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ANNEX: ACTION FICHE FOR SPECIAL MEASURE - GEORGIA

1. IDENTIFICATION

Title/Number	Support to Georgia's IDPs Action Plan: 2009 (Part III) (Cris n° ENPI/2009/021-783)		
Total Cost	€53.5 million ¹		
Aid method / Management mode	- Targeted budget support – centralised management €51.5 million - Technical Assistance €2 million		
DAC-code	73010	Sector	Reconstruction, relief and rehabilitation

2. RATIONALE AND COUNTRY CONTEXT

The proposed support will help Georgia to cover expenses related to the implementation of the Action Plan for the State Strategy for Internally Displaced Persons (IDPs) 2009-12 which aims at the resettlement and the socio-economic integration within the hosting communities of IDPs in Georgia as a result of the 1990s and recent conflicts in the country.

It will also support the Government of Georgia in addressing the needs expressed in the Georgia Joint Needs Assessment (JNA) of 9 October 2008² and in the JNA follow-up report of 30 June 2009. These reports have been accepted by the Georgian Government and have served as a basis for the international donor community's response to the Georgian crisis.

The JNA quantified needs for an amount of USD 3.25 billion over a three year period, out of which USD 895 million was needed by March 2009 (*immediate* needs).

- (1) Budget support was estimated at USD 930 million (USD 480 million in 2008 and USD 450 million in 2009);
- (2) Social sector needs were estimated at nearly USD 1 billion, of which USD 300 million was required by spring 2009;
- (3) Infrastructure support was estimated at USD 1.25 billion, of which USD 120 million (damage and immediate needs) was required by spring 2009.

The JNA report also identifies budget support as the quickest and the most effective mechanism of deploying resources to respond to the increased expenditure resulting from the crisis. The rationale for the given budget support is corroborated by the substantial cumulative impact that the Georgian budget suffered as a result of the war during the summer of 2008 and because of the global financial and economic crisis.

The June 2009, "JNA Progress Report" shows that for the *immediate period* donors entered commitments of over USD 1 billion (USD 557 million already disbursed), but that a partial mismatch on sector needs occurred.

¹ The amount proposed is in line with the EC pledge of October 2008 for additional assistance to Georgia, but is subject to full availability of funds, this being dependent on the approval of a request for a reinforcement of the budget line by an amount of €16 million. The final value of the action will be dependent on the final amount of this reinforcement.

² Georgia Joint Needs Assessment of 9 October, 2008, United Nations — World Bank with the participation of Asian Development Bank, European Bank for Reconstruction and Development, European Commission, European Investment Bank and International Finance Corporation

In fact:

Budget support	needs were USD 480 million and USD 415 million were pledged;
Social sector	needs were USD 294 million and USD 165 million were pledged;
Infrastructure and municipal	needs were USD 120 million and USD 334 million were pledged.

Therefore, social sector support and budget support are still needed. Moreover, the JNA progress report highlights that "The major uncertainty is related to donor budget support for 2009, estimated at USD 450 million. The three key contributors are the ADB, the EC and the World Bank. The ADB has raised its budget support provision to USD 80 million, i.e., significantly in excess of its original lending intention [...]. The World Bank has raised its budget support provision to USD 85 million, an increase of USD 45 million with respect to the original lending plan [...]. The EC has indicated that its pledge may be slightly reduced".

Finally, the JNA estimates that a further USD 584 million will be needed in housing by September 2011 to provide durable housing solutions to both the 2008 IDPs and 1992 IDPs, through a socially sustainable response, that secures their protection and upholds their rights.

Besides the housing component, which should be sustained according to the existing needs, it is also crucial to further focus on socio-economic integration of IDPs and their hosting communities. The economic situation in IDPs populated areas remains complicated and further efforts are needed to achieve adequate social and economic integration with the neighbouring communities.

Further attention should therefore be devoted to infrastructure investments conducive to social and economic development both for the IDPs and their hosting communities, such as, but not limited to: construction and rehabilitation of housing infrastructure, irrigation channels and roads; access to water supply; and promotion of socio-economic integration and local development, through national and local structures with an aim of improving sustainability.

