

CHAPTER IV. THE PRIORITY RECOVERY AND INVESTMENT PROGRAM

72. This chapter outlines the priorities that emerge from the overall recovery strategy (described in the preceding chapter) organized by the major themes – economics, banking, social needs – as well as the major sectors for investment.

ECONOMIC AND BANKING PRIORITIES

Economic Management and the Budget

73. Chapter II presented an assessment of the immediate impact on the economy and the budget of the conflict. Looking beyond 2008, the impact of the shocks on the economy would depend on the policy response and the extent of support received from the international community (Table 4). The important policy priorities lie in maintaining a counter-cyclical budgetary stance (aided by donor budget support), outlays for essential social needs, carefully managing the risks to the financial sector, and continuing infrastructure development.

74. Fiscal adjustments in 2008 have been presented to Parliament in the form of a supplementary budget and further adjustments in 2009 and beyond will be necessary. Revenue shortfalls compared to pre-crisis projections are \$385 million for 2008 and \$640 million for 2009. Additional shortfalls are expected in privatization receipts. Reductions in total expenditures of about \$120 million in 2008 and \$570 million in 2009 are planned; these figures include rises in certain categories of spending (such as shelter and support for displaced populations).

75. These estimated expenditure levels include additional expenditures associated with IDPs, infrastructure reconstruction, social protection, health, and education, so that expenditure savings would still have to be identified from other areas (Table 5). The additional expenditure needs amount to \$328 million in 2008 and \$390 million in 2009. As a result of these additional expenditure needs, Georgia will have to identify expenditure cuts in other areas amounting to \$450 million in 2008 and \$930 million in 2009. The draft 2009 budget provides for substantial cuts in defense and ministry of interior expenditures and rises in justice, education, health and labor spending.

Table 4: Medium Term Economic Impact

	2007	2008	2009	2010	2011
PRE-CRISIS SCENARIO					
GDP Growth Rate	12.4	9.0	8.0	7.0	7.0
Inflation (eop)	11.0	10.0	9.0	8.0	8.0
GNI per capita	1,990	2,510	3,160	3,770	4,270
Foreign Direct Investment (% GDP)	15.2	15.0	12.0	10.0	8.9
Foreign Direct Investment (M US\$)	1,535	2,081	1,845	1,775	1,825
Current Account Balance (% GDP)	-20.0	-16.6	-14.0	-12.5	-11.6
Consolidated Public Revenues (% GDP)	29.2	28.5	26.9	26.4	26.4
Consolidated Public Revenues (M US\$)	2,954	3,944	4,111	4,642	5,344
Consolidated Public Expenditures (% GDP)	34.0	32.4	29.9	28.5	27.5
Consolidated Public Expenditures (M US\$)	3,433	4,494	4,566	5,001	5,548
Overall Fiscal Balance (% GDP)	-4.7	-4.0	-3.0	-2.0	-1.0
Budgetary Financing Needs (M US\$)	-46	64	272	149	-39
POST-CRISIS BASELINE SCENARIO					
GDP Growth Rate	12.4	3.5	4.0	6.0	6.0
Inflation (eop)	11.0	8.0	8.0	6.0	6.0
GNI per capita	1,990	2,370	2,830	3,280	3,610
Foreign Direct Investment (% GDP)	15.2	9.3	8.6	9.2	9.2
Foreign Direct Investment (M US\$)	1,535	1,201	1,169	1,398	1,564
Current Account Balance	-20.0	-20.8	-18.7	-15.9	-14.2
Consolidated Public Revenues (% GDP)	29.2	27.7	26.0	25.5	25.1
Consolidated Public Revenues (M US\$)	2,954	3,575	3,529	3,871	4,258
Consolidated Public Expenditures (% GDP)	34.0	33.9	29.8	27.0	25.7
Consolidated Public Expenditures (M US\$)	3,433	4,379	4,051	4,104	4,368
Overall Fiscal Balance (% GDP)	-4.7	-6.2	-3.8	-1.5	-0.6
Budgetary Financing Needs (M US\$)	-46	481	453		25

Source: JNA staff calculations.

