



THE UNITED NATIONS



THE WORLD BANK



**GEORGIA  
JOINT NEEDS ASSESSMENT**

**Donor Funding in Support of  
Post-Conflict Recovery and Reconstruction**

**PROGRESS REPORT**

**June 30, 2009**

**The United Nations  
The World Bank**

*With the participation of*  
**The Asian Development Bank  
The European Bank for Reconstruction and Development  
The European Commission  
The European Investment Bank  
The International Finance Corporation**



# Georgia: Donor Funding in Support of Post-Conflict Recovery and Reconstruction

## A Progress Report

Prepared by the United Nations and the World Bank<sup>123</sup>

### Table of Contents

Introduction and Summary .....	2
JNA Findings and Proposals for Financing .....	2
Economic Developments since the Donor Conference and Budget Support Requirements.....	4
Donor Funding in the “Immediate Period” (October 2008-March 2009).....	6
The Outlook for 2009.....	11
Conclusions.....	14

### Table of Figures

Box 1: Averting Threat to Livelihoods in the Gori Valley .....	8
Table 1: Georgia: Macroeconomic Projections 2009- 2010 .....	5
Table 2: Recovery of the Georgian Economy .....	7
Annex 1: Financing Requirements for the Recovery Program .....	15
Annex 2: UN Flash Appeal: Georgia Crisis, August 2008 .....	19
Annex 3: Recovery of the Georgian Economy .....	20
Annex 4: The Return, Relocation and Resettlement of IDPs.....	21

---

<sup>1</sup> The United Nations and the World Bank, together with the European Commission, constitute the core team responsible for the preparation of the Joint Needs Assessment and for reporting on developments on donor pledges. This note has been prepared with the participation of the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, and the International Finance Corporation.

<sup>2</sup> Questions on this document may be addressed to [smitra@worldbank.org](mailto:smitra@worldbank.org) or [sofia.carrondo@undg.org](mailto:sofia.carrondo@undg.org).

<sup>3</sup> This document will be placed on the websites of the Government of Georgia, the United Nations and the World Bank.

## **Introduction and Summary**

A donor conference to support Georgia's financing needs for post-conflict recovery and reconstruction took place in Brussels in October 2008 chaired jointly by the European Commission and the World Bank. A *Joint Needs Assessment (JNA)* document was prepared for the conference by international institutions. This paper provides a first progress report on developments since the conference. It reviews financing committed and disbursed by donors in light of their pledges as well as the major activities on the ground supported by the financing. The paper covers the period to end-March 2009, i.e., the period identified in the *JNA* as the immediate, post-conflict period, when the critical damage-related needs and needs arising from social displacement had to be addressed. It also contains an outlook for 2009 and an indication of evolving priorities in light of the international economic crisis and areas for donor assistance.

This paper finds that the recovery and reconstruction program has got off to an encouraging start with donors having followed through with financing for the immediate period (October 2008 to March 2009) in the amounts corresponding to their pledges and to the requirements as assessed by the *JNA*. The activities on the ground supported by the funding also show promising results. The critical need in 2009 is to obtain the donor funding that was pledged for budget support. The weakening in the economy beyond *JNA* estimates has put pressure on fiscal revenues and the budget deficit. Donors need to fulfill their pledges for budget support for 2009. The authorities have risen to the challenge of managing the recovery and reconstruction program and donor financing. They will have to continue to show flexibility in macroeconomic management as the international economic climate evolves. Furthermore, greater attention to the institutional dimensions of reform will be needed to maximize the benefits of donor support.

This paper is a joint product of the United Nations and the World Bank. It is based on data supplied by the Georgian authorities supplemented by information provided by the principal donors and the humanitarian community in Georgia. While not complete in every detail, it captures the overwhelming part of the donor assistance. This paper would not have been possible without the cooperation of the Ministry of Finance of Georgia. The United Nations and the World Bank are solely responsible for the text of this document.

## **JNA Findings and Proposals for Financing**

The *JNA* found that prior to the conflict of August 2008, the Georgian economy was on a strong growth track, with GDP rising by 10½ per cent annually. However, the conflict dealt a shock to the key pillars of economic growth. There occurred a weakening of investor, lender and consumer confidence, a contraction of liquidity in the banking system, with banks all but ceasing to extend credit, stress on public finances, damage to physical infrastructure, and increased numbers of internally displaced persons.

The major impact of the conflict had been a fall in investment, domestic and foreign, and a steep decline in economic growth amidst rising unemployment. The economic downturn led to a fall in fiscal revenues, thereby jeopardizing critical programs and fiscal stability. The social burden arose chiefly from a high number of the initial internally displaced persons, which led to the need for shelter, food and social services programs. The resettlement of the long term displaced from the conflict of the 1990s and the recent one remained a persistent challenge.

Physical damage to the infrastructure sectors and the environment was tangible but not large. Critical sectors such as energy and roads would remain vulnerable to exogenous shocks. Thus, economic security was heightened as a public policy concern.

The government launched a swift and effective post-conflict recovery program. The authorities relaxed the fiscal stance as a counter-cyclical response to the investment and output shocks, provided immediate liquidity and regulatory support to banks, and rapidly arranged for international support. Repair to and rehabilitation of damaged infrastructure was undertaken. The social burden from the internally displaced and other conflict-affected people was met by providing temporary shelters that were being gradually transformed into durable housing, food and cash support, and access to targeted social assistance. A comprehensive approach to addressing the social needs of the current and the older set of the internally displaced was put into implementation.

The *JNA* identified the need for donor support in three major areas:

- **Support for the rapid restoration of confidence.** With growth, Georgia would generate internal resources for investment and poverty reduction. Donors could help best by providing resources for the budget to support the counter-cyclical budget policy and thereby ensure funding for critical economic and social needs. Moreover, donors needed to consider equity, debt or guarantee support to domestic banks so that lending to enterprises and consumers could be re-ignited.
- **Support for social needs.** The resettlement of the internally displaced and the needs associated with other conflict-affected populations put an unsustainable burden on fiscal resources. Through support for housing, social protection and other social programs identified in the *JNA* as well as via budget support, donors could make an important contribution to economic and social recovery.
- **Support for critical investments.** The *JNA* found that certain high value and high yield investments were essential to maximizing recovery prospects – the “core investments” in the report. Donor financing for such investments was essential as a bridge to the period when the private sector resumed investing. Such financing would also help to enhance the economic security of the country by broadening choices in energy and transport.

The *JNA* proposed that donors extend new financing in the amount of \$3¼ billion over a three year period (Annex I).<sup>4</sup> Of this amount:

- Budget support was estimated at \$930 million (\$480 million in 2008 and \$450 million in 2009).
- Social sector needs were estimated at nearly \$1 billion, of which \$300 million, corresponded to immediate needs (including amounts in the UN revised Flash Appeal), i.e., were required by spring 2009.
- Infrastructure support, including urban and municipal, was estimated at \$1¼ billion, of which \$120 million (damage and immediate needs) was required by spring 2009.

In addition, the *JNA* indicated that \$700 million in donor support for the banking sector would be required. This support would be in the nature of contingent costs: unlike donor support in the three categories indicated above, banking sector support takes the form of provision of liquidity or guarantees.

### **Pledges at the Donor Conference**

At the Brussels conference, donor pledges exceeded expectations: pledges for the public sector totaled \$3.7 billion for the purposes of budget support (\$586 million), social needs (\$450 million) and infrastructure (\$2.6 billion). An additional set of pledges of \$800 million to support the private sector, including \$750 million for the banking system were made.

