Project Review Report

Fostering Regional and Local Development in Georgia RLD

Final version

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Abbreviations

ADC	Austrian Development Cooperation
CoE	Council of Europe
CSB	Civil Service Bureau
CTA	Chief Technical Adviser
EU	European Union
GEL	Georgian Lari
GIZ	Gesellschaft für Internationale Zusammenarbeit
GoG	Government of Georgia
LEPL	Legal Entity of Public Law
LSG	Local Self-Government
MAP	Municipal Action Plan
MDF	Municipal Development Fund
MDS	Municipal Development Strategy
MRDI	Ministry of Regional Development and Infrastructure
NALAG	National Association of Local Authorities of Georgia
PM	Project Manager
ProDoc	Project Document
RAP	Regional Action Plan
RDF	Regional Development Fund
RDS	Regional Development Strategy
RLD	Regional and Local Development Project
RMIDP II	Regional and Municipal Infrastructure Development Project Phase II
SDC	Swiss Agency for Development and Cooperation
Sida	Swedish International Development Cooperation Agency
SGS	Small Grant Scheme
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

Table of Content

1   Introduction

11   The Fostering Regional and Local Development (RLD) project

To address prevailing regional and local development challenges related to the decentralisation process in Georgia, UNDP implements – in partnership with the Ministry for Regional Development and Infrastructure (MRDI) – the project Fostering Regional and Local Development (RLD) in Georgia.

The project is funded by the Swiss Agency for Development and Cooperation (SDC) and the Austrian Development Cooperation (ADC); total project budget is US$ 6.2m, to which SDC contributes US$ 4.45m, ADC US$ 1.65m, and UNDP US$ 0.1m. The actual implementation period is 45 months, lasting from September 2013 to May 2017[1].

The project was originally planned to be active in four (out of nine) regions of Georgia: Kvemo Kartli, Samegrelo-Zemo Svaneti, Guria and Racha-Lechkhumi-Kvemo Svaneti. Later, the two regions Imereti and Mtskheta-Mtianeti have been added on a specific request from the government.

The RLD project goal is to improve living standards of citizens through promoting decentralization, advancing sustainable and participatory local and regional development and strengthening capacities of respective local, regional and national institutions.

The related goal level indicators are:

- Increased household incomes;
- Widened engagement of citizens in local self-government;
- Enhanced satisfaction with local service delivery.

The project consists of three main components centred on three interrelated priorities covering national, regional and local levels, with the following respective outcomes[2]:

Outcome 1: National systems in support of regional and local governance reform and development are strengthened.

In order to strengthen policy formulation and implementation capacities of MRDI and other national stakeholders, MRDI is supported to legislate and implement the commitments under the approved State Strategy for Regional Development and assisted to upscale its relevant policy coordination function. The legislature, especially the Parliamentary Committee on Regional Policy and Self-Government, is supported to make it an active participant in the reform process. Policy dialogue among different governmental and non-governmental

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[1] The original agreement between UNDP and MRDI was signed in December 2012. By agreement of all parties, UNDP and MRDI have taken the period until August 2013 to serve as an inception phase to introduce necessary revisions and details into the document. During the same period, UNDP, MRDI and project donors held consultations to shape the project document to respond to the priorities of MRDI, UNDP and project donors, i.e. SDC and ADC.

[2] The basic terminology used by SDC for its LogFrame and by UNDP for its Results and Resources Framework is different. UNDP outcome(s) are SDC goal(s), and UNDP output(s) are SDC outcome(s). This reports uses (the more common) SDC LogFrame terminology, i.e. the hierarchy from goal (often also overall objective), to outcomes, to outputs (and, finally, activities).

stakeholders is facilitated to promote improvement of the local governance and regional development related policies.

Outcome 2: Effective regional and local systems are in place to steer inclusive regional and local development. Though not explicit in the ProDoc, the review has sub-divided the component for analytical reasons in (2a) Regional and Local Development Plans, and (2b) Small Grants Scheme.

- **Outcome 2a**: In order to strengthen role and capacities of regional and local authorities, selected regional administrations and LSGs are being supported in strategic development planning and in implementing their respective regional and municipal development plans. Specific emphasis is placed on reflecting the municipal development plans in programme budgets.

- **Outcome 2b**: the Small Grants Scheme (SGS) has been conceptualised with the aim to exercise in practice the acquired skills and knowledge through so-called "sub-projects". The small grants are to encourage regional administrations and municipalities to prioritise the needs of their constituency and take cost-efficient measures to improve service delivery in order to instil the practice of project prioritisation, planning, managing, monitoring and reporting.[3]

Outcome 3: A nation-wide mechanism for continuous and systemic capacity development of regional and local authorities is operational and co-funded by the state and municipal budgets.

An effective nation-wide training system for regional administrations and local authorities is to be introduced by coordinating demand and supply in order to strengthen their planning, budgeting, management and service delivery capacities. As a result, the regional governors' administrations and LSGs will benefit from a wide range of quality trainings, as well as practical assistance to be used in the regional and local development processes.

12   Project review mission

During 2013, project implementation has been affected by the policy reform in the country, in particular the ongoing LSG reform and the related political discussions. The reform took longer time and required more complex preparations than originally envisaged. The changes initiated by the LSG policy reform now require an adjustment and recalibration of project activities to the new situation.

To this end, UNDP has mandated an independent consultant to review project implementation to date, taking a full account of the project implementation context, identify strengths and weaknesses and provide forward looking recommendations for the forthcoming implementation cycle. The consultant was also to facilitate a common understanding of the project among its key stakeholders. Finally, the consultant was to support the project team by providing strategic guidance and advice to the implementation process.

