. IDA is engaged in policy dialogue with the government on health sector reform through the PROS program as well as Health Technical Assistance by providing policy advice on regulatory framework for health insurance market, provider payment issues and benefit package.

14. In **infrastructure**, support is being provided through the Secondary and Local Roads Project, the First East-West Highway Improvement Project, and the Second East-West Highway Improvement Project to finance improvement of country's main, secondary, and local road infrastructure, as well as through the Municipal Development and Decentralization Project II and the Social Investment Fund Project to finance critical infrastructure needs at the municipal and community level. Under the latter primarily school and health facility heating and repair, small hydropower schemes rehabilitation, drinking water and sanitation rehabilitation, street lightning improvements, as well as local transportation infrastructure rehabilitation has been targeted. The ongoing Infrastructure Pre-Investment Facility project is to facilitate infrastructure investments of strategic importance and/or special complexity by providing technical assistance to assess the feasibility and effectiveness of investments, focusing on energy and transport sectors. Specifically, it targets preparation of First and Second East-West Highway Improvement projects, preparation of Khudoni Hydro Power Plant project (if feasible).

15. In **rural development**, IDA credits have supported development of private sector farming and agro-processing improvements, agricultural credit, irrigation and drainage, and agricultural research. IDA credits have also been supporting creation of local institutions, such as rural credit unions and water users associations. A recently approved Rural Development Project is to develop the productivity and profitability of the private agriculture sector with the aim to increase incomes and employment and reduce poverty in rural areas.

16. A recently closed **Judicial Reform** project provided funds for development of new court administration and case management procedures, rehabilitation and construction of courthouses, a computerized network system, assistance for judicial training, and an extensive public information and education outreach effort to inform citizens of their rights and communicate the government's reform efforts.

#### **Areas in which the World Bank leads and its analysis serves as input into the IMF work**

17. The World Bank leads the dialogue on structural reforms through the PRSO program. Institution building and technical assistance have been supported through the Structural Reform Support Project. The World Bank also leads in the areas of:

a) **Private sector development.** The PRSO program and IFC's advisory work focus on improving investment climate and reducing constraints to private sector development in Georgia. IDA has also been supporting private sector participation in other areas, such as energy, urban services and agriculture. The IMF has worked with the authorities to initiate audits of the accounts of three major state-owned enterprises.

b) **Energy.** The energy system was in poor condition, with unreliable supply and unsustainable debts. However, under the PRSO program, the Georgian authorities have made

progress and payment collections and service levels have improved substantially in the power sector. The government of Georgia (GoG) has been working with IDA and other donors, including the IMF, to implement a series of short-term action plans and longer term steps to improve the overall functioning of the sector. At the beginning of the last PRGF program, the IMF focused on reducing quasi-fiscal losses in the sector. The World Bank through the PRSO program focused on improved bill collections, the handling of sector legacy debt, some sector restructuring, and the pursuit of tariff policies at cost-recovery levels was facilitated by a World Bank-assisted review of the tariff policy methodology. The Georgian authorities have prepared and implemented Energy Sector Strategic Action Plans and updates thereof under the PRSO program since 2005. In an ongoing operation, the World Bank finances a feasibility study for a major, new hydropower plant that could add about 20 percent to the country's hydropower capacity.

- c) **Public sector management.** The PRSO program supports through its first pillar, inter alia, improving public expenditure policies and management; implementing procurement reform; strengthening public financial management accountability; implementing intergovernmental fiscal reform; developing a strategy for administrative and civil service reform; and implementing the National Anti-corruption Strategy. The Public Sector Financial Management Reform Support Project (IDA grant pooled together with resources from other donors) is to provide technical assistance and capacity building in support of the first pillar of the PRSO program. The IMF is providing technical assistance in support of tax and customs administration reform.
- d) **Municipal finance:** The Municipal Development and Decentralization Project II has been assisting the government to review the current intergovernmental fiscal relation, and to suggest an equalization transfer system to compensate for horizontal fiscal disparities across local governments.
- e) **Health sector:** The Structural Reform Support Project supported the GoG in the improving of the secondary health care services by reducing the surplus of hospitals and personnel, providing the various types of the technical assistance in health care financing, HR development, service provision, quality of services. A number of medical facilities have been renovated, equipped and staff trained, so they can offer a decent quality of services to the population of Georgia.