---

<sup>4</sup> Throughout the paper, reference is made to the US dollar.

The largest bilateral pledges were made by the governments of the United States (\$1 billion) and Japan (\$200 million). The European Commission pledged almost EUR 500 million. International financial institutions announced contributions of a total of \$2.4 billion – this group encompasses the ADB (\$300 million), EBRD (\$927 million), EIB (\$330 million), Council of Europe Development Bank (\$1 million), and the World Bank Group (\$880 million). While not part of the pledging, the IMF had extended a \$750 million stand-by program in September 2008.

Other countries which pledged contributions were Austria, Belgium, Bulgaria, Canada, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Romania, Slovenia, Spain, Sweden, Switzerland, Turkey, the Ukraine, and the United Kingdom.

### **Economic Developments since the Donor Conference and Budget Support Requirements**

The *JNA* contained a detailed report on the impact of the conflict on economic developments and the outlook as well as an analysis of the gaps that had emerged relating to budget financing and external financing. With the assistance of donor pledges, these gaps were expected to be largely covered in 2008 and 2009.

The donor conference took place against the background of a looming global economic crisis, which has compounded the impact of the conflict on the economy. The contraction in world output and trade and loss of confidence in the international banking system have exacerbated the economic and social impact of the conflict. Current world economic projections by the Bank, the Fund and the OECD as well as data from Georgia for the first quarter of 2009 suggest that (Table 1):

- Inflows of foreign direct investment in 2009 are expected to be lower than the levels projected in the *JNA* by over \$200 million;
- Workers' remittances have declined by 22 percent in the first four months of 2009 compared to the same period in 2008 and are projected to be about \$100 million lower than *JNA* projections;
- Exports of goods and services are expected to decline by about \$90 million *vis-à-vis* the *JNA* forecasts;
- In 2009, the economy was projected to grow by 4 per cent; it is now projected to contract by 1.5 per cent. Similarly, the growth for 2010 has been revised from 6 per cent to 2 per cent. The 2009 contraction is less severe than in some other CIS economies, owing to Georgia's strong pre-crisis fundamentals, an early adoption of countercyclical measures, and weaker linkages with the Russian economy than in most other CIS countries.

**Table 1: Georgia: Macroeconomic Projections 2009- 2010**

	2007	2008		2009		2010	
		Pre - Crisis	Post - Crisis	JNA	Revised*	JNA	Revised
GDP (growth, in per cent)	12.3	9.0	2.1	4.0	-1.5	6.0	2.0
	<b>In percent of GDP</b>						
Fiscal revenues and grants	29.3	28.5	30.7	26.0	28.0	25.5	26.7
Fiscal expenditure and net lending	34.0	32.4	37.1	29.8	36.3	28.0	33.6
Overall fiscal balance	-4.7	-4.0	-6.3	-3.8	-8.2	-2.5	-6.9
Export of goods and services	31.1	33.3	28.7	30.0	25.6	31.5	29.3
Import of goods and services	57.9	58.9	58.3	54.3	48.2	52.2	51.5
Current account balance	-19.6	-16.6	-22.2	-18.7	-16.1	-15.9	-15.5
Current account balance (\$ billion)	-2.0	-2.1	-2.9	-1.9	-1.8	-1.8	-1.7
Memorandum Item:							
GNI per head (\$, atlas method)	2,090	2,510	2,480	2,830	2,610	3,280	2,750

Source: World Bank; \* As of June 2009

As a result of weaker economic activity, the current account deficit is expected to be lower by about \$100 million in 2009 as compared to *JNA* estimates. This development largely counteracts the effects of reduced FDI and the external financing is projected to be fully assured by purchases on the Fund standby and rundown of public assets.

On the fiscal side, the weaker economy will lead to lower revenues by about \$320 million in 2009 as compared to *JNA* estimates and the authorities are partially offsetting this effect by some reduction in spending, such that the deterioration in the overall balance will be limited to \$240 million as compared to *JNA* estimates. With a significant rise in privatization revenues related to the transport sector and in official external borrowing as compared to *JNA* estimates, the budget financing requirement will be fully met, provided donors adhere to their commitments with respect to budget support for 2009.

The key conclusions are:

- The authorities have responded to the weaker economic outlook and hence weaker fiscal revenues for 2009 by a combination of adjustment and financing. Some expenditures are expected to be cut in 2009. However, the budget deficit will rise to 8.2 per cent of GDP. This deficit is expected to be financed by donors as described in the *JNA* plus a greater use of public assets such as the proceeds of the international bond issue of 2008, and privatization.<sup>5</sup>

<sup>5</sup> As this document went to the press, the authorities presented a supplementary budget to Parliament to reflect a further counter-cyclical stimulus through additional expenditures as well as weaker revenues given overall economic contraction. The deficit is projected to rise to 9-10 per cent of GDP and the increase would be financed through greater external support.

- The macroeconomic framework is credible and sustainable. The authorities stand ready to take further measures as the economy evolves under current conditions of heightened uncertainty
- *It is of critical importance that all donors translate their pledges for budget support in 2009 into disbursements in a timely fashion, as soon in the year as practicable; and that they deliver on their pledges in full.* In response to a request from the authorities, the ADB and the World Bank are increasing their budget support financing from the amounts discussed at the time of the *JNA*. It is now incumbent on donors to live up to their original pledges.
- To the extent donors have the flexibility to adjust the balance of their aid towards budget support with some reduction in other donor-managed support modalities or in investment financing, it would be helpful to the authorities if donors were to make such an adjustment during 2009, as the preponderance of risks lies on the fiscal accounts.

### **Donor Funding in the “Immediate Period” (October 2008-March 2009)**

The *JNA* defined the immediate period to be the six months to end-March 2009, when the immediate effects of the conflict would be felt on the economy and the society. For this period, the funding needs were estimated at \$895 million, including \$480 million for budget support, \$294 million for social sector and \$120 million for infrastructure and municipal needs (Annex I).

During this immediate period, donors entered commitments of over \$1 billion for the public sector, including \$415 million for budget support, \$165 million for IDP needs and \$334 million for infrastructure and municipal. Of over the \$1 billion committed, \$557 million has actually been disbursed over this period, including nearly 100 per cent of budget support, and 30 per cent of social and investment support (Table 2). This is a highly commendable rate of disbursement as well as absorption of funds into the economy.

***Budget support.*** The US was the principal donor – it provided \$250 million in grants for general budget operations. The ADB disbursed \$70 million, the World Bank disbursed \$40 million and the EC disbursed \$17 million. While such support accrues to the general budget and is not earmarked for specific spending, it is notable that the revised budget adopted by parliament in 2008 in the post-conflict period raised spending significantly for internally displaced persons, and for accompanying social needs.