Please note that the present report purposely focuses on the main achievements and emerging issues of the project, i.e. intends to analyse the forest instead of concentrating on

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[3] ProDoc Final, August 2013, p. 43.

single trees. More details, down to the activity level within the three components, are provided in the RLD Annual Report 2013, 2nd draft.

2 Background and context

Since the 1990s, the Government of Georgia (GoG) has carried out a range of reforms to strengthen local governance, which is considered a strategic priority of the transition to a democratic society. The first phase of reforms culminated in 2005 with the adoption the 'Georgian Law of Local-Self Government'. The law resulted in the consolidation of the LSGs into their respective districts (rayons). Cities that were directly subordinate to the central government were given the same status as the former rayons. As a result, the number of LSGs has been reduced from 1,110 to 69. In June 2006, a new Law on Local Budget was adopted, which introduced a formula-based equalization grant system and a subnational fiscal database at the Ministry of Finance to monitor budget execution.

The Government's second phase of reforms was articulated in the "Main Principles of the Strategy on Decentralisation and Self-Government Development of the Government of Georgia for 2013-2017", adopted in April 2013, that sets out a preliminary framework for public financing of municipal and regional development. The decentralisation strategy placed emphasis on improving engagement of people in decision making at local level, better delivery of local services, and better management and maintenance of local assets.

Furthermore, Cabinet and Parliament have adopted an amendment to the Organic Law of Local Self-Governments (better known as the LSG Code or Codex) in February 2014, paving the way for a more decentralised service delivery mechanism and institutional capacity building to establish an effective LSG system.

In addition, the Civil Service Bureau (CSB) under the Chancellery is currently in the process of drafting a comprehensive Civil Service Code for a civil service reform that intends to increase efficiency and effectiveness by introducing career-based principles for civil servants at central and regional/local levels.

The on-gong decentralisation process poses significant challenges to service delivery, the fiscal framework and institutional capacity of LSGs. Currently, few LSGs have the capabilities to define their own public investment priorities, and most have difficulties in carrying out their decentralised functions. Decentralisation also requires improvements in the inter-governmental fiscal transfer system. Finally, there is room for greater civic engagement in decision making – leading to more inclusive governance – as the mechanisms available for public participation and social accountability in local decision-making are still nascent.

Despite the comprehensive framework of strategies and sector policy reforms, institutions and structures for public service delivery and investment management in the municipalities remain weak. There is unanimous agreement that current capacities at LSG level, both in terms of staff skills, as well as available systems and procedures, need substantial improvements to fulfil the ambitious goals of the government's decentralization reform.

The situation at local level is additionally complicated by the ongoing testing and attestation process, where all present municipal employees, as well as new candidates, are to undergo a mandatory qualification screening in order to be either re-employed, newly employed or terminated. In addition, staff numbers in municipalities are to be adjusted (and often reduced) according to a new population-based formula.

The government is now challenged to convert its strategies and plans into reality by introducing an effective local self-government system that is capable of carrying out the decentralised functions. The Ministry of Regional Development and Infrastructure (MRDI) leads the decentralisation reform process through its organisational structure and networks.

The following illustration provides an overview of the impressive range of actors, codes, strategies, plans and programmes, as well as the different sources of funding, which need to be coordinated, harmonised and aligned in order to ensure that the further steps in the decentralisation process of the country are organised in a coherent and effective manner.

The (complicated) landscape of actors, codes, plans, programmes and funds

Parliamentary Committee

State Commission (?)

Chancellery

CSB

LSG Council

MRDI

Line Ministries

Ministry of Finance

UNDP SDC/ADC

CEGSTAR

MDF

Regional Development Councils

GIZ

EU/CoE

Regional Development Programme

USAID

LSG Code

9 RDS 9 RAP

76 MDS/ MAP

Civil Service Code

World Bank

Czech DA

SIDA

RMIDP II

RDF

Taxes (?)

