



Supporting Georgia's Post-Conflict Social Expenditures

Post-Conflict Needs Assessment

Georgia was, until 2008, one of the most prosperous areas of the former Soviet Union.¹ The government had implemented far-reaching macroeconomic, structural, and sector reforms that helped the country attract significant foreign investment.² The Georgian economy was on a strong growth path until mid-2008 when the conflict with the Russian Federation erupted. The conflict led to a weak investor, lender, and consumer confidence; a contraction of liquidity in the banking system; damage to physical infrastructure; and an increase in internally displaced persons (IDPs).

Georgia experienced a sharp slowdown in economic growth from 12.4% in 2007 to 2.3% in 2008, and a steep decline in domestic and foreign direct investments 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 more than 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.

The Government of Georgia responded with a swift and effective post-conflict recovery program. This includes measures to further optimize the budget and to prioritize expenditures, which have increased for health, education, and social protection—especially for the poor and socially vulnerable. Yet, further efforts are needed to strengthen the social safety net (e.g., food, health care, education) and to ensure the livelihood–security needs of

large segments of the population, especially vulnerable groups, including pensioners, orphans, and disabled people.³

ADB Assistance for Post-Conflict Recovery in Georgia

The Asian Development Bank (ADB) responded swiftly in the aftermath of the conflict. Measures taken include (i) provision of \$40 million equivalent in investment support through the Municipal Services Development Fund Project (MDF); (ii) participation in the multi-development partner joint needs assessment (JNA) exercise; (iii) close coordination with the principal development partners of Georgia, particularly the European Union (EU), the International Monetary Fund (IMF), the United States, and the World Bank, among others; and (iv) the provision of \$70 million to enable Georgia to maintain critical social expenditures.

Efforts are needed to strengthen the social safety net (e.g., food, health care, education) and to ensure the livelihood–security needs of large segments of the population, especially vulnerable groups, including pensioners, orphans, and disabled people.



The Emergency Assistance for Post-Conflict Recovery (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. These needs were identified in the JNA, which involved multiple development partners and IMF's Stand-by Arrangement.⁴ The JNA identified an exceptional financing gap of \$480 million for 2008.⁵

In September 2008, ADB approved the EAPCR project, amounting to \$70 million, to finance part of that gap. The balance was addressed by the other development partners. The EAPCR helped finance essential economic and social expenditures necessitated by the conflict, and other essential expenditures under the government's financing plan (e.g., pensions).

The EAPCR contributed to avert a collapse of domestic demand triggered by reduced consumer and lender confidence, and also supported employment. A substantial number of IDPs have been resettled. Between November 2008 and May 2009, the Social Service Agency provided one-time disbursements of Georgian lari (GEL) 200 to more than 18,000 households to help them settle into collective centers. Both allowances and state-financed insurance have been provided to IDPs since 2008. The number of people receiving targeted social assistance increased in 2009. In addition, the monthly pension benefit was increased by 36% in real terms over 2008–2010, the targeted social assistance cash benefit for vulnerable families was doubled for additional (non-head) household members, and the number of recipients of health insurance vouchers grew to 900,000.

Endnotes

¹ Country Watch. n.d. *Georgia Country Profile*. Available at www.countrywatch.com/country_profile.aspx?vcountry=64

² ADB. 2008. *Report and Recommendation of the President to the Board of Directors for the Georgia Emergency Assistance for Post-Conflict Recovery*. Manila (Loan 2469 – GEO, \$70.0 million, approved on 12 November 2008, financed by the Asian Development Fund).

³ CARE. n.d. *Georgia*. Available at www.care.org/careswork/countryprofiles/57.asp

⁴ Footnote 2.

⁵ Over the period October 2008–March 2010, the joint needs assessment 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 (see footnote 3).

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Contact Information

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
www.adb.org