



Completion Report

Project Number: 32023
Loan Number: 2469
December 2010

Georgia: Emergency Assistance for Post-Conflict Recovery

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – lari (GEL)

		At Appraisal (16 October 2008)	At Program Completion (9 December 2010)
GEL1.00	=	\$0.70814	\$0.56834
\$1.00	=	GEL1.41215	GEL1.75950

ABBREVIATIONS

ADB	–	Asian Development Bank
BDD	–	Basic Data and Directions
CSF	–	Countercyclical Support Facility
DMF	–	Design and Monitoring Framework
EAL	–	emergency assistance loan
EAPCR	–	Emergency Assistance for Post-Conflict Recovery
EU	–	European Union
FDI	–	foreign direct investment
GDP	–	gross domestic product
IDP	–	internally displaced person
IMF	–	International Monetary Fund
IOS	–	interim operational strategy
JNA	–	joint needs assessment
kWh	–	kilowatt-hour
MDF	–	Municipal Services Development Fund Project
MFA	–	Macro Financial Management
MOF	–	Ministry of Finance
SBA	–	Stand-by Arrangement
TSA	–	targeted social assistance

NOTES

- (i) The fiscal year (FY) of the government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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BASIC DATA

A. Loan Identification

1.	Country	Georgia
2.	Loan Number	2469
3.	Program Title	Emergency Assistance for Post-Conflict Recovery
4.	Borrower	Government of Georgia
5.	Executing Agency	Ministry of Finance
6.	Amount of Loan	SDR46,879,000 (\$70 million) from ADB's Special Funds resources
7.	Program Completion Report Number	PCR:GEO 1219

B. Loan Data

1.	Reconnaissance	
	– Date Started	17 September 2008
	– Date Completed	25 September 2008
2.	Loan Negotiations	
	– Date Started	27 October 2008
	– Date Completed	29 October 2008
3.	Date of Board Approval	12 November 2008
4.	Date of Loan Agreement	19 November 2008
5.	Date of Loan Effectiveness	
	– In Loan Agreement	19 December 2008
	– Actual	8 December 2008
	– Number of Extensions	0
6.	Closing Date	
	– In Loan Agreement	30 September 2009
	– Actual	22 January 2009
	– Number of Extensions	0
7.	Terms of Loans	
	– Interest Rate	Asian Development Bank's Special Funds resources 1% per annum
	– Maturity (years)	40
	– Grace Period (years)	10
8.	Disbursements	
	a. Dates	

Initial Disbursement	Final Disbursement	Time Interval
12 December 2008	12 December 2008	0 months
Effective Date	Original Closing Date	Time Interval
8 December 2008	30 September 2009	9 months

b. Amount (\$)						
Category	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Emergency Assistance for Post-Conflict Recovery	69,856,273	0	0	0	69,856,273	0
Total	69,856,273	0	0	0	69,856,273	0

C. Program Data

1. Program Cost (\$)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	70,000,000	69,856,273
Local Currency Cost	0	0
Total	70,000,000	69,856,273

2. Financing Plan (\$)

Cost	Appraisal Estimate	Actual
First tranche release	70,000,000	69,856,273
Total	70,000,000	69,856,273

3. Cost Breakdown by Program Components (\$)

Component	Appraisal Estimate	Actual
Emergency Assistance for Post-Conflict Recovery	70,000,000	69,856,273
Total	70,000,000	69,856,273

4. Program Schedule

Item	Appraisal Estimate	Actual
First tranche release	8 December 2008	27 December 2001

5. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 1 November 2008 to 30 November 2008	Highly Satisfactory	Satisfactory
From 31 December 2008 to 30 September 2009	Highly Satisfactory	Highly Satisfactory

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Reconnaissance	17–25 September 2008	4	36	a, b, c, d
Loan negotiations ^b	27 October 2008	7	21	a, b, c, e, f, g

Note:

^a a = principal financial sector specialist/mission leader, b = economist (financial sector), c = counsel, d = economics officer, e = principal economist, f = economist, g = financial control specialist.

^b The Georgia Resident Mission provided support to the mission in the field.

I. PROGRAM DESCRIPTION

1. On 12 November 2008, Asian Development Bank (ADB) approved a loan for Emergency Assistance for Post-Conflict Recovery (EAPCR) to the Government of Georgia following the war with the Russian Federation. The EAPCR comprised an emergency loan from ADB's Special Funds of \$70 million.¹ The EAPCR satisfied the eligibility criteria for an emergency assistance loan (EAL) under ADB's Disaster and Emergency Assistance Policy (2004). The loan was disbursed in a single tranche upon declaration of loan effectiveness on 12 December 2008.

2. The EAPCR was designed to help Georgia address emergency needs by enabling the government to meet critical public expenditures through the budget and help cushion the fall in fiscal revenue.² These needs were identified by the joint needs assessment (JNA)³ involving multiple development partners and the International Monetary Fund's (IMF) Stand-by Arrangement (SBA). The EAPCR supplemented the resources of the Municipal Services Development Fund Project (MDF) approved by ADB on 12 September 2008.⁴

3. The impact of the EAPCR's was to help Georgia restore its economy to pre-war levels of growth and social development. Its outcome was to mitigate the adverse economic and social impact of the war. The outputs of the EAPCR were to ensure that (i) the immediate incremental expenditure needs arising from the crisis were met, and (ii) the core public expenditure program for 2008 was delivered in accordance with the revised budget approved post-war.

4. The Georgian economy was on a strong growth path until mid-2008 when the war disrupted economic growth (Figure 1). The loan helped to address the adverse impact of the war on economic growth. The war resulted in a weakening of investor, lender, and consumer confidence; a contraction of liquidity in the banking system; damage to physical infrastructure;⁵ and an increase in internally displaced persons (IDPs). The crises caused a sharp contraction in economic growth from 12.4% in 2007 to 2.3% in 2008, and a steep decline in domestic and foreign direct investments (FDI) from 17% of gross domestic product (GDP) in 2007 to 12.2% in 2008. Georgia also faced a significant social burden in resettling about 140,000 IDPs and finding jobs for over 100,000 newly unemployed—raising the percentage of unemployed from 13% in 2007 to 16.5% in 2008. The downturn also led to a fall in fiscal revenues and privatization receipts, as a result of which the public deficit widened from 4.3% of GDP in 2007 to 6.3% in 2008.

