

# **Aid to Georgia: Transparency, Accountability and the JNA**

## **Overview**

This report by Transparency International Georgia provides an overview and comment on the 3.25 billion dollar Joint Needs Assessment (JNA) for Georgia. The draft JNA was compiled by a joint assessment mission of the World Bank, European Commission and United Nations that visited Georgia during two weeks in September 2008.

The JNA examines the impact of the August 2008 war, assesses resulting needs, and presents a plan for recovery priced at 3.25 billion dollars in external donor support over the coming three years. While the JNA also considers humanitarian needs, its overall scope is much broader, with a strong focus on ensuring macroeconomic stability.

The JNA formed the basis for the international donor conference on Georgia held in Brussels on 22 October 2008, at which donors pledged 4.55 billion dollars in support – over a billion dollars more than requested. Donors habitually pledge more aid than they eventually provide. Therefore, this 4.55 billion pledge is unlikely to be actualized in full, particularly in the context of the ongoing global financial crisis.

To date, only an abridged and strongly edited version of the JNA has been made public. This report is based on the full version, which TI Georgia has obtained through unofficial channels.

## **Impact of the August war**

While the actual physical damage caused by the war is very limited, the economic fallout is considerable. After years of double-digit growth, the Georgian economy is expected to contract during the second half of 2008 and the first quarter of 2009. According to JNA estimates that assume full donor funding and appear overly optimistic, growth will resume thereafter, with total growth in 2009 projected at 4% (compared to pre-war estimates of 8-9%). Even according to these optimistic calculations, GNI per capita by 2011 will be \$660 short of pre-crisis projections.

Before the war, growth was driven chiefly by foreign direct investment and expanding bank credit. Since the war, foreign direct investment has plummeted. Banks suffered a severe liquidity crunch, and while a total collapse of the banking system seems to have been staved off with the help of massive external intervention, credit provision is still far below pre-war levels. Construction, real estate, retail and tourism – all key sectors in the pre-war boom – have been particularly hard hit.

According to the JNA, “the deceleration of the economy will inevitably lead to an increase in poverty and unemployment.” Up to 100,000 Georgians are expected to lose

their jobs in the near future. (This figure was edited out of the JNA version released to the public.) Between now and 2010, poverty levels are projected to rise from 23.6% to 25.9%, and those already poor may slide even deeper into poverty.

As the economy takes a nosedive, the government will be able to collect less revenue, constraining its ability to spend and invest just as rising social needs place greater demands on the treasury. Therefore, Georgia faces a huge budget shortfall, with the danger of public spending being slashed just as private sector investments dry up.

Heightened social needs include the up to 30,000 people who have become long term displaced as a result of the war. A further 34,000 internally displaced persons (IDPs) will only be able to return to their homes next spring.

### **The JNA rescue plan**

The JNA strategy for Georgia's recovery entails a radical change in economic policy. Before the war, both donors and the government were committed to a neo-liberal model where growth was driven by the private sector, facilitated by a pro-business, low-tax, non-interventionist state. Following this model, Georgia enjoyed strong economic growth in 2004-2008, but at the same time, poverty levels remained unchanged and employment actually contracted.<sup>1</sup>

With the war, it seems that the rallying cry turned from "Leave it to the market!" to "Help, the market is leaving!" The JNA predicts that the sharp knock to business confidence will lead to a precipitous decline in private sector investment, bank lending, and private consumption. The JNA optimistically assumes that confidence will take only two years to recover.

Until then, the state will take over as the engine of growth in Georgia through a counter-cyclical fiscal policy financed through substantial donor support, increased borrowing, and cuts in the defense and ministry of interior budgets. Despite an overall cut in state expenditure, direct budget support by donors will enable the government to increase social support spending and implement significant infrastructure projects to pump money into the economy and create employment.

