

USAID & GEORGIA

FINANCING SELF-RELIANCE



The Government of Georgia partners with USAID to increase capacity to finance its own development journey

At the turn of the 21st century, Georgia's economy was opaque and unpredictable. Thousands of businesses operated outside of the purview of the tax authorities. The Georgian government had one of the worst reputations in the former Soviet Union for bribe-taking and corruption.

Following the "Rose Revolution" in 2003, the new government initiated progressive reforms to modernize Georgia's economy. Because the government was committed to reform, but lacked technical expertise for design and implementation, Georgia partnered with USAID to build systems and institutions that increase the country's ability to identify and finance solutions to its own development challenges.

Domestic revenue mobilization is crucial for developing countries to transition from aid recipients to development partners. From 2005-2010, USAID collaborated with the State Revenue Service (SRS) to unify registration, introduce audits, and automate tax processes. These reforms virtually eliminated petty corruption in tax administration and completely transformed the Customs Department, previously perceived as the most corrupt institution in government.

Capitalizing on this successful partnership, USAID supported the SRS as it drafted a modern tax code and trained staff on new tax regulations. As a result of this second wave of reforms, the SRS dramatically reduced the time required to register a business and clear customs. Collectively, electronic tax filing, customs risk management, and tax returns have injected an additional \$250 million into the economy annually.



Over the years, USAID and the Government of Georgia have continued to build on our successes, leveraging each one into an opportunity for further development wins. In 2015, SRS worked with USAID to unify more than 100 treasury payment codes into a single code. This reform is expected to generate \$15.5 million for businesses and the Government of Georgia over the next 10 years.

In 2016, USAID supported Georgia's development of a unique corporate income tax model, where profits are not subject to tax at the moment when they are earned. Instead, taxation is deferred until the distribution of profits is realized, increasing the capital available for potential reinvestment across the country by approximately \$110 million. Innovations like this have helped breathe some new life into Georgia's economy.

Transparent and effective public financial management is key to fostering citizen trust in government budget processes. Since 2012, USAID has teamed up with the State Audit Office and Ministry of Finance to develop a budgeting process that increases citizen engagement and improves internal audit and fraud investigation capacity in the government.

At the subnational level, USAID has helped 85 rural governments and communities build the skills needed to attract investors and prepare economic and infrastructure development plans. USAID has also advanced Georgia's decentralization efforts by improving administrative and financial management at all levels of government.

Georgia’s fiscal sector has come a long way since 2005. Between 2004 and 2018, taxpayer registration has increased ten-fold. During the same period, business registration quadrupled and tax revenues have increased eightfold, to over 25 percent of GDP. Perceptions of corruption have also fallen significantly. According to Transparency International’s Corruption Perception Index, Georgia’s ranking improved from 124 in 2003 to 41 in 2018.

All of these initiatives have strengthened Georgia’s ability to finance reforms and policies necessary to ensure it continues moving forward on its development path. Evidence of Georgia’s commitment to this process is clear. Since 2004, Georgia dramatically increased its spending on health by 11 times and on education by 20 times. In 2019, the Government of Georgia initiated a new reform to increase spending on education to six percent of GDP by 2022, which would constitute a quarter of Georgia’s state budget at current levels. If these investments in the health and education of its people can be realized, Georgia will build a brighter future for the country as a whole.

USAID will continue to work with Georgia as it capitalizes on progress made through economic and financial reforms to advance its own development, creating the future that Georgian citizens deserve.