**Table 2: Recovery of the Georgian Economy**

<b>Committed/ Disbursed in the “Immediate Period” Amounts in US (million)</b>			
<b>SECTOR</b>	<b>Committed 2008/ March 31 2009</b>	<b>Disbursed 2008/ March 31 2009</b>	<b>Donor Organization &amp; Allocated Amount</b>
1. General Budget Support	414.5	388.5	1. World Bank – 40 2. ADB – 70 3. US Government - 250 4. European Commission – 41.2 (EUR 28 mln) - PFM budget support – 14.9 (EUR 10 mln) - Criminal Justice Reform budget support – 22.4 (EUR 15 mln) - Food Security Program – 3.9 (EUR 3 mln) 5. Dutch Government - 3.2 (EUR 2.5mln) 6. Ukraine - 10.4 7. Malta - 0.01 (EUR 0.01 mln)
2. Internally Displaced Persons	164.7	143.5	1. EC- 12.7 (EUR 10 mln) 2. KfW - 8.7 (EUR 6 mln) 3. GTZ - 11.3 (EUR 8 mln) 4. UN - Flash Appeal 64.5 (new caseload) 5. UN - not listed in the Flash Appeal - 67.5
3. Core Recovery of the Georgian Economy	442.4	24.8	
Infrastructure- Transport	150.0		1. World Bank –90 2. MCG – 60
Infrastructure- Energy	13.0		1. MCG – 13
Urban and Municipal	171.1	13.8	1. World Bank – 40 2. ADB – 37 3. KfW – 66.4 4. EBRD - 2 (multi-donor grant - MCG \$8.8mln, EU EUR 0.8 mln, SIDA EUR 0.4 mln, ETC EUR 0.6 mln) 5. MCG – 26
Environment	7.2		1. KfW – 7.2 (EUR 5 mln)
Agriculture & Livelihood	23.6	8.50	1. Japan (non-project grant) – 13.3 2. UN Flash Appeal – 10.3
Other	77.5	2.5	1. US Government - 50 2. France - 6.3 (EUR 4.6) 3. GTZ - 11.6 4. Japan - 5.4 5. UN Flash Appeal - 3.2
<b>TOTAL PUBLIC SECTOR</b>	<b>1022</b>	<b>556.8</b>	
<b>PRIVATE SECTOR:</b>			
4. Banking and real sector	635.7	446.4	1. EBRD 278.76 (EUR 210mln) 2. IFC - 170 3. OPIC - circa 176.3 4. FMO - 10
<b>GRAND TOTAL (Public and Private)</b>	<b>1,657.7</b>	<b>1003.2</b>	

Source: Bank calculations based on data supplied by the Ministry of Finance, Georgia, and UN estimates. Note that this table cannot capture numerous small scale projects implemented by some donors – these projects are largely self-managed and do not enter the government data system.

**Return, relocation and resettlement.** Donor commitments under this category were \$165 million of which \$144 million were disbursed (Table 2).<sup>6</sup> The *JNA* had called for commitments of \$169 million. The Flash Appeal of the United Nations, which was heavily supported by donors as an integrated element of the *JNA*, accounted for a large share of commitments under this category (Annex II).

The overarching priorities under this sector were providing temporary shelter (pending solutions) and durable housing; providing IDPs with information on choices, while promoting clear selection criteria and assistance, and ensuring IDP protection and human rights. The main activity supported by donor funding was the provision of durable housing options for IDPs based on agreed standards and supporting social integration.<sup>7</sup> In the immediate period, damaged homes of returnees were targeted for repair, existing buildings being used as collective centers were identified for rehabilitation or winterization, and new housing units were constructed and purchased. During subsequent stages, beyond April 2009, efforts will be focused on finalizing durable housing solutions for displaced people together with their resettlement.

Of the 137,000 people displaced by the August conflict (so called 'new' IDPs) an estimated 106,000 have returned to the Shida Kartli region and have received assistance in the rehabilitation of damaged and destroyed houses, in the restoration of food security and livelihoods and in household items. (See Box 1 for an illustration of support for livelihoods.) About 18,000 IDPs originating from South Ossetia, Akhgori and Abkhazia have been resettled in 38 newly built settlements in Shida Kartli, Kvemo Kartli and Mtskheta-Mtianeti regions, benefitting from government-led and sponsored housing projects. A further 4700 IDP families opted for monetary compensation in lieu of durable housing provision. An estimated 8,000 people remain displaced country-wide and are still in need of durable housing solutions; the majority of them live in Tbilisi. Additional housing construction to address these needs is taking place. These groups are still heavily dependent on government and international aid for food and basic nutrition needs.

In a striking development, the new settlements for IDPs were constructed by the government in a rapid time frame of less than four months, with a total of 5600 housing units being built and the settlements supplied with electricity and water. IDPs were relocated in a well organized process. The new settlements are in need of further investment in complementary infrastructure with water and sanitation facilities and other facilities.

**Social spending.** Social protection spending in the immediate period was met through the budget. Hence, no separate figure for donor spending can be provided, but the *JNA* requirement of \$45 million can be confidently considered to have been met.

The system of social transfers reaches the target population through pensions, assistance to IDPs, and targeted social assistance (TSA). Social expenditures have increased in the immediate period, rising from 6.7 percent of GDP in 2008 and to 7.8 percent (2009 budget), with an especially strong rise in outlays for TSA; the TSA is provided to 13 per cent of the population. Similarly, spending on education and health is being channeled through the budget, and the prompt and full provision of budget support in the immediate period was important in safeguarding these outlays.

---

<sup>6</sup> It is not possible to estimate spending under this category with precision as such spending is categorized under various headings, for example, some of it falls under agriculture and livelihoods. Thus the figures cited are likely underestimates.

<sup>7</sup> Further details can be found in Annex IV.

### Box 1: Averting Threat to Livelihoods in the Gori Valley

The *JNA* described the acute emergency being faced by farmers in the regions affected by the conflict arising from the diversion of irrigation water flows, the interruption of the agricultural cycle that affected winter sowing and the lives of farm animals, and the severe threat to livelihoods in a particularly poor part of the country – the Gori Valley. It pointed to the necessity for immediate donor action, in partnership with the government, to avert an incipient tragedy.

The results of actions taken by the authorities with the strong support of USAID, Italy, and activities undertaken by the ICRC have been highly encouraging. Sustainability in livelihoods is on the way to being assured, despite obstacles posed by unexploded ordnance and explosive remnants of war and a still volatile security situation.

*Winter wheat.* The ploughing, seeding and fertilizing of the winter wheat crop for all farmers in the conflict-affected zone who traditionally engage in winter crop cultivation has been completed. In total, 12,650 hectares, benefiting 7,600 farm families, were planted; the growth rate and quality of the wheat crop is, at this early stage, even greater than expected. The harvested crop is expected to provide \$15 million in revenue for farmers affected by the conflict.

*Spring seeding.* At the end of March 2009, USAID launched a follow on program to provide spring agricultural production assistance to farmers in the Shida Kartli conflict zone and to IDPs in the newly-built settlements, following on from the winter wheat support program. Assistance includes machinery services, corn seed and fertilizer for farmers who own arable land and plant protection products for orchards. As a result of this assistance, more than 29,000 additional farm families are expected to benefit, 9,200 hectares of corn will be planted (including 800 hectares for IDPs) and inputs will be provided for 11,400 hectares of orchards. Winter wheat assistance in 2009-10 will be provided to IDP families. The total value of the harvest that will be made possible as a result of spring and fall assistance is estimated at more than \$29 million and at least \$13 million will be injected into the local agricultural economy for agricultural services.

*Animal fodder.* By late March, distribution of animal feed to conflict-affected small-scale farming households in the Shida Kartli region was completed, with a total of 4,240 metric tons of animal feed distributed to all livestock owners, totaling 18,248 beneficiaries in 127 villages from the buffer zone, and significant deworming of cows took place. These activities are vital to ensure the productive capacity of livestock in the conflict-affected regions of Georgia, a main source of income for farmers.