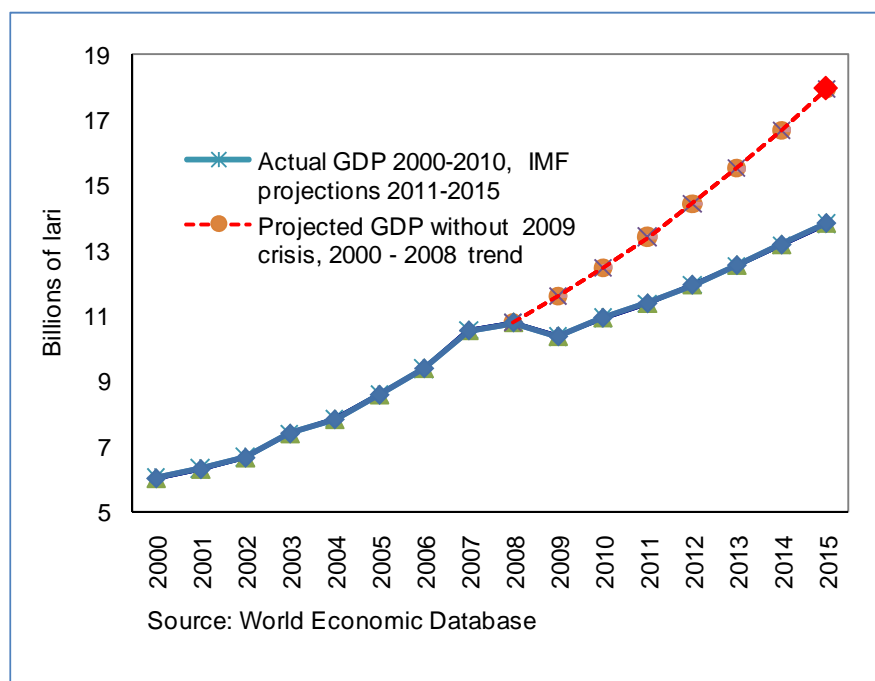
¹ Asian Development Bank. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for Emergency Assistance for Post-Conflict Recovery*. Manila.

² The immediate (emergency) response included the restoration of the economy to pre-conflict conditions; intermediate and medium-term needs included infrastructure development for major cities; and long-term needs included roads and general urban infrastructure.

³ For update, see United Nations and the World Bank. 2010. *Georgia Joint Needs Assessment, Donor Funding in Support of Post-Conflict Recovery and Reconstruction, Second Progress Report*. Tbilisi. The update explains that implementation of the recovery and reconstruction program has been impressive with donors having followed their pledges and providing adequate financial support.

⁴ The MDF supports a range of community and municipal infrastructure projects. Asian Development Bank. 2008. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Georgia for the Municipal Services Development Project*. Manila.

⁵ Urban and municipal infrastructure support was estimated at \$1.25 billion, of which \$120 million (damage and immediate needs) was required by spring 2009. Source: Footnote 3.



II. EVALUATION OF DESIGN AND IMPLEMENTATION

5. ADB responded swiftly in the aftermath of the war. Measures taken include: (i) the provision of \$40 million equivalent in investment support through the MDF; (ii) participation in the multi-development partner JNA exercise; (iii) close coordination with the principal development partners of Georgia, particularly the European Union (EU), the IMF, the United States, and the World Bank, among others; and (iv) the provision of \$70 million equivalent in ADB Special Fund resources to enable Georgia to maintain critical social expenditures.

A. Relevance of Design and Formulation

6. The EAPCR was *highly relevant at appraisal*. It was consistent with (i) ADB's interim operational strategy (IOS) for Georgia (2008–2009),⁶ (ii) the country's development objectives as outlined in the government's Basic Data and Directions (BDD) for 2008–2011,⁷ (iii) the JNA, (iv) the IMF SBA,⁸ and (v) the World Bank's Poverty Reduction Support Operation (PRSO).⁹ The IOS recognizes the need for ADB to respond to rapid changes in circumstances and focuses on (i) improving service delivery in municipal infrastructure within the evolving decentralization process, (ii) reducing road transportation constraints on economic activity, and (iii) upgrading and developing energy infrastructure. These priorities were identified based on the following

⁶ Asian Development Bank. 2008. *Georgia: Interim Operational Strategy, 2008–2009*. Manila.

⁷ Government of Georgia, Ministry of Finance. 2007. *Basic Data and Directions for 2008–2011*. Tbilisi. This includes priorities on public sector spending, including social protection and education.

⁸ Approved in October 2008. IMF. 2008. *Georgia: Request for Stand-By Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Georgia*. IMF Country Report No. 08/328. Washington, D.C.

⁹ World Bank. 2008. *Supplemental Credit for Fourth Poverty Reduction Support*. Washington, D.C.

considerations: (i) alignment with the government's development agenda; (ii) selectivity in focusing limited resources on a small number of priority areas; and (iii) complementarities with other development partners. Under the IOS, ADB was able to closely coordinate with other development partners on responses to immediate post-war needs, including the EAPCR. The design of the EAPCR, based on the JNA, was sound, but could have been further strengthened had output targets been more clearly defined. JNA outputs were used. Stakeholder ownership and participation in the design was strong under the JNA.

7. The JNA identified three major areas for donor support: (i) support for rapid restoration of confidence, including support for the countercyclical budget policy; (ii) support for social needs, including social protection; and (iii) support for critical investments. The design of the loan was consistent with and complemented programs by the World Bank and other development partners. Consistency was ensured through policy dialogue. The policy objectives of the World Bank's current programs include (i) enhancing efficiency and effectiveness of public administration and public investment programs, (ii) better access to social services, and (iii) creating a conducive environment for private sector development. The EU was engaged in targeted budget support (linked to the JNA) and macrofinancial management, exceptional financing, and sectoral budget support operations. The design of the loan is, therefore, considered to have been *sound* at appraisal.

8. The components of the EAPCR were also considered *highly relevant* during implementation. The EAPCR recognized the need for emergency assistance to ensure that the countercyclical fiscal response was effective and adequate, and that critical post-war expenditures were met. The EAPCR directed assistance through the budget to help finance (i) essential economic and social expenditures necessitated by the war, and (ii) other essential expenditures under the government's financing plan (e.g., pensions). The JNA identified an exceptional financing gap of \$480 million for 2008.¹⁰ ADB provided \$70 million equivalent to finance part of that gap, with the balance being met by other development partners, including the EU, the United States, and the World Bank.

9. Overall, the loan's design was *highly relevant* at appraisal, and remained so at implementation. While the impact of the global financial and economic crisis, which followed soon after the war, was not significant at the loan's approval, the loan's design nonetheless helped to mitigate its impact on Georgia's economy, already suffering from the war.

B. Program Outputs

10. The EAPCR helped the government to address revenue shortfalls, provide a transitional safety net to mitigate the impact of the war, and sustain its core public expenditure program. Specifically, the EAPCR addressed two key outputs: (i) ensuring that the immediate incremental expenditure needs arising from the war were met, and (ii) ensuring that the core public expenditure program for 2008 was delivered in accordance with the revised budget approved post-war.¹¹

¹⁰ Over the period October 2008–March 2010, the JNA identified \$2.2 billion for public sector funding and \$700 million for the banking sector. Donor commitments over this period amounted to \$2.5 billion for the public sector and \$673 million for the banking sector. Disbursements to the public sector amounted to \$1.1 billion and to the banking sector \$446 million. Source: Footnote 3.

