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## Action Fiche for Programme - Georgia

### 1. IDENTIFICATION

Title/Number	Support to Georgia IDPs Action Plan: 2008 Part I ( <i>Cris n° 020-515</i> )		
Total cost	EC contribution EUR 10.0 Million <sup>1</sup>		
Aid method / Management mode	Targeted budget support – centralised management		
DAC-code	73010	Sector	Reconstruction, relief and rehabilitation

### 2. RATIONALE AND COUNTRY CONTEXT

The proposed Support to Georgia IDPs Action Plan: 2008 part I will help to address the serious budgetary problems of Georgia by covering expenses related to resettlement of internally displaced persons and homeless persons in Georgia as a result of the late 1990s and recent conflicts in Georgia. The Georgia Joint Needs Assessment<sup>2</sup> (JNA) of 9 October 2008 identifies budget support as the quickest and most effective mechanism of deploying resources to respond to the expenditure increase directly resulting from the crisis.

The above-mentioned JNA report served as the basis for the international donor's conference held in Brussels on 22 October, 2008. This provided an opportunity for all concerned countries to pledge their financial support and give some information on their intended post-crisis interventions in Georgia, in the short to medium term. In this context, the European Commission announced a number of measures, the present project proposal being one of them. The crisis in Georgia justifies the preparation of this intervention under the form of a "special measure" in the sense of the art. 13 of the ENPI regulation.

Findings and recommendations from the JNA have been accepted by the Georgian Government, United Nations agencies, World Bank and European Commission as a strategic document, which can serve as basis for their immediate and short term response to the crisis.

The JNA has identified the need for donor support in three major areas: a) Support for the rapid restoration of economic confidence, b) Support for social needs and the resettlement of the internally displaced persons, and c) Support for critical investments. The JNA notes that the capacity of the government to implement programs, with international financial institutions (IFIs), and the support of the donor community where necessary is sound. It also notes that the Georgian authorities have instruments available or under design for receiving donor support (e.g. a single Treasury account, the Municipal Development Fund, etc.).

As far as the support for social needs and resettlement of IDPs is concerned, the JNA identifies three areas for IDP Assistance: housing; social aspects; protection and rights, and quantifies at USD215 million the investments needed to address IDP conflict related damages, out of which USD 169 million necessary to provide housing or rehabilitation of housing and the rest for social assistance

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<sup>1</sup> This programme is to be funded on the budget line 19 08 01 03. However, it is subject to availability of funds, the latter depending on procedures DEC27/2008 and DEC34/2008 respectively relating to the lifting of the reserve and the reallocation from the Aid Emergency reserve

<sup>2</sup> 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

needs. In addition, the JNA estimates that a further USD584 million will be needed in housing by September 2011 and USD77 million for direct social assistance.

## **2.1. Country Context and National Policy and Strategy**

### **2.1.1. Economic and social situation and poverty analysis<sup>3</sup>**

Prior to the conflict of August 2008, the Georgian economy was on a strong growth track, with GDP rising by over 10 % per annum. Additional public expenditures, financed by a substantial increase in the tax/GDP ratio, were used for improvements in education and health services and in targeted social assistance for the poor as well as in infrastructure.

Economic policies were guided by reliance on the private sector for growth in a highly liberal trade, investment and business environment. The country attracted large volumes of foreign direct investment to sustain growth. Despite high growth, job creation was weak, but poverty had begun to decrease. The pre-conflict unemployment rate of 13 % concealed much under-employment. The government estimated that over the next four-five years up to net 250,000 jobs would have been created on the basis of rising foreign direct investment, (pre-conflict FDI forecast: USD4-8 billion over the same period), sufficient to lower unemployment to single digits.

The conflict was a shock to the key pillars of economic growth. A major impact of the conflict has been a fall in investment, domestic and foreign, and a steep decline in economic growth amidst rising unemployment.

The social burden arises mainly from a very high number of internally displaced persons following the conflict, which led to the need for shelter, food and social services programmes. Durable housing solutions for the long term displaced persons from both the 1992 and the 2008 conflicts remains a major challenge.

Unemployment and poverty rates are expected to rise over the next two years as a result of the economic slowdown. Preliminary estimates indicate that unemployment would increase from 13.3 % in 2007 to 15.1 % by 2010. The poverty rate is estimated to increase from the current 23.6 % to 25.9 %.

### **2.1.2. National Development/ Cooperation Policy and Strategy**

#### **(1) National policy and strategy:**

The Economic Development and Poverty Reduction Programme (EDPRP) was finalised in mid 2003 and is currently being revised and updated. The document called Basic Data and Directions (BDD) provides regular information on planning, implementing and monitoring EDPRP priorities. The BDD is drafted within the framework of the Medium Term Expenditure Framework (MTEF) and links overall national policies to sector strategies and the budget.

