TWO YEARS IN GOVERNMENT:

GEORGIAN DREAM'S PERFORMANCE REVIEW

OCTOBER 2012 - DECEMBER 2014

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INTRODUCTION

The 1 October 2012 parliamentary elections established a new ruling parliamentary majority and brought the Georgian Dream Coalition in the executive power. As part of its pre-election promises, the new government pledged to undertake major reforms and changes in almost all aspects of governance, including: depolitization of the governance system, removing undue pressure from the private sector, improving protection of human rights and the welfare of citizens.

Georgian nongovernmental organizations (NGOs) have been following the processes since the 2012 elections very actively. Civil society representatives regularly responded to government initiatives and offered its recommendations to the respective institutions. NGOs were very often proactive about their recommendations, advocating for deep reforms in various policy fields.

The report provides an overview of the reforms and changes undertaken by the Georgian Dream government in over 20 key public policy areas, independent assessment and recommendations to tackle problems. These are areas which were often discussed by civil society and the authors believe more efforts are needed: general governance, electoral reform, local self-governance, human rights and equality, economy and investment environment, foreign policy, open government and media environment.

After two years of coming into power, Georgian Dream boasts to have made achievements in many of these areas. NGOs, however, believe that there are even more challenges remaining. Each chapter of the report includes the following sections: (1) the situation before the 2012 parliamentary elections; (2) what has happened since the elections – reforms undertaken by the new government and significant events that have occurred; (3) recommendations of the nongovernmental organizations in tackling any remaining or newly arisen challenges. The report covers the period since October 2012 up until the end of 2014. In particular cases, the authors also consider and discuss those significant developments that have taken place up to March 2015.

Each chapter was prepared by NGOs with the expertise in respective policy areas. These NGOs have been long observing the developments in these sectors. Recommendations prepared by the civil society representatives are backed by their expert knowledge in each field as well as best international practices. NGOs that have contributed chapters to this report are: Article 42 of the Constitution, Civil Development Agency (CiDA), Economic Policy Research Center (EPRC), Georgia's Reforms Associates (GRASS), Georgian Young Lawyers' Association (GYLA), Green Alternative, Human Rights Center, Human Rights Education and Monitoring Center (EMC), Identoba, Institute For Development of Freedom of Information (IDFI), International Society For Fair Elections and Democracy (ISFED), Public Movement Multinational Georgia (PMMG), Open Society Georgia Foundation (OSGF), Partnership for Human Rights (PHR) and Transparency International (TI) Georgia. Authors are responsible only for chapters authored by them and may not share the views expressed by authors of other parts of the report.

While working on the report, NGOs were basing on the findings of their prior qualitative and quantitative research, publicly available information and media reports. In order to eliminate any errors and inaccuracies, the report was sent to the Government Administration, Parliament and the High Council of Justice. We would like to thank all stakeholders who provided feedback; some of the comments were reflected by the authors in the final report.

Finally, we hope that addresses of this report will prioritize reform areas and recommendations provided by the civil society representatives and react upon them in the nearest future. We are ready to further consult all institutions of the government with our assessment and recommendations.

18. ECONOMY

Economic Policy Research Center (EPRC)

EPRC

Economic Policy Research Center

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18.1 Key Indicators

- Instead of the initially planned 5% growth rate, the Government of Georgia is currently expecting a 2% economic growth rate in 2015. In 2013, Georgia reported the lowest indicator in the region at 3.3%. In 2014 4.7% growth was reported instead of 5%;
- As of February 2015, compared to the corresponding period of the previous year, the national currency has depreciated against the US Dollar by 16%. To avoid inflationary pressure, the National Bank has decided to reinforce monetary policy and increased the refinancing rate from 4% to 4.5%. To reduce fluctuations of the GEL exchange rate, from November 2014 through February 2015, the National Bank reduced foreign currency reserves by USD 120 million;
- According to preliminary data, in 2014 foreign trade turnover in goods has reached USD 11 billion 457 million, exceeding the previous year's indicator by 5%. A 2% decline is reported in exports data compared to 2013 (USD 2 billion 861 million), while a 7% growth in imports (USD 8 billion 596 million) was reported. Consequently, the negative trade balance is at a record high, exceeding USD 5.7 billion;
- In 2014, the fiscal deficit with respect to Gross Domestic Product exceeded the 3% index recommended by the International Monetary Fund, equaling 3.7%;[222]
- In January-November 2014, a 10% decline in remittances from Russia was reported. Less than USD 56 million 522 thousand was transferred. Compared to 2013, remittances from Ukraine in 2014 declined by 30%. Particular problems related to remittances were experienced in the last three months, especially in December. The volume of remittances sent to the country equaled USD 116.1 million, which is less than the same data of December 2013 by USD 38.5 million, i.e. 24.9%. By countries, remittances from Russia have declined in December by 43%, from Greece by 11%, and from Ukraine by 67%;[223]
- In terms of influx of Foreign Direct Investment, the lowest indicator since 2005 was reported the six-month data of 2014, (USD 415.8 million). The situation changed in the third quarter, and growth in investments was reported. Investments exceeded USD 507 million.