¹¹ The state budget of Georgia was revised four times during 2008: March, July, October, and December.

1. Ensuring that the Immediate Incremental Expenditure Needs Arising from the War Were Met

11. Following the war, immediate incremental expenditure needs—estimated at \$316 million (footnote 1)—included support and resettlement for new IDPs, infrastructure reconstruction (including that for health and education), social protection, and health and education.¹² This output sought to ensure that these expenditures were met and that new IDPs were provided access to social protection, health and education. With regards to measuring performance for this output, there is no official data for ‘new poor’ and there was no performance target identified for infrastructure reconstruction. Based on currently available and more clearly defined indicators, the objective of output 1 was met.

12. Expenditure on IDPs was 0.6% of the total state budget in 2007, 0.8% in 2008, and 1.0% in 2009 (Appendix 2, Table A2.1). The projection for 2010 is 0.9%. The number of IDPs receiving an allowance was 16,436 in 2008; 18,809 in 2009; and 14,619 as of September 2010 (Appendix 2, Table A2.2).¹³ Of the 138,000 people displaced by the war (‘new’ IDPs), an estimated 106,000 returned to the Shida Kartli region (including areas adjacent to South Ossetia, Georgia). As of 1 January 2010, over 19,641 of the approximately 22,000 individuals who remain displaced have formally received IDP status (footnote 3). The integration of IDPs into the social protection network and social services has avoided the creation of a permanent under-class of citizens. At present, IDP households are given the choice to either receive the IDP benefit or Targeted Social Assistance (TSA), but not both. So far, most IDPs receive separate IDP benefits, which are status based and do not consider the vulnerability of a person.

13. The physical damage to infrastructure was tangible, though limited. The burden of housing IDPs and other people affected by the war was met by providing temporary shelters that are gradually being transformed into durable housing (footnote 3). Expenditure for infrastructure reconstruction for IDPs amounted to about 1.4% of the total state budget in 2009. The President's national program for ‘rehabilitation of educational institutions’ accounted for about 0.2% of the state budget, and the state program on rehabilitation and equipment of medical and other institutions (under the Ministry of Labor, Health and Social Affairs) accounted for about 0.1%.

2. Ensuring that the Core Public Expenditure Program for 2008 Was Delivered in Accordance with the Approved Budget

14. This output sought to support a countercyclical fiscal policy to avoid a deep and long economic downturn. Support was designed to help fund essential expenditures, including pension payments, IDP allowances, and a health care program for the poor. However, it is difficult to measure performance against the indicator for this target, i.e., the number of affected people receiving TSA, since only data on the total numbers receiving TSA exists. In addition, the report and recommendation of the President makes reference to “critical operation and maintenance expenditures”; however, no performance target is attached. It is also unclear what

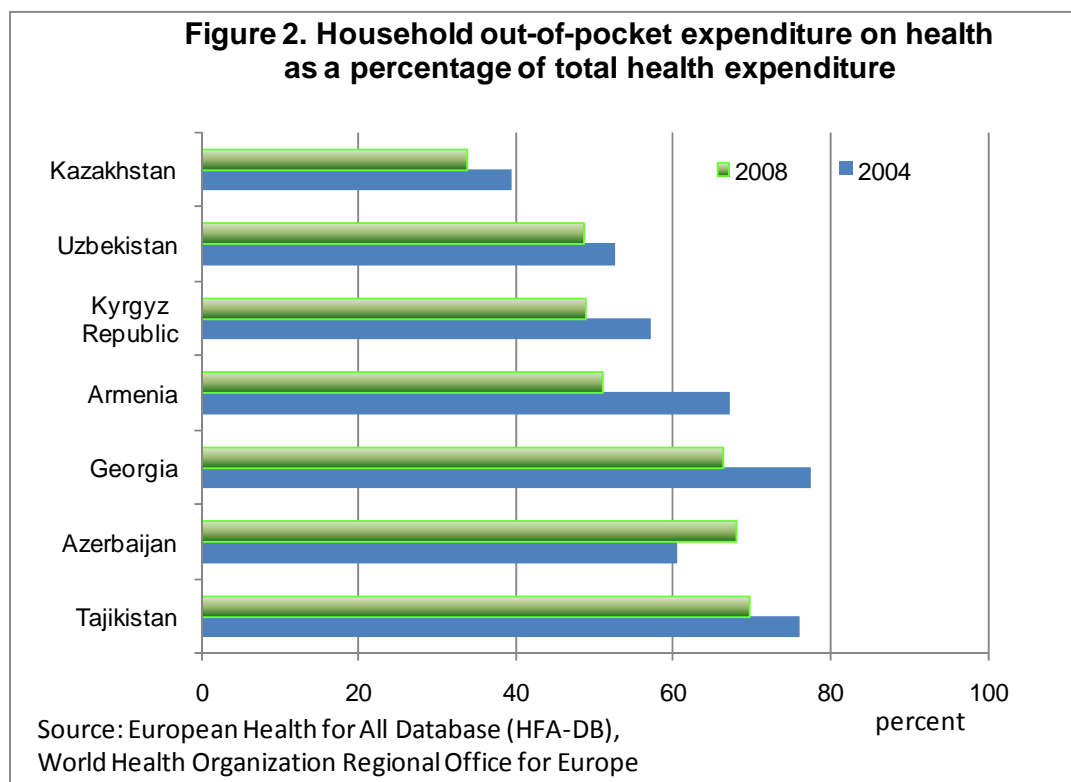
¹² Development partner commitment for IDP return and resettlement and for the social sector significantly exceeded JNA estimates United Nations and World Bank. 2008. *Georgia Joint Needs Assessment*. Tbilisi (9 October).

¹³ IDPs, both those from before and after 2008, receive 10 kWh of free electricity per household. Between November 2008 and May 2009, the Social Service Agency provided one-time disbursements of GEL200 to over 18,000 households to help them settle into collective centers (footnote 3).

critical operation and maintenance expenditures are.¹⁴ As such, currently available and more clearly defined indicators, discussed below, were used to assess the extent to which output 2 was achieved.