*Finally, irrigation.* The development of new irrigation schemes was vital to survival of livelihoods. Most encouragingly, the construction of a new irrigation headwork and pumping station is underway, funded by the government. The new headwork is located downstream of the original one, with a total capacity of about 16 cubic meters per second; six cubic meters will be used to irrigate the right bank of Liakhvi river by gravity and ten cubic meters will be pumped to main Tiriphona channel to irrigate the left bank. Works are expected to be completed by August 2009. Careful monitoring of the impact of irrigation repairs is required to ensure access to all beneficiaries.

**Transport.** Commitments in the immediate period (\$150 million) greatly exceeded the *JNA* recommendation (\$61 million). Donor response to modernization of road network is expected to be strong. In October 2008, \$20 million additional financing credit was provided by the World Bank for improvement of the east-west highway and a \$60 million grant was made available by the Millennium Challenge Corporation for Samtkhe-Javakheti road construction.

The World Bank provided an additional \$70 million loan for secondary and local roads in 2009 as post-conflict assistance to finance 450 km of secondary and local road throughout Georgia to improve connectivity and create temporary employment. Approximately \$700 million is expected to be provided for financing of various main and secondary road projects in 2009-10 by the ADB (Ajara by-pass roads),

JICA (Zestaponi-Kutaisi-Samtredia), and the World Bank (Sveneti-Rikoti, and Kakheti regional road). The government roads budget has also increased in 2009 and targeted rehabilitation of secondary and local roads, including testing the new cost-efficient technologies.

Roads, rail, ports and the Tbilisi airport have all resumed regular operations and seen a growth in traffic. The new radar system for Tbilisi airport has been financed by the French government in amount of euro 4.6 million. The EBRD and EIB are considering financing the rehabilitation works of the railways and negotiations are ongoing

**Energy.** Commitments in the immediate period (\$14 million) fell short of the *JNA* recommendation (\$38 million), but are likely to be made up in the coming months. The *JNA* identified an alternative fuel source for generation, investment in gas storage, and emergency repairs to power transmission as priorities for the immediate period. The government has procured strategic mazut reserve (50,000 tons) and secured arrangements for replenishment. The thermal power plant in Gardabani had been tested to operate on mazut.

The MCC-funded underground gas storage study (UGS) has been completed and has led to the selection of a site at Ninotsminda, with an estimated 0.5 BCM capacity or 30 per cent of Georgia's current consumption. It is a privately operated oil field with gas cap with the substantial expansion potential up to 5 BCM. The financing sources for the UGS have not been identified yet. The estimated capital cost of the project ranges from euro 60-150 million.

Substantial progress has been recorded on the preparation of the black sea transmission line that will facilitate export of electricity to Turkey and provide for back up transmission capacity within Georgia from west to east of the country. The line to Turkey can also be used for emergency imports. KFW, EIB and EBRD are likely to have their financing of euro 220 million in place by third quarter 2009. However, on Senaki power transmission, no action has as yet been taken, with the government plans to fund the construction of the line having been postponed owing to budgetary pressures.

**Municipal.** Commitments in the immediate period (\$167 million) greatly exceeded *JNA* recommendations (\$20 million), largely because commitments that the *JNA* had assessed for the post-immediate period were brought forward into the immediate period given the capacity to implement quickly and effectively. Strong leadership by the government and donor interest as well as an efficient Municipal Development Fund have led to early and striking results. The World Bank provided \$40 million (of which \$10 million was for IDP housing) and the ADB provided \$37 million for financing municipal infrastructure; the KFW provided soft loans of \$66 million for Batumi water; the EBRD through multi-donor grant provided \$2 million for Borjomi water project; and the MCC provided an additional \$26 million for municipal infrastructure. In addition the EBRD committed for \$24 million for various municipal infrastructure improvement projects. The EBRD co-financiers for its municipal projects include Millennium Challenge Corporation (USA), the Swedish International Development Co-operation Agency, the Dutch ORET program, and the European Commission. The EC provided a grant of euro 1.5 million for the rehabilitation and reconstruction of small and medium infrastructure in the conflict-affected area implemented via the UNDP.

Within the context of the *JNA*, the EBRD and Georgia agreed to expand co-operation by adding a further four municipal projects with a total project cost of euro 38.4 million. These are the Rustavi Solid Waste Project, the Adjara Solid Waste Project, Kutaisi Water Phase II and the Tskaltubo Water Project. The first three are planned for 2009 closing and Tskaltubo for 2010. The main co-financiers for these four sub-projects include Millennium Challenge Georgia, the Swedish International Development Agency, and British Petroleum.

In the area of policy reforms, a study to consolidate the many small water utilities into a few large companies and to take steps to involve private sector participation is under way. Work towards reform of local roads and solid waste management is still to be initiated.

**Environment.** The *JNA* identified immediate investment needs of around \$2 million to salvage damaged timber and weakened trees using low-impact logging methods and to deal with oil spillages. In addition, it identified medium term, but essential, investments of around \$5 million in forest rehabilitation, replanting, and soil erosion activities in fire damaged sites; the repair of damaged infrastructure in protected areas; and measures to protect villages downstream of affected forests from flooding. To date, relatively few measures have been put in place. Modest deliveries of firefighting equipment have been received, and further technical advice about limiting the impacts of soil erosion in fire damaged sites has been provided. Few other investments in rehabilitation or controlling land degradation in the fire affected sites have been put in place. A financing gap remains, and villages downstream of the burn sites are still at significant risk from flooding.

**Banking.** This banking sector is privately owned. The *JNA* identified support for banking from donors to be critical to economic stability; it is the only significant element in direct support to the private sector. Commitments to the banking sector in the immediate period amounted to \$636 million, comfortably in excess of the *JNA* recommendation of \$500 million.

These commitments took the form of equity and debt participations from the EBRD, IFC, OPIC-US, and FMO-Netherlands and have ensured the stability of the system from rollover risks in its external financing. IFC made a disbursement of \$15 million to Bank Republic in September 2008, a \$20 million trade line was approved to Bank of Georgia in October 2008, and another \$100 million financing package for Bank of Georgia was disbursed in January 2009. This package consisted of senior and convertible subordinated loans as part of a multi-agency deal to help the bank meet its capital and funding needs. In early April 2009, IFC committed an investment of \$70 million with TBC Bank in the form of senior and subordinated loans and equity to help the bank attract a strategic investor and maintain liquidity in a difficult market. A trade line with Bank Republic for \$20 million was also signed that month. Other measures to support the banking sector such as advisory services on work-out of banks' exposures to real estate development projects, risk management or other NPL management are also being taken by IFIs.

Over this period, the EBRD has provided around \$300 million to the banking sector. The large transactions consisted of a \$100 million financing package (convertible subordinate debt and senior loans) provided to Bank of Georgia. These funds were fully disbursed in January/February 2009. A funding package for TBC Bank amounting to \$70 million was signed and partially disbursed in April. It includes equity, convertible subordinate and senior loans. The support of the top two banks and successful completion of these projects was crucial for the stability of the banking sector and was identified as the EBRD direct response to the crisis.

EBRD approved a \$70 million funding package for Bank Republic consisting in subordinated loan, mortgage facility, and energy efficiency credit lines. A \$42 million financing package to Cartu Bank including equity, senior loan and medium size companies co-financing facility components was also approved. The senior loan amounting to \$10 million has been recently signed.