Several sectors will be reviewed to discuss the economic outputs of 2013-2014 including the state budget and management of public finances; foreign debt status and foreign trade sectors; and agriculture.

18.2 State Budget

THE SITUATION BEFORE THE 2012 PARLIAMENTARY ELECTIONS

- Reforms were undertaken in in the areas of strategic planning of state funding and results-oriented budgeting. A medium-term expenditure framework started taking form in 2005; the first Baseline Definition Document (BDD) was developed for 2006-2009. In 2009, the Parliament of Georgia adopted the Budgetary Code of Georgia. Since 2012, drawing up the state budget in line with the program budgeting standard was introduced. In the internal audit sector, in 2010, the Law of Georgia "on Internal Audit and Inspection" was adopted, which was updated in 2011 after being improved and tailored to international standards, with its title amended to the Law of Georgia "on State Internal Financial Control". The Internal Auditors' Code of Ethics and Standards were improved, and the foundation was laid for internal audit methodology;
- As of December 2012, revenues of the State Budget of Georgia equaled GEL 7,158,280.0 thousand.[224]

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222 National Statistics Office of Georgia, www.geostat.ge
223 National Bank of Georgia, www.nbg.ge
224 Ministry of Finances of Georgia, *on the 2012 State Budget of Georgia, Georgian State Budget Data,* www.mof.ge

SINCE THE ELECTIONS

The following changes are noteworthy in respect to public finances:

- The Ministry of Finance of Georgia has developed a Public Finance Reform Strategy for 2014-2018.[225] Since 2013, local self-government unit budgets are drawn up in the program budget format, and a corresponding methodology was developed. Further, an electronic system of budget management was developed (e-budget); harmonization of this system with the Treasury's electronic system made it possible for the spending institutions, the Budgetary Department of the Ministry of Finance, and the Treasury Service to exercise real control and management over state funds;
- In 2013, the internal audit methodology was improved, the risk assessment method was planned for the internal audit planning processes, and the systematic audit of three ministries was carried out. Stages of planning, implementation, accountability and monitoring of internal audit were introduced;
- The new Budgetary Code was elaborated, and since January 2015 the principle of consolidation includes expenses along with revenues. Registration of revenues and expenses of LEPLs will be subject to the principle of consolidation, occurring prior to this in commercial banks;
- The quality of documents submitted together with the budget has improved considerably and their spectrum has broadened. Along with the 2015 Budget Law, fiscal risk analysis and key macroeconomic and financial indicators by scenarios (basic, optimistic and pessimistic) were submitted. The Government has developed a debt sustainability analysis (for 2015-2018). Parallel to budget planning, fiscal risk identification analysis, and assessment of their effects have developed;
- Regardless of the present reform, a Medium-Term Expenditure Framework (MTEF) has not been reached in Georgia. Instead, the Baseline Definition Document (BDD) is perceived as the MTEF document;
- The two main governmental documents which the budget must be in compliance with are the BDD (explicitly required by the Budgetary Code) and the Government Strategy (Georgia 2020). The latter was authored by the Government Administration, while the former was authored by the Ministry of Finance. BDD is not written out in years and simply lists general goals and areas. The program budgeting format is of an formal nature. The program annex is not part of the budget law. Accordingly, its enforcement is complicated, and the performance of programs described in the program annex are not monitored by indicators. Accountability of budget performance concerns the budget law only, thus making it difficult to carry out results-oriented program monitoring.