2.1. Country Context and National Policy and Strategy

2.1.1. Macro-economic context

Georgia in the last 4 years has enjoyed rapid GDP growth, which was expected to continue over the next years. In the first half of 2008, Georgia enjoyed a strong growth rate (8.7 per cent) with an average inflation rate of 10.5 per cent, which had increased to 10.8 in July 2008.

However, the 2008 August war has negatively impacted upon investor and consumer confidence in Georgia with FDI that went down from USD 1.67 billion, in 2007 to USD 1.52 billion in 2008. The global financial and economic crisis has further affected the inflow of capital and remittances. As a result, the forecast for growth in 2009 foresees a 4% real GDP contraction despite a vanishing inflation (-5% from August 2008).

Largely due to the economic slowdown and to the global drop of commodity prices, Georgia's trade deficit (identified by the IMF as the major risk element for Georgia's macroeconomic stability) improved. This released pressure on the exchange rate thus improving the macroeconomic stability. The financial sector remains sound thanks to the past track record of structural reforms which have improved Georgia's resilience to exogenous shocks.

The Government of Georgia envisages counterbalancing the effects of the global economic crisis by:

- Using the IMF USD 750 million Stand-by Arrangement facility to support macroeconomic policies, rebuild gross international reserves and bolster investor confidence. The decision on an extension of the IMF Stand by Arrangement for an additional amount of SDR 270 million (about USD 424 million) for the years 2010 – 2011 has been taken on 6th August;

- A gradual injection in the economy of the USD 4.5 billion donor pledged funding. The Government of Georgia (GoG) is to use the bulk of this funding for investing in infrastructure projects, which will stimulate the economy;
- Continuing economic, fiscal, and monetary policies aiming at: (i) returning to a sustained economic growth; (ii) maintaining macroeconomic stability (and safeguarding the financial sector) with low to moderate inflation over the medium term; (iii) improving the efficiency of public finances and public service delivery.

2.1.2 National Development Policy

(1) National policy and strategy:

Georgia endorsed the European Union – Georgia European Neighbourhood Policy Action Plan (ENP AP) in November 2006. The ENP AP outlines strategic objectives of the political and economic cooperation between Georgia and the EU. The main priorities identified in the ENP AP with regards to public finance management, IDPs and the social sector include the following:

- to proceed with implementation of reforms in PFM including the MTEF,
- to improve protection for, and provide assistance to, IDPs and to promote integration of IDPs in their current places of residence,
- to strengthen the capacity of the Ministry of Refugees and Accommodation (MRA), and to introduce effective poverty reduction measures aimed at a significant reduction in the number of people with income below the poverty line and improved social cohesion.

(2) National Budget and medium term financial perspectives:

A sharp decline in foreign direct investment inflows, the reduction of foreign trade and the credit crisis have a significant impact on the economic growth prospects. These factors are adversely affecting tax revenues as they represent a major source of government revenues.

To ensure that public spending has the maximum impact on the population at large and to alleviate pressures on the poorest, expenditures are directed on essential productivity-enhancing infrastructure investment and targeted social support measures. Although transfers to regions have declined slightly in comparison with last year, some important efforts are made this year to fund important infrastructure projects in regions.

The government is also committed to reforms in public finance management. The share of indirect tax (VAT excises) revenues is significant, while a gradual reduction of the flat income tax rate is planned over the medium term. On the expenditures side, major spending areas are the social sector, road infrastructure and state security.

In the environment of the increased global macroeconomic adversity and bearing in mind the reduced fiscal revenues, the Government's reliance on domestic and external fiscal financing (T-bills issuance and donor assistance) has increased substantially. This is attested by the recent 2009 budget amendment.

2.2. Eligibility for budget support

2.2.1. National Development or Cooperation Policy and Strategy

The government and the international donor community have launched a comprehensive post-conflict recovery programme, which aimed at addressing the immediate humanitarian needs of the people affected by the conflict.