Equalisation grants
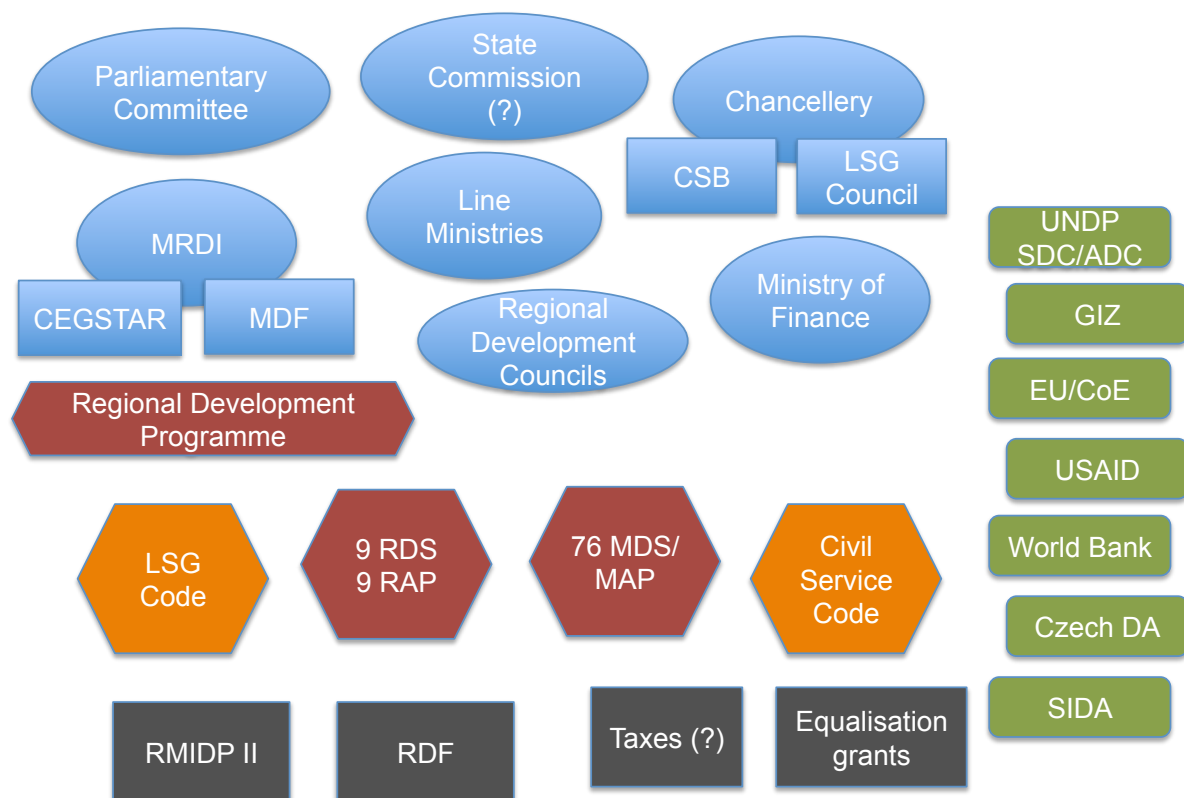
Main actors are the different government bodies, foremost the Chancellery with its sub-units, the MRDI, Ministry of Finance and Ministry of Economy and Sustainable Development, the State Commission (at present inactive), the Parliamentary Committee on Regional Policy and Self-government, as well as the Regional Development Councils that have recently been set up.

The main tenets on the legal side are the already approved LSG Code, which will be supplemented by the Civil Service Code that is currently being drafted.

Strategic priorities are set on the national level in the draft Regional Development Programme (supported by the EU), as well as in the nine Regional Development Strategies (RDS), which have been officially approved. At present, the process is ongoing to convert the RDS into Regional Action Plans (RAP) with prioritised and costed investment projects. As a

last step, the 76 municipalities should then develop their Municipal Development Strategies (MDS) and related Action Plans (MAP).

Funding is to come from several sources, foremost from the equalisation grant and, eventually, from a share of the income taxes that is to be devolved to municipalities. Comparatively large amounts will be provided by the Regional Development Fund (RDF) and loan projects, like the World Bank and SDC funded Regional and Municipal Infrastructure Development Project (RMIDP II), implemented by the Municipal Development Fund (MDF).

Last but not least, a range of donors (mainly SDC/ADC, GIZ, EU and CoE, USAID, World Bank, Czech DA, Sida) provides financial support and technical assistance through different projects and to different government bodies.

It goes without saying that the current situation, as sketched above, is a veritable challenge in terms of coordination, harmonisation and alignment of the various actors, codes, plans and funding arrangements.

On the other hand, it is also a crucial moment in the decentralisation process in Georgia, as new mayors, gamgebelis and local assemblies have just been elected, and the ongoing attestation process should result in leaner but better qualified and more motivated municipal staffing. The fact that new representative and executive teams will be in place at municipal level constitutes a clear window of opportunity for supporting the introduction of fundamental changes at this level.

3 Component 1: National systems for the reform process

31 Main achievements so far

The main achievement under Component 1 is certainly the contributions of the project to the Local Self-Government (LSG) Code, which has recently been adopted by the Parliament. The Code provides for enhancement of municipal competencies; so far four new competencies have been transferred (water supply in villages, melioration, i.e. simplification of agricultural land registration, care of pet animals, homeless shelters and registration).

The MRDI had designed a local and regional governance reform plan after the parliamentary elections in early 2013. Considering the sensitive nature of the issue, the project adjusted its support strategy and ensured donor coordination in order to advance the core aspects of decentralisation – devolution of competencies and resources – through sensitising policy makers on critical issues.

Today, the MRDI is committed to implementing the LSG Code and the RLD project is fully accepted in the Ministry. Its contributions are much appreciated, sometimes to the extent that too many ad-hoc demands for specific support are made to the project.

As important step towards larger municipal budgets – an essential precondition for local development – the volume of the equalizing transfers from the centre to the municipalities has increased by GEL 76m or 25% (excluding Tbilisi) in the 2014 budget. In addition, a plan is currently under discussion to transfer part of the income tax to municipalities; however, it is still under consideration and support of the Ministry of Finance has not been secured yet.

Other major project achievements include:

- Four Regional Development Strategies (RDS) were developed by RLD and have been approved by the government. GIZ has supported, in parallel and largely following the same agreed process, three other RDS. For the remaining two regions, the project has been tasked by MRDI to update existing older strategies that had earlier been compiled with EU assistance. For more details see chapter on Component 2a.

- In addition, the project has recently initiated, based again on a specific request by the MRDI, the process to develop a separate strategy for mountainous areas in the country. As a first step, an international consultant will be recruited to conduct a fact-finding mission to this end.

- The drafting and approval of the National Training Concept for LSGs has been an important national level milestone; for more details see chapter on Component 3.

- The Parliamentary Committee on Regional Policy and Self-government has been involved in policy debates organised by RLD and members participated in study tours to Latvia, Lithuania, Estonia and Switzerland; other study tours were organised by the GIZ and G3/MSI projects.

- The Strategic Partnership of international donors under the lead of UNDP is functional and has been mostly successful in developing unified positions, despite the difficult task of harmonising donors and projects with differing interests, approaches and 'corporate cultures'.