Key Indicators and priorities of the budget:

- By 2014, state budget revenues were GEL 7,319,000.0 thousand;[226]
- The 2014 and 2015 budgets are socially oriented. Approximately 30% of the budget is spent on healthcare and in social sectors, while 8% of total expenses are allocated to increasing non-financial assets (capital expenditures);[227]
- In addition, fulfillment of budgetary expenditures has largely failed in areas that should be facilitating economic growth. Hence, the budget fails to stimulate the economy;
- Infrastructural projects funded from the state budget cannot be implemented, owing mainly to a large number of failed tenders. Ten months into 2014, only 65% of annual projections allocated to infrastructure were consumed.[228] Delays in receiving foreign long-term credits refer to problems existing in terms of administration and management, which are also allocated mostly to fund infrastructural projects;

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[225] Ministry of Finances of Georgia, mof.ge/common/get_doc.aspx?doc_id=11479
[226] Ministry of Finances of Georgia, *on the 2014 State Budget of Georgia, Georgian State Budget Data,* www.mof.ge
[227] Ministry of Finances of Georgia, *on the 2015 State Budget of Georgia, Georgian State Budget Data,* www.mof.ge
[228] State Treasury of the Ministry of Finances of Georgia, *Operation Data,* www.treasury.gov.ge

- As is well known, in 2013, the budget deficit reached GEL 632 million,[229] while in 2014, according to the Ministry of Finance, the expenditure section of the budget equaled GEL 8 billion 977 million, which is 98.9% of the projected 9 080 million. Unconsumed funds in 2014 equaled GEL 103 million;[230]
- There was a trend of spending a large portion of budgetary funds during the last quarter and months of the year. Together with delays in the influx of grants, this has a negative impact on the national currency in terms of depreciation. Apart from the declining rate of the national currency, this also reduces the National Bank's currency reserves. To maintain the GEL rate, in one day in 2014, the National Bank spent USD 45 million. In 2014 this process was accompanied by a decline in foreign investments (see Chapter on "Investment Environment"), exports, and remittances, which has played a significant role in setting the new GEL rate;
- The draft state budget for 2015 mostly reiterates the trends and priorities of 2014, and around a third of the budget is allocated for social support. As in last year, 10% of total budgetary expenses are allocated to increase non-financial assets;
- In 2015, it is planned to take on a large amount of foreign debt, with the total increase in obligations equalling GEL 1 330 million, which is 13% of the budget's total resources. Yet, it is planned to reduce the fiscal deficit compared to the projected data for the 2014 budget law, so that the fiscal deficit does not exceed the 3% fixed by the International Monetary Fund.

RECOMMENDATIONS

1. Instead of serving as a brief instruction document for the Ministry of Finance, the program budgeting methodology should become a practical manual for all spending institutions and budgetary organizations involved in the budgetary process, which should not only clearly define the role and degree of involvement of concerned organizations, but should give them practical instructions for administering work to be performed. In the first place, a methodological document should provide for clarity of terms and their consistency with other documents developed for similar purposes, especially with the Code. In addition, it should specify and practically apply key provisions set by the Code or any other basic standard;
2. When projecting the budget, it is important to focus on long-term, growth-oriented budgetary investments. For instance, instead of single tax benefits and increasing social obligations, it is preferable to fund areas like extra infrastructural expenses and to increase funding in professional education. Education is one of the most crucial, long-term investments in the country's economic development;
3. Outputs of budgetary expenditures illustrate that the structure of expenditures varies year by year and the budget is aggravated with more current liabilities, covered mostly at the expense of increased liabilities and not increasing tax revenues;
4. During the budget projection, an increase in current and fixed expenses should be avoided as much as possible, while the social measures should be directed at the poorest families to the greatest extent possible. Further, it is recommended to optimize administrative expenses. It is not justified for the state to take a large loan to fund budgetary expenses and increases in administrative costs, which includes the labor remuneration fund;
5. The expenditure section of the budget is consumed rather slowly throughout the year. It is recommended to spend budgetary resource as equally as possible by quarters and months, to avoid additional blows to the national currency;

[229] Government of Georgia, *Annual Report on Performance of the 2013 State Budget of Georgia,* http://bit.ly/18ZgXTC
[230] Report on Performance of the 2014 State Budget, http://www.mof.ge/news/print_news.aspx?news_id=6427

6. The Ministry of Finance of Georgia and other ministries should provide the public with adequate information on the budget, and especially on the reasons leading to failed performance of projected expenses and delayed implementation of infrastructural projects.

18.3 Foreign debt

- As of September 2012, Georgia's foreign debt constituted USD 13.11 billion;
- The proportion of Georgia's credit resources in total budgetary funds has increased from 3% in 2013 to 12% in 2014.[231] Such a high indicator occurred in 2009-2010 in the context of the global economic crisis and war;
- In 2013-2015, it is estimated that the over USD 3 billion in foreign liabilities will be undertaken.

