



## United Nations Development Programme

### Europe and the CIS Regional Centre Bratislava, Slovak Republic

#### **GOVERNANCE REFORM PROGRAM FOR GEORGIA**

<i>Duration:</i>	2004-2006
<i>UN Agency:</i>	UNDP, Europe and the CIS Regional Centre, Bratislava, Slovak Republic
<i>Estimated budget:</i>	USD 200,000 included in the overall UNDP contribution of USD 1 million for the implementation of the programme.
<i>Geographical Location:</i>	Georgia

#### **Brief Description**

Governance Reform Program for Georgia aims at providing support to the Government of Georgia in its efforts to undertake a series of major reforms. The announced reform package includes restructuring of the government and the civil service. The programme will consist of two main components, namely assistance to the government in administering of salary supplements and anti-corruption actions through Development and Reform Fund, and assistance to institution building and strengthened governance capacities through provision of policy advice and technical assistance.

## **I-A SITUATION ANALYSIS**

The November 2nd Parliamentary elections in Georgia were soon followed by a number of unexpected events. The "rose revolution" brought to an early end the Presidency of Eduard Shevardnadze and new Presidential elections, held on 4 January, led to an overwhelming support (97%) to Mikhail Saakashvili, who was sworn in on 25 January as the new President of Georgia.

The change of leadership in the country has been accompanied by renewed commitment to fight against corruption and to undertake a series of major reforms. The ambitious reform package that has been announced includes restructuring of the government and the civil service. While a real opportunity exists to move forward the reform agenda, very little time may be granted for positive results to become visible given the high expectations of Georgians to see improvements in their daily life.

At the World Economic Forum in Davos, President elect Mikhail Saakashvili announced jointly with Mr. Malloch-Brown, head of UNDP and Mr. Soros, of the Open Society Foundation, the willingness of these two institutions to assist the government of Georgia in implementation of governance reform. The assistance includes provision of salary supplements to a high-profile group of Georgian civil servants and provision of substantive support to institutional reform.

It is expected that the Governance Reform Program of UNDP will last for three years. It will work in close cooperation with the Development and Reform Fund (DRF), which was established by a law passed by the Parliament of Georgia on January 14, 2004 and charged with advancing the following objectives: (1) Promotion of institutional and civil service reforms; (2) Implementing measures for provision of adequate salaries for civil servants; (3) Retraining of civil servants.

DRF is a legal entity under the President of Georgia. The President appoints director and a six-member Supervisory Board of the Development and Reform Fund. The Board, consisting of prominent members of the public, approves the priorities and the budget of the Fund and ensures that transparency requirements are honored. In addition, the Law stipulates an independent external audit to be conducted annually. The goals, governing structure, functioning, and expenditures of the Foundation will be public information, disseminated via annual reports, and available to all citizens as mandated by Georgia's Freedom of Information Act.

## **I-B STRATEGY**

### **Reasons for UNDP assistance**

UNDP has worldwide experience in capacity building; its objective and independent support and policy advice has led to the establishment of such facilities in several countries. Its outreach for providing international expertise and ability for quick response to government needs, makes it an effective partner that ensures efficient utilization of resources, program coordination, better targeting of activities, monitoring implementation and evaluation of results. In the case of Georgia, anti-

corruption activities and the area of good governance have been core elements of UNDP's program.

While normally UNDP does not engage in supplementing salaries for government officials (output 1 below), it was decided to use the lessons learnt through the experience in the Balkans, Guinea-Bissau and Afghanistan, to bring the added value of UNDP's neutrality and its significant accountability record to carry out such actions in Georgia in support of a new government with a strong commitment, and popular mandate, for reform.

The Second regional cooperation framework for Europe and the Commonwealth of Independent States (2002-2005) outlines three focus areas; democratic, economic and environmental governance for the work in the region. There have been significant achievements in developing new governance processes and institutions in the region. However, they are not uniform in breadth or depth, whether in public administration or the development of representative institutions. Explorations into the causes of this limited success are needed in order to understand how to render policy-making more participatory and how to strengthen representation through institutional reform. Expected results within the democratic governance practice are for example to diversify available policy instruments to render policy-making more effective and develop anti-corruption strategies and enforcement mechanisms that will in turn improve transparency ratings and increase citizens' trust in their own government administrations.

