

## CHAPTER V. FINANCING OPTIONS AND INSTITUTIONAL MECHANISMS

### FINANCING OPTIONS

118. Georgia's specific post-conflict needs require different forms of financing. Consistent with the *Paris Declaration on Aid Effectiveness*, aid should be predictable, harmonized, and aligned with national priorities and use the country's own institutions and systems. The government would wish donors to employ existing and already planned mechanisms to the greatest degree, thereby strengthening the linkages to the national budget process.

119. First, **budget support**, provided by donors directly into the government's single treasury account, to fill the fiscal gap associated with the revenue shortfall and expenditure increase that are a direct result of the crisis. Donors could use this mechanism to finance costs associated with the social consequences of the conflict, including shelter, livelihood, agriculture, education and health needs of the affected populations,<sup>7</sup> as well as investment activities that the government intends to initiate. Moreover, fiduciary reviews of the country's budget systems show that Georgia has high standards of governance. The country has undertaken to further improve these standards, including those in public finance management. This finding would give comfort to donors.

120. Second, **support for the financial sector** in the form of participation through debt or equity instruments and guarantees to banks that would help bolster investor and consumer confidence and thus accelerate the restoration of the banking system to financial intermediation functions.

121. Third, Georgia's **Municipal Development Fund** (MDF) has a strong track record of implementing projects financed by donors, including the ADB, EBRD, KfW, MCC and IDA. The government plans to expand MDF's mandate and rename it Georgia Agency for Reconstruction and Regional Development (GARRD). Use of GARRD for rehabilitation of and core investments in the municipal and other infrastructure sectors is encouraged.

122. Fourth, the government is designing a multi-donor trust fund to attract debt and equity financing for large infrastructure projects – **the Phoenix Fund**. This fund could also have a window to finance infrastructure outlays associated with the absorption of the internally displaced and other conflict-affected populations. This fund would be administered by a highly qualified chief executive officer and supervised by an independent board with substantial (most likely, majority) donor representation. The fund would adhere to World Bank standards in financial management and procurement or equivalent standards.

---

<sup>7</sup> For the provision of humanitarian aid as well as immediate social sector support, however, the expertise and capacity of UN agencies and NGOs would be vital in areas where government capacities require further strengthening (see below).

123. Fifth, donors could also use **co-financing trust funds**, pooling their resources to finance a single project. These trust funds are usually administered by an international financial institution that finances part of a particular project. Co-financing may be attractive in particular for large-scale infrastructure projects that require multiple donors to fund it.

124. Finally, donors could use **direct funding** to the entity implementing a given project, including parallel financing whereby several donors finance the same project but without pooling their funds. Direct funding to UN agencies and NGOs is of particular relevance in post-crisis situations, for humanitarian assistance and urgent social sector activities and where delivery needs to be coupled with capacity building. Those areas where UN agencies and NGOs can help speed implementation are presented in the *UN Flash Appeal*.

### **Monitoring and Implementation Arrangements**

125. Building on current government practice a comprehensive monitoring system should be built around three components, namely monitoring results, tracking aid, and assessing impact.

126. **Monitoring results.** Results Frameworks have been developed for all social and infrastructure sectors to track outcomes of priority activities. The government will review progress periodically.

127. **Assessing impact.** In addition to project related impact assessments, there could be periodic monitoring at the household level that uses a quantitative and/or qualitative method to measure the outcomes and impact of the overall post-crisis program. Such a tool would provide valuable information and help reinforce and/or redirect the recovery effort, as needed, in real time.

128. **Implementation arrangements.** Prior to the conflict, Georgian public and private entities have been successfully implementing projects financed by the government and the donor community. Consequently, to the extent possible, existing local entities should implement the activities proposed under the priority recovery and core investment program. In certain cases, particularly where private sector participation is being sought, it would be necessary to establish special purpose vehicles.