15. Expenditures for social protection, as a percentage of the total state budget, increased from 14.9% in 2007 to 16.9% in 2008, and to 19.5% in 2009. The projection for 2010 is 18.5% (Appendix 2, Table A2.1). Approximately 70% of social expenditure is allocated to pensions. Pensioners make up about 19% of the population. Expenditures on health increased in nominal terms but decreased as a percentage of the total state budget, from 4.5% in 2007 to 4.2% in 2008. In 2009 health expenditures increased again to 5% of the total state budget. Expenditures for state-financed insurance programs increased from 0.7% of the total state budget in 2007 to 1.2% in 2008 and to 2.0% in 2009. The projection for 2010 is 2.4% (Appendix 2, Table A2.1). The number of beneficiaries of the health insurance program for people under the poverty line increased substantially from 120,000 in 2007 to 750,838 in 2008, 904,897 in 2009, and to 906,601 as of September 2010. In 2008, 69,316 IDPs were provided with health insurance; this increased to 77,161 in 2009 (Appendix 2, Table A2.2). At the same time, out-of-pocket expenditures for health care, while still high, decreased from 71.1% in 2007 to 66.3% in 2008 (Figure 2). Expenditures for education—while increasing in nominal terms—decreased as a percentage of the total state budget from 7.2% in 2007 to 6.2% 2008. In 2009, education expenditures increased to 6.8% of the total state budget. The amount of school vouchers disbursed increased substantially from GEL14,124 million in 2007 to GEL32,100 million as of September 2010. The number of people receiving TSA increased from 370,901 in 2008 to 420,802 in 2009. As of September 2010, the total number of TSA beneficiaries was 353,610 (Appendix 2, Table A2.2). TSA and IDP benefits, among others, are administered by the Social Service Agency. Although further improvements are necessary in regards to coverage of the poor and extremely poor, the TSA, which is based on a proxy means test, is among the best targeted cash benefit programs in the region. Based on currently available and more clearly defined indicators, discussed below, the objective of output 2 was met.

¹⁴ Asian Development Bank. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for Emergency Assistance for Post-Conflict Recovery*. Manila



C. Program Costs

16. The EAPCR loan of SDR46,879,000 (equivalent to \$70 million) from ADB's Special Funds resources was intended to help the government meet essential expenditures arising from the August 2008 war and contribute to addressing the 2008 budget financing gap, which at the time was estimated at \$480 million.¹⁵

D. Disbursements

17. The overarching objective of ADB's Disaster and Emergency Assistance Policy is to provide ADB developing member countries in crisis with rapid funding support in the form of an EAL. Together with Achieving Development Effectiveness in Weakly Performing Countries,¹⁶ this policy provides an effective and suitable framework for ADB to intervene in an emergency. The EAPCR was quick in disbursing support through an EAL for (i) expenditures arising from the war in August 2008, and (ii) recurrent expenditures to sustain delivery of the government's core publicly funded programs, thereby avoiding a major disruption in the government's fiscal position and further deterioration of socioeconomic conditions. The \$70 million loan was

¹⁵ The government's budgetary financing plan, including gaps therein, were (i) revenue: \$3,575 million, (ii) expenditures: \$4,379 million, (iii) deficit: \$804 million, (iv) available financing from privatization: \$324 million, and (v) normal and exceptional financing gap: \$480 million. Source: Asian Development Bank. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for Emergency Assistance for Post-Conflict Recovery*. Manila

¹⁶ Asian Development Bank. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila.

disbursed in a single tranche to help the government meet essential expenditures under the revised 2008 budget.¹⁷

E. Program Schedule

18. The loan was disbursed in a single tranche on 12 December 2008. Actual loan effectiveness was 8 December 2008, rather than 19 December 2008 as indicated in the loan agreement. The actual closing date of the loan was 22 January 2009. The closing date indicated in the loan agreement was 30 September 2009.

F. Implementation Arrangements

19. The Ministry of Finance (MOF) was the executing agency for the EAPCR. MOF (i) updated ADB regularly on the implementation of the JNA, and (ii) provided necessary support to ADB to review and monitor the status of key indicators agreed to. The MOF also provided ADB with documentation clarifying that key social expenditures (pensions) were in excess of the loan proceeds. The government has made good progress in implementing public financial management reforms.¹⁸ In an effort to address weaknesses raised in the 2008 public expenditure and financial accountability report,¹⁹ annual action plans are developed for the MOF²⁰ and the National Center of State Internal Control to help them use public resources more efficiently and strategically.²¹ These action plans support (i) program budgeting, (ii) budget preparation and approval, (iii) resource management, (iv) internal control, and (v) accounting and reporting. The government has conducted regular reviews of these systems.²² The Chamber of Control, the national audit institution of Georgia, which reports directly to Parliament, undertakes annual audits of public expenditure programs.

G. Conditions and Covenants

20. The covenants in the loan agreement were complied with except for two which were substantially complied with. The first relates to monitoring results, tracking the assistance provided to the government in connection with the JNA and assessing the impact of such assistance. As output indicators in the DMF were not clearly defined, other relevant data were identified at project completion. The second covenant relates to providing ADB with certified copies and translations of (i) the state budget execution report for 2009 as submitted to the Parliament of the Borrower, and (ii) the opinion of the Chamber of Control of the Borrower on such reports. This covenant was substantially complied with as a result of the loan being closed in January 2010, prior to the required dates for which the certified copies and related

¹⁷ Asian Development Bank. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for Emergency Assistance for Post-Conflict Recovery*. Manila

¹⁸ The government has developed management and fiduciary systems that incorporate best practice standards. Overall fiduciary responsibility for implementation is devolved to executing agencies under the control and scrutiny of relevant line ministries. The joint participation of line ministries in major infrastructure loans or programmatic operations provides for a holistic monitoring effort that ensures financial and programmatic aspects are addressed through the participation of all stakeholders. Source: Footnote 3.

¹⁹ World Bank and European Commission. 2008. *Georgia: Public Expenditure and Financial Accountability*. Tbilisi.

²⁰ Government of Georgia, Ministry of Finance. 2010. *Public Finance Management Reform Action Plan 2010*. Tbilisi.

²¹ Action plans include: Government of Georgia, Ministry of Finance. 2010. *State Internal Audit Action Plan 2010*. Tbilisi; Government of Georgia, Ministry of Finance. 2009. *Internal Audit Progress Report 2009*. Tbilisi; and Government of Georgia, Ministry of Finance. 2009. *Strategic Concept for Reforms of Internal Financial Control within the Public Sector of Georgia*. Tbilisi.

²² Government of Georgia, Ministry of Finance. 2009. *Public Finance Management Reform, Annual Progress Report, 2009*. Tbilisi; and Government of Georgia, Ministry of Finance. 2009. *Internal Audit Progress Report 2009*. Tbilisi.

translations were to be submitted to ABD. The required copies were compiled at the time of project completion.

21. The covenants were considered *relevant*. (see Appendix 4).

H. Performance of the Borrower and the Executing Agency

22. The performance of the borrower and the MOF is rated *satisfactory*. The government (i) maintained essential expenditures for social services and social protection, and (ii) made significant progress in improving public finance management, social services delivery, and social protection. Notwithstanding, the MOF did not provide a project completion report.

I. Performance of Asian Development Bank

23. ADB's overall performance is rated *satisfactory*. ADB quickly responded to the government's request for assistance and designed a flexible support modality.