Table 5: Impact on Public Finances and Public Expenditure Needs

	2007	2008	2009	2010	2011
Consolidated Public Revenues (% GDP)	29.2	27.7	26.0	25.5	25.1
Consolidated Public Revenues (Mn US\$)	2,954	3,575	3,529	3,871	4,258
Revenue Shortfall (Mn US\$)	..	-369	-582	-771	-1,086
Consolidated Public Expenditures (% GDP)	34.0	33.9	29.8	27.0	25.7
Consolidated Public Expenditures (Mn US\$)	3,433	4,379	4,051	4,104	4,368
Net Expenditure Cuts vs Pre-Crisis (Mn US\$)	..	-114	-515	-897	-1,180
<i>Increased Expenditure Needs</i>	..	316	350	154	108
Rehabilitation of IDPs	..	106	141	51	19
Social Protection & Health	..	24	67	38	38
Education	..	14	26	13	13
Reconstruction of Damaged Infrastructure	..	172	116	51	38
<i>Other Expenditure Cuts vs Pre-Crisis</i>	..	-430	-866	-1,050	-1,289
Overall Fiscal Balance (% GDP)	-4.7	-6.2	-3.8	-1.5	-0.6
Overall Fiscal Balance (Mn US\$)	-479	-804	-521	-233	-110
Budgetary Financing Needs (Mn US\$)	-46	481	453		25
Additional Public Investment Needs (Mn US\$)	..	309	656	761	710
Additional Public Investment Needs (Mn US\$)	..	309	656	761	710
Transport	..	117	244	301	306
Energy	..	55	135	147	115
Urban and Municipal	..	34	84	90	76
Agriculture & Environment	..	31	55	61	48
Education	..	24	48	54	51
Social Protection & Health	..	48	90	109	115

Source: JNA staff calculations.

76. Georgia will also require financing for important public investment needs to sustain its growth prospects, on the order of \$310 million in 2008 and \$650 million in 2009 and staying at the \$0.8 billion range over 2010 and 2011. These figures are consistent with the donor financing requirement in the infrastructure and social sectors totaling around \$2¼ billion in commitments over the next three years. They are critical for Georgia to reduce the risks of a deeper and more protracted economic downturn and to lay the foundation for sustained economic recovery, growth, and poverty reduction in 2010 and beyond.

Under the scenario outlined above, investor and consumer confidence will begin to recover in the course of 2009; even so, FDI is projected to amount to well below pre-conflict levels. The financing gap in the budget that emerges shows that budget support required amounts to \$480 million in 2008 and \$450 million in 2009.

The Banking Sector

77. The banking sector has weathered the immediate impact of the conflict, but near-term post-conflict challenges remain. Key banks face external obligations falling due in early 2009. In the immediate aftermath of the crisis, the economy experienced an increase in the demand for dollars and withdrawal of deposits from the banking system as noted in Chapter II of this report. The stress on international reserves and commercial banks has diminished although risks remain and these risks would be exacerbated by a deeper and more protracted economic slowdown. Banks have managed to withstand the first, immediate stress on their institutions from the conflict in the form of significant withdrawals of deposits, including in foreign exchange. Banks are re-evaluating risk in their portfolio and preparing to avoid a rise in nonperforming loans (NPLs).

78. *Policy response.* The monetary authorities and the government fully recognize the task ahead. The central bank and the supervisory agency took a number of emergency measures to ease liquidity constraints and further relax the foreign exchange risk weighting for the purposes of capital adequacy calculations. Meeting external obligations is a priority so as to maintain investor confidence. A sudden drastic reduction in lending and provisioning beyond what is necessary would lead to an unnecessary decline in credit activity.

79. *Financing needs.* The refinancing needs of the banking sector to roll over liabilities and to provide for support for the moderate growth scenario being supported by the standby arrangement amounts to about \$700 million through 2009. This estimate is tentative as conditions in international capital markets for Georgia and emerging markets in general in the months ahead and especially through 2009 are exceptionally hard to project today. These needs could be satisfied by a combination of equity and debt finance as well as guarantees by international financial institutions and by donors.

PRIORITIES IN SOCIAL NEEDS

Return, Relocation and Resettlement

80. *Recovery and core investments.* Three areas of priorities have been identified: housing, social aspects, and protection and rights. The housing response strategy developed by the

government is based on two pillars: temporary shelter pending solutions, and durable housing. 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.

81. International experience shows that socially focused actions such as arrangements to fully consult with IDP beneficiaries and to give them complete information on their resettlement and relocation possibilities are needed in a resettlement process to ensure success.

82. With regard to protection and rights, priority activities include: ensuring early, clear and coordinated registration and documentation of all new IDPs to enable them to access IDP benefits immediately; raising the awareness of IDPs of their rights through information campaigns.

83. *Costs.* Total costs for the three-year period amount to \$796 million, largely accounted for by housing construction and rehabilitation.