I. Financing Requirements for the Recovery Program and UN Flash Appeal  
(\$ million)

	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</b>	480	450		930		930
<b>II. SOCIAL SECTOR</b>	294	448	506	1,248	251	996
RETURN, RELOCATION & RESETTLEMENT	169	268	359	796	220	576
SOCIAL PROTECTION	45	42	35	122	31	91
EDUCATION	19	16	18	53		53
HEALTH	29	59	87	175		175
AGRICULTURE & LIVELIHOOD	28	53		80		80
EMPLOYMENT	5	11	7	22		22
<b>III. INFRASTRUCTURE</b>	99	300	874	1,273	315	958
TRANSPORT	61	262	707	1,030	295	735
Roads	18	244	707	969	295	674
Rail	4	18		22		22
Ports	1.0			1.0		1.0
Aviation	38			38		38
ENERGY	38	38	167	243	20	223
<b>IV. URBAN AND MUNICIPAL SERVICES</b>	20	118	119	257		257
Water Supply and Wastewater	1	7		9		9
Urban and Municipal Roads	17	18	72	107		107
Urban Infrastructure Development, Housing and Public Buildings	1	81	35	117		117
Management contract related expenses		12	12	24		24
<b>V. ENVIRONMENT</b>	2	2	3	7		7
Protection and Production of Forests	1.4	1.0	2.7	5.1		5.1
Natural Habitats and Protected Areas	0.3	0.5		0.8		0.8
Coastal and Marine Pollution		0.1		0.1		0.1
Terrestrial Oil Pollution	0.3	0.2	0.1	0.6		0.6
Other infrastructure: Buildings south west of Gori	0.1	0.1		0.2		0.2
<b>TOTAL</b>	895	1,317	1,502	3,715	566	3,148
<b>BANKING SECTOR FUNDING</b>	500	200		700		700

Source: JNA Staff Calculations.

## Link between the JNA and the Revised UN Flash Appeal

(\$ million)

This table presents the comparison between the needs identified through the JNA and their presentation through the Flash Appeal. It aims at providing a full perspective of the same needs presented through these different instruments. As the flash appeal covers the period up to March 2009, only the needs comprised in the first phase of the JNA (October 2008 to March 2009) are represented in this table. The table also provides information regarding the amounts under each outcome which have already been funded through the flash appeal, so that a clear picture of the remaining funding needs is easily identifiable. The last column presents comments and remarks pertaining to each outcome/sector.

JNA sector outcomes	Estimated cost of assessed needs from Oct. 08 to Mar. 09	Flash Appeal requested funds towards these outcomes	Comments
<b>Education</b>	<b>19.00</b>	-	
<b>Outcome 1:</b> All internally displaced children and children directly and indirectly affected by conflict pre and post August 08 return to full-time education and access to pre-school education is provided for the most vulnerable	<b>5.46</b>	<b>1.8</b> (protection, 66% already funded)	The Flash Appeal does not cover the education sector, but proposes emergency response to children protection needs overlapping with the education section of the JNA
<b>Outcome 2:</b> 2.1 Access to kindergarten education is preserved at pre-conflict levels 2.2 Schools in affected areas are re-opened or suitable alternative arrangements are in place and attendance registers reflect the pre-conflict levels	<b>0.62</b>	-	
<b>Outcome 3:</b> 3.1 Access to education improves at all levels for all children regardless of their socio-economic status 3.2. The average quality of learning outcomes improved	<b>12.90</b>	-	