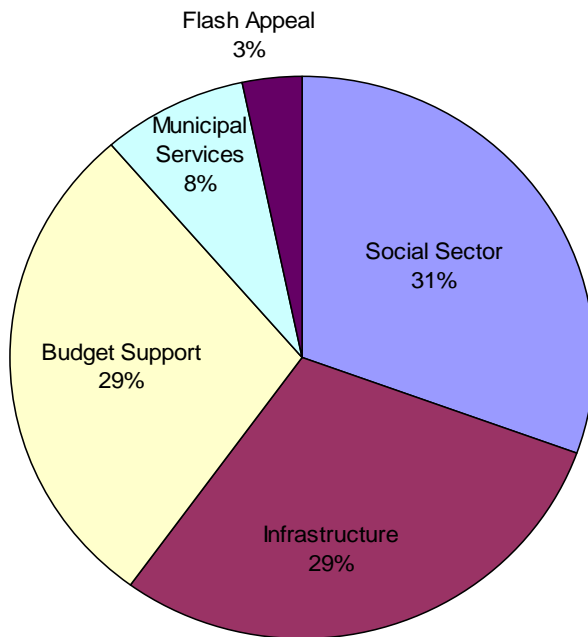
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<sup>1</sup> The JNA notes that while the Georgian economy has grown strongly since 2003, employment has actually declined, mainly due to "economic restructuring". UNDP's 2008 Human Development Report for Georgia states that "While there is no consensus about the absolute level of poverty in Georgia, there seems to be a general agreement that there has been little change in either poverty or extreme poverty over the last four years." See Chapter 3 of the Human Development Report for an in-depth discussion.

## Where will the money go?

The JNA envisages the allocation of 3.25 billion dollars to Georgia. Nearly one billion dollars each are requested for direct budget support, social sector needs and infrastructure.

**Chart 1. Headline items in the JNA (in percent)**



**Table 1. Headline items in the JNA (in millions of dollars)**

Item	Cost
Social Sector	996
Infrastructure	958
Budget Support	930
Municipal Services	257
Flash Appeal	109
Environment	7
<b>TOTAL</b>	<b>3,257</b>

The JNA also calls for an additional 700 million dollars in financial sector funding in provision of liquidity or guarantees, which will eventually be repaid. (This comes on top of the IMF's standby agreement from 15 September 2008, which made 250 million dollars available immediately, with another 500 million to be released over an 18 month period.) This financial sector funding is not included in the final sum of 3.25 billion.

## Social Sector Support

At 996 million dollars, social sector support is the largest headline item in the JNA. Most of this money will be spent on resettling IDPs, followed by a health insurance program for the poor.

**Table 2. Key social sector items (in millions of dollars)**

Item	Cost
IDP Resettlement	576
Health Insurance Scheme	168
Food Security and Irrigation	80
Education	53
Targeted Social Assistance for the newly poor	50
other	69
<b>TOTAL</b>	<b>996</b>

The most dramatic revelation in the JNA is that the government now plans to permanently resettle all internally displaced persons (IDPs) in Georgia, including those displaced in the early 1990s, at a total cost of 796 million dollars (see box). It is a sad comment on the quality of the Georgian media and on the opposition that neither group seems to have taken much notice of this radical departure from pre-war policy, despite the fact that it is plainly stated in the public version of the JNA, involves large sums of money, and will directly affect eight percent of the Georgian population.

A total of 168 million dollars are requested for expanding the government's existing medical assistance programme for the poor to include an additional 130,000 new beneficiaries, and to increase the insurance premium. The new beneficiaries will include those impoverished directly by the conflict, such as new IDPs, and those "expected to become poor" as a result of the economic downturn.

### **BOX: Resettling all IDPs**

The JNA envisions the durable resettlement of all internally displaced persons (IDPs) in Georgia, at a total cost of 796 million dollars. Settling IDPs from the recent war will cost 303 million, while the bill for settling those displaced in 1992-1993 is calculated at 493 million. These figures include items such as furniture and supporting services.

Resettlement will begin with those recently displaced, all of whom should have permanent housing by March 2009. By 2011, all IDPs should be living in permanent homes.