## **The Outlook for 2009**

**Economic and budget support.** As noted, the economic outlook for 2009 is considerably weaker than was projected in the *JNA*. At the same time, renewed political protests have been occurring. These factors carry the potential for worsening social stability, thereby reinforcing the need for sustained

support by donors for the measures and needs identified in the *JNA*. The World Bank Group has informed the authorities of its intention to extend lending commitments in excess of its pledge.

The authorities are responding with flexibility to the evolving international economic climate and have taken fiscal action to support the economy within the constraints of donor budget and balance of payments support. The economic program continues to be supported by the Fund standby arrangement and the next review is expected to be completed in August 2009. Moreover, the government has managed the recovery and reconstruction effort with skill and determination and the results on the ground have been highly encouraging, for example, not only with respect to the execution of the budget in 2008 and thus far in 2009 under deteriorating economic conditions, but also in the implementation of the IDP housing and resettlement program, investments in the municipalities, and the speedy response to the agricultural emergency..

The major uncertainty is related to donor budget support for 2009, estimated at \$450 million. The three key contributors are the ADB, the EC and the World Bank. The ADB has raised its budget support provision to \$80 million, i.e., significantly in excess of its original lending intention, with the disbursement planned for the third quarter of the year. The World Bank has raised its budget support provision to \$85 million, an increase of \$45 million with respect to the original lending plan, with the disbursement also planned for the third quarter of the year. The EC has indicated that its pledge may be slightly reduced because of conflicting needs for EC funds given the severity of the global economic crisis and the need to address conflicts elsewhere. The timing of the disbursement is also uncertain. The authorities are making every appeal and effort to avert this cut.

Although the deepening of the global crisis is creating competing demands for aid and some donors will wish to reset priorities, it is clearly vital to the success of Georgia's recovery and reconstruction efforts that donors live up to their pledges in 2009 and beyond . Underfunding Georgia's efforts would expose the economy to serious economic and social risks. Support from donors in the areas of trade liberalization and investment also remain important.

**Social.** From 2009 the authorities will implement resettlement and livelihood programs for the older case of IDPs dating from the early 1990s. There are still some 220,000 IDPs in protracted displacement. In addition 102,800 returnees to the "adjacent areas" (near Gori) require additional assistance to fully reintegrate. As highlighted in the *JNA*, addressing the previous IDP case load, concomitantly with addressing the most recent displacements is an important element of ensuring equity and addressing the needs of the most vulnerable. This is even more important in view of the potential social impact of the current global economic and financial crisis. Sustained support to implementing this process of reintegration is thus crucial.

In December 2008, the government amended its *National Strategy on Internally Displaced Persons* (2007): it combined the two IDP caseloads and began to focus on the provision of durable housing for IDPs in protracted displacement. This plan involves the rehabilitation of existing collective centers, the transfer of the residential units in collective centers into the private ownership of the IDPs, and the allocation of additional housing where required (from the conversion of public buildings and the construction of more housing units).

Following a concerted effort between the government, the United Nations and other relevant stakeholders, the updated IDP Action Plan now refers to social integration and livelihood opportunities. The process of privatization needs to be coupled with a clear well structured set of standards and criteria (as indicated in the *JNA*), and implemented in a transparent way with the participation of IDPs. Information about privatization will be provided to IDPs through the regional network of the ministry of refugees and accommodation and NGO/UN offices, recognizing the importance of ensuring that IDPs take well

grounded decisions about the durable solutions available and the alternatives to self-privatization of collective centers.

The EC and the United Nations will continue to be the major partner in these areas.

**Infrastructure.** The outlook for the infrastructure sectors is encouraging with donors having made a firm start to investments. In transport and energy, IFIs are active and well coordinated. Support for municipal investments is well planned, the IFIs remain active in water and solid waste projects. Work is underway to design reforms in institutional arrangements and private sector participation. In this connection, the ADB and the EBRD have expressed willingness to explore support for technical co-operation advisory services for an initiative to group smaller municipal water utilities into regional entities and invite an international operator to enter into a management contract arrangement.

**Banking.** In the banking sector, IFIs intend to help mobilize private financing to support the infrastructure program. Specifically, the EBRD and IFC are exploring projects in renewable energy and IFC is discussing advisory work with the government on private participation in infrastructure. EBRD and IFC will continue to seek to support their banking clients in order to support the renewal of lending. While the sector is now stabilized and has overcome some initial refinancing risks, liquidity is still scarce as NPLs have risen. Further concerted donor support to the banking and real sectors would support economic recovery and help avert risks. Development of microfinance is also of importance.

**Aid coordination and impact monitoring.** To date, the government has taken a number of steps to inform the donor community about progress being made on implementation of the *JNA*. The coordination function within the ministry of finance is active and efficient. 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, toward support for the aid coordination mechanism.

In regard to monitoring of the impact on beneficiaries, UNHCR, UNICEF, and WFP are working closely with the IDP communities to ensure that aid is reaching them sufficiently and that gaps which are outlined in the *JNA* progress report are filled as effectively and quickly as possible.

## Conclusions

The recovery and reconstruction program has got off to a most encouraging start with donors having followed through with financing for the immediate period (October 2008 to March 2009) in the amounts corresponding to their pledges and to the requirements as assessed by the *JNA*. Strong donor support for the UN Flash Appeal, an integral part of the *JNA*, was notable. In all categories of need financing was adequate, especially taking account of the fact that budget support financing was used to fund budgeted public investment activities. During the immediate period, the UN played an important coordination role for the various sectors which has now been assumed increasingly by the government.

The activities on the ground supported by the funding also show promising results. For example, the budget has been shifted towards priority social spending, IDP support, social assistance to counter the effects of the economic slump, and, more generally, to fund counter-cyclical spending. The pace of IDP rehousing and resettlement has been impressive. Speedy assistance was put in place to address an agricultural emergency in the Gori valley. Infrastructure projects are being implemented with determination and speed. In the private sector, banking assistance has been rapid and adequate and has played a crucial role in bolstering economic stability and supporting lending.

The critical need in 2009 is to obtain the donor funding that was pledged for budget support. The weakening in the economy beyond *JNA* estimates has put pressure on revenues and the deficit. Donors are asked to live up to their commitments for budget support for 2009. Moreover, where possible, they are asked to re-allocate funding to the budget from investments planned for the outer years of the *JNA* effort, i.e., 2010-11, so that the prospects for economic recovery can be safeguarded.

The authorities have risen to the challenge of managing the recovery and reconstruction program and donor financing. They will have to continue to show flexibility in macroeconomic management as the international economic climate evolves. Furthermore, greater attention to the institutional dimensions of reform will be needed to maximize the benefits of donor support. These relate to issues as diverse as managing the full economic and social integration of resettled IDPs and the livelihoods dimension of resettlement and crafting institutional arrangements in municipal management to encourage private sector delivery of some services. The government is committed to making further progress with its donor and sector coordination systems, to make sure that overlaps between donors are minimized, common policy dialogue is put in place and synergies created.