24. ADB managed its relationship with the government and with other stakeholders well, provided adequate levels of resources in line with development needs, and proactively managed the implementation of the EAPCR in regards to approvals, disbursement, and monitoring. ADB actively monitored implementation of the EAPCR through mission visits and policy dialogue. In addition, in connection with the processing of two programs, the Growth Recovery Support Program in 2009²³ and the Social Services Delivery Program in 2010,²⁴ ADB monitored the progress made in strengthening public finance management and in the development and reform of social services delivery.

III. EVALUATION OF PERFORMANCE

A. Relevance

25. The design of the EAPCR is considered *highly relevant*. First, the EAPCR is consistent with (i) ADB's IOS for Georgia (2008–2009) approved in January 2008, (ii) the country's development objectives as outlined in the government's BDD for 2008–2011,²⁵ and (iii) the JNA approved in October 2008. Second, the financing instrument, based on the IMF SBA with the government, was appropriate. Third, while all performance targets for the EAPCR are not clear, other available data supports achievement of targets as set out in the DMF. IDPs were provided with (i) temporary emergency support in the form of one-time disbursements, (ii) allowances, and (iii) state-financed insurance. Essential expenditures were also maintained. Although the intended impact of restoring the Georgian economy to its pre-war trajectory of 4% annual economic growth is not likely to be met, the emergency loan did arrest the negative growth trajectory, with the economy set to expand 5.5% in 2010 and 4.0% in 2011, despite the double crisis.

²³ Asian Development Bank. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to Georgia for Growth Recovery Support*. Manila.

²⁴ Asian Development Bank. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to Georgia for Social Services Delivery*. Manila.

²⁵ Footnote 8. This includes priorities on public sector spending, including social protection and education.

B. Effectiveness in Achieving Outcome

26. The EAPCR is rated *effective* in achieving its outcome. By preventing a reduction in public expenditures, the EAPCR helped mitigate adverse social impacts of the war through resettlement of IDPs. Of the 138,000 people displaced in August 2008, about 75% have returned home. They have received assistance in the rehabilitation of damaged and destroyed homes, in the restoration of food security and livelihoods, and in the replacement of household items. IDPs, both from before and after the events of 2008, also receive 10 kWh of free electricity per household. About 34,000 returned to volatile areas, including South Ossetia and adjacent areas. A further 21,456 IDPs have been resettled and have received an offer of government-built housing units or monetary compensation to acquire property. The status of 3,472 IDPs has not yet been confirmed (Table 1) (footnote 3).

27. Due to the impact of the global financial and economic crisis, the EAPCR was unable to sustainably mitigate the adverse economic impact of the war on GDP growth, which contracted 3.9% in 2009 (Appendix 2, Table A2.3). This was in contrast to the intended outcome of 4% GDP growth for 2009. Given the urgency of the crisis, the swift and timely intervention and coordination with other development partners allowed for an effective response to bridging the financing gap. With regards to future performance, real GDP growth for 2010 is projected at 5.5%, based on the expansion of economic activity and the resumption of credit growth, supported by a gradual lowering of interest rates. The cyclical rebound is being used to achieve a faster pace of deficit reduction (from 9.2% of GDP in 2009 to 6.3% in 2010).

Table 1. Status of internally displaced people in Georgia

Status of IDPs	Number of people
Relocated and compensated	21,456
Granted IDP status and relocated to settlements	13,820
Granted IDP status and provided with monetary compensation	2,082
Allocated government cottages but with status pending	5,554
Returned people	34,186
Returned to South Ossetia	4,186
Returned to area adjacent to South Ossetia	30,000
Remaining IDPs (status unconfirmed)	13,472
From 2008 (status pending)	3,472
In South Ossetia	10,000

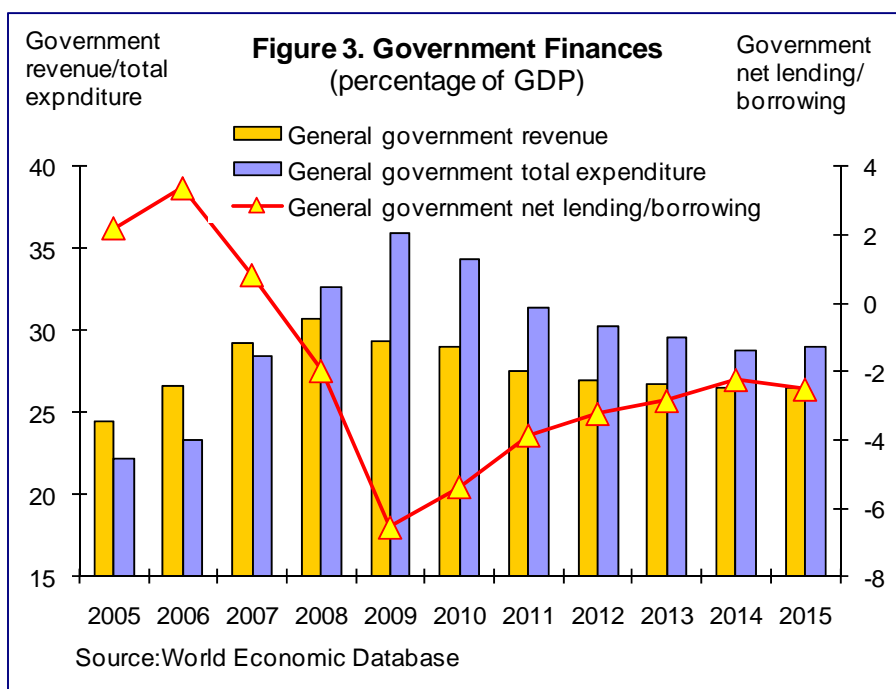
Source: United Nations and the World Bank. 2010. *Georgia Joint Needs Assessment, Donor Funding in Support of Post-Conflict Recovery and Reconstruction, Second Progress Report*. Tbilisi.

C. Efficiency in Achieving Outcome and Outputs

28. The EAPCR is rated *highly efficient* in achieving its outcome and outputs. The underlying business process and design of the EAPCR was very efficient in helping Georgia address the impact of the war. The EAPCR enabled the quick deployment of financial resources. During program preparation and disbursement, both the government and ADB fast-tracked their business processes to ensure a timely response to the crisis.

29. The EAPCR ensured that immediate incremental expenditure needs arising from the war were met. The EAPCR contributed to avert a collapse of domestic demand triggered by reduced

consumer and lender confidence and supported employment (Figure 3). A substantial number of IDPs have been resettled. Between November 2008 and May 2009, the Social Service Agency provided one-time disbursements of GEL200 to over 18,000 households to help them settle into collective centers. As indicated in Appendix 2, Table A2.2, both allowances and state-financed insurance have been provided to IDPs since 2008. The number of people receiving TSA increased in 2009. In addition, the monthly pension benefit was increased by 36% in real terms over 2008–2010, the TSA cash benefit for vulnerable families was doubled for additional (non-head) household members, and the number of recipients of health insurance vouchers was increased to about 900,000 (footnote 3).