The authorities relaxed the fiscal stance as a counter-cyclical response to the investment and output shocks. The government has also provided immediate liquidity and regulatory support to banks, and

rapidly arranged for international support. Repair to and rehabilitation of damaged infrastructure was undertaken to address the most direct conflict-related damages. The social burden from the internally displaced and other conflict-affected people was alleviated by providing temporary shelters (now being gradually transformed into durable housing), food and cash support, and access to targeted social assistance, in close cooperation with the international community.

The Government has taken and continues taking concrete measures to address the post-conflict needs of IDPs, in the first instance those related to housing. About 18,000 IDPs originating from South Ossetia, Akhgori and Abkhazia have been resettled in 38 newly built settlements; however an estimated 8,000 people remain displaced country-wide. Given the large scale and scope of the overall needs, the Government will also rely on immediate and adequate financial support from international donors in order to sustain the success of its post-conflict response.

2.2.2. Public Financial Management

In March of 2007, the Ministry of Finance (MoF) prepared a Strategy and Action Plan for the period 2007-11, which has been updated in 2009 for the period 2009-2012. This plan sets out the priority areas of the MoF in terms of Public Finance Management reform and specifies the planned actions. The MoF prepares a document called Basic Data and Directions (BDD), which provides regular information on planning, implementing and monitoring of budget and is the result of cooperative cross-institutional discussions on mid-term budget revenues and expenditures. The BDD is drafted within the framework of the Medium Term Expenditure Framework (MTEF) and represent a link among overall national policies, sector strategies and the budget.

The European Commission has explicitly sustained reforms in the domain of PFM through a sector policy support programme with the Ministry of Finance. Although progress has been mixed, the Government of Georgia demonstrated its willingness to improve the status of public finance and its control and monitoring mechanisms. The programme, which is coming to an end in 2009, will be followed by its second phase which is going to be financed under the 2010 Annual Action Programme (AAP2010), in order to consolidate results achieved, in particular in the fields of procurement and tendering procedures and internal and external control. The PFM Programme (Phase II) will build on findings of the Public Expenditure and Financial Accountability (PEFA) assessment, which will also establish a baseline for monitoring progress in the PFM-related areas.

As a consequence, Georgia is eligible for Budget Support according to the provisions of Article 15(e) of the ENPI Regulation.

2.3. Sector Policies

The overall strategy of the Government is to seek durable solutions for the voluntary return and resettlement of both the 1992 (old caseload) and 2008 (new caseload) IDP population in a way that fulfils their rights and ensures them an adequate housing provision, social integration and protection.

Much has already been achieved with regard to the physical housing response for IDPs. At the end of 2008, the construction of around 5500 new housing units has been completed.

An integrated, comprehensive approach to address social needs of both the 2008 and 1992 internally displaced persons is under implementation via the State Strategy and Action Plan for IDPs 2009-2012. This policy document has been developed by the Ministry for Refugees and Accommodation and approved by the Georgian Government on the 28th May 2009. Cooperative effort is underway to associate the donor community to all IDP-related discussions, including matters related to the social and economic integration.

The Government is taking concrete measures to address the post-conflict needs of IDPs and their hosting communities. However, given the large scale and scope of the overall needs and the general

budget constraints, the Government relies heavily on the immediate and adequate financial support from international donors, in order to sustain the success of its post-conflict response.

With regards to socio-economic integration, the Ministry for Regional Development officially launched in December 2008 the work of the Task Force for Regional Development, which is finalising a strategy and an action plan to promote economic growth in Georgian regions, including in IDPs populated areas, where employment rate and in general economic conditions are of great concern.

2.4. Lessons learnt

The present Programme relies on lessons learned through the implementation of the Targeted Budget Support Programmes – "Support to Georgia IDPs Action Plan: Part I" and "Support to Georgia IDPs Action Plan: Part II", and on lessons learned by other donors who have channelled similar support to Georgia via the Municipal Development Fund (MDF), "including the Asian Development Bank, the European Bank for Reconstruction and Development, the German Kreditanstalt für Wiederaufbau, the Millennium Challenge Corporation, and the World Bank"³.