SINCE THE ELECTIONS

- As of September 2014 (according to the data of the National Bank of Georgia), Georgia's total foreign debt, including the governmental sector, the National Bank, commercial banks, other sectors and inter-company debts, constituted USD 13.14 billion.[232] 31% of the total foreign debt (USD 4.1 billion) is accounted for by government debt, and the share of commercial banks in the total foreign debt is 20%. The weighted average percentage of Georgia's debt is 1.9%;
- 94% of foreign debt is denominated in a foreign currency, thus increasing the currency risk and threat of potential growth in pressure of obligations taken in view of the exchange rate;
- The foreign debt of the Government of Georgia has not reached a critical point in respect to GDP, but its constant growth shows that defining a strategy is required. The EU, pursuant to the Maastricht criterion,[233] demands from Eurozone member states that state debt does not exceed 60% of the country's Gross Domestic Product (GDP). To secure a country's foreign sustainability, the World Bank and the International Monetary Fund recommend[234] that foreign debt volume should not exceed 150% of a country's exports and 250% of budgetary revenues. As of 2014, the Government's foreign debt against GDP equals 26.9%, while the total debt equals 35.6%. Therefore, debt service indicators in Georgia are considerably less than maximum norms;
- Pursuant to the draft 2015 state budget, by the end of 2015, the maximum volume of state debt against nominal GDP constitutes approximately 35.6%; from these, state foreign debt constitutes approximately 26.4% and state domestic debt is approximately 9.3%, data almost analogous to 2014.

RECOMMENDATIONS

1. In general, state debt should not be considered a problem for the country's economy. Today all states have foreign debt. However, it is essential that taking and consuming a loan is targeted and structured so that funds are used for development and we do not face default. This requires the drawing up of a strategic document for managing Georgia's debt;
2. A strategic document for managing Georgia's debt should include the following articles: support of organizational procedures for taking and managing a loan; search for debt financing sources and setting a schedule; definition of debt volume to be taken, risks assessment, management and administration of quality statistical data;
3. Taking of a loan by the Government should be agreed upon with all state institutions required by legislation and should be consistent with national interests. Importantly, issuing of a state guarantee when a loan is taken by the private sector should be restricted. The authority responsible for taking

[231] Ministry of Finances of Georgia, *Country's Baseline Definition Document for 2014-2017*, http://www.mof.ge/5233
[232] National Bank of Georgia, Statistical Data, https://www.nbg.gov.ge/index.php?m=304
[233] Organization for Economic Co-operation and Development, http://bit.ly/1xAQCHh
[234] International Monetary Fund, *Debt Sustainability Data,* http://bit.ly/1CQLOhi

and managing a debt should be defined and the debt taking and servicing procedures should be written out thoroughly with the participation of all involved and responsible authorities;

4. Economic sectors or projects, which state debt must be spent on, should have revenues higher than loan costs. The expediency of these projects should be examined. Social or infrastructural projects that will benefit from debt should be assessed by cost/benefit analysis. It is reasonable to take on debt from international capital markets for projects with rapid positive results, while for social services it is expedient to take a loan from relevant financial institutions under very beneficial terms;
5. The strategy should describe advantages that domestic debt has in concrete cases and demonstrate the need to replace a foreign debt with a domestic debt (for instance, treasury obligations). Over a long-term period, domestic debt may be cheaper than a foreign debt, because a foreign debt is accompanied with interest costs, as well as sterilization and exchange rate costs.

18.4 Trade and DCFTA

THE SITUATION BEFORE THE 2012 PARLIAMENTARY ELECTIONS

- Over the last decade, Georgia's foreign trade turnover has expanded six fold and its exports have expanded four fold;
- As of September 2012, Georgia's foreign trade turnover constituted USD 10 billion 425 million, in which exports accounted for USD 2 billion 375 million, and imports approximately USD 8 billion;
- As of 2012, the share of total trade turnover with the following countries was as follows: Turkey – 15%, Azerbaijan – 12.3%, Ukraine – 7.5%, China – 5.8%, Germany – 5.7%, Russia – 5.1%, United States – 4.3%, Bulgaria – 3.3%, Armenia – 3.2%, Italy – 3.2%.

