The state rebuilt its counters

Georgia's overhaul of tax, police and public services, 2003-2013

Country decision case | Economic policy | 18 October 2026 | Independent MacroLens Research

Abstract. Georgia in 2003 collected taxes nobody could calculate, through a police force motorists paid at the roadside. After the Rose Revolution, a new government cut the tax code from twenty-one taxes to six, fired sixteen thousand traffic police overnight, rebuilt service delivery around one-stop halls, and locked future tax increases behind a public referendum. Tax revenue doubled to about a quarter of GDP by 2008; the corruption-perception index moved Georgia from 124th of 133 countries to 51st of 176 by 2012; growth averaged more than six percent a year across a full decade of reform. Yet unemployment stayed in double digits, the reform party lost power in 2012, and later assessments found petty bribery beaten but grand-corruption risks alive. This case study examines the mechanics of the cleanup, what was measured, what was not fixed, and which of those lessons could conditionally transfer to Sri Lanka's own unfinished state-capacity debate.

Why this case for Sri Lanka. Sri Lanka's anti-corruption debate usually reaches for new laws, new commissions and new prosecutions. Georgia tried a blunter sequence after 2003: redesign the places where citizens meet the state so the bribe has nowhere to sit, then prove it with numbers. The experiment produced some of the fastest measured improvements in tax collection and perceived corruption on record, and it also shows, clearly, what such a cleanup does not fix.

The starting point

By 2003 Georgia was, in the words of its own reformers and outside observers alike, a failing state. The 1997 tax code had absorbed more than 300 amendments and 2,000 clauses; the World Bank and IMF record that officials and taxpayers had stopped pretending the law was payable, and settlement moved into lump-sum arrangements and bribes. Salary taxes nominally reached about 60 lari per 100 lari once the 31% social contribution was added, so wages were paid as dividends or in envelopes.

The state met citizens mainly through predation or absence. A posting as a traffic policeman cost $2,000-20,000 in bribes, recovered at the roadside (World Bank, citing officials). Electricity ran seven to eight hours a day; only about 30% of power consumed was paid for. Transparency International's 2003 Corruption Perceptions Index scored Georgia 1.8, ranked 124th of 133 countries. The World Bank ranked it 137th of 153 for ease of doing business. GDP per capita was about $920, and the government could not reliably pay pensions.

A note on evidence. The main sources are the World Bank's 2012 chronicle of the reforms, the IMF's revenue case studies, Transparency International, Georgian fact-checkers, and the reformers' own accounts, which are labelled as such. Perception indices measure perception. This is desk research, not an audit.

The decisions, in order

November 2003 - The Rose Revolution brings a new government with an anti-corruption mandate. It moves first on revenue: the state needs cash within months.

2004-2005 - A rewritten tax code replaces 21 taxes with what became six by end-2007 (the IMF counts seven, depending on how duties are classified). Progressive income tax becomes a flat 20%; profit tax falls to 15%; VAT to 18%; the 31-33% social contribution is cut and then abolished in 2008. Property tax is capped at 1%. Customs rates compress to mostly zero; 16 duty types become three, and over 90% of imports enter duty-free. E-filing and a single internet portal follow.

July-August 2004 - The entire traffic police, about 16,000 officers, is dismissed overnight. For roughly a month there is no traffic police at all; a new patrol police of 2,300, competitively hired and much better paid, replaces it. Total law-enforcement staffing falls from about 63,000 in 2003 to 27,000 by 2011.

2004-2006 - Power tariffs move to cost recovery, distribution is privatized and collections enforced. On the reform team's account, supply becomes effectively continuous within two years and Georgia is a net electricity exporter by 2007.

2009-2012 - One-stop shops, then Public Service Halls: Batumi's hall offers 250 services under one roof, serves about 1,500 people a day and targets under 30 minutes per visit, with unified databases, published wait times and mystery shoppers. Three halls open by late 2011; thirteen more are planned.

December 2011 - The Economic Liberty Act, a constitutional-level law, requires a referendum for new national taxes or rate increases (excise excepted, with legislated carve-outs) and caps expenditure at 30% of GDP, the deficit at 3% and debt at 60%.

September-October 2012 - A prison-abuse scandal breaks weeks before parliamentary elections; the reform party loses to Georgian Dream, and power transfers peacefully.