- Staff of the MRDI has been trained in project management and policy analysis; the topics were selected based on a training needs assessment made in late 2013.

Naturally, these positive and fundamental changes at national level cannot be fully attributed to the project. However, the project can rightly claim to have substantially contributed, either through direct actions (by providing expert consultancies, organising workshops, etc.) and/or by advocacy through the UNDP-led Strategic Partnership, which allowed harmonising the positions of important donors and jointly lobbying for respective changes with decision makers, for instance in the process of drafting the LSG Code.

32   Emerging issues in Component 1

The LSG Code provides a solid basis for the decentralisation process but it is evident that core challenges (for the decentralisation process as well as for the RLD project) are ahead.

A draft road map has been outlined for implementation of the LSG Code but further steps and consultations will be required to ensure full participation of all relevant actors and harmonisation of different efforts.

Up to now, the decentralisation process has been decreed by and driven from the top, i.e. the central government. The following four main shortcomings need to be addressed in order to ensure that Georgia is not de-concentrating but de-centralising.

- First, both regions and municipalities have so far been at the receiving end only. No 'horizontal' organisational structure exists that would allow municipalities to develop joint positions on essential issues and lobby for their interests at central level. Unfortunately, the best placed organisation for such a task, the National Association of Local Authorities of Georgia (NALAG) is currently not really active for several reasons, including political ones.

- Secondly, political buy-in will be essential and the process should not be solely driven by the administration. At central level, this refers to a stronger role that the Parliament as a whole and the Parliamentary Committee on Regional Policy and Self-government in particular have to play, as core bodies to balance the political opinion in the country. In order to achieve this, especially the Parliamentary Committee will need to be strengthened.

- Thirdly, public (or civic) as well as private sector participation in the decentralisation process has been minimal so far. If the interests and voices of these core actor groups will not be included in future, it is hard to see how ownership of plans and commitment to local decision making can grow. Unfortunately, Georgia cannot build on a well-established tradition of local level participation.

- Finally, as is the case in most countries that embark on decentralisation, different interests of the legislative authorities and the executive branches (as well as between the latter) will need to be mediated; a process that can profit from independent and professional external expertise. It goes without saying that the Strategic Partnership of donors, led by UNDP, must be a core player in this.

33   Recommendations for Component 1

The project is advised to promote the understanding that successful decentralisation requires equal attention to three essential preconditions, commonly referred to as the three Fs: **F**unds, **F**unctions and **F**unctionaries.

Given the current dynamics, the project is in principle well placed to be close to the centre of this fast moving process and should continue to react flexibly to emerging opportunities (as far as they are in line with the overall project objectives). It is recommended that the donors continue to allow for flexibility, naturally based on well-argued case stories by the project.

As exemplified in the illustration above, coordination among the different actors is the need of the day. As first practical measure, it is recommended to promote a dialogue with decision makers, within MRDI but also with the Chancellery and the Parliamentary Commission, by organising a roundtable with all relevant actors in order to develop a commonly agreed and realistic road map for implementing the LSG Code, including alignment of regional and municipal development plans and available funding sources.

In order to ensure commitment of senior policy makers, leadership of the roundtable would preferably be with the Chancellery, assisted by MRDI as central decentralisation ministry. The process to set up the roundtable needs to be carefully designed and should include several phases. Preparatory work would be required by UNDP and the project – in close cooperation with other relevant actors through the Strategic Partnership – in order to be able to present strategic options and related implications to the policy makers.

It goes without saying that the project will, next to this proposed new initiative, continue to provide the necessary support to MRDI in the form of sound on-demand expertise; currently the new LSG Code requires adjustments to the entire legal framework of the country.

Finally, two potential new activity lines for Component 1 have been discussed during the review mission:

- Support to the fiscal decentralisation process related to (i) equalisation formula, (ii) income tax devolution, and (iii) introduction of programme budgeting at municipal level. This activity would have to be first discussed with the Ministry of Finance and be carefully coordinated with other projects already active in this field.

- Though a challenging task, the project should now embark on establishing and developing the capacities of the currently 'missing link', i.e. setting up an effective and municipality-owned 'horizontal' organisation for lobbying and advocacy of municipal interests at central level (see next chapter).

4 Component 2a: regional and local development plans

41 Main achievements so far

As mentioned above, four Regional Development Strategies (RDS) have been drafted and approved by the government in September 2013. With GIZ support, three more RDS have also been approved. The remaining two RDS are about to be prepared with support from the project, based on a specific request from MRDI.

The successful drafting and approval of the strategies is clearly an achievement, as strategic planning capacities are limited in Georgia. This refers not only to regional and local authorities; central level experts sometimes also face difficulties to adequately structure and facilitate strategic planning processes.

The process to draft the RDS was outsourced to four national consultants. Considering the lessons learned from this process, a consultancy company has been engaged (following a tendering procedure) to develop the Regional Action Plans (RAP). Ground action related to the RAP has not yet started, as elections in October 2013 and July 2014 delayed the agreement of the government to the new concepts and related process guidelines for drafting the RAP; this agreement should now soon be reached.

A commendable effort is underway to link the RDS/RAPs with the procedures of the Regional Development Fund (RDF), the main government funding mechanism for decentralised infrastructure projects.

On municipal level, planning has been deferred so far due to the fact that, first, local elections had to be held and, secondly, the attestation process for the administrative staff will have to be conducted before starting activities at municipal level.