Table 6: Financing Needs in Housing
(\$ million)

Item	By March 2009*	By March 2010	By September 2011	Total
Housing construction/ shelter and housing rehabilitation costs	157	260	349	766
Non-food items for 12,000 HHs	7	--	--	7
Supporting arrangement related costs	5	8	10	223
Total	169	268	359	796

Source: JNA staff calculations.

*Post-conflict damage related.

Social Protection

84. *Recovery and core investments.* A range of measures are considered critical. They span over the three phases of the priority and core investment program and include: providing emergency and recovery food and cash transfers to newly displaced persons, returnees and others directly affected in the conflict zone – initially for an estimated 101,000 and later for c. 40,000 people; providing emergency complementary support to other vulnerable groups; rebuilding/refurbishing damaged Targeted Social Assistance (TSA) offices; and including those who are newly eligible in the existing social safety nets (TSA, medical assistance program and others) following eligibility procedures. These measures need to be supported by activities that strengthen capacities to, among others, accommodate the additional needy in the TSA system; recruit, train and deploy new social workers (who are already budgeted for 2009) to conflict-affected zones.

85. *Costs.* The total cost for social protection is estimated at \$122 million.

Table 7: Financing Needs in Social Protection

	(\$ million)			
	Immediate needs (6 months)*	Intermediate needs (12 months)	Medium term (18 months)	Total
Temporary emergency support (in-kind and cash)	24	18		42
Emergency supplementary feeding (children 0-2, pregnant women)	2			2
Targeted social assistance for newly poor	12	23	35	70
One-time cash assistance to resettled IDPs	4			4
Refurbishment of damaged regional SSA branches	2			2
Other	2	1	--	3
TOTAL	46	42	35	122

Temporary emergency support: 110,000 people*52 gel per month*6 months/1.405 (\$/gel exchange rate). For the subsequent 12 months, 40,000 people are estimated to be in need of this support.

TSA for newly poor: 130,000 people * 21 gel per month.

One-time start up cash assistance for IDPs who have been provided durable housing: 100,000 people*200 gel.

Source: JNA staff calculations.

* Post-conflict damage related.

Education

86. *Recovery and core investments.* Damage and loss of equipment, including furniture, text books, and computers has to be addressed. Given the state of disrepair of many school buildings, core investments to rehabilitate damaged education infrastructure need to be accompanied by a program for urgent rehabilitation and repair of such buildings, especially in areas where IDPs will be resettled. The psychosocial needs of those IDP children suffering from the trauma of violence and separation from home warrant addressing, including through training teachers to provide such support.

87. *Costs.* The priority recovery and core investment costs in education are estimated at \$53.3 million over a three-year period. This includes goods and services expenses to cover the shortfall in the education budget and support to the continuation of the reform program in an amount of \$22.9 million.

Table 8: Financing Needs in Education

	(\$ million)			
Total Costs	By March 2009*	By March 2010	By September 2011	Total
Infrastructure and equipment	2.8	10.7	13.4	26.9
Provision of Goods and Services	13.3			0.4
Emergency activities	3.4			1.7
Total	19.1	15.8	18.4	53.3

Source: JNA staff calculations.

*Post-conflict damage related.

Health

88. *Recovery and core investments.* Priority measures should focus on re-establishing the provision of health services in the affected areas and monitoring the health status of the affected population. In the immediate term, the emergency medical center in Gori needs to be rehabilitated, furnished, equipped, and supplied with ambulances. High priority measures also include the renovation of three health facilities and the refurbishment of seven damaged ambulatories in Shida Kartli during the crises. While these facilities are being rehabilitated, health services should be provided through mobile clinic teams that should be set up and rendered operational quickly. In the intermediate term, three health facilities and one hospital should be reconstructed in the ‘adjacent areas’ and physical rehabilitation should be provided to those physically impaired as a result of the conflict.

89. *Costs.* The total financing needs of the three-year recovery and core investment program in the health sector amounts to \$175 million. The most important element is the cost of the widened coverage of the medical assistance program, funded by the government, to cover an additional 130,000 new beneficiaries.

Table 9: Financing Needs in Health
(\$ million)

	6 months*	+12 months	+18 months	Total
Medical Assistance Program for Poor and Vulnerable Population: increased coverage and premium	28.0	56.1	84.2	168.3
Reconstruction and rehabilitation of infrastructure	0.4	2.0	2.7	5.0
Health services	0.5	0.7		1.2
Mobile health teams	0.1	0.1		0.2
Physical rehabilitation and prosthesis	0.35	0.6		1.0
TOTAL	28.9	58.7	86.9	174.6

Source: JNA staff calculations.