D. Preliminary Assessment of Sustainability

30. The sustainability of the EAPCR needs to be viewed in light of the fact that this was an emergency loan to meet emergency needs. The JNA was successfully implemented and the EAPCR was an important part of the JNA, thus sustainability is *likely*. However, when viewed in isolation, the sustainability of programmatic support in an emergency situation depends on economic recovery and increased revenue collection. Due to events beyond the control of the program—the global financial and economic crisis—the outcome of EAPCR, as defined by performance targets in the DMF, was only partly achieved over the economic lifetime of the loan, as global economic growth contracted.²⁶ The government exhibited commitment to public expenditures as outlined under the outputs in the DMF, and to ensuring that progress was made in resettling IDPs. Although not part of the EAPCR, the government has increased its institutional capacity to ensure more effective financial accountability for public resources through extensive reform of policies and procedures. Likewise, the consolidation of a range of social benefits into a single registry and application system—which is applied to health

²⁶ World real GDP growth is expected to have contracted 2.1% in 2009. Source: World Bank. *The Global Outlook in Summary 2008–2012*. <http://web.worldbank.org/external/default/main?theSitePK=659149&pagePK=2470434&contentMDK=20370107&menuPK=659160&piPK=2470429>

insurance vouchers, TSA, benefits for IDPs, and electricity vouchers—has proved successful in alleviating poverty.²⁷ The government has, through subsequent ADB loans (2009 and 2010), exhibited continued support for essential public expenditures, in particular, on health, education, and social protection (Appendix 2, Table A2.1). Economic growth, in step with global economic recovery, is expected to rebound in 2010, with real GDP growth projected at 5.5%. The sustainability of the economic recovery depends on an increase in private capital inflows, and FDI in particular. Exposure to currency-induced credit risk remains a vulnerability, which could again set in motion adverse economic–financial interactions, with nonperforming loans constraining the banks’ ability to lend.

E. Impact

31. The impact of the EAPCR—restoration of the Georgian economy to a pre-war trajectory of growth and social development—is not likely to be achieved, due to factors unforeseen at the time of program design. The Georgian economy was severely affected by the double crisis—first the war and then the global financial and economic crisis. GDP growth contracted by 3.9% in 2009, but according to IMF projections is expected to rebound to 5.5% for 2010 and 4.0% in 2011. However, the average GDP growth for the period 2008–2011 is estimated at 2.1% instead of the 4% projected in the DMF. In addition, the assumption—as outlined in the DMF—of a return of investment and consumer confidence has not been met. FDI inflows are expected to continue to be weak in 2010, with IMF estimates at 6.5% of GDP. The downturn also led to a fall in fiscal revenues and the public deficit widened to 9.2% in 2009.

32. On the other hand, the programmatic support provided by ADB and other development partners enabled the government to increase essential expenditures for social development from 26.6% of the total state budget in 2007 to 27.4% in 2008 and to 31.4% in 2009; meeting output performance targets. In addition, although the impact of the crisis and the associated policy responses on poverty are only beginning to emerge, poverty rates have decreased.²⁸ According to simulations, public expenditures on social protection have significantly mitigated the incidence of poverty in Georgia. Without pension payments, poverty in 2007 would have been about 2% higher (footnote 3).

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

33. The EAPCR was implemented as planned and is rated *successful*. The emergency assistance allowed the government to ensure that the immediate incremental expenditure needs arising from the war were met, and that the core public expenditure program for 2008 was delivered in accordance with the approved budget. For reasons beyond the control of the program—the impact of the global financial and economic crisis—growth targets for the impact and outcome statements were not met. While the output targets were not well defined, other available data supports the achievement of the outputs.

²⁷ Asian Development Bank. 2010. *Report and Recommendation of the President to the Board of Directors. Georgia: Social Services Delivery Program*. Manila.

²⁸ The generally poor (60% of median consumption) decreased from 21.3% in 2007 to 21% in 2009, after an increase to 22.1% in 2008. The extreme poor (40% of median consumption) decreased from 9.2% in 2007 to 8.8% in 2009, following an increase to 9.5% in 2008.

B. Lessons

34. Two important lessons have emerged from the EAPCR:

- (i) **Lending Modality:** Having an appropriate modality is critical. ADB's Disaster and Emergency Assistance Policy together with Achieving Development Effectiveness in Weakly Performing Countries provided a ready framework for EAPCR.
- (ii) **Monitoring and evaluation framework.** The overall success of the EAPCR could have been greater had the DMF been better designed. The impact statement could have been closer to the outcome, and assumptions about investor and consumer confidence should have been more realistic. The impact statement could have focused on maintaining sustainable and inclusive public sector spending rather than to restore the Georgian economy to the pre-war trajectory of growth and social development. A more realistic assumption could have been formulated in line with the government's commitment to give priority to social expenditures. The output targets could have been defined according to existing data and definitions.

C. Recommendations

1. Program Related

35. **Further action or follow-up.** As a crisis response operation, the implementation of the EAPCR is complete. No further action or follow-up is necessary. ADB has continued to stay engaged through the two program loans approved in 2009 and 2010.

36. **Timing of the program performance audit report.** For an accurate evaluation of the EAPCR's components, a program performance audit report should be prepared about 4–5 years after the program completion report—following the maturity of the IMF SBA and the \$500 million Eurobond issued in 2008. This would allow the economy to recover. This audit should not be confined to the original indicators in the DMF.

2. General

37. The current definition of 'sustainability' under ADB Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations²⁹ does not adequately address emergency support. The sustainability of emergency support depends primarily on economic recovery, and increased revenue collection, which may depend on externalities.

38. In addition, ADB should ensure that the government takes a greater role in the design and implementation of the DMF, including measurement of performance targets. Under the EAPCR, ADB incorporated JNA targets, but adequate data was not available. Borrowers should also have a better understanding of ADB's requirement for governments to provide program completion reports.

²⁹ ADB. 2006. *ADB Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila.