**Annex 1: Financing Requirements for the Recovery Program**

	1 Immediate (to March 2009) * /	2 Core Investment (to March 2010)	3 Core Investment (to Sept. 2011)	4=(1+2+3) Total: Immediate plus Core	5 Already included in Budget/ Budget Support ** /	6=(4-5) Total Funding Needs
<b>I. BUDGET SUPPORT (# 98)</b>	<b>480</b>	<b>450</b>		<b>930</b>		<b>930</b>
<b>II. SOCIAL SECTOR</b>	<b>294</b>	<b>448</b>	<b>506</b>	<b>1,248</b>	<b>251</b>	<b>996</b>
<b>RETURN, RELOCATION &amp; RESETTLEMENT (# 111)</b>	<b>169</b>	<b>268</b>	<b>359</b>	<b>796</b>	<b>220</b>	<b>576</b>
Housing construction/rehabilitation	157	260	349	766	220	546
NFI for 12,000 HHs	7			7		7
Supporting arrangement costs	5	8	10	23		23
<b>SOCIAL PROTECTION (# 115)</b>	<b>45</b>	<b>42</b>	<b>35</b>	<b>122</b>	<b>31</b>	<b>91</b>
Temporary emergency support (in-kind and cash)	24.4	18		42	10	32
Emergency supplementary feeding (children 0-2, pregnant women)	2			2		2
Refurbish damaged TSA offices	2			2		2
One-time cash assistance to resettled IDPs	4			4	1	3
Targeted social assistance for newly poor	12	23	35	70	20	50
Training 24 new-hired social workers, information campaigns among IDPs, victims shelter	1.6	0.6		2.2		
<b>EDUCATION (# 117)</b>	<b>19</b>	<b>16</b>	<b>18</b>	<b>53</b>		<b>53</b>
Restore Infrastructure & Equipment	3	11	13	27		27
Provision of goods and services	13	5	5	23		23
Emergency activities	3.4	0.04	0.04	3.5		3.5
<b>HEALTH (# 120)</b>	<b>29</b>	<b>59</b>	<b>87</b>	<b>175</b>		<b>174.6</b>
Health insurance program for the poor - incremental costs	28.0	56	84	168		168
Rehabilitation of health infrastructure (Gori emergency center and ambulatories)	0.4	2	3	5		5
Provision of health care services	0.5	0.7		1		1
<b>AGRICULTURE &amp; LIVELIHOOD (# 123)</b>	<b>28</b>	<b>53</b>		<b>80</b>		<b>80</b>
Restoration/improvement of food security, rehabilitation of irrigation	28	53		80		80
<b>EMPLOYMENT (# 126)</b>	<b>5</b>	<b>11</b>	<b>7</b>	<b>22</b>		<b>22</b>
Micro finance	4	10	6	20		20
Local capacity building	0.5	1	0.5	2		2

	1 Immediate (to March 2009) */	2 Core Investment (to March 2010)	3 Core Investment (to Sept. 2011)	4=(1+2+3) Total: Immediate plus Core	5 Already included in Budget/ Budget Support **/	6=(4-5) Total Funding Needs
<b>III. INFRASTRUCTURE</b>	<b>99</b>	<b>300</b>	<b>874</b>	<b>1,273</b>	<b>315</b>	<b>958</b>
<b>TRANSPORT</b>	<b>61</b>	<b>262</b>	<b>707</b>	<b>1,030</b>	<b>295</b>	<b>735</b>
<b>Roads (# 130)</b>	<b>18</b>	<b>244</b>	<b>707</b>	<b>969</b>	<b>295<sup>1/</sup></b>	<b>674</b>
Damage to several roads	18			18	5	13
Completion of Main Road Network		200	622	822	230	592
Development of secondary network of roads		44	85	129	36	93
<b>Rail (# 135)</b>	<b>4</b>	<b>18</b>		<b>22</b>		<b>22</b>
Damage to Grekali-Metekhi bridge & other	4			4		4
Bridge repairs to increase speed of traffic		18		18		18
<b>Ports (# 137)</b>	<b>1.0</b>			<b>1.0</b>		<b>1.0</b>
Damage to Poti port	1.0			1.0		1.0
<b>Aviation (# 140)</b>	<b>38</b>		<b>0</b>	<b>38</b>		<b>38</b>
Replacement of Sakaeronavigatsia radar in Tbilisi	8			8		8
Rehabilitate Tbilisi airport runway	30			30		30
<b>ENERGY (# 141)</b>	<b>38</b>	<b>38</b>	<b>167</b>	<b>243</b>	<b>20</b>	<b>223</b>
Gas and power equipment, connection, and repair of distribution lines	12			12	1	11
Natural Gas storage		10	167	177		177
Strategic reserve of Mazut as back-up fuel for gas plants	26			26	19	7
220 KV Senaki Power Transmission Line Rehabilitation		28		28		28

<b>IV. URBAN AND MUNICIPAL SERVICES (# 149)</b>	<b>20</b>	<b>118</b>	<b>119</b>	<b>257</b>		<b>257</b>
<b>Water Supply and Wastewater</b>	<b>1</b>	<b>7</b>		<b>9</b>		<b>9</b>
Gori : Replace 3 damaged chlorination units (0.24 mil GEL)	0.2			0.2		0.2
Gori: Rebuild damaged fence around water treatment plant (0.3 mil GEL)	0.2			0.2		0.2
Zugdidi: Rehab water supply systems damaged in 1st Abkhaz war (10 mil GEL)		7		7		7
Zugdidi: Rehab pipes and waste treatment plant damaged (1.5 mil GEL)	1			1		1
<b>Urban and Municipal Roads</b>	<b>17</b>	<b>18</b>	<b>72</b>	<b>107</b>		<b>107</b>
Gori: Resurface 5 km city (2 mil GEL) and 75 km villages (15.8 mil GEL)	13			13		13
Senaki: Resurface 1.5 km and 3 small bridges (0.4 mil GEL)	0.3			0.3		0.3
Zugdidi: Resurface 17 km rural and 20 km urban (6 mil GEL)	4			4		4
Tbilisi: Urban Transport System (traffic control & mgmnt, public transport, road wk)		9	27	36		36
Kutaisi: Urban Transport System (traffic control & mgmnt, public transport, road wk)		9	27	36		36
Batumi: Urban Transport System (traffic control & mgmnt, public transport, road wk)			18	18		18
<b>Urban Infrastructure Development, Housing and Public Buildings</b>	<b>1</b>	<b>81</b>	<b>35</b>	<b>117</b>		<b>117</b>
Kutaisi Infrastructure Development (water pipes, treatment facility, utility, roads)		28	8	36		36
Poti Infrastructure Development (wastewater/treatment network, utility, roads)		23	13	36		36
Zugdidi Infrastructure Improvement ( urban and municipal infrastructure)		22		22		22
Senaki Infrastructure Improvement ( urban and municipal infrastructure)		8	14	22		22
Housing and Commercial Buildings in Gori	0.9			0.9		1
Housing, Commercial , and public Buildings in Senaki	0.5			0.5		0.5
<b>Management contract related expenses</b>		<b>12</b>	<b>12</b>	<b>24</b>		<b>24</b>