### **Areas of shared responsibility**

18. The World Bank and the IMF have been working jointly in the following main areas:

- a) **Poverty reduction strategy.** Both institutions have worked closely with the government to support the implementation of the PRSP (or EDPRP as it is known in Georgia), through seminars and workshops, direct staff input, and donor coordination. A

JSAN on the progress with implementation of the government's EDPRP was issued in September 2006.

b) **Budget planning and execution.** The PRSO program is supporting reforms to improve public expenditure policies and management including development of an MTEF, and strengthening public financial accountability. The Public Sector Financial Management Reform Support Project is financing technical assistance and necessary investment to support budget planning and management processes within the ministry of finance (MoF) and line ministries. The IMF focused on treasury reform within the MoF.

c) **Financial sector reforms.** The joint Financial Sector Assessment Program has supported (i) strengthened banking and nonbanking supervision; (ii) introduction of international accounting standards; (iii) consolidation of banks through higher capital requirement ratios; (iv) anti-money laundering legislation; (v) strengthening the regulatory environment and removing impediments for development of viable nonbank financial institutions; and (vi) strengthening the payment system. IFC has worked to strengthen the banking sector through investment and technical assistance, and has supported the development of the financial leasing market through technical assistance. The IMF has focused on banking supervision, anti-money laundering legislation, and improvements in monetary control instruments with extensive technical assistance from its Monetary and Capital Markets Department.

#### **Areas in which the IMF leads and its analysis serves as input into the World Bank program**

a) **Fiscal framework and reforms in tax policy and tax and customs administration.** The IMF's focus on prudent fiscal policy has served as an important framework for IDA's work on public expenditure management. The IMF's Fiscal Affairs Department has the lead in the areas of tax policy and tax and customs administration reform.

b) **Economic statistics.** IMF technical assistance has been conducive to improvements in national accounts, price, monetary and government financial statistics. The World Bank's grant on Statistical Capacity Building will build on the recommendations of IMF technical assistance to strengthen the quality of national accounts statistics.

#### **Areas in which the IMF leads and there is no direct World Bank involvement**

a) **Monetary framework.** The IMF collaborates closely with the NBG in the design and implementation of a monetary program that aims at rebuilding international reserves while keeping inflation low and monetizing the economy.

### **World Bank Group Strategy**

On September 15, 2005, the World Bank Executive Board endorsed the new Country Partnership Strategy (CPS) for FY06–09 designed to assist Georgia with deeper institutional reform, as well as more fundamental infrastructure improvements. A CPS Progress Report assessing mid-term progress in the implementation of the CPS was presented to the Board in June 2008. In general, the first two and a half years of the CPS period have been characterized by rapid reform with most of the CPS goals achieved on schedule or earlier than anticipated. The First PRSO, of a series of single tranche annual Poverty Reduction Support Operations was approved in September 2005 (US\$13.5 million is a regular IDA credit and US\$6.5 million is an IDA grant). The Second PRSO for US\$20 million of IDA credit was approved by the World Bank's Board in October 2006. The Third PRSO for US\$20 million of IDA was approved by the World Bank Board in June 2007, and the Fourth PRSO (the last in the series of PRSO) was approved in May 2008. Other recent operations include a US\$19 million First East-West Highway Improvement Project approved in November 2006, a US\$35 million Second East-West Highway Improvement Project approved in November 2007, a US\$15 million Education System Realignment & Strengthening Program supported by the Japanese government cofinancing grant in the amount of US\$4.9 million, a US\$5 million Infrastructure Pre-Investment Facility, a US\$3 million grant Public Sector Financial Management Reform Support Project, a US\$24 million Reform Support Credit, a US\$20 million Secondary and Local Roads Project, a US\$3.6 million Electricity Market Support Project, a US\$10 million Rural Development Project, US\$20 million PHC Development Project, US\$10 million Avian Influenza Control and Human Pandemic Preparedness and Response Project and a US\$5 million Irrigation and Drainage Community Development Project Additional Funding for flood control. The World Bank continues its discussion with the government on a more comprehensive medium-term reform strategy that would be supported by possible future programmatic Development Policy Credit series and technical assistance operations.