It is expected that the regional programme contribution will assist and support the Georgian reform process to develop transparent and accountable government institutions. The experience in Georgia in the two areas outlined below (salary supplement and capacity building) will later be shared with other countries who are planning to embark on similar activities.

## **Objective**

The Objective of the Governance Reform Program will be to assist the Government of Georgia in implementation of its package of governance reforms. This objective will be met through two outputs.

### *Output 1. Assistance to the Government in administering of salary supplements and anti-corruption actions (Salary Supplement Fund)*

This output will encourage competent Georgians to enter the public sector in leadership positions utilizing the Development and Reform Fund to supplement the salaries of civil servants at executive positions. While the plan is to eventually increase salaries of other civil servants as well (such as prosecutors office, police, tax and customs officials, etc) the current program document is confined only to the support of President, Chairperson of the Parliament, members of the Cabinet of Ministers and their deputies. The goal of this effort is to create a powerful team of Georgian nationals, whose presence will re-invigorate the public sector, bringing new ideas, experiences and professionalism in support of the reform process. Salary

supplements will help bring the salaries of these officials to the acceptable level, thus providing disincentives for corruption.

The commitment to this strategy is confirmed in the Georgian Government's Reform and Development Programme for 2004-09<sup>1</sup> (See Annex 1). In an effort to boost morale and eliminate institutional sources of corruption the government will elaborate its plans to raise the salary and minimum wage of civil servants (i.e. Fund for Development and Reform), increase pension levels, and establish codes of conduct for all state-sector employees. In recognition of the fact that a streamlined government will entail significant reductions in overall employee headcounts, the government will provide adequate compensation, and seek to conduct training programs and create new employment opportunities for former civil servants (i.e. infrastructure development projects) to avoid large sectoral unemployment.

The priority reform sectors include:

- ✍ Re-structuring and re-organizing the administration of government;
- ✍ Jumpstarting and growing the economy;
- ✍ Establishing energy diversification and independence;
- ✍ Re-shaping and improving national defense, law enforcement and respect for rule of law;
- ✍ Investing in education, the provision of critical social services and cultural preservation;
- ✍ Establishment of stable and enhanced relations with Georgia's neighbors and international partners.

*Output 2. Assistance to the Government of Georgia to Strengthen Governance Capacity (Capacity Building Fund).*

This output will aim at providing support to the Government of Georgia in launching and implementing priority reforms. Broadly, the activities can be divided in three main categories: (1) Helping to build the capacity of the Government's Development and Reform Fund; (2) Identification of specific advice needed to design and implement reforms and recruitment of local and international expertise to perform these duties (over and beyond normal duties of government). (3) Creation of a flexible mechanism to formulate and fund sub-projects to address the reform needs of individual institutions. Five sub-areas have been identified as potential sectors where support could be provided by the programme:

- ✍ Tax reform;
- ✍ Debt re-scheduling;
- ✍ Assistance to the Ministry of Economy;
- ✍ Aid coordination;
- ✍ Public Administration Reform.

---

<sup>1</sup> Strengthening and uniting Georgia through economic growth, European integration and long-term stability: Reform and development programme for the government of Georgia 2004-2009.

The experience of similar projects in the region demonstrates the importance of a number of elements that should be taken into consideration when setting up a Capacity Building Fund. Among those elements are strategic goals, realistic and attainable objectives, clear procedures for selection of projects to be funded, concrete ToRs for consultants/experts to be hired.

### **Expected results**

The new Georgian leaderships recognizes that a salary supplement mechanism represents only one part of a comprehensive civil service reform effort that in its totality, seeks to fundamentally alter the way in which public administration and public service is managed in Georgia. In short, Georgia's public sector must be rendered professional, responsive and efficient to support lasting institutional reform.

It is expected that at the end of the Governance Reform Program, the Government of Georgia will have prepared and started to implement a comprehensive package of governance reforms. A high-profile group of civil servants have been paid salary supplements, which resulted in improved efficiency and integrity of government. In addition to spearheading necessary reforms, this group will have provided personal example of excellence and integrity in the public service. It is also expected that at the end of the Program, the Government of Georgia is able to pay higher salaries without donor intervention.