The JNA states that “a menu of options will be offered to the displaced including: one time cash and utility-payment vouchers for resettling IDP families; conversion of public buildings; and construction of individual rural and urban houses”. Supporting measures include “arrangements to fully consult with IDP beneficiaries and to give them complete information on their relocation and resettlement possibilities”.

The annex to the JNA affirms that IDPs should have “maximum freedom of choice in the housing and shelter arrangements”. Somewhat ominously, a footnote to this very sentence states that “this includes actions to ensure that transparent and fair selection criteria are used to determine which IDPs will relocate and resettle where”. It remains to be seen whether IDPs really will be given a choice, or whether government officials and consultants will choose for them.

Table X. Funding timeline for resettling IDPs (costs in millions of dollars)

Timeframe	Cost	Comments
until March 2009	169	<i>only for new IDPs</i>
March 2009 to March 2010	268	<i>split evenly between old and new IDPs</i>
March 2010 to September 2011	359	<i>only for old IDPs</i>
<b>TOTAL</b>	<b>796</b>	

Out of the total cost of 796 million dollars, 220 million has already been included in the budget, or been tagged as budget support. (This sum presumably includes the cost of the new IDP settlements currently being built by the government.) Therefore, the JNA only requests an additional 576 million for resettlement.

## Infrastructure

With total funding needs of 958 million dollars, infrastructure is the second biggest headline item in the JNA. Approximately 90% of this sum will be spent on roads and natural gas storage.

**Table 3. Key infrastructure items (in millions of dollars)**

Item	Cost
Main Road Network	592
Secondary Network of Roads	93
Natural Gas Storage	177
Tbilisi Airport Runway Repairs	30
Senaki Power Line Rehabilitation	28
other	38
<b>TOTAL</b>	<b>958</b>

Work on the main road network alone will cost more than the resettlement of all IDPs. The sum of 592 million requested in the JNA does not include amounts already budgeted for this purpose; the total cost is estimated at 969 million dollars – roughly two hundred dollars for every inhabitant of Georgia. A total of 1,763 kilometres of roads connecting Tbilisi with key ports and border crossings (excluding Ninotsminda and Zugdidi) are defined as main roads. Within five years, a four-lane highway could stretch from Tbilisi to the Rikoti tunnel that links eastern and western Georgia.

Secondary roads include the routes Batumi-Akhaltzikhe, Kutaisi-Abastumani, and Bakuriani-Akhalkalaki. The JNA estimates that a hundred million dollars' worth of secondary and local roads rehabilitation would create 3,000 jobs for one year.

Future road maintenance may be financed through highway tolls.

Underground natural gas storage is intended to ensure an uninterrupted supply of power throughout the winter even if gas supplies from abroad are temporarily cut off.

## **Direct Budget Support**

Citing Georgia's "high standards of governance", the JNA recommends that donors give nearly one billion dollars directly to the government to fill the gap between revenue shortfalls and the increased need for social expenditures and counter-cyclical infrastructure projects.

The economic downturn will directly affect government revenue. According to the JNA, the government will collect 385 million dollars less than originally expected in 2008; the shortfall for 2009 is 640 million dollars. Income from privatization will also decline. Without outside intervention, the government would either have to cut spending by over a billion dollars, or plunge into debt, or do both.

At the same time, war damage, displacement, unemployment and rising poverty have increased the needs for state assistance. Recall that extending medical coverage to those newly impoverished by war and recession alone will cost tens of millions of dollars.

On top of that, the government's planned anti-cyclical budget stance creates additional costs. As private sector investment plummets, the government wants to try to pick up the slack to cushion the blow of the inevitable recession by becoming a leading investor in the economy itself, notably in road construction and the energy sector.

Without donor support, the government would be forced to dramatically cut spending at the very moment it is needed most, thus deepening and prolonging the coming recession and its impact on the poor. In order to prevent this from happening, The JNA asks donors to pay a total of 930 million dollars directly into the Georgian government's budget – 480 million dollars in 2008, and another 450 million in 2009.