Questions may be referred to Ms. Afsaneh Sedghi (202-473-7518), Mr. A. Cholst (202-458-0324), or Ms. R. Quintanilla (202-473-7673).

**ANNEX III. GEORGIA: RELATIONS WITH THE EBRD**

(As of August 18, 2008)

As of June 30, 2008, European Bank for Reconstruction and Development (EBRD) had signed 83 investments in Georgia with cumulative commitments totaling €519 million. Current portfolio stock equals to €369 million. The EBRD's first operation, a power rehabilitation project, was signed in December 1994. Since then, the pace and composition of portfolio growth has varied significantly from year to year. Our investments in the private sector since 2004 have increased by 153 percent from €160 million to €441 million at the end of June 2008.

1. The Bank is currently focusing its efforts on developing infrastructure, reforming the financial sector, supporting energy sector, introducing further market competition, restructuring the corporate sector and introducing sound corporate governance. Currently, EBRD's portfolio counts 38 percent investments into financial institutions sector; 8 percent into infrastructure, 34 percent into corporate sector, and 20 percent into energy sector.
2. During 2007, the Bank signed 22 transactions in Georgia for €192 million. This is the highest annual business level to date for the Bank in Georgia. For the first half of 2008, EBRD has already committed €61 million into 9 projects. Some project examples include €30 million loan framework facility and €10.2 million equity investment in Georgian Reconstruction and Development Company (GRDC). Together with Meinl European Land, one of the largest European real estate companies, the Bank established Meinl Caucasus and Central Asia Fund, aimed specifically at raising the quality of retail outlets in the major cities in the region. The Bank also introduced its Energy Efficiency Facility in two large Georgian Banks, Cartu Bank (€8.5 million) and TBC Bank (€7 million). The Medium-Sized Loan Cofinancing Facility was introduced to an additional partner bank, Bank Republic, with a €12.6 million credit line. EBRD has also signed a €9.5 million mortgage line to TBC Bank; has extended loans in sum of €15.8 million to three Georgian banks in support of micro and small enterprise development; and arranged a €9.45 million syndicated loan to ProCreditBank in support of agricultural lending; as well as €12 million syndicated loan to TBC Bank in support for expansion of its SME lending. €3 million loan has been granted to the city of Kobuleti to rehabilitate and extend the water and wastewater networks, to install water meters, to construct a wastewater treatment plant.
3. The ratio of private sector projects in the portfolio now stands at 91 percent. The Bank plans to focus primarily on private sector financing, but may also consider selected public sector projects. The Bank will give preference to nonsovereign operations although, where sovereign guarantees will be required, donor cofunding on a grant basis will be sought.

4. The EBRD is helping Georgia to benefit from its privileged location, transforming it into a regional transportation and natural resources hub. Georgia is part of the “Early Transition Countries” (ETC) initiative. Launched in April 2004, the initiative aims to increase investments in the Bank’s seven poorest countries. The initiative builds on international efforts to address poverty in these countries. Through this initiative, the EBRD focuses its efforts on private sector business development and selected public sector interventions. It aims to stimulate market activity by using a streamlined approach to financing, focusing on smaller projects, mobilizing more investment, and encouraging ongoing economic reform. The Bank will accept higher risk in the projects it finances in the ETCs, while still respecting the principles of sound banking. Since launch of the ETC initiative the Bank’s annual business volume in Georgia has been increased five times.