<b>V. ENVIRONMENT (# 157)</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>7</b>		<b>7</b>
<b>Protection and Production of Forests</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>5</b>		<b>5</b>
Invest in low-impact logging technologies & training	1	0.2		1		1
Begin salvage operations and provide firewood to IDPs.	0.5	0.2		1		1
Pest management measures, forest rehabilitation, develop fire ecology studies	0.1	0.6	2	2.4		2.4
Relocate flooding affected residents from Daba village			1	1		1
<b>Natural Habitats and Protected Areas</b>	<b>0</b>	<b>1</b>		<b>1</b>		<b>1</b>
Return park administration in Kolkheti to effectiveness	0.3			0.3		0.3
Repair damaged infrastructure in Kolkheti		0.5		0.5		0.5
<b>Coastal and Marine Pollution</b>		<b>0</b>		<b>0</b>		<b>0</b>
Monitoring program and assess impact on marine environment		0.1		0.1		0.1
<b>Terrestrial Oil Pollution</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>		<b>1</b>
Secure sites; Remove oil from and replace soil; Install monitoring wells at the train site	0.2			0.2		0.2
Monitor the groundwater at the train site	0.1	0.1		0.2		0.2
Remediate the groundwater		0.1	0.1	0.2		0.2
<b>Other infrastructure: Buildings south west of Gori</b>	<b>0</b>	<b>0</b>		<b>0</b>		<b>0</b>
Assess presence of asbestos	0.1			0.1		0.1
Properly remove and dispose asbestos		0.1		0.1		0.1
<b>TOTAL</b>	<b>895</b>	<b>1,317</b>	<b>1,502</b>	<b>3,715</b>	<b>566</b>	<b>3,148</b>
<b>BANKING SECTOR FUNDING <sup>2/</sup> (# 110)</b>	<b>500</b>	<b>200</b>		<b>700</b>		<b>700</b>
<p>Source: JNA Staff Calculations.  Memo: Exchange rate of 1.405 Lari per US dollar used in converting estimates that were provided in Lari.  * / Post-conflict damage related needs.  ** /Corresponds to those items in columns 1 to 4 that have been identified as already funded through the regular budget or as included in donor budget support.  # Refers to paragraph number of JNA report where explanations can be found.  1/ Corresponds to the amount of taxes included in the roads sector cost estimates.  2/ It is important to note that the needs assessment relating to the banking system are in the nature of contingent costs. Unlike donor financing of budget support operations or infrastructure investments which are expenditures, banking sector support takes the form of provision of liquidity or of guarantees; and it would be expected that such funds would be ultimately re-paid. Such support will turn into actual expenditures only if banks were to fail.</p>						

**Annex 2: UN Flash Appeal: Georgia Crisis, August 2008**

**Requirements, Commitments/Contributions and Pledges per Sector**

**Amount in US\$ (million)**

<b>Sector</b>	<b>Original requirement</b>	<b>Revised requirement</b>	<b>Funding</b>	<b>Unmet requirement</b>	<b>Uncommitted Pledges</b>
Agriculture	0.1	15.0	7.1	7.9	0
Coordination and Support Services	4.1	3.2	1.5	1.6	0
Economic Recovery and Infrastructure	0	6.3	1.5	4.7	0
Education	0.8	1.0	0.1	0.8	0
Food	5.7	20.4	19.7	0.6	0
Health	7.7	4.2	0.9	3.2	0
Mine Action	0.4	0.4	0.3	0.1	0
Protection/Human Rights/Rule of Law	5.9	9.3	5.6	3.6	0
Safety and Security of Staff and Operations	0.2	0.2	0	0.2	0
Shelter and Non-Food Items	18.1	50.0	30.8	19.5	0
Water and Sanitation	6.2	5.0	2.1	2.9	0
<b>Grand Total</b>	<b>59.6</b>	<b>115.7</b>	<b>72.2</b>	<b>43.4</b>	<b>0</b>

### Annex 3: Recovery of the Georgian Economy

#### Amounts Identified for end-March 2009 to end-March 2010

	US\$ (million)	
SECTOR		Donor Organization & Allocated Amount
1.2. Internally Displaced Persons	65.9	EC 65.9 (Eur 50.7 mln)
2. Core Recovery of the Georgian Economy	1174.1	
Infrastructure- Transport - Road	508	1. World Bank – 210 2. ADB – 118 3. JICA - 180 4. EBRD - EIB - TBD
Infrastructure- Energy	279	1. EBRD-EIB--KfW 279 (EUR220 mln)
Urban and Municipal	38.1	1. ADB – 30 2.EBRD – 8.1
Environment		
Agriculture & Livelihood		
Social Sector		
Private and Financial Sector		
Other	349	1. US 349
3. General Budget	230.8	1. World Bank – 85 2. ADB - 80 3. EC 61 mln (EUR 46) 4. Dutch – 3 5. EC - Food Security Program - 2
<b>TOTAL</b>	<b>1470.8</b>	
4. Banking and Private Sector	530	1. EBRD – 350 2. IFC 180 3. OPIC - TBD 4. FMO - TBD
<b>TOTAL</b>	<b>2000.8</b>	

## **Annex 4: The Return, Relocation and Resettlement of IDPs**

### **Developments in the immediate period**

The overarching priorities under this sector were: supporting a housing response strategy that combined temporary shelter (pending solutions) and durable housing; providing IDPs with information on various prospects available while promoting clear selection criteria and assistance as an integral part of a resettlement process; and ensuring IDP protection and human rights. The main impact of activities undertaken by UNHCR, UN-Habitat, OHCHR and IOM, together with their implementing partners, was the provision of durable housing options for IDPs based on agreed standards; respect to and application of IDP Guiding Principles throughout the process; and supporting social integration through the type of activities implemented; and targeting people with specific needs for humanitarian assistance. Under the first stage of the response (until March 2009), damaged homes of returnees were targeted for repair, existing buildings / accommodations being used as collective centers were identified for rehabilitation or winterization, and new housing units were constructed and purchased. During subsequent stages (April 2009 until September 2011, and beyond) efforts will be focused on finalizing durable housing solutions for displaced people together with their resettlement.

Of the 137,000 people displaced by the August conflict (so called 'new' IDPs) an estimated 106,000 have returned to the Shida Kartli region and have received assistance in the rehabilitation of damaged and destroyed houses, in the restoration of food security and livelihoods and in household items. (See Box 1 for an illustration of support for livelihoods.) About 18,000 IDPs originating from South Ossetia, Akhalkalaki and Abkhazia have been resettled in 38 newly built settlements in Shida Kartli, Kvemo Kartli and Mtskheta-Mtianeti regions, benefitting from government-led and sponsored housing projects. A further 4700 IDP families opted for monetary compensation in lieu of durable housing provision. An estimated 8,000 people remain displaced country-wide and are still in need of durable housing solutions; the majority of them live in Tbilisi. Additional housing construction to address these needs is taking place. These groups are still heavily dependent on government and international aid for food and basic nutrition needs.

In a striking development, the new settlements for IDPs were constructed by the government in a rapid time frame of less than four months, with a total of 5600 housing units being built and the settlements supplied with electricity and water. IDPs were relocated in a well organized process and appear to be generally satisfied with the allocation of settlement and houses across and within communities. Distributions of start-up household goods and a one-off cash assistance were provided.

Since IDPs have been living in the housing units some concerns have emerged over the quality of the housing construction, likely due to the rapid time frame in which works took place, and remedial work over the coming months will be required. The quality of the houses and conditions for their inhabitants could be further improved by the prevention of rainwater infiltration. The new settlements are in need of further investment in complementary infrastructure with water and sanitation facilities a priority for further work; the upgrading of the public taps, increase of water availability, waste water drainage and disposal, bath facilities, solid waste disposal, and improvement of the pit latrines are in particular need of attention.