42 Emerging issues in Component 2a

The main challenge for Component 2a will be to avoid the fate of earlier regional strategies (a first round was made around 2005/6) that were never implemented. The new RDS are de facto 'shopping lists' of all envisaged changes and every desired project in the regions. As financial resources for implementation will be limited, a distribution struggle for project prioritisation can be expected when the RAPs are drafted, which will not be an easy task to mediate.

Also, the budgets to be finally made available for each region and municipality have not been decided nor approved so far. The envisaged link between plans and funding sources (RLD output 2.2. and 2.3) could therefore not be established so far. However, as mentioned above, a first step has been made to link the RAPs with the RDF, the main GoG funding mechanism.

The review team observed that, at least in the Kvemo Kartli region, no public consultation mechanism with the civil society has been included in the RDS process and that the private sector's role was restricted to the provision of data.

43   Recommendations for Component 2a

- **Related to the RAPs**: The government, and in particular the MRDI, are currently under pressure to draft the RAPs in time in order to allow for allocation of RDF funding in the 2015 budget.

  Time pressure will hardly allow for a lengthy process in finalising the RAPs; the obvious danger is to revert to a very quick exercise to decide on priority infrastructure projects in each region, without any public consultation.

  This situation will complicate the project's task to achieve its goal indicator of widened engagement of citizens in local self-government. Feasible mechanisms will have to be first identified – but then also put in practice – to ensure minimal civic and private sector participation (beyond central, regional and local governments) when preparing first the RAPs and later the Municipal Development Strategies and Action Plans (MDS/MAP).

  The proposed roundtable (see above) should result in integrating, aligning and harmonising the different plans and funding sources to the extent possible.

- **Related to MDS/MAP**: Activities on the Municipal Strategies and Action Plans have not started yet. Discussions in the MRDI have shown that one cannot yet speak of a common vision and concept on how to proceed with this venture.

  The project is therefore advised to ensure that the official MRDI position related to municipal planning is supported and owned by all parties involved. Should this not be the case, a strategic decision will be required on how to proceed and, eventually, a plan B may have to be developed.

  In any case, it is advised against first producing the Municipal Development Strategies (MDS) and then embark on a second process to develop the Action Plans (MAP). Instead, both components should be fused into one process, resulting in one document. The process should be as simple as possible and strictly result-oriented.

  It is further proposed to compensate the simplification of the process in municipalities with more ambitious targets in terms of timing and coverage (more municipalities per year than originally planned). Also, close coordination will be required with GIZ, as well as with the MDF/RMIDP II project. The ultimate aim of all planning efforts should be full coverage of all 76 municipalities in the country.

- **Related to local authorities' association**: It is recommended that the project now addresses the need to horizontally organising municipalities. A new NALAG chairperson has recently been appointed and MRDI has informed the review that it plans to become active in this respect; a dialogue with the ministry and NALAG should therefore be taken up soon.

5   Component 2b: Small Grant Scheme

51   Present situation

Financially, the Small Grant Scheme (SGS) mechanism is the most important component of the project, for which US$ 2.5m or 40% of the budget have been allocated. So far, only preliminary discussions have been held and decisions have been deferred to the moment when the regional and local action plans are in place.

Basic guidelines for the SGS are given in Annex 12 of the ProDoc. They define the objectives of the scheme, eligibility criteria for funding, tentative financial allocation, minimum and maximum duration of projects, application rules, selection procedures and criteria.

When the project was conceptualised in 2011, no substantial government funding was available at municipal level. Since then, the government has increased budget funding (equalisation grant) and conceived new substantive funding mechanisms like the RDF and projects like RMIDP II, implemented by MDF. Local funds are thus still limited, but not to the extent as was the case in 2011. It seems therefore appropriate to reassess the original concept and objectives of the SGS.

A major concern is the (often underestimated) complexity of setting up a system, structures and procedures to run a grant scheme in a transparent manner and in a way that is impervious against corruption. The review is of the opinion that this task is more than the current team could handle and would only come at a substantial additional administrative cost. Furthermore, it is established good practice to not set up parallel and temporary systems but instead to work 'on-system', i.e. use established structures and procedures to disburse small grant funds.

52   Recommendations for Component 2b

At this stage, after one third of the project, it is advised to reconsider the purpose and potential effect of the SGS. This will require in-depth discussions on the different options and their respective merits with the MRDI, but also with SDC and ADC that should be taken up now.

In principle, the review sees three basic options on how to proceed with the SGS:

1. The first option is to transfer the funds to MDF. However, it has to be borne in mind that the focus of MDF is on 'hardware' and that the size of individual projects (US$ 30,000 to US$ 50,000) may be too small. A valid alternative worth exploring is to allocate SGS funds to those municipalities that will not receive MDF/RMIDP II funding.

2. The second option is to stop the original plans for the SGS and re-allocate the budget to other activities. Provisionally, the following three sub-options have emerged (which are not mutually exclusive):

    •   Set up a (substantial) training fund for CEGSTAR to conduct LSG related trainings, once the national system is up and running. Eventually, the RLD funds could be used as matching grants to GoG and/or municipality funding for training.

    •   Provide funding to the Ministry of Finance for design and implementation of a fiscal decentralisation mechanism and LSG programme budgeting. This would require

negotiations with the Ministry, but also with other supporting donors, in order to avoid any duplications.

- As will be argued below, it is proposed to reallocate part of the SGS budget to strengthen the project management and strategic backstopping.

3. The third and least preferable option consists of setting up a separate system for disbursing the SGS. As argued above, the review is of the opinion that this would not be good practice and would not be cost-effective. Two sub-options would be:

- The project hires additional staff in order to allow for clean and efficient operations, or

- SGS implementation is outsourced to an experienced NGO (or similar organisation) with established and tested disbursement and control systems.