**Net Cumulative Business Volume as of January 2008 (EUR)**

<b>Op Name</b>	<b>Sector Team</b>	<b>Total Project Value</b>	<b>EBRD Finance</b>	<b>Debt</b>	<b>Equity</b>
AES Telasi	Power and Energy	138.0	20.4	20.4	0.0
Absolute Bank Term Loan	Bank Lending	1.3	1.3	1.0	0.3
BIH	Agribusiness	4.3	4.3	4.1	0.3
BSR Europe Co-Investment Facility	Property and Tourism	20.0	7.0	0.0	7.0
Baku-Tbilisi-Ceyhan (BTC) Pipeline	Natural Resources	1,763.0	42.5	42.5	0.0
Bank Republic - MSE Loan	Small Business Finance	2.0	2.0	2.0	0.0
Bank Republic Equity	Bank Equity	5.9	5.9	0.0	5.9
Bank Republic Mortgage Loan	Bank Lending	5.4	5.4	5.4	0.0
Bank of Georgia - SME Loan	Bank Lending	2.7	0.9	0.9	0.0
Bank of Georgia Capital Increase	Bank Equity	0.8	0.8	0.0	0.8
Bank of Georgia Equity and Convertible Loan (debt & equity)	Bank Equity	6.1	6.1	4.2	1.9
Baring Vostok Private Equity Fund	Equity Funds	3.8	1.8	0.0	1.8
Borjomi	Agribusiness	19.3	9.9	6.8	3.1
CBG Georgia (sub project of CBG FW) (equity)	Bank Equity	3.5	0.5	0.0	0.5
CEEP - Cartu Bank	Bank Lending	3.4	3.4	3.4	0.0
CEEP – TBC	Bank Lending	3.4	3.4	3.4	0.0
DIF – Alfapet	General Industry	0.0	0.1	0.0	0.1
DIF – Delidor	Agribusiness	1.2	1.2	0.3	0.9
DIF - Georgian Hazelnut Production Ltd.	Agribusiness	2.6	0.5	0.5	0.0
DIF - Iberia Refreshments	Agribusiness	6.9	2.8	0.7	2.1
DIF - Imedi L	Nonbank Financial Institutions	1.2	1.2	0.0	1.2
DIF – Lomisi	Agribusiness	2.5	2.5	0.0	2.5
DIF - Mantashev Trade Rows JSC	Property and Tourism	0.5	0.5	0.0	0.5
DIF - Teliani Valley	Agribusiness	1.0	1.0	0.0	1.0
DLF - BTM TEKSTIL	General Industry	4.6	1.7	1.7	0.0
DLF - Georgian Hazelnut Production Ltd	Agribusiness	2.5	2.5	2.5	0.0
DLF – Lomisi	Agribusiness	1.4	1.4	1.4	0.0
ETC Non-Bank MFI Framework II - Constanta	Small Business Finance	2.4	2.0	2.0	0.0
Enguri Hydro power Plant Rehabilitation project	Power and Energy	62.0	33.1	33.1	0.0
First NIS Regional Fund	Equity Funds	0.5	0.3	0.0	0.3
Frontera Resources	Natural Resources	194.0	8.8	8.8	0.0
Georgia: Trans-Caucasian Rail Link Project	Transport	23.7	13.6	13.6	0.0
Georgian Financial Sector F/W - Basis Bank (MSME Loan)	Bank Lending	1.0	2.0	2.0	0.0
Georgian Financial Sector F/W-Bank Republic MSE Loan	Bank Lending	8.2	8.2	8.2	0.0
Georgian Financial Sector F/W-Cartu	Bank Lending	2.4	2.0	2.0	0.0

