

GEORGIA

2024

January

Component: Revenue

Module: RM I – Tax Policy

GEORGIA**PROJECT SUMMARY****LEAD DEPARTMENT:** FAD**REGION (S):** MCD**COUNTRY (S):** Georgia**PROGRAM ID:** (To be filled out by Secretariat)**PLANNED DATES:** May/2024 – May/2026**FUNDING PROGRAM TITLE:** GPFP Georgia Project**PROJECT MANAGERS:****RM I/TAX POLICY:** Charles Vellutini**PROJECT LEAD MANAGER:** Charles Vellutini**ESTIMATED BUDGET:** \$555,777**BUDGET FOR ENDORSEMENT:** \$359,040 through FY25

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I. PROJECT PURPOSE

The objective of the project is to assist Georgia's authorities in strengthening revenue and improving the tax system in the framework of the upcoming Medium-Term Revenue Strategy (MTRS). The estimated budget for this two-year project is \$555,777, but endorsement is requested for \$359,040 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

Georgia's tax-to-GDP ratio is 22.8 percent as of 2022, having recovered since the COVID-19 pandemic. Still, the 2022 IMF Stand-by Arrangement (SBA)¹ underscores the need for fiscal space to finance priority spending and weather possible adverse risks. The authorities plan to reduce the deficit to 2.8 percent of GDP in 2023 and 2.3 percent in 2024, which will create space to respond to downside shocks.

Country engagement and alignment to reform priorities

The authorities are seeking to raise revenues over the medium term to help finance priority spending. Complying with the fiscal rule will likely require additional revenue, which the authorities plan to mobilize:²

- *Rationalizing tax expenditures.* The authorities intend to rationalize tax expenditures, which amount to about 4.6 percent of GDP in 2021.³
- *Developing a MTRS.* The authorities plan to develop and implement an MTRS with FAD TA to help identify options for revenue mobilization through both tax policy and administration, while promoting tax progressivity and efficiency.

FAD has provided significant CD to authorities on tax policy and administration in recent years. On tax policy, FAD assisted on tax expenditure measurement and reform, spanning the VAT, personal income tax, and the corporate income tax.

Developing a MTRS document would make a significant contribution in this context. Overall development strategies, with tax reform-related goals including the rationalization of tax expenditures (TEs) for revenue and efficiency purposes, exist in Georgia, on which the MTRS will build. The IMF has encouraged the authorities to develop this document and is included as a structural benchmark due March 2024 within the ongoing SBA.

¹ International Monetary Fund, [Stand-By Arrangement, 2022](#).

² See SBA (IMF, 2022)

³ Tax Expenditure Report, Ministry of Finance of Georgia, December 2022.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

The project will be aligned with the authorities' priorities through the MTRS, with the key objectives to (i) increase Georgia's fiscal space by strengthening its tax revenue; (ii) improve the tax system's progressivity; (iii) improve the tax system efficiency by addressing distortions, particularly in relation with tax exemptions. The project will comprise one component:

- *Component 1: Support to tax policy design. Assistance will be provided on the design of the MTRS regarding tax policy, with focus on:*
 - Mining taxation.
 - Rationalizing tax expenditure, including VAT exemptions and zero ratings.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	• Improved distributional fairness across taxpayers due to amended tax rates or base. • Increased/decreased revenue quantity due to amended tax rates or base.

B. Country engagement

The authorities' engagement on the project is supported by the on-going SBA and the structural benchmark on the preparation of a MTRS.

C. Delivery Modalities

The CD delivery will mainly be in-person activities. Virtual deliveries will be used to provide efficiencies to on-the-ground support, including pre-engagement meetings and post follow-up meetings.

The project will involve headquarters-led (HQ) missions and STXs visits to provide strategic recommendations, conduct regular follow-ups, assess progress, coordinate with other CD providers, and adjust reform implementation plans (see below). It is expected that some of these activities will be joint RA/TP missions.

D. Coordination / Cooperation

The MTRS is a coordinated approach encompassing both tax policy and revenue administration, as well as providing an umbrella for coordination across donors and other CD providers. The World Bank Group has been associated to the MTRS formulation process and activities are coordinated with the IMF. On tax policy, the World Bank is addressing analytical needs, such as a modelling the progressivity of the tax system, while the IMF focuses on strategic policy advice.

IV. RISK ASSESSMENT AND MITIGATION

Implementation risks are rated as low. The SBA provides a strong framework for the project implementation, minimizing the risk of the lack of commitment on the authorities' part. FAD's past engagements with Georgia on tax policy (for example tax expenditure analysis) have generated solid impact⁴ and have contributed to developing strong work relationships.

General or Module	Description	Risk Probability	Risk Impact	Mitigation Measures
External climate/conditions				
General	Risk that external events create a more challenging environment to implement reforms.	Medium	Medium	Program execution allows for sufficient flexibility ability to adjust activities in the case of adverse events.
Political Support				
General	Lack of political support for reforms.	Low	High	The SBA and the related MTRS are strong signs of political support.
Management and Technical Staff Support and Commitment				
RM I / Tax Policy	Low commitment of management and staff in finance and other ministries to adopt and implement fiscal risk management practices.	Low	High	Both the MTRS and past CD projects have evidenced the availability and engagement of qualified staff.

⁴ Such as the publication of Georgia's first Tax Expenditure Report in December 2022. See previous footnote.

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V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	Total for FY24	Total for FY25	Total for FY26	Grand Total
RM I / Tax Policy				
HQ-Standard (2-weeks) – Field Based	1	1	1	3
HQ-Short (10-days) - Remote	1	1	1	3

Table 3. First year workplan

Timing	CD Delivery		Proposed Topics of CD
FY24 – Q4	Policy mission	HQ-led CD mission	Mining taxation and MTRS Support
FY24 – Q4	Remote assistance	Virtual	MTRS support
FY25	Policy mission	HQ-led CD mission	MTRS support
FY25	Remote assistance	Virtual	MTRS support

VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	TOTAL (USD)
Direct Delivery	157,040	178,511	183,866	519,417
Module RM I - Tax Policy	157,040	178,511	183,866	519,417
Module RM II - Revenue Administration	0	0	0	0
Module SM I - Spending Policy	0	0	0	0
Module SM II - Managing Public Finances	0	0	0	0
Subtotal	157,040	178,511	183,866	519,417
Trust fund management fee (7%)	10,993	12,496	12,871	36,359
TOTAL	168,033	191,007	196,737	555,777

The estimated budget for this two-year project is \$555,777, but endorsement is requested for \$359,040 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE I – TAX POLICY

A. Program Objectives

The objective of this module is to improve tax revenues while improving the tax system's progressivity and addressing distortions in particular relation to tax exemptions.

B. Expected Results

Improvements in the tax system using the MTRS framework to realize higher revenues resulting from rationalizing tax expenditures, including VAT exemptions and zero ratings, and improving the mining taxation system.

C. Targeted Logical Framework

Objective	
Improve Tax Policy Design	
Outcome(s)	Indicator(s)
Increased/decreased revenue quantity	Average effective tax rate in extractive industry
Increased/decreased revenue quantity	Revenue change