Executive Summary

Transparency International Georgia’s study examines access to information and the accountability of international aid to Georgia in the aftermath of the Brussels donor conference on October 22, 2008, at which donors pledged USD 4.5 billion in aid to Georgia.

The study is structured as follows:

- total pledges
- main donors
- grants versus loans
- target sectors
- pledges versus commitments
- aid conditionalities
- key Georgian players
- complexities of aid
- access to information on aid
- democratic involvement
- recommendations

The study concludes that the current lack of easily accessible and up-to-date information on aid in the public realm directly reduces the transparency and accountability of aid, and limits the scope for democratic politics. While TI Georgia to date has neither looked for, nor found, any instances of corruption linked to international aid to Georgia in the aftermath of the Brussels donor conference, the current information deficit and resulting lack of transparency heightens the risk that aid will be misallocated, wasted or stolen in the coming years.

In order for international aid to contribute to the development of a stable, democratic and prosperous Georgia, both donors and key players in Georgia must work together to actively increase public access to comprehensive (and comprehensible) information on aid.

*This study is part of a project financed by the OSCE Mission to Georgia*
Total Pledges

At the Brussels conference in October, donors from 38 countries and 15 international organizations pledged a total of USD 4.5 billion in international aid to Georgia for 2008-2010.\(^1\)

\textit{Chart 1. Total aid pledged by year (USD million)}

Of this money, just over two billion has been pledged by individual countries and by the European Union. The United States alone pledged nearly as much as all other donor countries taken together.

\textit{Chart 2. Main country donors (USD million pledged)}

\(^1\) All information on donor pledges at the Brussels conference is taken from a breakdown published by the World Bank. While the World Bank press release speaks of “38 countries and 15 international organizations”, far less are actually listed as donors in the attached breakdown. Amongst the omissions is at least one donor who did attend and make a pledge, but asked not to be listed.

\url{http://go.worldbank.org/38ZWL0Z6O0}
Almost three fifths of the aid pledged to Georgia, over 2.4 billion dollars, comes from international financial institutions and organizations.

**Chart 3. Main institutional donors (USD million pledged)**

Grants versus Loans

Aid money is not free money. Around two billion dollars, nearly half of all aid to Georgia, comes in the form of loans, which Georgian taxpayers will need to pay back over the coming years and decades.

According to the Ministry of Finance, these new loans will not plunge Georgia into a debt trap for two reasons. First, the loans offered by international financial institutions are highly concessional, with interest rates as low as one percent, long grace periods, and loan maturities of up to forty years. Second, due to debt rescheduling, high economic growth and prudent borrowing, Georgia’s public external debt currently stands at a low 16% of GDP.

By the end of the three-year period covered by the donor conference, the debt-to-GDP ratio is expected to stay below 20%. Even in 2013, when Georgia’s public external debt is projected to peak, even in a worst-case scenario this ratio will remain far below the international prudential threshold of 35%, and even further below the Shevardnadze-era record of over 50%.

**Target Sectors**

According to a one-page breakdown provided by the World Bank, four sectors together account for two thirds of the aid allocated at the conference:

- banking
- transport
- budget and macro-financial support
- energy

766 million dollars in pledges have not yet been allocated to any specific sector.
Table 1: Donor pledges by sector (USD million)

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>PLEDGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>853</td>
</tr>
<tr>
<td>Transport</td>
<td>682</td>
</tr>
<tr>
<td>Budget and Macro-financial Support</td>
<td>586</td>
</tr>
<tr>
<td>Energy</td>
<td>381</td>
</tr>
<tr>
<td>Internally Displaced Persons</td>
<td>350</td>
</tr>
<tr>
<td>Private and Financial Sector</td>
<td>252</td>
</tr>
<tr>
<td>Urban and Municipal</td>
<td>211</td>
</tr>
<tr>
<td>Immediate</td>
<td>100</td>
</tr>
<tr>
<td>Other</td>
<td>355</td>
</tr>
<tr>
<td>Not Allocated</td>
<td>766</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>4,536</strong></td>
</tr>
</tbody>
</table>

*Source: World Bank*

Pledges versus Disbursements

It is also important to distinguish between what donors pledge and what donors eventually really give. In some cases, aid allocations may not be approved by national parliaments in donor countries. In other cases, donors may have the money at their disposal, but not be able to disburse it as quickly as planned.