Georgia endorsed the European Neighbourhood Policy European Union – Georgia Action Plan (ENP AP) in November 2006. The ENP AP outlines strategic objectives of the political and economic co-operation 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

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<sup>3</sup> According to the JNA 9 October 2008

- 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.

In February 2007, the Government adopted a Strategy<sup>4</sup> with the aim of improving the socio-economic conditions of the ‘old’ IDPs from 1992. This Strategy affirmed two non-exclusive goals: return and integration. It reiterated the fundamental right to return of all IDPs, while for the first time including provisions for local integration of IDPs. An “IDP Action Plan”<sup>5</sup> was adopted in July 2008 to convert the principles of the Strategy into concrete programmes covering a comprehensive set of sectors such as housing, livelihoods and education.

With regard to the ‘new’ IDPs of 2008, the Prime Minister adopted a Government Order on 11 September 2008, which refers to five principles to provide i.e. ‘homeless people’ (e.g. the 2008 IDPs) with temporary shelter until permanent housing can be provided as well as with assistance including food and fuel in the winter period<sup>6</sup>. This Government Order also states that a Strategy and Action Plan should be developed by the Ministry for Refugees and Accommodation on the basis of these principles. While a draft for a Government shelter strategy for the new IDPs was prepared by 15 September 2008, no strategy or action plan for the new IDPs has yet been officially adopted<sup>7</sup>.

## (2) National Budget and medium term financial perspectives:

Fiscal adjustments in 2008 have been presented to Parliament in the form of a supplementary budget and further adjustments in 2009 and beyond will be necessary.

The decline of revenue, compared to the pre-crisis forecasts, is assessed to amount to \$385 million in 2008 and to USD 640 million in 2009. Additional shortfalls are expected in privatization receipts. Reductions in total expenditures of about USD 120 million in 2008 and USD 570 million in 2009 are planned; these figures include additional expenditures associated with IDPs, infrastructure reconstruction, social protection, health, and education; hence expenditure savings would still have to be identified in other areas. The additional expenditure needs amount to USD 328 million in 2008 and USD 390 million in 2009. As a result of these additional expenditure needs, Georgia will have to identify expenditure cuts in other areas amounting to USD 450 million in 2008 and USD 930 million in 2009. The draft 2009 budget provides for substantial cuts in defence and ministry of interior expenditures and rises in justice, education, health and labour spending.

## **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, and the Government expects that most damages will be addressed within weeks. The social burden from the internally displaced and other conflict-affected people was met by providing temporary shelters (now being gradually transformed into durable housing), food and cash support,

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4 "State Strategy for Internally Displaced Persons - Persecuted", adopted by the Government on 2 February 2007  
5 'Action Plan for implementation of the State Strategy for Internally Displaced Persons – Persecuted', adopted by the Cabinet of Ministers in July 2008

6 Government of Georgia Order on “The elaboration of strategy of homeless persons as a result of aggression of Russian Federation” – 11 September 2008

7 E.g. status as per October 2008.

and access to targeted social assistance in close cooperation with the international community. An integrated, comprehensive approach to address social needs of both the 2008 and 1992 internally displaced persons<sup>8</sup> is under implementation (Georgian State Strategy for Internal Displaced Persons<sup>9</sup> – Persecuted and adopted Action Plan<sup>10</sup>).

The Government is taking concrete measures to address the post-conflict needs of IDPs. However, 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. Macroeconomic situation**

Over the last five years, Georgia has implemented far reaching strategic reforms. These reforms aim at developing a competitive private sector as the main engine of growth, with the state playing a supportive role by providing basic public goods and services – as seen in improvements in education and health care delivery and the introduction of a targeted social safety net to protect the extreme poor. Driven by rapidly rising foreign direct investment (FDI) flows, economic growth averaged 10.5 % per year over the last three years and reached 12.5 % in 2007.

The crisis of August 2008 has resulted in shocks to economic growth and stability in Georgia. Growth projections are estimated to be 3.5 % for 2008 and 4 % for 2009.

These shocks have led to a weakening of investor, lender and consumer confidence, a contraction of liquidity in the banking system whilst banks have all ceased to extend credit, stress on public finances, damages to physical infrastructure and revealed other infrastructure bottlenecks, and increased numbers of internally displaced persons. Before the conflict in August 2008, the overall macro-economic situation was sufficiently stable so as to make Georgia eligible for budget support. The Government was following a prudent fiscal programme and had met all relevant IMF criteria.

In the aftermath of the crisis the IMF decided to extend a Stand-By Arrangement for Georgia for a total available amount of USD 750 million, with the purpose of helping to restore confidence in the Georgian economy.

### **2.2.3. Public Financial Management**

In March 2007 the Ministry of Finance (MoF) prepared a detailed Strategy<sup>11</sup> and Action Plan for the period 2007-11. This plan sets out the priority areas of the MoF in terms of Public Finance Management reform and specifies the planned actions. Details of donor support are also set out as is the identification of areas where support is still required.