## **II – EXECUTION ARRANGEMENTS**

### **Management arrangements**

The National Execution (NEX) modality is adopted for Project implementation. This means that the Government of Georgia is responsible for decision-making and execution of Project activities, while UNDP provides support for the provision of Project inputs. Head of the Development and Reform Fund will act as the National Project Director (NPD) to represent the interests of the Government of Georgia and supervise the overall execution of the Project. UNDP will provide financial inputs for the Project and will undertake day-to-day managerial supervision of the implementation arrangements. A Project Unit will assist the NPD. For practical purposes, Project implementation will follow UNDP regulations and procedures.

For management purposes, a Program Executive Committee will be formed composed of the Head of the Development and Reform Fund (the National Project Director), UNDP Resident Representative, Director of Open Society Foundation, a representative of a project unit and a representative of each contributing donor. The Executive Committee will meet regularly and its main functions will be evaluation of progress, making of necessary amendments and operational planning. The Executive Committee, in consultation with a Donor Advisory Board (see below) will make specific decisions about the funding of sub-projects.

## **Implementation mechanisms for Output 1**

Transparency and accountability both to the donors and to the general public in Georgia necessitate the cooperation of UNDP and the Government (specifically, the Development and Reform Fund). For its part, UNDP will enter into specific agreement with donor institutions. This cooperation will include performance of specific agreed-upon activities by UNDP and DRF.

The Development and Reform Fund of the Government of Georgia:

- ✍ Identifies, in cooperation with other government agencies, the list of positions to benefit from salary supplements<sup>2</sup>;
- ✍ Identifies exit strategy and time-line of replacing donor contributions with the national budget;
- ✍ Prepares grant agreements with the individuals occupying identified positions in accordance to Georgian legislation;
- ✍ Submits to UNDP the list of these individuals, together with information on their bank accounts and copies of the grant agreements;
- ✍ Informs UNDP of any changes in their status vis-à-vis government positions.

UNDP:

- ✍ Enters into agreements with donors;
- ✍ Accepts donor contributions for salary supplements;
- ✍ Using its existing interface with banks performs necessary transactions;
- ✍ Establishes regular reporting.

All donor contributions to salary supplements administered through UNDP will be subject to above mechanism.

As seen in the budget, an original contribution of 1.5 million USD will be spent on the salary supplements for the high-level executive officials. At later stages, in case of additional donor funding, specific categories of civil servants will be chosen and financing of these categories will be decided upon an agreement between UNDP, DRF and the contributing donor. Supplementing salaries for civil servants in specific institutions (such as road police, prosecutor's office, tax and customs departments) should be accompanied with implementation of reforms in these institutions and specific measurable results achieved.

### **Exit strategy**

The Government of Georgia expects to increase collection of revenues by steady 1% of GDP every year in 2005-2008. Taking this into consideration, 100% of the salary supplements will be covered through donor contributions for 2004 (starting from 15 February, when the government was officially appointed by the Parliament). In 2005 donor contributions will be needed for 65% of the salaries and in 2006 for 34%. It is expected that the Government of Georgia will be able to cover salaries in full starting from 2007 fiscal year. Similar mechanism will apply to any new donor contribution administered by UNDP.

---

<sup>2</sup> The contribution from the UNDP regional center will not cover salary supplement for the President.

## **Implementation mechanisms for Output 2**

Creation of Governance Capacity is defined for the purposes of this document as providing government agencies with assistance to define their mission and functions, rationalize their structures, simplify their administrative procedures, build the knowledge and skills of their staff to enable them to formulate and implement development policies and programs, effectively utilize their financial and human resources to improve their performance and instill a culture of integrity, transparency and accountability in the service of the public.

Government agencies in Georgia have received support from UNDP and other donors in the past. The level of their capacity varies from relatively efficient to almost non-operational. The assistance provided will also be determined by the importance of an agency in the wider reform context.

The agencies initially identified for capacity building assistance by UNDP in consultation with the government include Ministry of Finance (tax reform), Ministry of Economy (functional analysis and policy advice), Development and Reform Fund (technical assistance). Additional sphere of assistance includes donor coordination. This assistance will be carried out through sub-projects, which may be as small as provision of specific consultant and as large as a full-fledged technical assistance to an agency, upon completion of needs assessment.

Management of Output 2 will be carried out in close cooperation with the Development and Reform Fund. The Project Unit (see execution arrangements) will serve as a mechanism for identification of assistance needs, formulation of sub-projects and resource mobilization. The Project Unit, together with the staff of DRF, will act as a 'clearing house' for the requests put forward by various government agencies.