**Net Cumulative Business Volume as of January 2008 (EUR)**

<b>Op Name</b>	<b>Sector Team</b>	<b>Total Project Value</b>	<b>EBRD Finance</b>	<b>Debt</b>	<b>Equity</b>
Bank SME Loan					
Georgian Financial Sector FW-TBC Bank Mortgage Line II	Bank Lending	4.1	4.1	4.1	0.0
Georgian Property Debt FW - Tbilisi Central Train Station	Property and Tourism	5.8	5.8	5.8	0.0
Georgian Property Debt Facility - Green Building	Property and Tourism	3.8	2.3	2.3	0.0
Georgian Property Equity Investment	Property and Tourism	98.6	10.8	0.0	10.8
Georgian Wines	Agribusiness	3.4	3.4	3.4	0.0
Georgian Wines & Spirits Ltd.	Agribusiness	7.0	5.6	5.6	0.0
Intellectbank (Sub Project of Georgia SME)	Bank Lending	1.2	1.2	1.2	0.0
JSC Channel Energy Poti Port	Transport	23.8	7.9	7.9	0.0
Ksani Glass Packaging Factory	General Industry	14.8	2.2	2.2	0.0
Kutaisi Water Project	Municipal & Env Inf	11.9	3.0	3.0	0.0
Lukoil Overseas : South Caucasus Gas Pipeline	Natural Resources	31.1	20.0	20.0	0.0
MCFF - Bank Republic - Begi Co. II	Agribusiness	4.0	4.0	4.0	0.0
MCFF - Bank Republic - Begi Company	Agribusiness	0.6	0.6	0.6	0.0
MCFF - Bank of Georgia Full Recourse Portion	Bank Lending	3.4	3.4	3.4	0.0
MCFF - BoG Iberia Refreshments Sub-Loan (NRP)	Agribusiness	2.2	2.2	2.2	0.0
MCFF - TBC - Tsiskvilkombinati II	Agribusiness	3.4	3.4	3.4	0.0
MCFF - TBC Bank - Nola Ltd Sub-Loan (NRP)	Property and Tourism	1.0	1.0	1.0	0.0
MCFF - TBC Bank EMBAWOOD Sub Loan	General Industry	0.7	0.7	0.7	0.0
MCFF - TBC Bank JSC Full Recourse Portion	Bank Lending	3.4	3.4	3.4	0.0
MCFF - TBC Bank Lomisi Ltd Sub-Loan (NRP)	Agribusiness	4.8	2.4	2.4	0.0
MCFF - TBC Bank Wissol Sub-Loan (NRP)	Natural Resources	4.1	4.1	4.1	0.0
MCFF - TBC Coca Cola Ltd. sub-loan	Agribusiness	4.1	4.1	4.1	0.0
MCFF - TBC Tsiskvilkombinati	Agribusiness	1.7	1.7	1.7	0.0
MCFF BOG - Renewable Energy Programme - Okami SHPP NRP	Power and Energy	0.1	0.1	0.1	0.0
MCFF BOG - Renewable Energy Programme Lopota SHPP NRP	Power and Energy	0.1	0.1	0.1	0.0
MCFF BOG - Renewable Energy Programme Machakhela SHPP NRP	Power and Energy	0.1	0.1	0.1	0.0
MCFF Bank Republic - Medclub Georgia	Property and Tourism	1.7	1.7	1.7	0.0
MCFF TBC Bank – Goodwill	Agribusiness	5.1	5.1	5.1	0.0