Naturally, the proposed options are not mutually exclusive; a combination may also be chosen, depending on the respective feedback and positions of MRDI and the donors.

Last but not least, it is proposed to continue to treat the SGS (at least as long as it exists) as separate Component 2b in future physical and financial progress reporting.

6 Component 3: National training system

61 Main achievements so far

CEGSTAR, or the LEPL Centre for Effective Governance System and Territorial Arrangement Reform, is the main actor and main project partner in this Component. CEGSTAR also receives support from other projects, mainly GIZ and USAID, soon also from the Czech Development Agency.

The main achievement of the project is its contribution to the National Training Concept, which was finally approved by GoG in May 2014. The Concept outlines a national system for planning, delivery and monitoring of all necessary training to LSGs. CEGSTAR is to play the core role in contracting and registering training providers and courses, coordinating, organising, controlling quality, monitoring and fund raising. Actual training is to be outsourced to a pool of accredited service deliverers.

On the financial side, 1% of the municipal salary budget is now reserved for staff training. Obviously, this is only a token amount but still a good starting point for municipalities to realise that own funds will need to be allocated to training if staff qualifications are to rise.

During 2013, CEGSTAR has provided training only to a limited number of people, and the 2014 training plan was largely put on hold so far, due to the local elections and the ongoing municipal staff attestation process mentioned above.

Currently, RLD has outsourced two CEGSTAR-related mandates to two individual consultants to develop (1) a training procedures manual, and (2) a quality control manual. In addition, the consulting company who had earlier provided training to MRDI staff has recently made a very preliminary functional analysis of the organisation.

62 Emerging issues in Component 3

It can be argued that Component 3 is the most challenging for the project, as achieving its targets is largely dependent on the performance of CEGSTAR. So far the strategic steering of the organisation by the project has not been optimal as exemplified by the fact that the CEGSTAR-related plans of the upcoming Czech DA project were not on the radar of the project; the mission attributes this at least partly to the absence of a strong CTA. It is clear that in the upcoming implementation of the National Training Concept the operational coordination and integration of the different support activities by other donors need to improve, with CEGSTAR playing a proactive role by taking increasing ownership.

The approved National Training Concept is certainly an achievement; however, so far it remains but a concept. Results will start to materialise only after a realistic and feasible implementation road map has been drafted and implemented. Next to the new training system, CEGSTAR will also have to develop financial mechanisms at municipal and higher levels to programme, budget, spend, monitor and account for expenditures on training.

A major concern relates to the fact that CEGSTAR has been put in charge not only of operating the national training system, but also of improving the legal framework related to LSGs, as well as developing new municipal management systems.

However, CEGSTAR is at present under-staffed for its challenging tasks and a proposal is pending with GoG to approximately double its staff to 21 positions.

Finally, the review observed sub-optimal communication between two important actors, CEGSTAR and the Civil Service Bureau under the Chancellery, which is in charge of drafting the new Civil Service Code.

63 Recommendation for Component 3

It is recommended to embark on a comprehensive and in-depth functional analysis of the organisation, resulting in a realistic and detailed organisational development plan as soon as possible. UNDP and the RLD project should closely monitor progress and quality of this process.

High-quality experts must be contracted to this end with sufficient practical experience in analysing and developing (semi-)government organisations. The same experts should then also be tasked with close coaching of CEGSTAR throughout all the steps of the subsequent change management process.

In order to achieve a real change in the organisation, it will be essential to obtain buy-in and ownership from (1) CEGSTAR and MRDI, but also (2) from other CEGSTAR supporters (GIZ, USAID, Czech DA). If ever possible, the project should aim at receiving co-financing for the functional analysis and the related change management from the other supporters.
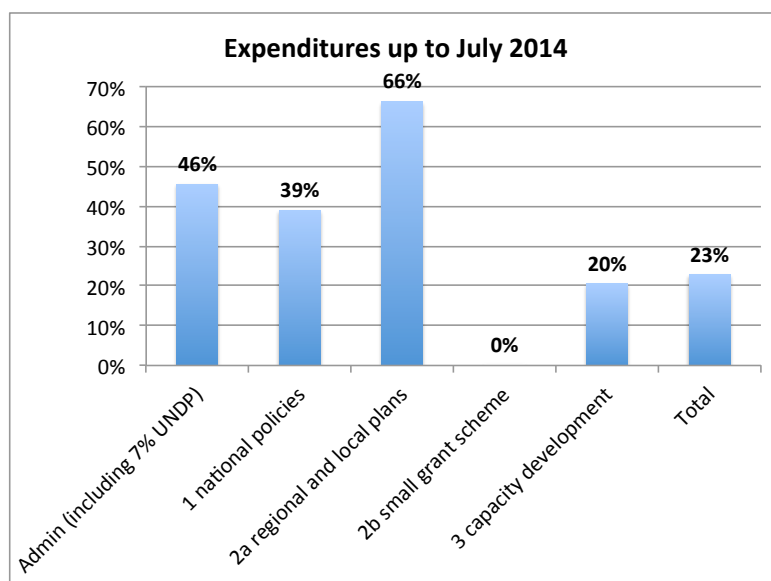
7 Budget and expenditures

