

Georgia Suffers Funding Blow

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The world's major international donor is slashing aid budget to Georgia because of its slow progress on economic reforms.

The World Bank is to cut back its aid programme to Georgia, in a damning vote of no confidence in government efforts to tackle inefficiency and corruption.

During a visit to Georgia on March 7-8, the head of the South Caucasus Division of the World Bank, Judy O'Connor, told Georgian officials the bank was dissatisfied with the government's failure to implement reforms. She said that the World Bank would cut back its funding to Georgia by more than 20 per cent, from 130 million to 100 million US dollars a year from 2003.

"If Georgia wants to receive more financing, then more of an accent should be put on administrative matters," she said, referring to persistent reports of inefficiency and corruption in government administration of World Bank programmes.

There is no question that Tbilisi needs World Bank funding. One of the bank's priorities is poverty alleviation and in Georgia in 2000, the last year for which official figures are available, 40 per cent of the population was living below the poverty line and subsisting on less than two US dollars a day.

However, O'Connor complained that, "Georgia has failed to achieve success in poverty reduction" and was especially critical of the government's lack of success in solving the country's chronic electricity problems, despite a World Bank support programme worth more than 27 million dollars.

The criticism has already forced the Georgian government to begin structural reforms. Previously, the presidential economic adviser Temur Basilia was in sole charge of World Bank programmes. Now the work has been divided up, with the economy ministry charged with drafting and implementing projects and the finance ministry overseeing them.

President Eduard Shevardnadze admitted to the World Bank representative on March 8 that Georgia had failed to honour many of its obligations to the bank. He said, however, that he still hoped it would change its decision, because "our economy is gradually reviving and we have many improvements in fiscal policy".

Meeting O'Connor on the same day, the state minister, Georgia's de facto prime minister, Avtandil Jorbenadze, promised that the government would soon have a group of experts working solely on the introduction of economic reforms. Shevardnadze has already given his backing to a plan to reduce the number of ministries dealing with economic issues from 18 to six.

O'Connor said she was encouraged by such pledges, but hinted they had come too late. "The World Bank will act based on fact and not on promises and (will) decide (on) assistance to Georgia accordingly," she said.

Georgia, which has been a member of the World Bank since 1992, received its first warning from the organisation last October last year when, meeting the World Bank president James Wolfensohn in Washington, Shevardnadze was told that assistance to Georgia was conditional on the government's successful implementation of reforms.

This is the first time that an international lending organisation has moved to cut its assistance to Georgia and suggests that the patience of multi-lateral donors is wearing thin.

After recording high growth rates in the mid-Nineties, the Georgian economy has slowed down over the last three years. Investors and entrepreneurs complain of suffocating bureaucracy and a burgeoning black economy.

Roman Gotsiridze, head of the parliamentary budget office, which monitors government spending, told IWPR that the World Bank's decision was the inevitable result of government policy, which has allowed political squabbling to relegate key decisions on economic matters.

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