If donors pay the near-billion – which seems likely – the government will still have around half a billion dollars less to spend than originally planned in 2009. Currently, it appears as if the major cuts will be made in defense and in the ministry of interior's budget.<sup>1</sup>

The JNA was drawn up in a hurry in an extremely fluid situation, so the figures it provides are far from reliable. In fact, the numbers cited in the text of the JNA and those listed in tables often do not match up. Considering that JNA macroeconomic data is based on figures presented to the IMF in September, and that the global financial crisis has been deepening over the past weeks and is only now spreading to emerging markets, the budgetary crisis is almost certain to be worse than the already dark picture painted by the JNA.

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<sup>1</sup> For a summary of the 2009 draft budget presented on October 9, see here:

<http://www.civil.ge/eng/article.php?id=19722&search=budget>

Draft budget expenditure was set at 4.9 billion lari (3.5 billion dollars). Note that this draft budget was developed before the donor conference on October 22, and will be subject to significant changes.

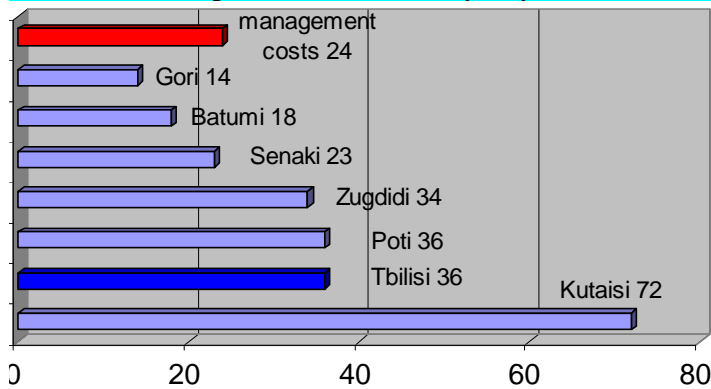
One thing appears certain: pensions are not going to be raised significantly for years to come.



## Municipal Services

The funding needs of municipal services are 257 million dollars, according to the JNA. Items listed in the JNA include water supply, wastewater, urban roads, public transport, and repairing public buildings damaged in the war. Kutaisi will be the main beneficiary, with 72 million for urban transport, water projects and improved utilities.

**Chart 2. Municipal services items by city (in millions of dollars)**



Virtually all of this work is scheduled for 2009 and after. Citing positive donor experiences with working with the government's Municipal Development Funds in the past, the JNA recommends that the various individual projects should be financed through this funding facility.

## The Flash Appeal

The revised Flash Appeal, released in early October, includes projects worth 109 million dollars. It is essentially a bundle of 105 different humanitarian project proposals by NGOs (54 projects), the UN (42 projects), and IOM (nine projects) in search of donor funding.

Out of the 54 NGO projects included in the Flash Appeal, only a single one – a tiny 70,000 dollar project by Abkhazintercont – is presented by a local NGO. At the same time, the appeal includes many big-ticket projects by international NGOs that have only (re-)entered Georgia since the August war.

Nearly fifty million dollars' worth of projects in the Flash Appeal address shelter and non-food needs of IDPs. Food security, a category that includes food aid and support for agriculture, encompasses projects worth over 35 million dollars.

**Table 4. Flash Appeal projects by category (in millions of dollars)**

<b>Category</b>	<b>Cost</b>
Shelter and Non-Food Items	47
Food Security	35
Protection	10
Livelihoods	6
Water, Sanitation & Hygiene	5
Health	3
other	2
<b>TOTAL</b>	<b>109</b>

*Note: Categories do not add up to 109 due to rounding.*

The Flash Appeal was developed in coordination with the JNA but is more short-term, running only until the end of March 2009. In contrast to the JNA, it is a public document that is freely accessible online.