Previous support to IDP programmes has shown that the vast majority of new IDPs have been provided with decent accommodation. However, since in some cases building works have been carried out in haste, some renovation and some small infrastructure is needed.

Regarding old IDPs, the GoG has already rehabilitated 280 out of the 400 Collective Centres (CCs) that can be rehabilitated (on a total of 1600 CCs in the country). The remaining households are still living in dire conditions and improving their living conditions will take a long time.

As shown in a recent UNICEF survey, the foremost priority for new IDPs is to get a job. In most settlements, IDPs are living on the State allocation of 25 GEL/adult per month (about €12) and have no occupation, which leads to social problems such as alcoholism, domestic violence and depression.

Their socio-integration into their existing communities has also become an important challenge, as growing gaps between the communities (IDPs and hosting communities) is observed and it could lead to some tensions. For example, in many cases IDPs have better WASH (Water, Sanitation and Hygiene) than hosting communities and receive higher social assistance compensation.

As soon as most urgent needs were covered for new IDPs following the 2008 conflict, the situation of old IDPs has become a priority for the EC. With the IDP Part II Programme, EC is already refinancing the rehabilitation of Collective Centres and the construction of new houses, for a total of €38,6 million.

Lessons learnt concerning MDF are that they have gained a large expertise especially in the housing field and this allows some economies of scale. MDF capacities need to be strengthened but overall cooperation with them, as it is the case for other donors, has been positive, leading to the conclusion that it is a reliable and sustainable partner.

Municipalities have also been included as possible implementing partners, since they are able to propose priorities, make projects or investments proposals and to carry them out in practice.

2.5. Complementary actions

The present programme is to be viewed in the broader context of the EC pledge of October 2008 for additional assistance to Georgia. The programme complements the 2008 EC programmes "Support to Georgia's IDPs Action Plan: 2008 – Part I" (€10 million) and "Support to Georgia's IDPs Action Plan: 2008 – Part II" (€51,5 million). Both programmes contributed to the provision of accommodation to IDPs, reimbursing expenditures incurred by the MDF and the Municipality of

³ Georgia Joint Needs Assessment, 9 October 2008, p.38

Mtskheta. At present, the release of a second instalment under Part II is undergoing an audit procedure in order to verify the amount of eligible expenditures carried out by the MDF since December 2008. The new programme (Part III) will continue providing budgetary assistance for the construction of IDP settlements, for their improvement and rehabilitation, wherever needed, while providing socio-economic assistance to hosting communities.

It will also complement the current programmes under the EC 'Instrument for Stability' Phase I (€15 million) and Phase II (€14 million) allocated to further respond to the needs of people affected by the conflict, e.g. old and new IDPs as well as vulnerable people, including in South Ossetia and Abkhazia. Moreover, it will complement the 2 EC-funded conflict programmes financed under AAP2007 (€4 million) and AAP2008 (€6 million) which are going to be implemented as from 2009.

It will also add to the World Bank's Regional and Municipal Infrastructure Development Project (USD 40 million) implemented by the MDF. This project aims at improving the efficiency and reliability of selected municipal infrastructure services, at assisting in restoring infrastructure and services, and at improving housing conditions for conflict-affected people in Georgia.

Also, an Asian Development Bank (ADB) USD 40 million (32-year) loan is being extended to MDF, to rehabilitate water supply, sanitation, waste management and road transport services. Finally, USAID is planning a USD 11.2 million programme aiming at tackling poverty in Georgian regions, with a community-involvement component, to be channelled through MDF.

The proposed EC programme would closely coordinate with all the abovementioned programmes in order to have a complementary approach, including geographically, and to avoid duplication.

2.6. Donor coordination

A donor conference to support Georgia's financing needs for post-conflict recovery and reconstruction took place in Brussels in October 2008 jointly chaired by the European Commission and the World Bank. A Joint Needs Assessment (JNA) document was prepared for the conference by international institutions and served as a basis for identifying conflict related needs over the next three years.

