

SUMMARY OF THE MAIN FINDINGS OF THE JOINT NEEDS ASSESSMENT

Prior to the conflict of August 2008, the Georgian economy was on a strong growth track, with GDP rising by 10½ per cent annually. Rising public expenditures, financed by a substantial increase in the tax to GDP ratio, were being directed at improvements in education and health services and in targeted social assistance for the poor as well as infrastructure. Economic policies were guided by reliance on the private sector for growth in a highly liberal trade, investment and business environment. Also central to government policies were a belief in a small, effective government that formulated policies and financed services with delivery being delegated to the private sector, and an emphasis on high governance standards. The country attracted large volumes of foreign direct investment to sustain growth. Despite high growth, job creation was weak, but poverty had begun to fall.

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, stress on public finances, damage to physical infrastructure, and increased numbers of internally displaced persons.

The government has launched immediate post-conflict recovery activities, nevertheless, sustained success will prove elusive unless international donors provide adequate and rapid financial support to buttress Georgia's own efforts. **The JNA has identified the need for donor support in three major areas:**

- **Support for the rapid restoration of confidence.** Georgia will be able to help itself best if economic growth can be re-established so that resources for investment and poverty reduction can be generated internally. Donors can 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 may consider equity, debt or guarantee support to domestic banks so that lending to enterprises and consumers can be re-ignited.
- **Support for social needs.** The resettlement of the internally displaced and the needs associated with other conflict-affected populations has 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 can make an important contribution to economic and social recovery.
- **Support for critical investments.** The JNA has found that certain high value and high yield investments are essential to maximizing recovery prospects – these are discussed as “core investments” in the report. Donor financing for such investments remains essential as a bridge to the period when the private sector resumes investing. Such financing would also help to enhance the economic security of the country by broadening choice in energy and transport.

The JNA proposes that donors extend fresh commitments in the amount of \$3¼ billion over a three year period (Annex I).