## **The Paris Declaration on Aid Effectiveness and the JNA**

The JNA cites the Paris Declaration on Aid Effectiveness as stating that aid should be “predictable, harmonized, aligned with national priorities and use the country’s own institutions and systems.” The Paris Declaration was adopted in 2005 by representatives of the United States, Canada, major European donor countries, and a host of multilateral agencies including the World Bank and IMF,

What the JNA fails to mention is that the Paris Declaration also calls for aid to be given in a manner that is inclusive, accountable and transparent.

- **inclusiveness**

The Paris Declaration calls for the inclusion of a broad range of development partners when formulating development strategies (article 48). The JNA recognizes that “the greater participation of all strands of political opinion in the country in the implementation of the recovery and growth strategy would add to the prospects of success”.

Meanwhile, the closed-door process in which the JNA was drawn up, the release of a heavily edited “summary” only on the day of the donor conference, and the exclusion of independent observers and the media from the donor conference itself mean that wider Georgian constituencies were - and still are - completely frozen out of aid-related issues. Even today, the only JNA version publicly available is a 46 page “summary” less than a quarter of the length of the original document. The “summary” contains heavily edited paragraphs and omits key figures (such as unemployment projections) and sections (such as the annex on “economic, social and poverty impact”), whose exclusion from the public domain is irreconcilable with the concept of liberal democracy.

The JNA was drawn up and revised in a manner that completely excluded Georgian parliament, political parties, think tanks, advocacy groups and the media from the formulation of development strategies for Georgia. The continued secrecy of the JNA prevents parliament and civic groups from effectively participating in debates on how aid should be allocated, implemented and monitored.

- **accountability**

The Paris Declaration calls for making aid more accountable to the citizens and parliaments of both donor and recipient countries. (article 3)

In reality, Georgian participation in developing the JNA was limited to a handful of senior government figures. Despite the importance of the document for Georgia’s future, the JNA was never submitted to parliament for debate or approval, weakening the democratic accountability of future aid flows and directly undermining parliament’s oversight function. As the JNA remains secret, the resulting aid flows lack accountability to the citizens and parliaments of Georgia and of donor nations alike.

The key Georgian player involved in reviewing and revising the JNA was the then prime minister, Lado Gurgelidze. Less than a week after the donor conference, Gurgelidze left office, meaning that local ownership of the JNA now is limited even within the government itself.

- **transparency**

The Paris Declaration calls on donors to make aid more transparent. (article 49) In contrast, the monitoring and evaluation system proposed in the JNA focuses almost exclusively on interactions between donor agencies and the Georgian government. In order to monitor, track and assess the impact of 3.25 billion dollars in aid, the JNA allocates just one million dollars, or 0.03% of the total sum requested.

The JNA proposes that impact assessment should be “carried out by a local research institute, a consulting firm, and/or the central statistics office under the guidance of the Office of the Prime Minister”. Aid is to be monitored through quarterly reviews between line ministries and donors, with the Office of the Prime Minister taking the lead. In addition, larger review meetings with the participation of donor headquarters’ are planned after six, twelve and eighteen months to report on progress and impact, and to identify problems. There is no suggestion that these meetings will be open to members of the opposition, civic groups or the media, or that the Georgian government will be compelled to report on aid implementation to parliament or to the wider public.

Monitoring and evaluation done behind closed doors by parties with vested interests in issuing positive findings seems unlikely ensure that aid is transparently or effectively used. Alternative reviews by parliament, the political opposition or Georgian civic groups and think tanks are not considered in the JNA.

The JNA does not contain any freedom of information provisions compelling donors, governmental bodies, private contractors or non-governmental grant recipients to open their books to public scrutiny. While aid channeled through the state budget will be subject to Georgian legislation (in particular the Administrative Code) that details rights of access to information, aid funneled through other channels may remain insulated from such accountability safeguards.

## The European Neighbourhood Policy and the JNA

The Georgian government made a broad range of commitments on political, economic and institutional reforms in its 2005 European Neighbourhood Policy action plan. The JNA has direct bearing on some of these commitments, with mixed results.