The recent Public Expenditure and Financial Accountability (PEFA) assessment provides for an updated and systematic diagnostic of the Public Financial Management (PFM) system in Georgia and for a base line for complementing the Government's efforts to monitor progress in PFM reforms going forward. The final report has been discussed and agreed with the Government and should be made public before the end of 2008. The Ministry of Finance is meant to revise his vision on Public Finance Management reforms for the next three years (2009 – 2012).

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<sup>8</sup> State Strategy for Internally Displaced Persons – Persecuted, approved by Decree 47 by the Government of Georgia - 2 February 2007. Government of Georgia Order on “The elaboration of Strategy of homeless persons as a result of aggression of Russian Federation” – 11 September 2008

<sup>9</sup> Approved by Decree 47 of 2 February 2007 by the Government of Georgia and Government of Georgia Order about "the elaboration of a Strategy for homeless as a result of aggression by the Russian federation" – 11 September 2008

<sup>10</sup> Action Plan for the implementation of the State Strategy for Internally Displaced Persons 2008 – July 2008

<sup>11</sup> Ministry of Finance of Georgia – Strategy 2007-2011 and priorities for cooperation with development partners – March 2007

According to the JNA, "...fiduciary reviews of the country's finance systems covering all aspects of financial management, procurement, monitoring and auditing show that Georgia has high standards of governance"<sup>12</sup>. This finding is supported by World Bank assessments of key steps undertaken by the Government of Georgia in strengthening the public finance management system, such as the implementation of the Single Treasury account, adoption of better accounting practices, development of an MTEF, improvement in budget planning, increased financial discipline of Legal Entities of Public Law (LEPLs), adoption of clear rules of inter-governmental finances, and increased financial discipline on debt. According to the World Bank "*overall the public finance management system has been strengthened significantly and management, sources and uses of public resources are more transparent, and, hence, accountability has also improved.*"<sup>13</sup>

### **2.3. Sector Policies**

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

Much has already been achieved with regard to the physical housing response for IDPs. In September 2008 the construction of around 4700 new housing units started, to be completed before the end of the year. In addition, the Government of Georgia already had foreseen a housing strategy for the 1992 IDPs in its IDP Action Plan of July 2008, although funding has been uncertain. Action toward the provision of new housing for IDPs started soon after including the construction of around 4700 new housing units. In addition, the Government of Georgia already had in place a housing strategy for the 1992 IDPs.

In accordance with the draft shelter strategy for IDPs of 15 September, the housing response of the Government would be based on three phases: assistance to returnees under the self-help programme, temporary housing pending durable solutions, and eventually durable housing. Under the first stage of the response (until March 2009), damaged homes of returnees will be repaired, existing buildings/accommodations being used as collective centres will be reconstructed and winterised, and new housing units will be constructed and purchased, thereby providing durable housing solutions (return and resettlement) for all the 2008 IDPs. During the second stage (from April 2009) efforts will focus on completing housing solutions for the 1992 IDPs. The Government anticipates a revision of the current IDP strategy for the 1992 IDPs for this purpose.

The Government of Georgia already has at its disposal an instrument for channelling investments in the municipal sector, through the Municipal Development Fund – MDF. After the recent conflict, MDF was mandated to be a key player in the rehabilitation of damages infrastructures. MDF is now involved in the construction of 1364 houses for IDPs (more details in section 3.3. Stakeholders).

It is in the above context that the design of the present Programme foresees to finance the IDP related expenses incurred by the MDF. Nevertheless, up to 20 % of the funds could be spent against expenses incurred in favour of IDPs by other governmental bodies.

### **2.4. Lessons learnt**

The present Programme relies on lessons learned by other donors who have channelled similar support to Georgia via the 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*"<sup>14</sup>.

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<sup>12</sup> Georgia Joint Needs Assessment, 9 October 2008, p.38

<sup>13</sup> International Development Association, "Supplemental Financing Document for a Proposed Supplemental Credit in the Amount of SDR 25.5 million (US\$ 40 million equivalent) to Georgia for the Fourth Poverty Reduction Support Operation, September 19, 2008, p.12

<sup>14</sup> Georgia Joint Needs Assessment, 9 October 2008, p.38

## **2.5. Complementary actions**

The present Programme will be complemented by the 2008 European Commission programme "Support to Georgia's IDPs Action Plan: 2008 – Part II" of EUR 51.5 million.

It will also complement a USD 40 million Regional and Municipal Infrastructure Development World Bank Project 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, which will in turn provide funds to local governments to rehabilitate water supply, sanitation, waste management and road transport services, and rebuild other infrastructure that may have been damaged in the recent conflict with Russia.

The Programme will also complement the UN flash appeal (ECHO, Instrument for Stability).