	Estimated cost of assessed needs from Oct. 08 to Mar. 09	Flash Appeal requested funds towards these outcomes	
<b>Health</b>	<b>28.82</b>	<b>1.71</b>	
<b>Outcome 1:</b> Population impoverished by the conflict has adequate access to health services by being included into the medical assistance program following established eligibility testing procedures.	<b>28.00</b>		Budgetary support for the improved coverage of Medical Assistance Program for Poor and Vulnerable is not included in the Flash Appeal. In addition to responding to the JNA identified needs, the Flash Appeal plans for a "safety net" of additional support projects to respond to the IDPs healthcare needs during the immediate and forthcoming winter period until the mechanisms outlined in the JNA (such as inclusion of IDPs under the Medical Assistance Program for the Poor) become fully operational.
<b>Outcome 2:</b> Provision of basic health services to affected population is maintained through mobile clinics and rehabilitated, reequipped and operational health care facilities	<b>0.47</b>	<b>1.36</b> (28% already funded)	
<b>Outcome 3:</b> Mental Health needs of the affected population are addressed through strengthening mental health component of routine primary care as well as implementing targeted mental health programs	<b>0.35</b>	<b>0.35</b>	
<b>Food security and Agriculture</b>	<b>28.00</b>	<b>14.04</b>	
Outcome 1: Agricultural production, livelihoods and food security among conflict-affected and other food-insecure, small-holder farm families are restored and improved	<b>28.00</b>	<b>14.04</b>	The gap mostly comes from the difference in target population. The JNA addresses agriculture and food security livelihoods needs of 92 and 08 IDPs as well as vulnerable groups, whereas the appeal focuses on population directly affected by the crisis.

	Estimated cost of assessed needs from Oct. 08 to Mar. 09	Flash Appeal requested funds towards these outcomes	
<b>Return, Relocation and Resettlement</b>	<b>168.70</b>	<b>58.00</b>	
<b>Outcome 1:</b> 2008 IDPs are immediately provided with temporary shelter as well as the basic non food items and, in the mid-term, with durable housing solutions, in keeping with the GoG policy and Action policy and Action Plan, by the end of the recovery period	<b>157.00</b>	47.2 (shelter) + 3.4 (WASH 47% already funded)	The costs related to Return, Relocation and Resettlement are higher in the JNA than in the revised Flash Appeal as they include durable housing and also address the needs of 92 IDPs. The needs identified in the Shetler chapter of the JNA are addressed by projects proposed in different sections of the appeal: Shelter, protection, WASH (for hygiene kits and sanitation rehabilitation of collective centers)
<b>Outcome 2:</b> 1992 IDPs are provided with winterization assistance and durable housing solutions according to the GoG policy and Action Plan, by the end of the recovery period	<b>7.00</b>		
<b>Outcome 3:</b> IDPs resettlement is carried out in conformity with the UN guidelines on Internal Displacement	<b>4.70</b>	<b>7.35</b>	

	Estimated cost of assessed needs from Oct. 08 to Mar. 09	Flash Appeal requested funds towards these outcomes	
<b>Social Protection</b>	<b>63.15</b>	<b>24.13</b>	
<b>Outcome 1:</b> Population directly and indirectly affected by the conflict access their entitlements within the national social protection system, including temporary protection measures	<b>46.90</b>	<b>21.82</b> (food security:60% already funded ) + <b>0.62</b> (WASH: 36% already funded) + <b>1.48</b> (nutrition: 22% already funded ) = <b>23.92</b>	The needs identified in the social protection chapter are addressed by project proposed in different sections of the appeal: WASH (for water distribution), Food security (for food distribution). The JNA includes the payment of a "one-time" cash allowance to IDPs which infer assistance under the form of budget support and is therefore not reflected in the revised appeal (\$17.2m). The difference also stems from the inclusion in the JNA of budget support to the increased coverage of the Targeted Social Assistance (\$16m), the refurbishment of SSA regional branches, TSA administrative cost related to identification and eligibility testing of newly poor, all not covered by the Flash Appeal.
<b>Outcome 2:</b> GoG managing rationalized and more equitable social protection programmes for vulnerable groups - including those affected by unforeseen shocks/emergency	<b>16.25</b>	<b>0.25</b> (protection: prevention of gender-based violence)	
<b>Employment and Livelihoods (non-agricultural)</b>	<b>4.50</b>	<b>6.10</b>	
Significant part of the neediest population directly and indirectly affected, benefits from immediate livelihood opportunities/solutions and, by 2011, is gainfully in the labor market and/or has obtained stable livelihood	<b>4.50</b>	<b>6.10</b>	The projects of the appeal exceed the JNA estimates as they include some activities aiming at responding to immediate integration needs especially those of the young population to mitigate the risk of violence and social unrest