How the cleanup was built

Simplify first, then enforce. The tax bet was arithmetic, not moral: fewer taxes at lower, flat rates, with base broadening, e-filing and stricter enforcement to close the gap. The IMF records that compliance and administration, not the rate cuts, were expected to carry revenue - and that is what the revenue data later showed.

Break the market, not just the rulebook. The traffic police were not retrained; the market for the job was destroyed. Buying a post only pays if the roadside recovers the price, so the state fired the buyers, shrank the force sixfold, hired competitively and paid salaries that did not need topping up.

Run the counter like a service. The Public Service Halls triaged every request by resolution time - fast, medium, slow - rather than by ministry. One database replaced repeated forms. Wait times and error rates were measured, and checked with customer surveys and mystery shoppers.

Make government pay first. Electricity reform asked households to accept cost-recovery tariffs while the state visibly enforced collections on itself and large users; supply became continuous as payment became normal.

Lock the exits. The Liberty Act tried to make the new fiscal rules expensive to undo: tax increases would need a referendum, and expenditure, deficit and debt caps were written into constitutional-level law. It also contained carve-outs, agreed late, that softened the lock.

The pattern, in our reading: each move changed the price of honesty at a specific interface - tax window, roadside, service counter, meter - rather than exhorting the whole system to improve at once.

Measured outcomes I: revenue and integrity

Revenue. The IMF's case study records that Georgia's tax-revenue-to-GDP ratio doubled to about 25% by 2008, with gains averaging 2.5 percentage points of GDP a year over the reform period; VAT alone rose from 8.5% of GDP in 2005 to about 11.5% in 2009. A World Bank-cited measure of total collections puts the rise at 17.8% of GDP in 2005 to 28.2% in 2010. The series differ in coverage; both are reported as their sources state them.

Integrity perception. Transparency International's CPI: 1.8, ranked 124th of 133, in 2003; 52, ranked 51st of 176, in 2012; 49, ranked 55th of 177, in 2013; and 53 in 2024 - an unchanged score that TI's Georgian chapter notes is the country's lowest since 2015, even as petty bribery remains rare.

Business interface. Doing Business: from 137th of 153 at the start to 8th of 183 for starting a business and 2nd for registering property by 2011; 15th overall in 2009, 9th in 2013. The Global Competitiveness Index moved from 90th to 77th over 2008-2013.

Service times. Before: a passport cost about $100 in bribes and a month; after: ten working days at $59, or one hour at $120. Business registration fell from about a month, nine institutions and 35 documents to a few days and a $29 fee. Starting a business took about three days against an OECD average of fourteen.

Measured outcomes II: growth, and what growth missed

Growth. Real GDP grew faster than 9% a year from 2004 to mid-2008, reaching 12% in 2007, when gross national income per capita was about $1,920. The twin shocks of the August 2008 war and the global crisis cut growth to 2.3% in 2008 and produced a 3.8% contraction in 2009; over 2004-2012 growth averaged 6.1% a year, and GDP per capita rose from about $920 in 2003 to $3,500 in 2012 in current dollars. Foreign direct investment peaked at $2.015 billion in 2007, about 17% of GDP.

Jobs. Unemployment stayed at 12-13% even through the boom, rose to 17% in 2010 and was still 15% in 2012. Georgia's growth was investment- and service-led; net job creation stayed weak throughout the reform decade.

Poverty. The World Bank records poverty falling from 21% in 2010 to under 15% in 2012, helped by expanded social transfers - real improvement, on a lag, and from a deep base: real GDP in 2012 was still only 78% of its 1990 level.

Read together: the state got cleaner, richer and faster, and the median worker's prospects improved far less than the indices did. Both halves are the measurement.

What the numbers do not show

Perception is not corruption. The CPI measures perceived public-sector corruption. Petty bribery genuinely collapsed - but TI's Georgian chapter itself warned later that the gains stalled, and 2024's score of 53 is the lowest since 2015. Grand corruption and state-capture risks were never measured by these instruments at all.

The coercive side was not reformed, only recentralized. Later assessments of the police reform note mass dismissals (83% of officers outside Tbilisi) and centralized control; the same state whose counters became clean was shaken in 2012 by a prison-abuse scandal, and voters changed the government. Interface cleanup and accountable force are different projects.

The lock had a key. The Liberty Act's referendum rule carried legislated carve-outs from birth, and caps written by a dominant party bind it loosely. Constitutional text is not a substitute for the politics that has to honour it.