*Post-conflict damage related.

Agriculture and Livelihoods

90. *Recovery and core investments.* Activities have been prioritized according to the immediacy of need – to protect, to restore and to improve agriculture and agricultural livelihoods – and the time frame in which it is possible to implement them. Immediate activities in this sector include: (i) providing inputs necessary for the winter cropping season and ensuring livestock do not die, (ii) providing water supply for human and animal consumption, and (iii) beginning the process of identifying sustainable solutions to water needs. Intermediate needs activities are to: (i) provide small-scale irrigation to conflict-affected areas and provide seeds for planting in 2009; (ii) rehabilitate rural infrastructures and improve small-holder production capacity, and (iii) restock lost livestock.

91. The recovery of and investments in the agriculture sector would have a significant effect on employment. The various components of the sector program (planning of winter

crops, the cattle program for the coming winter, the provision of temporary irrigation, small-scale rural infrastructure works, the livestock restocking program, and the completion of the large Tripone Irrigation Scheme) are estimated to provide 15,000 jobs over the three-year recovery period.

92. *Costs.* The total estimated costs for agriculture amount to \$81 million. Costs are based on current estimates for locally-procured goods and services or for imported goods where required (particularly winter wheat seeds).

Table 10: Financing Needs in Agriculture
(\$ million)

Timeframe	Cost
Immediate: October 2008-March 2009*	28
Intermediate: April 2009 – March 2010	53
Total	80

Source: JNA staff calculations.

* Post-conflict damage related.

Employment

93. *Recovery and core investments.* Local priority measures related to the impact of the conflict on employment need to focus on supporting small and medium enterprises (SME) affected by disrupted trade linkages and interruptions due to the conflict by providing access to financing, business advisory services, and continued improvements to the business enabling environment. The key instrument is the provision of microfinance. It is envisaged that credit lines would be extended to existing banks and microfinance institutions and that some business support activities will be a part of the package for borrowers.

94. *Costs.* Total costs in this sector are estimated at \$22 million over the three-year period.

Table 11: Financing Needs in Employment
(\$ million)

	By March 2009*	By March 2010	By September 2011	Total
Micro-finance	4	10	6	20
Local capacity building	0.5	1	0.5	2
Total	4.5	11	6.5	22

Source: JNA staff calculations.

* Post-conflict damage related.

PRIORITIES IN INFRASTRUCTURE AND ENVIRONMENT

Transport

95. The immediate damage-related needs are confined to \$61 million, mostly related to superficial damage to roads resulting from the transport of heavy military vehicles, to loss of aviation radar, and the need to rehabilitate the Tbilisi airport runway. The underlying strategy driving the core investment needs in the transport sector relate to economic security, which now requires the construction of an alternative network so as to minimize risks of severance of major transport links. Moreover, road construction would help bolster economic growth and employment in the ‘bridging period’ to the return of confidence. The authorities have also begun to explore the prospects for a long term concession for the main road network.

Table 12: Summary of Transport Recovery and Investments⁵
(\$ million)

Sector	Direct Damage Assessment	Direct Damage plus Core Investment
Road (main and secondary network)	18	969
Railways	4	22
Port	1	1
Aviation	38	38
Total	61	1,030

Source: JNA staff calculations.

The road estimate comprises US\$0.7 million of urgent repairs (already done), US\$1.5 million for looted or destroyed equipment of local contractors and US\$16 million of minor damages which can be addressed when periodic maintenance of these roads is performed.

96. **Roads.** Georgia serves as a key transit route: the shortest link between Central Asia and Europe as well as between Russia and Turkey. Future road sector development focuses on two strategic elements: (i) development of the main road network, including the east-west highway up to the Turkish border, and (ii) development of a network of roads to serve as alternative routes – primarily southern -- which would also link the local communities (such as small scale farmers) to the main network thus given better access to services and markets and bringing more economic benefits to the country.

97. The government intends to explore private sector participation in the main road network; in particular, it is giving consideration to tendering out the main road network to a 40 to 50 year concession and discussions are taking place with investment banks. In order to sustain these investments, the management of the road network should be modernized. The concession of the main road network would be key. Other activities include: gradually introducing in the roads authority state-of-the-art asset management capabilities as well as concepts of benchmarking and performance targets and instituting a road financing system.