SINCE THE ELECTIONS

Two major changes in the foreign trade sector in 2014 are worth noting:

1. DCFTA has entered into effect;
2. Georgia refused to engage in economic sanctions against Russia; the Russian market opened for Georgian fruits and vegetables; wine export to the Russian market, which was restored in 2012, was extended;

Consequently, in 2014:

- Georgia's key trade partners with respect to export are Azerbaijan (19%), Armenia (10%), Russia (10%), and Turkey (8%);
- In the goods categories, top exports include passenger cars (18% of total exports); ferro-alloys (10%); copper ores and concentrates (9%); natural wines (6%), and hazelnuts (6%). Agricultural products account for 26% of production exported from Georgia;
- In 2014, the European Union was one of Georgia's largest trade partners, with its share in overall imports equaling 28% and exports equaling 22%;
- Following the removal by Russia of the embargo on some sectors of Georgian production, Russia's share of trade has grown in the last three years, and its share of total exports reached 9.7% by the end of 2014;
- During last two months of 2014, increasing economic dependence on Russia and the ongoing war in Ukraine had a grave effect on Georgia's exports.[235]

RECOMMENDATIONS

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[235] National Statistics Office of Georgia, *Foreign Trade*, http://bit.ly/1FWiozc

1. So far, Georgian businessmen have only used a few opportunities offered by DCFTA; it is important to raise awareness in the public and in business circles on the obligations taken under the EU Association Agreement and future opportunities;
2. The authorities should set up programs aimed at assisting local producers in meeting relevant regulations and standardization procedures for the EU through access to information, consultations, and an increased role for farming houses and training centers, etc.
3. To improve coordination, state structures should identify one authority responsible for the communication of obligations taken before the EU;
4. DCFTA provides for harmonization of Georgian legislation with EU legislation. In this respect, it is necessary to fit EU legislation to the local reality, and to assess the *ex ante* impact of legislative amendments for identifying potential alternatives and making an optimal choice. It is important to find ways to plan this process ahead of time, and to avoid spontaneity, so that legislative changes are not painful for the unprepared Georgian business environment;
5. It is important to further diversify markets, because an increasing dependence on the Russian market, as it is one of the most fragile and politically sensitive markets, could be used, on the one hand, as political leverage against the country and on the other hand, in case of excessive dependence, even in the absence of political problems the Georgian economy could face risks stemming from the risk that the current depreciation of the Russian Ruble poses to the Russian economy. Therefore, it is essential that the authorities reinforce efforts to exploit new export markets, including China and nearby Asian states.

18.5 Agriculture

THE SITUATION BEFORE THE 2012 PARLIAMENTARY ELECTIONS

Over the last two decades, agriculture was the only economic sector which experienced extremely slow development.

By 2012, agriculture was 8.6% of GDP.[236] Almost 70% of agricultural lands were not registered.[237] Analysis of the current situation shows several key factors hindering development in the sector:

- Absence of a formal, structured land market;
- Fragmentation of lands;
- Outdated infrastructure;
- Lack of efficient financial tools;
- Absence of technologies/"Know-How".

SINCE THE ELECTIONS

Activities can be divided into several fields: subsidy policy; construction of agricultural infrastructure; institution building; and performance of obligations under the Free Trade Agreement with the EU.[238]

Of the above mentioned activities, the following projects are noteworthy:

- Project for Promotion of Spring Works of Land-Starved Farmers (GEL 50 million spent in 2013);

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[236] Ministry of Economy and Sustainable Development of Georgia, Agriculture, March 2014, http://bit.ly/1bwgMRy

[237] Radio Liberty, Deadline of Restriction on Changing the Status of Agricultural Lands Extended, December 2014, http://bit.ly/1HK66bR

[238] Ministry of Agriculture of Georgia, *2013 Activity Report of the Ministry of Agriculture of Georgia,* http://bit.ly/1CQM67Y; *Brief Report of the Ministry of Agriculture,* http://goo.gl/RFKL10