It is also anticipated that the present intervention will be complemented by further European Commission support, in the coming years, to complete durable housing solutions for both 2008 IDPs and 1992 IDPs.

## **2.6. Donor coordination**

Prior to the August events the government held quarterly coordination meetings with the donor community present in Tbilisi.

Since the conflict started, intensive donor co-ordination has taken place at all levels. The JNA report is a result of this coordination and provides the framework for joint monitoring mechanisms.

## **3. DESCRIPTION**

### **3.1. Objectives**

The overall objectives of proposed Programme are in line with the State Strategy for Internal Displaced Persons – Persecuted of the Government of Georgia and its adopted Action Plan<sup>15</sup> which aim i) To create conditions for dignified and safe return, of IDPs, and ii) To support decent living conditions for the displaced population and their participation in society.

The specific objective of the Programme is to assist the Government of Georgia, via the Municipal Development Fund and/or other governmental bodies, to improve living conditions of all IDPs by providing durable solutions allowing internally displaced persons to return voluntarily, in safety and with dignity, to their homes or places of habitual residence, or to resettle voluntarily in another part of the country.

### **3.2. Expected results and main activities**

The Programme is expected to reinforce the Government's capacity to deliver an adequate response for the resettlement of all IDPs including provision of adequate infrastructure.

### **3.3. Stakeholders**

The Municipal Development Fund (MDF), a government-owned instrument, is identified by the JNA report as a suitable mechanism for implementing the recovery assistance. The MDF has a long record

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<sup>15</sup> Georgian State Strategy for Internal Displaced Persons approved by Decree 47 as by the Government of Georgia - 2 February 2007  
Government of Georgia Order on "the elaboration of Strategy of homeless as a result of aggression of Russian Federation" – 11 September 2008

in (re)constructing municipal infrastructure. It was established on 7 June 1997 under the “State Programme for the Development of the Municipal Sector”. 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 Presidential Decree. Members of the Board are representatives of the Government of Georgia, relevant Services of the President of Georgia and Local Government and Self-government Bodies. The Supervisory Board makes final decision on the financing of the Municipal Investment Projects.

Recently, a complete new institutional and fiduciary assessment was carried out on the MDF by the World Bank, which assessed its capacity as being satisfactory.<sup>16</sup>

### **3.4. Risks and assumptions**

The main risks envisaged are:

- continued instability and insecurity in the adjacent areas and a new conflict may impede the implementation of this Programme,
- insufficient institutional capacity of the MDF (although the current staffing, structure and capacity of the MDF are adequate to carry out the Programme, the situation may change if the Government and/or other donors make the MDF responsible for further significant projects)
- further external shocks that could impact on the macroeconomic situation.
- delays in the implementation of the governmental IDPs Action Plan.

### **3.5. Cross-cutting issues**

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

## **4. IMPLEMENTATION ISSUES**

### **4.1. Budget and calendar**

This ENPI project will be financed under a financing agreement and will be implemented following the modalities of targeted budget support. The programme has a total budget of EUR10.0 million of which EUR 0.2 million will be used for technical assistance. An amount of up to EUR 9.8 million will be transferred via the State Treasury against agreed and audited expenditures. The envelope for technical assistance will be amongst others used for audits, monitoring, evaluation and visibility.

The indicative operational duration is 24 months as from signature of the Financing Agreement.

### **4.2. Budget support modalities**

Direct targeted budget support programme, centrally managed.

### **4.3. Procurement and grants award procedures**

Contracts implementing the technical assistance component of the action will 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. Georgia is facing a crisis as defined in article 168(2) of the Implementing Rules of the Financial Regulation and duly recognised as such by the Authorising Officer by delegation<sup>17</sup>. As

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<sup>16</sup> WB Project Appraisal Document on a proposed credit in the amount of sdr 25.5 million (us\$40 million equivalent) to Georgia for a regional & municipal infrastructure development project September 23,2008

<sup>17</sup> According to note AIDCO/KR/Is D(08) 18075 recognizing the crisis situation in Georgia

a result negotiated procedures for procurement contracts or direct award for grant contracts may be used in accordance with the applicable provisions.

#### **4.4. Performance monitoring and criteria for disbursement**

General and special conditions governing the release of funds will be set out in the Financing Agreement signed between the Commission and the Georgian Government.

The transfers of funds will be based on payment requests submitted by the Government of Georgia and be done following the external audit on the eligibility of expenditures.

#### **4.5. Evaluation and audit**

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

#### **4.6. Communication and visibility**

Communication and visibility will be ensured in co-ordination with the Ministry of Finance. Currently a donors' committee exists within the Ministry of Finance. The European Commission will be represented in the Committee. As the Programme develops, the European Commission will, in co-operation with the Ministry of Finance, organise appropriate public relations activities so as to keep the general public informed of developments.