An additional mechanism, in the form of a Donor Advisory Board, will be created. The Board, working in the wider context of aid coordination, will act as the main mechanism for consultation. The Board will review sub-projects for possible funding as well as identify in cooperation with the project unit new funding ideas, which are in conformity with the country programs/assistance outline of various donors.

UNDP through its network and regional office in Bratislava will help the Government in identifying and bringing the required expertise through provision of consultants, both international and Georgians living abroad.

## Budget break-down for output 1 and 2

**Table 1**

	UNDP	OSI
Output 1	500,000	1,000,000
Output 2	500,000	

Table 1 above outlines the funding from UNDP<sup>3</sup> and OSI. It is expected that other international and local donors will also contribute funding to both outputs.

### *Output 1*

Table 2 below reflects the expenses necessary to provide salary supplements for the 82 government officials of high executive importance taking into consideration the exit strategy.

**Table 2**

#	Position	Pers.	Amount	Per Month	2004*	2005	2006	Total
					100%	65%	34%	
1	President	1	1,500	1,500	15,000	11,700	4,340	32,540
2	Prime Minister	1	1,500	1,500	16,500	11,700	4,340	32,540
3	Ministers	19	1,200	22,800	250,800	177,840	65,962	494,602
4	Deputy Ministers	60	700	42,000	462,000	327,600	118,179	907,779
5	Parliament Speaker	1	1,500	1,500	16,500	11,700	4,340	32,540
					<b>762,300</b>	<b>540,540</b>	<b>197,160</b>	<b>1,500,000</b>

\* Note: 10 month

Obligation of the Government of Georgia

2004	2005	2006	Total
0%	35%	66%	
0	6,300	11,880	18,180
0	6,300	11,880	18,180
0	95,760	180,576	276,336
0	176,400	332,640	509,040
0	6300	11880	18,180
<b>0</b>	<b>291,060</b>	<b>548856</b>	<b>839,916</b>

<sup>3</sup> USD 200K provided by the UNDP, Europe and the CIS, Regional Center in Bratislava.

## Output 2

Table 3 below gives broad indication of the expected use of the funds currently available for the Capacity Building Fund.

**Table 3**

#		2004	2005
1	External Consultants	80,000	40,000
2	Local Consultants	80,000	40,000
3	Support to the DRF	80,000	40,000
4	Project Unit	24,000	16,000
5	Sub-projects	70,000	30,000
	TOTAL	334,000	166,000

## Monitoring and Evaluation

Output evaluation of the programme activities on an annual basis is a pre-condition for receiving the contribution from the Regional Center in Bratislava. Based on the findings of the evaluation the Regional Center will determine if the support should be continued. UNDP Georgia will be requested to submit evaluation reports on an annual basis to the Regional Center in Bratislava. The report should outline progress made in achieving the stated programme objective of assisting the Government of Georgia in implementation of governance reforms. It should provide examples of concrete and measurable outputs attained as a result of the salary supplement and capacity building schemes; as for example a Public Administration Reform strategy is being formulated or examples of how the PRSP is effectively being implemented. The report should include a gender analysis, elaborating on the different programme impact for women and men.

## III – LEGAL CONTEXT

This Project Document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistant Agreement between the Government of Georgia and the United Nations Development Program. The host country-implementing agency shall, for the purpose of the Standard Basic Assistance Agreement, refer to the Government co-operating agency described in the Agreement. Development and Reform Fund will be the main partner agency of the Government of Georgia.

The following types of revisions may be made to this Project Document provided that UNDP is assured that other signatories of the Project Document have no objections to the proposed changes:

- a. Revisions in, or additions to, any of the annexes of the Project Document.
- b. Revisions that do not involve significant changes in the immediate objectives, outputs or activities, but are caused by the rearrangement of inputs already agreed to or by cost increases due to inflation.

- c. Mandatory annual revisions that rephrase the delivery of agreed inputs or reflect increased expert or other costs due to inflation, or take into account agency expenditure flexibility.

#### **IV - BUDGET**

The UNDP Regional Center in Bratislava will contribute 200,000 USD to the implementation of the project. The amount will be split between output 1 (100,000 USD) and output 2 (100,000 USD). The full amount will be transferred to UNDP Georgia in one installment in 2004, but could be utilized during the whole lifetime of the project (2004-06). The amount of 200,000 USD provided by the Regional Center in Bratislava is included in the overall contribution of 1 million USD made available by UNDP for the implementation of the programme.