**Net Cumulative Business Volume as of January 2008 (EUR)**

<b>Op Name</b>	<b>Sector Team</b>	<b>Total Project Value</b>	<b>EBRD Finance</b>	<b>Debt</b>	<b>Equity</b>
Meinl Caucasus and Central Asia	Property and Tourism	187.5	65.6	0.0	65.6
NIS Restructuring Facility	Equity Funds	1.1	0.3	0.0	0.3
Poti Water Supply Project	Municipal & Env Inf	12.3	2.5	2.5	0.0
Power Rehabilitation Project	Power and Energy	16.1	12.3	12.3	0.0
ProCredit Bank Georgia	Small Business Finance	8.6	4.7	2.0	2.7
ProCredit Bank Georgia	Small Business Finance	10.2	4.1	4.1	0.0
ProCredit Bank Georgia: Add Senior Loan USD 3 million (FIISF)	Small Business Finance	2.0	0.0	0.0	0.0
ProCredit Georgia – Syndicated Loan	Small Business Finance	10.2	5.4	5.4	0.0
Regional TFP: Bank of Georgia (Guarantee & Pre-export)	Bank Lending	16.6	16.6	16.6	0.0
Regional TFP: Cartu Bank	Bank Lending	1.4	1.4	1.4	0.0
Regional TFP: TBC Bank (guarantee & pre-export)	Bank Lending	36.2	36.2	36.2	0.0
SOCAR - South Caucasus Gas Pipeline	Natural Resources	34.6	6.1	6.1	0.0
TBC Bank (Sub Project of Georgia SME)	Bank Lending	1.8	1.8	1.8	0.0
TBC Bank - SME Credit Line	Bank Lending	4.1	4.1	4.1	0.0
TBC Bank - Syndicated Loan	Bank Lending	14.3	4.8	4.8	0.0
TBC Bank Mortgage Loan	Bank Lending	10.2	10.2	10.2	0.0
TBC Bank SME Credit Line III	Bank Lending	6.8	3.4	3.4	0.0
TBC Leasing - Equity Investment	Nonbank Financial Institutions	0.1	0.1	0.0	0.1
TBC Leasing, Senior Debt	Nonbank Financial Institutions	2.0	2.0	2.0	0.0
TbilComBank (Sub Project of Georgia SME)	Bank Lending	1.7	1.7	1.7	0.0
TbilcreditBank (Sub Project of Georgia SME)	Bank Lending	2.0	2.0	2.0	0.0
Tbilisi Airport Refurbishment	Transport	8.8	7.5	7.5	0.0
Tbilisi International Airport	Transport	52.0	18.3	18.3	0.0
Tbilisi Public Transport Project	Municipal & Env Inf	4.2	3.1	3.1	0.0
Tbiluniversalbank Small and Micro-Lending Convertible Loan	Bank Equity	1.6	1.6	1.0	0.6
Tbiluniversalbanki (Sub loan of Georgia SME)	Bank Lending	0.7	0.7	0.7	0.0
VTB Bank Georgia	Small Business Finance	6.8	6.8	6.8	0.0
VTB Bank Georgia (debt, equity)	Bank Lending	5.3	5.3	3.5	1.8
VTB Bank Georgia Capital Increase	Bank Equity	7.7	1.8	0.0	1.8
		<b>3,014.1</b>	<b>535.9</b>	<b>422.1</b>	<b>113.8</b>

### Committed Projects for First Half of 2008

Operation Name	Sector	Short Description	EBRD Finance (EUR)
Regional TFP: Bank of Georgia (Guarantee & Pre-export)	Bank Lending	Sub-operation under Regional Trade Facilitation Programme	29.5
MCFF Bank Republic - Mediclub Georgia	Bank Lending	Extension of the operating facilities of Mediclub Georgia via construction of a new private hospital.	1.6
Georgian Financial Sector F/W- Cartu Bank SME Loan	Small Business Finance	USD 7 million loan to Cartu Bank for on-lending to local SMEs.	4.5
Regional TFP: Bank Republic (Guarantee & Pre-export)	Bank Lending	Sub-project under Trade Facilitation programme	3.2
CEEP - Cartu Bank	Bank Lending/Energy Efficiency	Participating Bank under the Caucasus Energy Efficiency Programme.	3.2
CEEP -- TBC	Bank Lending/Energy Efficiency	Participating Bank under the Caucasus Energy Efficiency Programme	6.5
MCFF TBC Bank	Bank Lending		0.0
TBC Bank SME Line	Bank Lending	USD 15 million SME Line	9.7
Basis Bank Equity Investment - Georgian Financial Sector F/W	Bank Equity	Equity Investment in Basis Bank	2.8
<b>Number of projects = 9</b>			<b>61.0</b>