PROGRAM FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Impact Revitalization of the Georgian economy to pre-conflict trajectory of growth and social development	Target: Real GDP growth sustained at an average of more than 4% over 2008–2011 Result: Average GDP growth 2008–2009 was 1.6%; projected growth 2008–2011 is 2.1%	Department of Statistics, Government of Georgia Ministry of Finance	Assumption Investor and consumer confidence returns Risks Regional tensions Protracted global credit crisis and recession
Outcome Adverse economic and social impact of the conflict mitigated	Target: Economic recovery begins in second quarter of 2009 (GDP overall growth in 2009 at 4%) Result: 3.9% fall in GDP growth in 2009 Target: Resettlement of IDPs progresses Result: 21,456 IDPs relocated and compensated; of the 138,000 people displaced about 75% have been able to return home	Department of Statistics, Government of Georgia Ministry of Finance Ministry of Labor and Social Affairs	Assumption Budgetary support from development partners Risks Countercyclical fiscal policy insufficient to kick-start growth Weakening of the banking sector
Outputs 1. Ensuring that the immediate incremental expenditure needs arising from the conflict are met 2. Ensuring that the core public expenditure program for 2008	Target: New poor, including IDPs, are provided with temporary emergency support Result: One-time disbursement of GEL200 to over 18,000 households Target: Number of	Ministry of Finance Ministry of Labor and Social Affairs Ministry of Finance Ministry of Labor and Social Affairs	

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
is delivered in accordance with the approved budget	<p>affected persons receiving targeted social assistance</p> <p>Result: Allowance for IDP's provided; state-financed insurance provided to IDPs; essential expenditures maintained</p>		
Activities 1. Budget financing gap cofinanced 2. Implementation of JNA monitored with regular reports	<p>The JNA identified an exceptional financing gap of \$480 million for 2008, of which ADB financed \$70 million</p> <p>Joint Needs Assessment 9 October 2008</p> <p>Joint Needs Assessment Progress Report 30 June 2009</p> <p>Joint Needs Assessment Progress Report 15 June 2010</p>		
Inputs ADB loan of \$70 million	EAPCR facility of \$70 million disbursed on 12 December 2008		

KEY INDICATORS

Table A2.1: Georgia: Social Sector Expenditures 2004–2010

Item	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Planned
Internally displaced persons	43,881	37,349	36,754	32,514	57,331	65,921	65,213
Health care	147,362	147,716	199,169	235,580	285,993	339,817	424,501
Education	65,292	59,172	332,611	379,252	418,666	459,154	520,421
Social protection	364,258	555,238	600,350	778,172	1,145,587	1,319,783	1,294,413
of which pensions	254,980	388,667	420,245	544,720	801,911	923,848	906,089
of state financed insurance	...	...	15,366	37,260	80,453	132,773	168,117
Total expenditures	620,793	799,475	1,168,885	1,425,518	1,907,577	2,184,675	2,304,548
Total state budget	1,930,210	2,618,557	3,822,513	5,237,131	6,758,832	6,754,107	6,991,213
Internally displaced persons (% of state budget)	2.3	1.4	1.0	0.6	0.8	1.0	0.9
Health care (% of state budget)	7.6	5.6	5.2	4.5	4.2	5.0	6.1
Education (% of state budget)	3.4	2.3	8.7	7.2	6.2	6.8	7.4
Social protection (% of state budget)	18.9	21.2	15.7	14.9	16.9	19.5	18.5
of which pensions	13.2	14.8	11.0	10.4	11.9	13.7	13.0
of state financed insurance	...	...	0.4	0.7	1.2	2.0	2.4
Total expenditures as % of State budget	32.2	30.5	30.6	27.2	28.2	32.3	33.0
Internally displaced persons (% of GDP)	0.4	0.3	0.3	0.2	0.3	0.4	0.3
Health care (% of GDP)	1.5	1.3	1.4	1.4	1.5	1.9	2.1
Education (% of GDP)	0.7	0.5	2.4	2.2	2.2	2.6	2.6
Social protection (% of GDP)	3.7	4.8	4.4	4.6	6.0	7.4	6.4
of which pensions	2.6	3.3	3.0	3.2	4.2	5.1	4.5
of which state financed insurance	...	...	0.1	0.2	0.4	0.7	0.8
Total expenditures (% of GDP)	6.3	6.9	8.5	8.4	10.0	12.2	11.4
Total state budget (% of GDP)	19.6	22.5	27.7	30.8	35.4	37.6	34.5

... = data not available

Source: Ministry of Finance of Georgia July 2010.

Table A2.2. Georgia: Number of Beneficiaries of Selected Social Benefits

Number of recipients:	2007	2008	2009	Sep 2010
Targeted social assistance	80,036	370,901	420,802	353,610
State pensions	455,038	842,246	838,493	841,276
Allowance for internally displaced persons	20386 ^a	16,436	18,809	14,619
State financed insurance	120,000	750,838	904,897	906,601
Of which internally displaced persons	37,260	69,316	77,161	12,529 ^b
School vouchers (millions of lari)	14,124	20,859	29,413	32,100

^a IDP allowance in compact settlement only^b IDPs living in settlements only.

Source: Social Service Agency.

Table A2.3. Georgia: Macroeconomic Indicators 2000-2015

Item	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (millions of lari)	16,994	19,075	17,949	20,253	22,538	25,084	27,919	31,074	34,585
Real GDP annual change (%)	12.3	2.3	-3.9	5.5	4.5	5.5	5.0	5.0	5.0
Consumer price index (%)	11	4.4	1.7	4.8	5.3	5.0	5.0	5.0	5.0
General government (% of GDP)									
Annual change in revenue	...	30.7	29.3	29.8	29.1	28.2	28.0	27.9	27.8
Tax revenues	...	24.9	24.5	24.7	25.6	25.6	25.6	25.6	25.6
Current expenditures	...	28.5	30.1	26.9	25.3	24.0	23.2	22.5	22.3
Capital expenditures	...	8.6	8.4	8.2	7.0	5.9	5.3	5.1	5.1
Overall balance	...	(6.3)	(9.2)	(6.3)	(4.3)	(3.4)	(2.5)	(2.0)	(2.1)
Total public debt	22.3	25.0	37.1	46.1	49.3	47.1	45.1	42.2	40.5
Investment and saving (% of GDP)									
Investment and saving	25.7	21.5	14.4	15.0	17.4	18.6	19.2	20.0	20.0
Public	3.4	4.3	6.9	7.6	6.7	5.8	5.5	5.4	5.6
Private	22.3	17.2	7.6	7.4	10.7	12.8	13.7	14.6	14.4
Gross national saving	6.1	-1.2	2.6	2.4	4.2	6.0	7.6	9.3	10.4
Public	4.2	2.2	-0.8	2.2	2.5	2.8	3.2	3.6	3.5
Private	1.8	-3.4	3.4	0.2	1.7	3.3	4.4	5.7	6.9
Saving and investment balance	(19.7)	(22.7)	(11.9)	(12.6)	(13.2)	(12.6)	(11.6)	(10.7)	(9.6)
External sector									
Exports of goods and services (% of GDP)	31.1	28.7	29.8	35.8	39.1	39.4	39.7	39.9	40.2
Imports of goods and services (% of GDP)	57.9	58.3	49.0	56.1	59.1	57.8	56.3	55.6	54.7
Gross international reserves (millions of \$)	1361	1480	2110	2213	2308	2238	2064	2044	2221
FDI (% of GDP)	17.1	12.2	7.1	6.5	8.2	8.6	9.0	9.4	9.4

... = data not available; () = negative data

Source: Ministry of Finance of Georgia and International Monetary Fund.