To date, the government has taken a number of steps to inform the donor community about progress being made on implementation of the JNA, as also reflected in the JNA Progress Report June 30, 2009.

The Ministry of Finance assumes a coordination function and tracks pledges made during the Brussels donor conference and beyond. In addition, the government has undertaken to provide regular updates to Georgian civil society organisations as well as political parties. Moreover, discussions are ongoing with several international partners to improve in a systematic way the aid coordination mechanism.

In February 2009, the Ministry for Refugees and Accommodation (MRA) has established a Steering Committee on IDP issues in which the European Commission Delegation is a member with the right of vote. This steering committee aims to ensure overall monitoring of the implementation of the State Strategy for IDPs, coordination of international and national efforts to improve living conditions of IDPs in Georgia and support their integration, and to provide advice to the Government of Georgia on these topics.

The EC co-funded and actively took part in the Task Force on Regional Development under the patronage of the Ministry of Regional Development and Infrastructures. This provides another forum for donor coordination concerning local development and poverty-reduction initiatives, including in IDPs-populated areas. Once the Strategy for Regional Development will be finalised, co-ordination in those fields will be based on it.

3. DESCRIPTION

3.1. Objectives

The overall objective of the proposed programme is to support decent living conditions for the displaced population and to contribute to their social and economic integration.

The specific objective of the programme is to assist the Government of Georgia, via the Municipal Development Fund and Local Self Governments, in improving the living conditions of IDPs resulting from the 1990 and 2008 conflicts as well as those of their hosting communities.

3.2. Expected results and main activities

This programme is expected to reinforce the Government's capacity to foster the socio-economic integration of all IDPs and the welfare of their hosting communities, through provision of adequate infrastructures and of opportunities for socio-economic development conducive to local development.

The programme will finance three types of activities:

- 1) Construction of new housing facilities (including related infrastructures, e.g. sewage and drainage systems, electric lines, etc.) where needed or rehabilitation of collective centres (for old IDPs);
- 2) Creation of adequate infrastructure and services conducive to socio-economic integration and local development in areas hosting IDPs;
- 3) Income-generating and local development activities.

3.3. Stakeholders

Stakeholders of the programme will be:

a) *The Municipal Development Fund (MDF)*,

MDF is a government-owned instrument, also identified in the JNA report as a suitable mechanism for implementing the recovery assistance. The EC has already a good track record of co-operation with the MDF since its programmes "Support to Georgia's IDPs Action Plan: 2008 – Part I and Part II" have reimbursed a large part of the expenditures incurred by the MDF for IDP related purposes.

The MDF has a long record in constructing and rehabilitating municipal infrastructures. It is a legal entity of Georgian public law. It is governed by a Supervisory Board, chaired by the Prime Minister and approved by a Governmental Decree. Members of the Board are representatives of the Government of Georgia, the Parliament of Georgia and the non-Government sector. The Supervisory Board decides on the financing of municipal investment projects.

MDF is widely considered as an adequate partner by most of the donor community, e.g. a complete institutional and fiduciary assessment on the MDF was recently carried out by the World Bank, which assessed its capacity as being satisfactory⁴ and USAID recently conducted a Management review which came to the same conclusion.

b) *Local Self Governments (LSG)*

The programme will also reimburse eligible expenditures carried out by Local Self Governments. Within the Support to IDP Part II Programme, the EC has already reimbursed a part (€12.1 million) of expenditures incurred by the Municipality of Mtskheta in favour of IDPs.