## ANNEX IV. GEORGIA: STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. The IMF has provided technical assistance in the compilation of macroeconomic statistics (Annex I, Table 1). Despite improvements in the areas of national accounts, price, monetary, and government finance statistics, the quality of macroeconomic statistics remains poor, reflecting deficiencies in statistical methodologies, coverage, and insufficient resources. Problems are particularly acute in the compilation of national accounts, balance of payments, foreign trade, and fiscal statistics. The transfer of responsibility for the balance of payments from the State Department of Statistics (SDS) to the National Bank of Georgia (NBG) in January 2007 led to improvements.
2. The data module of the Report on the Observance of Standards and Codes (ROSC), prepared in July 2002 was published on the IMF's external website on May 27, 2003. A General Data Dissemination System (GDDS) mission in November helped finalize metadata and on December 15, 2006 Georgia began participation in the GDDS.

### **Real sector statistics**

3. National accounts statistics follow the concepts and definitions of the *System of National Accounts 1993*. Annual and quarterly GDP estimates are compiled by both the production and expenditure approaches. Revisions of the national accounts follow an established schedule. Preliminary national accounts estimates are available after 85 days, and final estimates after 13 months. The 2002 data ROSC mission found several weaknesses regarding data sources, including inadequate coverage of the business register; poor coverage of units in terms of value added for agriculture, retail trade, construction, catering, and services; limited administrative sources to estimate the nonobserved economy; and inadequate data for imports and exports of services (taken from the balance of payments). Follow-up missions in early 2004 and April 2005 found that although the authorities have made good progress in addressing some of these issues, there was scope for improving the constant price estimates and advancing in the development of the system of supply and use tables. On price statistics, Statistics Department (STA) missions in May/June 2006 and August/September 2007 both reported important progress regarding the development of agricultural price indices, although inadequate funding was causing delays in implementation. The authorities' plans include upgrading both CPI and PPI methodology, PPI specification, and dissemination practices.

### **Monetary and financial statistics**

4. A March 2002 STA mission found that the authorities had implemented many of the recommendations of the December 2000 mission. The July 2002 data ROSC found that most elements in the data quality assessment framework for monetary statistics were fully or largely observed, and recommended improvements in the statistical coverage of nonbank depository corporations and the provision of documentation on metadata. It also

recommended increased transparency regarding access by governmental agencies to monetary statistics prior to their release to the public.

5. In accordance with the *Monetary and Financial Statistics Manual*, the NBG has begun compiling monetary data using the framework of the STA's Standardized Report Forms (SRF) and has been providing data regularly. These data have been published in the *IFS Supplement* since September 2006. Beginning from December 2001, data published in *IFS* have been revised in accordance with the SRF.

### **Government finance statistics**

6. Government finance statistics (GFS) on a cash basis are reported to STA for publication in the *GFS Yearbook*. The GFS mission of November 2006 found that Georgia has embarked on a program of reform to their central and local government budget and accounting systems to fully adopt the *GFSM 2001* methodology and the International Public Sector Accounting Standards (IPSASs). The strategy will be implemented in stages. Initially the *GFSM 2001* functional and economic classifications are being applied to the current cash data. This will be followed by a staged introduction of accrual recording into transactions data, and an expansion in the range of items recorded in the balance sheet. These reforms are documented in the paper *Accounting Reform Strategy, 2007–17*. The Georgian authorities' commitment to the accounting reform strategy is set out in Decree 101 issued by the minister of finance on February 10, 2006. This decree approves the general strategy, but implementation of some of the individual steps in the transition plan will require amendments to the law of Georgia on the budget system (Budget System Law).