Although IDPs in the new settlements have been integrated into local or nearby education and health services, a review is currently underway to determine whether the provision is adequate or if expansion may be required. In March, the government initiated a process of distributing land plots

to the IDPs in the new settlements, the distribution include the land title with full ownership rights. Seeds and agricultural implements have been distributed and families have started cultivation of their land plots and of the garden plots around their houses with fruit trees, vegetables and vines, although plot fencing and storage facilities are needed to improve the usage of these garden plots. Some cash for work programs are proposed, but broadening the economic opportunities of the IDPs is in severe need of attention.

The IDPs in new settlements as well as the ones remaining in collective centers and private sector have been receiving basic food rations to avoid deterioration of their food security by WFP and implementing partners working closely with local authorities. During the winter months a cash transfers system was put in place to allow the IDPs access to complementary foods, each IDP household was provided with a bank card and an amount of cash was provided to ensure diet diversity. UNICEF and UNHCR provided cash in the same scheme with the aim to have adequate baby feed and winter clothes. The basic and cash support has allowed the people to reestablish themselves in the new settlements as well as start the process of thinking about future livelihoods for sustainable food security. A number of projects started in March 2009 to support the recovery process, fencing of kitchen gardens, building barriers to avoid soil degradation, wind belts and wells which will contribute to resettlement and sustainability of the agricultural livelihoods in the settlements. Those projects have been implemented through cash for work ensuring income transfer to IDP through the public works activities.

The government has developed a large scale strategy and action plan for the provision of durable housing for the 'old' case load of IDPs, i.e., those long term displaced since the early 1990s. In December 2008, the Government amended its National Strategy on Internally Displaced Persons (2007) combining the two IDP caseloads and beginning to focus on the provision of durable housing for IDPs in protracted displacement, i.e. since early 1990s. This plan involves the rehabilitation of existing collective centers, the transfer of the residential units in collective centers into the private ownership of the IDPs, the allocation of additional housing where required (from the conversion of public buildings and the construction of more housing units).

From 2009 the authorities will implement resettlement and livelihood programs for the older case of IDPs dating from the early 1990s. A new wave of assistance focused on IDPs is currently emerging as development actors including the government, UN agencies and NGOs move away from emergency programs to durable solutions for displacement. This plan involves the rehabilitation of existing collective centers, the transfer of the residential units in collective centers into the private ownership of the IDPs, the allocation of additional housing where required (from the conversion of public buildings and the construction of more housing units). The priorities for this next phase of projects and programs:

- **Coordination.** Coordination of these planned initiatives is critical and urgently needed. In principle, the focus and leadership for this coordination should be the Ministry of Refugees and Accommodation (MRA). In practice MRA will need support from the donor community to carry this out. In March, the MRA initiated the Steering Group on IDPs and increasingly development initiatives for IDPs are being organized and addressed through this mechanism although further strengthening of and commitment to this system is required to prevent parallel and investments that duplicate and do not complement each other.
- **Livelihoods.** There is a danger that the Governments response to IDPs is focused too heavily on housing provision and not enough on supporting the social and economic integration of IDPs and in particular lacks a comprehensive strategy to support their livelihoods. Resources are required for reestablishment of livelihoods and avoidance of dependency by ensuring ownership



of agricultural assets provided by the authorities. To conclude the integration process of newly displaced IDPs in Shida Kartli helping them to turn their newly built houses into real homes, their new settlements into functioning communities, and to forge links once more with the communities around them, it is vital to encourage not only means by which IDPs can once more financially support themselves and their families (and thus maintain the upkeep of their new accommodation), but also to encourage community mobilization activities for them and the host communities.

- ***Return, relocation and resettlement.*** The three-pronged strategy originally identified is still valid, i.e. strengthen national capacity to address protection and integration needs of IDPs; facilitate self-reliance among IDPs including supplementing government activities; and assist the most vulnerable IDPs where their basic needs are not met by national mechanisms or by other stakeholders.

## **2009 and beyond**

In 2009, UNHCR will target up to 3,600 IDPs with a chance to integrate with international assistance, focusing on their needs of housing and self-reliance with a view to integrating them into mainstream society. The methodology involves activities incorporated into an integrated package of assistance including obtaining full ownership of and responsibility for their property and to support economic self reliance activities.

This Shelter Plus approach means that an IDP household receives not only a renovated or newly built housing unit but also encouragement and support in kick-starting its livelihood activities. It also includes the crucial need to design and implement community driven activities benefiting IDPs and host communities alike that encourage sustainable integration, as well as meeting the paucity of infrastructure in many new settlements (e.g. washing facilities, community centers, etc.).

Up to 10,000 particularly vulnerable IDPs will also benefit from tailor-made assistance and care schemes specific to their pressing needs to alleviate their suffering in the short term, reduce their vulnerability, and help them live in safety and dignity. Exercises aiming at national ownership of assistance and support schemes, as envisaged in the Joint Needs Assessment in the longer term, will particularly benefit vulnerable members of the society.

Interventions at policy level or by means of supplementary activities, namely national capacity building for implementation of the IDP Action Plan and legal counseling as well as those targeting gender-based violence or environmental impacts of displacement, will not only benefit the wider returnee population in general but also host communities.

- ***Poverty Safety Nets.*** Returnees and relocated IDPs need to be urgently incorporated into targeted social transfer systems, to strengthen their coping mechanisms for increased poverty.
- ***Information and Access to Legal Assistance.*** Continued effort is required to keep IDPs aware about the decisions being made on their behalf, and to empower them to make informed choices. The process, paper work and legalities of the property transfer benefit from simplification and legal support for IDPs to be aware of their property rights.

## Conclusions

Three main results from the humanitarian response during this period were that notwithstanding the crowded conditions, there were no reports of epidemic diseases due to inadequate or non-existent hygiene facilities, no outbreaks of flu or respiratory illnesses due to cold, and no observed deterioration in nutritional status of the displaced; engagement by the government increased as a result of rapid and effective humanitarian interventions and strong coordination efforts – and the government took the initiative to provide durable housing for IDPs unable to return to their homes; participation by IDPs and civil society groups has increased through project implementation and formation of partnerships. There was also respect to and application of the IDP Guiding Principles throughout the process.

Coordination and cooperation with the government took place at a time when the Government was adjusting to the new circumstances and accommodating to new challenges of displacement. Insufficient communication by the government vis-à-vis their own interventions often resulted unintentionally in the humanitarian community providing protection and assistance in a piecemeal fashion without proper planning e.g. essential infrastructure and livelihoods concerns. Other issues included limited involvement of the IDPs in the process, room for greater transparency in decision making, inadequate assessments of the social impact of resettlement / reintegration, and complications resulting from incomplete profiling of the beneficiaries.

It would be desirable to improve the information being provided to beneficiaries, e.g., on how they would benefit and / or be selected. What information they received was more through ‘word of mouth’ and bi-lateral contacts between them and government officials, rather than through a well structured public awareness raising campaign. Moreover, the 38 settlements encompass a range of different types of infrastructure and locations, with some built near Tbilisi or other well established cities and others in remote areas; some communities have gas, water and electricity supplies with indoor toilets and kitchen, while others have poorly built outdoor latrines (and this may cause health risks). Consequently some IDPs are more satisfied with their housing than others and, as time passes the inhabitants of the hastily constructed houses (which they now own and are now responsible for the upkeep) are discovering defects connected with building quickly and in the middle of winter (damp and mold, distorting timber, sewage problems, etc.) and remedial work will be required over the coming months. Also, the quality of the houses and conditions for the residents could be further improved by the preventing rainwater infiltration. Overall the Government’s proactive response to meet shelter needs is commendable.