In the table below, green (+) boxes mark progress on European Neighbourhood Policy commitments, red (-) boxes flag backsliding, and the yellow box (o) indicates mixed results.

Table 5. European Neighbourhood Policy commitments and the JNA

PRIORITY AREAS		
<b>Area 3: Emphasize poverty reduction</b>	<b>O</b>	The JNA is based on a World Bank model strongly centered on GDP growth that did not reduce poverty in 2004-2008. However, the JNA includes big social spending increases.
<b>Area 4: Offer integration opportunities to IDPs</b>	<b>+</b>	The JNA represents a huge step forward in this regard. All IDPs are to be fully integrated by 2011.
GENERAL OBJECTIVES		
<b>4.1.1. Strengthening Georgian parliament, especially its oversight role</b>	<b>-</b>	Parliament has been systematically frozen out of the JNA process. Long-term budgetary plans have been made without any parliamentary oversight.
<b>4.1.1. Strengthen the role of political parties</b>	<b>-</b>	Opposition parties have been systematically frozen out of the JNA process, with no meaningful role for them.
<b>4.4. Integration of eco-considerations into other policy sectors</b>	<b>-</b>	Eco-mainstreaming has not occurred. The USD 958m for infrastructure will strongly promote fossil fuel consumption, chiefly through road construction.
<b>4.6.2. Enhancing the use of renewable energy</b>	<b>-</b>	The USD 223m for energy contain no funds for renewable energy. Infrastructure projects will increase road traffic.

As the JNA was overwhelmingly driven by donors, with the European Commission (together with the World Bank and United Nations) in a leading role, the chief responsibility for Georgia's backsliding on some European Neighbourhood Policy action plan commitments should be sought with the European Commission itself.

## **Key Documents and Websites**

### **Public JNA “Summary”**

<http://www.reliefweb.int/rw/RWB.NSF/db900SID/MUMA-7KP5DR?OpenDocument>

### **Georgia Flash Appeal (October 2008)**

<http://ochaonline.un.org/cap2005/webpage.asp?Page=1701>

### **Paris Declaration on Aid Effectiveness**

[http://www.gc21.de/ibt/alumni/ibt/docs/Paris\\_Declaration\\_en.pdf](http://www.gc21.de/ibt/alumni/ibt/docs/Paris_Declaration_en.pdf)

### **Georgia Human Development Report 2008**

[http://www.undp.org.ge/new/index.php?lang\\_id=ENG&sec\\_id=24&info\\_id=278](http://www.undp.org.ge/new/index.php?lang_id=ENG&sec_id=24&info_id=278)

### **Reliefweb country page for Georgia**

<http://www.reliefweb.int/rw/dbc.nsf/doc104?OpenForm&rc=3&cc=geo>

### **Reliefweb Donor Funding for Georgia**

<http://www.reliefweb.int/rw/fts.nsf/doc105?OpenForm&rc=3&cc=geo>

### **Transparency International Georgia**

<http://www.transparency.ge/>

### **TI Georgia press release on the Donor Conference (October 2008)**

[http://www.transparency.ge/index.php?lang\\_id=ENG&sec\\_id=50600&info\\_id=437](http://www.transparency.ge/index.php?lang_id=ENG&sec_id=50600&info_id=437)

### **TI Georgia press release on Bush’s Billion Dollar Aid Pledge (September 2008)**

[http://www.transparency.ge/index.php?lang\\_id=ENG&sec\\_id=210&info\\_id=435](http://www.transparency.ge/index.php?lang_id=ENG&sec_id=210&info_id=435)

### **World Bank Georgia**

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/GEORGIAEXTN/0,,menuPK:301751~pagePK:141159~piPK:141110~theSitePK:301746,00.html>

World Bank has stated that it eventually plans to release the full text of the JNA. To request a copy of the full JNA, contact its Tbilisi office on +995 (32) 91-30-96