⁵ The core investment road program is estimated with all taxes. The amount net of all kind of taxes is about 70% of this estimated amount. Therefore, the figure for total core investment financing presented to the donor conference for donor participation is about \$700 million for the road sector.

98. Modernization of the road network will also generate substantial employment. In particular the rehabilitation of the secondary and local roads network is more labor intensive (less mechanized) than construction of the highways. Preliminary estimates show that \$35,000 (net of taxes) of works creates one job for one year. A \$100 million program of secondary and local roads rehabilitation would create about 3,000 jobs for one year.

99. **Rail.** The rail link serves largely to carry transit cargo (oil and oil products from the Caspian) and vital trade of Armenia and Azerbaijan with the rest of the world using the Black Sea ports. Conflict-related damage concerned a significant bridge and a rail line spur – repairs are at an advanced state. The damage is estimated at \$4 million. Critical core investments include the repair of bridges, amounting to an additional \$18 million.

100. **Ports.** The ports -- the two major ones of Poti and Batumi, Supsa Terminal (oil exports transported by pipeline) and the new Kulevi Port (oil transported by rail) -- are all privately owned and operated, and have dramatically increased their turnover over the past decade and have sufficient capacity to further attend the expected increase in regional demand.

101. Damage was minor; there is no need for rehabilitation. The port is profit-making; the port administration expects traffic to fully recover to pre-conflict levels before the end of the year. Furthermore, the investors appear confident that they will pursue their investments as planned.

102. **Telecommunication** services are largely provided by private operators. While damage is minimal, there have been revenue losses and severe disruption of services for periods of time affecting telecom and internet. The vulnerability of telecommunications to external disruptions is a cause for concern.

103. **Aviation.** The conflict resulted in the destruction of the primary and secondary radar in Tbilisi. There is no primary radar coverage of the Georgian air space. Immediate investments are necessary to ensure the safety of take-offs and landings and the passage of over-flights through airspace by the acquisition of a replacement radar, costed at \$8 million. There is, moreover, an urgent need to rehabilitate the runway of Tbilisi airport at an estimated cost of \$30 million.

Energy

104. Georgia has achieved dramatic improvements in the provision of electricity services in the last three years after years of unreliable supply, and has emerged as a small net exporter. The government's policy is based on private sector operators of power plants and distribution networks. Gas and power transmission are handled by state utilities, and the major Enguri hydropower plant is owned by the state. However, the power system is vulnerable: (a) its current substantial dependence on one large hydropower plant, Enguri (whose dam and reservoir are under the control of the central authorities but whose turbines and generators are in Abkhazia); (b) its dependence on thermal power plants for winter supply – plants that are fueled by imported natural gas; and (c) a transmission grid short of

capacity and prone to technical breakdowns, in part because the 500 kV backbone grid traverses the Caucasus Mountains.

Table 13: Conflict-related Damage and Reconstruction in Energy
(\$ million)

	Cost Estimate
Direct conflict damage and losses	12
Strategic reserve of mazut (heavy fuel oil) as back-up fuel for gas power plants	26
Total	38

Core Investment Needs in the Energy Sector	
	Cost Estimate
220 kV Senaki Power Transmission Line Rehabilitation	28
Natural Gas Storage	177
Total	205

Source: JNA staff calculations.

105. The conflict-related damage to energy infrastructure was \$38 million and the infrastructure element has largely been repaired and service to customers restored. However, power transformers and switchgear have not been replaced yet; thus there is continued reliance on backup systems. There is a new need to ensure distribution and connection to new settlements being built for displaced populations. In the immediate term, it would be advisable to build up a strategic reserve of mazut (heavy fuel oil) as back-up fuel for the gas power plants.

106. Core investments are directed at enhancing energy security and reducing the risks of major black-outs and lack of access to heating in the winter. A double 220 kV power transmission line requires urgent rehabilitation to address power system weaknesses in western Georgia. Lastly, it is likely that gas-fired thermal power plants will continue to be necessary in the longer run to secure adequate power supply during winter. The development of underground natural gas storage would mitigate the risk of interruptions to supply associated with this imported energy source. The core investment needs amount to about \$205 million, and the total to \$243 million. Donor request amounts to \$223 million.

107. In the longer-term (i.e., beyond the horizon of the funding needs being presented to donors), Georgia needs to enhance its energy security by continuing to develop domestic energy resources. Investments include small, medium and large hydropower plants. Chief among these are the Khudoni hydropower plant (\$800 million), the Namakhvani hydropower cascade (\$540 million), the Oni hydropower cascade (\$525 million), with the total program amounting to \$2.7 billion.