71 Original budget allocation

The total project budget of US$ 6.2m has been allocated to the different components as follows:
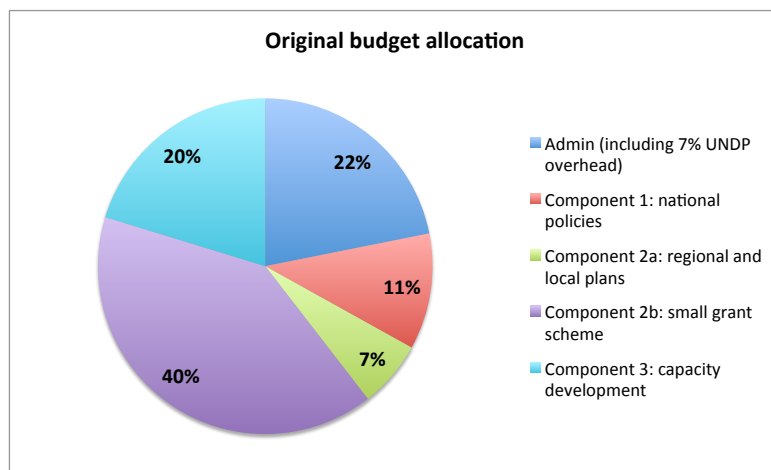
The largest share of US$ 2.5m has been reserved for the Small Grant Scheme (SGS), as part of Component 2. When split between Components 2a and 2b, it is evident that the budget for Component 2a (regional and local plans) is rather small, given the amount of resources required for developing these products.

72 Expenditures up to 7/2014

After one third of the project period, total project expenditures have reached US$ 1,412,000, or 23% of the budget (as of 31 July 2014). This relative underspending is to a large extent

due to the fact that so far no funds have been disbursed for the Small Grants Scheme Component 2b. The project has furthermore underspent in Component 3, mostly due to the delay in starting training programmes for the LSG staff (as their final appointments were/are still pending).

The above statement on the smallness of the budget allocated for Component 2a is supported by the component's expenditures where already two-thirds of the budget have been spent.

Of more concern is the substantive overspending that has occurred in project management costs (including the 7% UNDP overhead), where already 46% of the project budget (or US$ 619,000 of the total budget of US$ 1,359,000) have been utilised after only one third of the phase. It is not clear to the mission whether the original budget allocation was too small, i.e. not realistic, for the management component. In any case, the originally planned management budget for 2013 was insufficient and had to be increased. However, this request was communicated rather late in October 2013, before the upcoming Steering Committee, and has subsequently met with strong critique from the donors.

73   Recommendations

The review is of the opinion that now a budget reallocation is called for, as the present situation is different from when the project was designed. The leeway for reallocation will evidently depend on the decision which option to select for the future use of the SGS funds (see chapter 5 above).

If the preferred second SGS option is selected, the SGS budget would de facto become a disposition fund, which should be allocated to such fields and areas where the most substantial contributions can be expected towards achieving the overall project goal. These may include (but should not be limited to) the following:

• Training fund at the disposition of CEGSTAR to co-finance the implementation of their training programmes;

• Funding to Ministry of Finance to design and implement a fiscal decentralisation mechanism and LSG programme budgeting.

8   Project management and staffing

81   Present situation

Compared to other projects of a similar financial volume (approximately US$ 1.7m per year), the present professional RLD team is rather small. Currently, it is composed of 1 project manager, 2 component leaders, 1 external legal expert, as well as limited supporting staff.

A core shortcoming – readily acknowledged by UNDP to the review mission – is the fact that the initially selected chief technical adviser (CTA) did not live up to expectations. He was allowed to finish his one-year contract (despite early complaints related to his performance by the donors) but the contract was then not extended. In hindsight, and given his essential strategic role in the project set-up, a more active management of this core personnel resource would have been preferable. The project team was, as a consequence, lacking

sound strategic counsel basically from the start to mid-2014, when a new interim international project team leader has been employed.

In addition to this, the project manager (PM) resigned in June 2014, at least partly due to discontent with his performance voiced by MRDI; a new project manager is being recruited at present. In order to provide temporary leadership to the team and based on a decision of the Steering Committee of May 2014, the new interim international project team leader has now been put in charge. This mandate is to be converted into a permanent but part-time International Technical Advisor; the related recruitment process will start soon (see below).

On a broad operational level, the review agrees that the team does mostly outsource technical support to qualified service providers. However, project management must take a stronger strategic lead and ensure that individual consultancy mandates contribute to the larger objectives.

In practical terms this means allocating sufficient staff resources to ensure that:

- The project as a whole becomes more pro-active in strategic (and tactical) management of its activities in the currently fast changing decentralisation arena; and

- The project manager and coordinators do supervise and control external consultants/experts more closely and are more involved in the gestation of the resulting products, narrowly following each step of the external mandates.

82   Management and staffing recommendations

Despite having overspent on the budget for project management and administration after one third of the project phase, and irrespective of which SGS option is selected, it is proposed to reallocate additional funds to project management, in order to allow employing: (1) a part-time international technical adviser for the remaining project period, as well as (2) an additional full-time coordinator for Component 2a.

1. Part-time international technical adviser (year 1: 60%; year 2: 50%; year 3: 40%). His/her main tasks would be:

    - Strategic and conceptual guidance and advise to UNDP, the RLD project manager and team;

    - Liaison with MRDI, the project donors and other partners and projects, etc.;

    - Jointly with the PM, representation of the project in core events and activities;

    - Overall responsibility for annual plans and progress reports.

2. 1 additional full-time coordinator (or equivalent) for Component 2a, due to the expected increase in workload when drafting first the RAPs and then the MDS/MAPs.

Finally, the review advises UNDP to ensure sufficient staff strength in its Tbilisi Governance Team in order to provide the expected level of UNDP expertise in governance to the largest project in its (growing) governance portfolio.