- Beneficial Agro-Credit Project (as of 2014, 24.7 thousand loans were issued with a total value of up to GEL 651 million); 89 new enterprises were funded, and 580 enterprises were funded for expansion/re-equipping;
- The project for co-funding enterprises processing agricultural goods – as of December 2014, 16 projects and up to USD 12 million were approved;
- Apple sales support project – subsidy totaling GEL 3.2 million;
- Subsidization of tangerine manufacturing processing – beneficiaries have received income of GEL 2 127 000, with the state subsidy equaling GEL 1 035 000;
- Vintage subsidization – in 2014, the subsidy for 1 kilogram of Rkatsiteli and Kakhuri Mtsvane (*Kakhetian Green*) equaled GEL 0.35, 1 kilogram of Saperavi GEL 0. 15. Vintage in 2014 was a success across the country. Overall, 124 thousand tons of grapes were processed, and income from the sale of grapes exceeded GEL 174 million (by comparison 2013 income amounted to GEL 100 million);
- Rehabilitation works of melioration systems – as of December 2014, 88 thousand hectares were irrigated and 25 thousand hectares were not;
- Agro-Insurance Pilot Program (put into effect from 1 September, 2014) – the Program provides for state subsidy of insurance premiums of up to 95%; the Program budget in 2014 was GEL 5 million;
- Activities supporting cooperation – a relevant law was adopted; as of December 2014, an agricultural status was granted to 376 cooperatives, including 99 cooperatives in high mountainous areas. Cooperatives unite 2 956 shareholders. 169 sets of motoblocs and 117 extra manual seed drills have been issued to cooperatives;
- Noteworthy developments in terms of performance of obligations under the Free Trade Agreement with the EU include the development of technical regulations on milk and honey; activation of the Food Safety Service; international certification of the laboratory of the Ministry of Agriculture of Georgia; and the setting up the Agricultural Scientific-Research Center.

Georgian Agriculture Development Strategy for 2015-2020

Key areas of the Strategy include: increasing the competitiveness of those employed in the agrarian sector; institutional development; melioration and soil fertilization; regional and field development – supporting the development of a full production cycle generating added value; securing food safety; food safety, veterinary science and plant protection; climate change, environment and preservation of biodiversity;

- Changes affecting land ownership are worth a separate mention, having had an adverse effect on the investment environment, especially in the agriculture sector (for details see Sub-chapter on “Investment Environment”);
- No efficient and tangible steps have been taken in respect to land registration.

RECOMMENDATIONS[239]

1. From 2012 to 2014, the share of agriculture in Georgia’s GDP has grown from 8.6% to 9.4%, i.e. by only 0.8%. Given current expenditures, such growth attests to the low efficiency of these expenditures, thus proving that current policy should be at least partly revised;
2. The transparency of programs is apparently on the rise against the background of an obvious increase in program funding. Programs are no longer of a haphazard nature, but still, the relevance of individual programs is questionable (e.g. the program supporting land-starved farmers).

[239] Agriculture Strategy: International Experience and Georgia, http://bit.ly/1M2tqbf 2014; Agriculture – Challenges and Current Policy, 2013, http://bit.ly/1FWiQ0f; Current State of the Land Market, 2013, http://bit.ly/19SQckS

3. In the coming years, the Government should take measures aimed at forming a land market, which requires the following:
    a. An inventory of all types of documents currently available (in hard copies as well as electronically) should be created in order to have a clear idea of the current stage of land reform, the dynamics in this respect, and what is the scale of work to be performed. In case of gaps, discrepancies between information maintained by the Public Registry's central administration and its local units should be remedied;
    b. State approaches towards various forms of land ownership should be clearly formulated (private, community, state, possibly traditional). In individual regions, registration of land parcels in private ownership alone may be insufficient, and developing a policy on community pastures and lands in joint ownership may become necessary;
    c. Legislation granting power of attorney on land ownership should be improved in order to simplify as much as possible procedures required for registration.
4. Activities should be implemented aimed at attracting capital in agricultural production, disseminating technologies and rehabilitating basic infrastructure;
5. Although the volume of funds spent on the sector has considerably grown as a result of the Beneficial Loans Program, the Program may face a serious sustainability problem, especially when relevant funding sources are no longer available;
6. Restoration of basic infrastructure and particularly melioration systems is certainly a positive development, however, without efficient operation of land and credit markets, sustainability will hardly be achievable here as well;
7. We find that the state should not spend funds in the future on supporting land-starved farmers or similar programs, because this causes unnecessary concerns on the market, mars competition and does not contribute to substantial, quality growth;
8. Overall, the success of the country's agrarian policy will largely depend on the Government's effectiveness in terms of setting up the institutional and legislative, as well as physical infrastructure required for development.

Finally, a predictable business environment is a key factor in achieving economic progress. It is crucial that investors have guarantees and the possibility to predict and have a long-standing vision on state policy backed up with statutory acts (for instance, a long-term tax policy). If the state intends to secure extra liberalization of tax regulations step by step, it is important to stipulate this in legislative acts by indicating planned dates of enactment. It is essential to have an integrated strategy document, which would place all changes in various areas of economic policy in one common context, so that they do not contradict each other. This will enable business to predict state policy over a long-term period and to make bolder decisions for pursuing economic activities in the country.