Local self governments have been involved in the provision of shelters to IDPs in many regions and, more generally, they have been particularly active in providing assistance to displaced people. Also, they are one of the main actors in the creation of socio-economic opportunities for both IDPs and their

⁴ WB Project Appraisal Document on a proposed credit of USD 40 million to Georgia for a regional & municipal infrastructure development project 23 September 2008

hosting communities and given LSG closeness to people in need they represent a reliable liaison with the civil society.

c) Government of Georgia

The Ministry for Regional Development and Infrastructure, the Ministry of Refugees and Accommodations and the Ministry of Agriculture will be consulted, as appropriate, at every stage of the elaboration and implementation of the proposed programme.

d) International and local NGO

Partners with expertise in the field of local development will be contracted to cooperate with the MDF in mobilizing communities to play an active role in the identification and implementation of income-generating activities that might be financed by the MDF through the proposed programme.

e) Local populations

Finally, as beneficiaries, the local populations, including IDPs will also be closely associated to the elaboration and implementation of the proposed programme, including through their Local Self Government structures and/or other representatives.

3.4. Risks and assumptions

The main potential risks are:

- Political instability and insecurity in the country may impede the implementation of this Programme
- Insufficient institutional capacity of the MDF. To address this risk, Local Self Governments have been included as potential implementing partners, also given the good results achieved by the Municipality of Mtskheta under the previous programme.
- Further external shocks that could impact on the macroeconomic situation
- Delays in the implementation of the governmental IDPs Action Plan
- Insufficient inter-ministerial coordination. The programme Steering Committee will contribute in creating a coordinate and coherent response to IDP needs.

3.5. Cross-cutting issues

By definition, the implementation of this Programme will have a positive impact on the overall conditions of IDPs and their hosting communities including on gender equality, good governance and human rights aspects.

4. IMPLEMENTATION ISSUES

4.1. Budget and calendar

This programme will be covered by the signature of a financing agreement and will be implemented following the modalities of targeted budget support. The programme has a total budget of €53.5 million⁵, including a Technical Assistance component of €2 million. The technical assistance may take the form of services or grant contracts.

The indicative operational duration is 36 months as from signature of the Financing Agreement.

4.2. Budget support modalities

Direct targeted budget support programme, centrally managed.

⁵ See footnote 1

4.3. Procurement and grants award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

4.4. Performance monitoring and criteria for disbursement

In order to attain its expected results, the programme will reimburse eligible audited expenditures incurred by the Municipal Development Fund and Local Self Governments (LSGs) in line with the overall and specific objectives of this programme and subject to the conditions which will be laid down in the Financing Agreement.

Conditions governing the release of funds will be set out in the Financing Agreement between the Commission and the Georgian Government. They will build upon the conditions included in the Financing Agreement of the Programme "Support to Georgia's IDPs Action Plan: Part II" such as, but not limited to: the accomplishment of further progress in the implementation of the Government of Georgia IDPs strategy, including the adoption and revision of the 2009-11 Action Plan, and the regularisation of the transfer to IDPs of the ownership of 1990s Collective Centres accommodation.

Programme monitoring will be ensured by a team of independent experts who will continue to operate, as under the support to the IDP Action Plan Part II, in close contact with the MoF, MDF and MRA in order to provide the EC with:

- all necessary information on the implementation of the programme, including on technical aspects (e.g. continued quality assessment of works) and on issues related to the fulfilment of general conditions for the release of funds;
- reports on programme shortcomings and recommendations to address these problems.

The transfers of funds will be based on payment requests submitted by the Ministry of Finance of Georgia and will be made following an external audit on the eligibility of expenditures and a review of the compliance with the conditions for disbursement as laid down in the Financing Agreement.

Oversight of the overall programme remains entrusted to the Steering Committee chaired by the Minister of Finance as in the first and second part of EC financed "Support to Georgia IDPs Action Plan 2008" Programmes.

4.5. Evaluation and audit

Audits, monitoring and evaluations will be carried out by the Commission.

The budget support will be targeted and as such will be transferred to the beneficiary country only after a positive assessment by an external and independent auditor on eligible incurred expenditures.

4.6. Communication and visibility

The programme will follow the orientations of the Manual on Visibility of External Actions (e.g. press release at the signature of the FA, visibility for reports and studies, etc).

Proper communication and visibility of the action will be achieved via regular joint communication events on the occasion of any disbursement, as well as in connection with the achievement of results. A reasonable communication budget will be set aside, to be funded out of the "technical assistance" budget, for promotion of the measure throughout its lifetime