Municipal and Urban Services

108. The infrastructure and services in most cities and municipalities is generally in need of a major overhaul. Infrastructure has suffered from years of under-investment and lack of proper maintenance. Nearly all the water supply and sanitation infrastructure requires

immediate rehabilitation simply to a minimal level of service. Most municipal roads are in very poor condition and require urgent improvement/ rehabilitation and systematic maintenance. At present sanitary landfill management is not satisfactory. The solid waste sector is characterized by un-sanitary landfills in urban areas and ad hoc dump sites in rural areas.

109. Moreover, there is an acute scarcity of capacity, managerial and technical talent in the municipalities. This is a serious constraint and one that cannot be solved in the medium term. The engagement of the private sector in municipal activities offers an attractive solution to the structural difficulties that today confront this sector.

110. Immediate conflict-related damage consists of cracking on local roads caused by heavy military vehicles. There are some direct damages on water pipes and wastewater treatment plants. For damaged road surfaces and water pipes and treatment plants, an immediate work is required to resurface, repair and restore them. Before repairing the damaged roads in Gori, the water supply and wastewater system in Gori should first be rehabilitated.

Table 14: Proposed List of Damage and Core Investments in Urban/Municipal
(\$ million)

	Project	Cost estimates⁶	Key components/description
1	Kutaisi Infrastructure	36	Water pipes, treatment facilities, utility, roads, etc.
2	Poti Infrastructure	36	water pipes, treatment facilities, wastewater, utility, roads, etc
3	Zugdidi Restoring water supply pipe lines	7	Urgent: no later than March 2010
4	Zugdidi Infrastructure	22	upgrading of urban and municipal infrastructure
5	Senaki Infrastructure	22	
6	Tbilisi Urban Transport	46 (excl private sector share)	preparatory studies, traffic control and management, public transport, parking space, road network
7	Kutaisi Urban Transport	46 (excl private sector share)	
8	Batumi Urban Transport	46 (excl private sector share)	road improvement, traffic control, parking spaces
9	Management contract related expenses	24	
	Total	257	

Source: JNA staff calculations.

⁶ The cost estimates provided by the cities were benchmarked in scope and price against similar ongoing investment project throughout the country.

111. Turning to core investments, the government's municipal investment plans include both institutional and capacity building and physical improvements. Physical improvements focus on providing potable water and improving the efficiency of the distribution system, improving sewerage facilities and solid waste management, developing city master plans for the water, sanitation and urban transport sector, and expanding water supply and sanitation coverage in both urban and rural areas.

112. In parallel with the proposed investments, a series of policy and institutional reform measures are being undertaken, with the central aim of attracting private management and investments. In water, the establishment of tariffs and the definition of prerequisites for successful privatization or concessioning of water and sanitation assets should be looked into.

113. In municipal roads, the development of policies to help raise efficiency, for example by competitively allocating funding to municipalities through a bidding process should be attempted. For solid waste, the exploration of private sector participation for collection and for landfill operations should be examined. The government could allocate identified landfill sites to a special purpose public company that would obtain equity and debt from external funding and would be regulated.

114. Investment needs beyond 2012 amount to \$430 million, divided equally between roads and general urban infrastructure.

Environment

115. Environmental damage is comprised of damage to forests; damage to habitats and infrastructure in several protected areas; coastal and marine pollution; pollution from several terrestrial oil spills; and hazardous waste issues associated with infrastructure damage. Forest fires broke out almost simultaneously at several sites in Georgia; the largest areas damaged by fire are primarily in two sites in Ateni Gorge and in the Borjomi Gorge.

116. The critical short term risks from forest fire damage include soil erosion, insect infestation, and new fire outbreaks. Soil erosion will be potentially most serious in Borjomi Gorge, where downstream communities are likely to be threatened by flooding. Insect infestation can have profound long-term consequences for the forest sector if control measures are not put quickly in place. Finally, terrestrial oil spill damage also requires addressing.

117. Priority activities of an immediate character are salvaging damaged timber and weakened trees using low-impact logging methods and dealing with oil spillages. This is estimated at \$2 million. Core investments centre on rehabilitation, replanting, and soil erosion activities in fire damaged sites and beginning repair of damaged infrastructure in protected areas as well guarding against flooding in villages downstream of affected forests – this is estimated at below \$5 million.