Table A2.4: Georgia: External Lending and Grants to the Public Sector, 2008–2010
(millions of \$)

Item	2008	2009	2010 (projection)
Total	1368	1025	1174
IMF ^a	257	340	446
Through the budget	0	102	298
World Bank	126	274	189
Other multilateral institutions	135	237	287
Bilateral partners	350	172	252
Eurobond 2013	500	...	...
Memorandum items			
Total excluding IMF	1111	685	728
By type:			
Grants	388	259	324
Loans ^{bc}	723	426	404
By purpose:			
Budget support financing ^c	426	273	220
Project financing	185	412	508

IMF = International Monetary Fund; ... = data not available

^a Includes augmentation of access in 2010–2011.

^b Includes Eurobond in 2008.

^c Excludes stand-by arrangement purchases.

Source: International Monetary Fund. 2010. *Georgia: Sixth Review Under the Stand-by Arrangement*. IMF Country Report No. 10/219. Washington D.C.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Relevant Section in the Loan Agreement	Particular Covenants per Loan Agreement	Status of Compliance
Article IV Particular Covenants		
Section 4.01	The Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.	Substantially complied with. The program was carried out with due diligence and efficiency and in conformity with sound administrative, financial, and environmental practice.
Schedule 3 – Withdrawal of Loan Proceeds		
1	Withdrawals from the Loan Account shall be made for the financing of Eligible Expenditures.	Complied with.
3	Prior to submitting the application to ADB for withdrawal from the Loan Account, the Borrower shall nominate a foreign currency account (FCA) at the National Bank of Georgia into which all withdrawals from the Loan Account shall be deposited. The Borrower shall ensure that within thirty (30) days after the deposit of the proceeds of the Loan into the FCA, the borrower's Treasury Single Account (TSA) at the National Bank of Georgia is credited with the Lari equivalent at the official exchange rate. The Borrower shall furnish to ADB an official notification confirming the Loan amount deposited into the FCA, the conversion of such amount into Lari, and its deposit into the TSA, specifying the date of deposit and the exchange rate applied.	Complied with.
4(a)	Within three (3) months after the withdrawal from the Loan Account, the Borrower shall furnish to ADB a certificate that the value of the Eligible Expenditures is equal to or exceeds the Lari equivalent of the Loan amount as notified pursuant to paragraph 3. Such certificate shall identify the types and amounts of the Eligible Expenditures toward which the Loan proceeds have been applied.	Complied with.
4(b)	Upon ADB's request, the Borrower shall have the conversion as notified pursuant to paragraph 3 above, and/or the Eligible Expenditures toward which the Loan proceeds have been applied as certified pursuant to sub-paragraph (4a), audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB and the Borrower, in accordance with Borrower's appropriate auditing standards and procedures. Promptly after preparation of such audits but, in any event, not later than six (6) months after the date of ADB's request, certified copies of such audited conversion and/or Eligible Expenditures toward which the Loan proceeds have been applied shall be furnished to ADB (including the auditors' report).	Complied with.

	opinion on the compliance with this Loan Agreement), all in the English language. The Borrower shall also furnish to ADB such other information concerning the Eligible Expenditures toward which the Loan proceeds have been applied and conversion and related records and the audit thereof as ADB shall from time to time reasonably request.	
Schedule 4 – Implementation and Other Matters		
EAPCR Implementation		
1	The Borrower shall work with ADB and other donors participating in the Joint Needs Assessment (JNA) to monitor results, track the assistance provided to the Government of the Borrower in connection with the JNA, and assess the impact of such assistance.	Substantially complied with.
2	The Borrower shall update ADB on the implementation of the JNA and shall ensure that necessary support is provided to ADB to review and monitor the status of key indicators agreed to with ADB.	Complied with.
3	The Borrower shall furnish to ADB a certified copy of the state budget execution reports for 2008 and 2009 as submitted to the Parliament of the Borrower within six (6) months after the end of the relevant fiscal year, with a certified translation of the relevant parts thereof into the English language. The Borrower shall furnish to ADB a certified copy of the opinion of the Chamber of Control of the Borrower on such reports within eleven (11) months after the end of the relevant fiscal year, with a certified translation of the relevant parts thereof into the English language.	Substantially complied with. The 2009 audited report was translated in November 2010. The fiscal year ends in December 2009 with completion of the audited report in mid-2010.
4	The Borrower shall furnish to ADB a certified copy, in the English language, of the externally audited annual report of the National Bank of Georgia in accordance with International Financial Reporting Standards for the fiscal years 2008 and 2009 within six (6) months after the end of the relevant fiscal year.	Complied with.
5	The Borrower shall ensure that the Loan proceeds are not used to finance expenditures other than the Eligible Expenditures.	Complied with.
Good Governance and Transparency		
6	The Borrower shall comply with ADB's Anticorruption Policy (1998, as amended to date). The Borrower, consistent with its commitment to good governance, accountability and transparency, agrees (a) that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the EAPCR, and (b) to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as such relate to EAPCR and may be necessary for the satisfactory completion of any such investigation.	Complied with.

Safeguards Compliance		
7	The Borrower shall ensure that ADB's Environment Policy (2002) and Involuntary Resettlement Policy (1995) are complied with in the implementation of any activities financed from the proceeds of the Loan.	Complied with.

OVERALL ASSESSMENT OF THE EMERGENCY ASSISTANCE FOR POST-CONFLICT RECOVERY

Criterion	Weight (%)	Definition under ADB Guidelines	Rating Description	Rating Value	EAPCR Rating	Score
Relevance	20	Relevance is the consistency of a project's impact and outcome with the government's development strategy for the country, and Asian Development Bank's strategic objectives at the time of approval, and evaluation and the adequacy of the design.	Highly relevant Relevant Partly relevant Irrelevant	3 2 1 0	3	0.6
Effectiveness	30	Effectiveness describes the extent to which the outcome, as specified in the design and monitoring framework, either as agreed at approval or as subsequently modified, has been achieved.	Highly effective Effective Less effective Ineffective	3 2 1 0	2	0.6
Efficiency	30	Efficiency describes, ex-post, how economically resources have been converted to results, using the economic internal rate of return, or cost effectiveness, of the investment or other indicators as a measure, and the resilience to risk of the net benefit flows over time.	Highly efficient Efficient Less efficient Inefficient	3 2 1 0	3	0.9
Sustainability	20	Sustainability considers the likelihood that human, institutional, financial, and other resources are sufficient to maintain the outcome over its economic life.	Most likely Likely Less likely Unlikely	3 2 1 0	2	0.4
Overall assessment	Highly successful: Overall weighted average is greater than or equal to 2.7 Successful: Overall weighted average is greater than or equal to 1.6 and less than 2.7 Partly successful: Overall weighted average is greater than or equal to 0.8 and less than 1.6 Unsuccessful: Overall weighted average is less than 0.8				Total	2.5