Context did much of the work. A revolutionary mandate, a small country, heavy donor engagement and an opposition in disarray made overnight moves possible that are simply not available to most governments. FDI-driven growth and post-conflict rebound account for much of the boom; attribution to the cleanup alone would overclaim.

Measures disagreed. Six taxes or seven; revenue at 25% or collections at 28.2% of GDP; even these headline numbers depend on definition and source, and the case keeps their labels attached.

Conditional lessons for Sri Lanka

These are our judgment, labelled as such, not findings from the Georgian record.

1. Pick the counters citizens touch weekly. Georgia's legitimacy came from the roadside and the registry before it came from macroeconomics. A Sri Lankan cleanup that starts at high-contact interfaces - licensing, customs windows, police stations - buys the patience that slower institutional work needs.

2. Simplify before you police. Firing the traffic police worked because the rules, hiring and pay were rebuilt at the same time. Enforcement against a code nobody can comply with only reprices the bribe.

3. Publish the stopwatch. Georgia measured waits, errors and fees at the counter and made the numbers public. Service targets a citizen can time are harder to spin than reform announcements.

4. Treat locks as politics, not engineering. Referendum locks and fiscal caps transfer credibility only if they bind the authors too. Copy the principle, expect the carve-outs, and price them honestly.

5. Keep the whole ledger. Georgia's indices soared while unemployment stayed at 12-17%. A cleanup of the state's interface is not a jobs strategy, a court reform or an answer to grand corruption, and claiming otherwise discredits the real gains.

What transfers is the sequencing at the interface, not the revolution.

Sources

All sources retrieved 17 October 2026. Reform chronicle and police figures: World Bank, Fighting Corruption in Public Services (2012).
https://documents.worldbank.org/en/publication/documents-reports/documentdetail/518301468256183463
https://doi.org/10.1596/978-0-8213-9475-5
Revenue outcomes and tax measures: IMF Finance and Development case study (Akitoby, 2018); rate table from the Ministry of Finance via Tax Foundation (Jandieri, 2019); tax count via FactCheck Georgia.
https://www.imf.org/en/publications/fandd/issues/2018/03/akitoby
https://taxfoundation.org/research/all/global/tax-reforms-in-georgia-2004-2012/
https://factcheck.ge/en/story/40433--the-united-national-movement-left-six-taxes-out-of-21-although-this-brought-higher-revenues-and-the-ease-of-doing-business
Customs and energy (reformers' account): Practical Economics chapters, Springer/Palgrave.
https://doi.org/10.1007/978-3-319-45769-7_5
https://doi.org/10.1007/978-3-319-45769-7_7
Service halls, fees and Doing Business detail: The FINANCIAL (Oct 2011); police dates via GFSIS; police critique via Taylor and Francis (2022).
https://finchannel.com/georgias-one-stop-shop-for-citizens-and-businesses/30867/georgian-local-news/2011/10/
https://www.gfsis.org.ge/files/library/opinion-papers/27-expert-opinion-eng.pdf
https://www.tandfonline.com/doi/full/10.1080/14678802.2022.2121916
Integrity indices: Transparency International CPI 2003 and TI Georgia (2013, 2024); historical CPI table compiled from TI data.
https://www.transparency.org/en/cpi/2003
https://transparency.ge/en/print/6907
https://www.transparency.ge/en/post/corruption-perceptions-index-2024-georgias-score-remains-unchanged
Growth, jobs and poverty: World Bank Georgia overview and results pages; 2008-09 shocks: World Bank snapshot and IMF.
https://documents1.worldbank.org/curated/en/283541468246598597/pdf/795320ESW0P127000PUBLIC00Box379794B.pdf
https://www.worldbank.org/en/results/2014/04/15/supporting-inclusive-growth-and-development-in-georgia
https://documents1.worldbank.org/curated/en/469181486626039789/pdf/111957-WP-PUBLIC-GEORGI-2.pdf
FDI 2007: state statistics via The Messenger; Liberty Act: Wikipedia summary and official text (matsne.gov.ge); 2012 election context: BBC.
http://www.messenger.com.ge/issues/1666_august_8_2008/1666_econ_one.html
https://en.wikipedia.org/wiki/The_Economic_Liberty_Act_of_Georgia,_2011
https://matsne.gov.ge/en/document/view/1405264
https://www.bbc.com/news/world-europe-19646826