### **External sector statistics**

7. A technical assistance mission in September 2006 assisted the authorities to prepare an action plan for the transfer of responsibility for the compilation of balance of payments statistics from the SDS to NBG; advised on the structure of the NBG's new balance of payments division; and developed a framework for the collection of source data. The mission also helped to further develop the framework for compilation of an international investment position statement. The balance of payments compilation function was transferred to NBG in mid-January 2007, although SDS will remain the main provider of data for exports of goods and services and direct investment.

8. The STA resident Statistics Advisor stationed in Baku undertook the first of a series of planned missions to Georgia during April 23–May 4, 2007. Major findings and recommendations of the mission were (i) amendments are needed to the Law on Statistics or to the National Bank Law to assign responsibility and authority for collection, processing and dissemination of international investment position and external debt statistics; (ii) NBG should be represented on the National Statistics Council; (iii) the government and NBG should agree to a data provision/data sharing scheme, such as that proposed by the mission; (iv) a Balance of Payments Expert Group should be established to identify problems in data

collection, compilation, and dissemination, and also agree on the direction to take for future data improvement; and (v) the international transactions reporting system should be developed and the data collected should be used in the compilation of balance of payments statistics. In addition, recommendations were made for (i) specific improvements to the data collection for private sector liabilities and transactions of the Georgian Pipeline company; and (ii) further investigation of discrepancies between the national data on portfolio investment liabilities and the derived liability data from the Coordinated Portfolio Investment Survey.

**GEORGIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE  
(AS OF SEPTEMBER 1, 2008)**

	Date of latest observation	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of publication <sup>7</sup>	Memo Items:	
						Data Quality—Methodological soundness <sup>8</sup>	Data Quality—Accuracy and reliability <sup>9</sup>
Exchange Rates	9/1/08	9/1/08	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	9/1/08	9/1/08	D	D	M		
Reserve/Base Money	9/1/08	9/1/08	D	D	M	O, LO, LO, O	O,O,O,O,LO
Broad Money	7/08	8/18/08	M	M	M		
Central Bank Balance Sheet	9/1/08	9/1/08	D	D	M		
Consolidated Balance Sheet of the Banking System	7/08	8/17/08	M	M	M		
Interest Rates <sup>2</sup>	9/1/08	9/1/08	D	D	D		
Consumer Price Index	6/08	7/21/08	M	M	M	O,LO,O,O	LO,LO,O,O,O
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	7/08	8/23/08	M	M	M	LNO,LO,LNO, O	LO,O,LO,O,O
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	7/08	8/23/08	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	12/07	8/23/08	Q	Q	Q		
External Current Account Balance	6/08	7/17/08	Q	Q	Q	O,LO,LO,LO	LNO, LNO, LNO, LNO, LNO
Exports and Imports of Goods and Services	6/08	7/17/08	Q	Q	Q		

GDP/GNP	Q1/08	7/02/08	Q	Q	Q	O,I,O,O,LO	LNO, LNO, LNO, LO, LO
Gross External Debt	12/07	8/23/08	Q	Q	Q		
International Investment Position <sup>6</sup>	2006	07/23/08	A	A	A		

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup>Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

<sup>8</sup>Reflects the assessment provided in the data ROSC (published on May 27, 2003, and based on the findings of the mission that took place during July 15 – 31, 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

<sup>9</sup>8 Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

**ANNEX V. GEORGIA: TENTATIVE WORK PROGRAM**

Board discussion of an SBA with exceptional access	September 15, 2008
Mission to conduct the first review under the SBA arrangement	October 2008
Board discussion for first review	November 2008
Mission to conduct the second review under the SBA arrangement	January 2009
Board discussion for second review	March 2009