83   LogFrame synchronization

The ProDoc contains (i) the UNDP format Results and Resources Framework (chapter 7), as well as (ii) the SDC LogFrame (annex 8). Both planning matrices are not fully congruent. In order to ensure uniformity and avoid potential misunderstandings, it is therefore proposed to

adjust the SDC LogFrame and UNDP Results and Resources Framework versions and have the final version approved by the Steering Committee. This refers in particular to:

- Including the project goal and related indicators and targets – currently only in the SDC LogFrame – and report on goal level achievements in future progress reports;

- Synchronize the targets on outcome and output levels for the different indicators, which currently differ in some cases.

9   Project steering and communication

The Steering Committee (SC) has met twice so far, in October 2013 and May 2014, respectively. The next meeting was planned for mid-September 2014. It is proposed to keep this roughly half-yearly rhythm, but schedule other SC meetings on an ad hoc basis, if and when required. The bi-annual SC meetings should be preceded by drafting of semi-annual (new) and annual (as per the ProDoc) progress reports by the project team.

In addition, and in order to ensure smooth communication in particular between the more active donor SDC and UNDP, it is proposed to organise operational meetings, to be conducted on a regular basis between the SC meetings. The operational meetings are to provide informal in-depth exchange to bring the partners on the same level of understanding in terms of progress made and issues encountered.

The operational meetings should also allow the partners to bring in experiences from other governance projects and work towards a programmatic approach in their respective portfolios. Strategic and operational proposals from the meetings can then be brought to the attention of the SC for further elaboration and/or decision taking.

10 Summary conclusions

11 Relevance

The relevance of the RLD project is high and undisputed. The present government is strongly advancing the decentralisation agenda and has taken a range of important steps to this end in 2013 and 2014.

The project has established itself as credible player in the middle of a dynamic process; its support and inputs are well acknowledged and in demand, in particular in the parent ministry MRDI.

The fact that UNDP has the lead in the Strategic Partnership is certainly an important asset; however, as the project rightly states in its 2013 annual report, a nationally owned system of donor coordination has not materialised so far, since MRDI has yet to take active measures in this direction.

The project therefore rightly sees it as an important objective in the forthcoming period to further advocate and promote a programmatic approach, led by MRDI, towards donor-supported projects.

12 Effectiveness

The project has been effective in laying solid groundwork during the first third of the phase in terms of supporting (i) the development of the legal basis (LSG Code), (ii) planning strategies (RDS) and (iii) concepts (training system). These basic documents now need to be operationalized in order to become effective (road map for the LSG Code; RAPs; road map for the training concept and reorganisation of CEGSTAR). Quite likely, the coming operationalization steps will be challenging.

The mission is of the opinion that effectiveness was influenced negatively by the sub-optimal performance of the initial CTA during the first year and the delay in his replacement, as well as by the early termination of the PM. Better strategic leadership and counselling by the CTA and uninterrupted presence of a PM would most certainly have increased effectiveness. In the meantime, a capable interim international adviser has been employed and the recruitments of a permanent part-time international adviser as well of a new PM are imminent; these changes are expected to ensure strategic effectiveness and operational efficiency for the remaining part of the project phase.

A range of activities has been deferred until 2015, as the elections, the approval of the LSG Code, as well as the ongoing attestation process, had first to take place before meaningful interventions made sense. Now, however, the challenging steps ahead need to be initiated and the window of opportunity utilised in the coming months.

The project has so far been flexible, as the current dynamic context did not allow sticking to pre-defined, long-term plans but required instead the capability of reacting to opportunities (and threats), as and when they arouse. The donors are complimented to allow for this flexibility and should continue to do so in future.

13   Impact and sustainability

It is evident that the sustainability of the decentralisation process and, by default, of the results of the project interventions depend first and foremost of the continued commitment of the government. Currently, this commitment is visible and tangible.

At the end of the phase, the project will have to show its impact in terms of a supported decentralisation process that resulted – as envisaged by the project's goal – in (i) increased household incomes; (ii) widened engagement of citizens in local self-government; and (iii) enhanced satisfaction with local service delivery.

The project is therefore tasked to ensure that active participation of the private sector and the citizenry is increased during the remaining project period – naturally within the limits of what is feasible and possible in the Georgian context.

Equally important for the medium- and long-term prospects of decentralisation is the building up of a municipalities' owned strong lobby organisation that can successfully advocate for their interests at central level.

11   Main recommendations and proposed next steps

Next to the more specific recommendations given in the separate Component chapters, here the main recommendations are highlighted again.

The findings of the review were presented in a debriefing to the MRDI at the end of the mission. Below, the main recommendations are briefly summarised, along with provisional feedback received from the Deputy Ministers during in the debriefing:

- **Component 1**: MRDI in principle approves of the idea to prepare and conduct a roundtable for developing a roadmap for the implementation of the LSG Code. The next step is to draft a proposal on the envisaged process, milestones and expected results and submit the proposal to MRDI for consideration.

- **Component 2a**: MRDI agrees that the RAPs need priority attention at this stage in order to be able to allocated RDF funds for the 2015 budgets. For the municipal level plans, a simple and straightforward process should be developed and agreed with MRDI, GIZ, and preferably also MDF, in order to soon start activities at this level.

- **Component 2b**: In principle, MRDI is open to discuss future options for the SGS. The Deputy Ministers requested that to this end a proposal be sent to MRDI for consideration. In parallel, the options will have to be pre-discussed with the donors SDC and ADC.

- **Component 3**: MRDI agrees that CEGSTAR should now undergo a detailed and in-depth functional analysis along with a change management process. A suitable consultancy needs to be identified and closely supervised throughout the process. Buy-in and co-financing from other donors will be essential.