So far, the data for Georgia is encouraging. In 2008, the major donors seem to have already committed what they pledged at the Brussels conference for this year.

*Chart 4. Aid pledged versus aid committed, for 2008 (USD million)*

*Source: World Bank (pledges); TI Georgia research of donors (commitments)*
However, when TI Georgia contacted donors directly to ascertain to which sectors they had committed their funds for 2008, large discrepancies emerged between pledges by sector made at the conference and commitments by sector made by donors on the ground.

Chart 5: Donor pledges [left] and commitments [right] by sector, 2008 (USD million)

Source: World Bank (pledges); TI Georgia research of donors (commitments)

These discrepancies underline the urgent need for detailed information on which donor pledged aid to what sectors at the donor conference. To date, this information has not been released by the World Bank.²

Aid Conditionalities

There are two types of aid conditionalities for Georgia, procedural and political.

- **procedural conditionalities**

Most donors have procedural conditionalities that govern when and how aid monies will be released, how their use will be monitored, and what kind of reporting is required. These procedural conditionalities vary from one donor to the next, and between sectors.

For example, procedural conditionalities attached to budget support tend to focus on existing governmental mechanisms, with significant variations between donors. The Ukraine has stated that its support to the Georgian government is simply given in good faith, and that Tbilisi may use these funds as it sees fit. In contrast, one EU member state halved its planned budget support due to a perceived lack of capacity in oversight, but may raise its contribution in future again if it observes improvements. Meanwhile, oversight of USAID’s budget support works through mechanisms within the Ministry of Finance and the Budget and Finance Committee of the Parliament.

Donor support to the banking sector relies on contracts with individual banks in Georgia, without direct supervision by the Ministry of Finance.

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² The World Bank has released a list of pledges by country, and a list of pledges by sector, but has not released information that would reveal which country pledged for what sector. See: [http://go.worldbank.org/38ZWL0Z6O0](http://go.worldbank.org/38ZWL0Z6O0)
- political conditionalities

Political conditionalities are political preconditions set by donors that must be met before some or all aid is disbursed. For example, a donor may only release aid money when a government has demonstrated its determination to combat corruption, increased freedom of the press, reformed parts of the administration, or changed its electoral code.

To the best of TI Georgia's knowledge, only the European Commission (637 million dollars pledged) intends to explicitly link its aid to political conditions. The European Commission is still in the process of deciding what conditions Georgia will have to meet to qualify for its aid. However, all donors implicitly reserve the right to cut funding if they are not satisfied with the use of their aid, or strongly disapprove of political developments.

Key Georgian Players

Georgian institutions play an important role in the aid process. The key institutions in this regard are the Ministry of Finance and the Parliamentary Budget and Finance Committee.

- Ministry of Finance

The Ministry of Finance is the key Georgian institution managing relationships with international donors. The ministry is a central player in drawing up the state budget, which currently contains foreign aid funds given as direct budget support.

Within the ministry, donors are coordinated by a separate department of thirteen civil servants headed by a Deputy Minister. The department tries, in the words of an insider, “to attract as much money as possible, on the best terms possible, for the best use possible”, and signs all loan agreements. According to a senior official, having a single donor coordinating body in the ministry is the optimal route to achieving governmental coordination of donors and maximizing donor-to-government accountability. The department encourages donors to align their project finance with the Georgian state budget.

The department tracks aid received by Georgia, a daunting task considering the huge sums, multitude of donors and bewildering array of funding vehicles involved. Recognizing the impossibility of tracking every single minor donor and activity, the ministry has set itself – and is reportedly achieving – the target of tracking 95% of donor funds coming into Georgia. (In comparison, other aid recipient countries struggle to track even two thirds of donor inflows.)

Humanitarian support, as opposed to development aid, is handled by the ministry’s Revenue Service through tracking customs clearances. In order to achieve exemption from customs duties, imports for humanitarian purposes must be certified by the Revenue Service, which requires donors to provide post-factum reports on their projects. In total, seven officials are engaged in this task.

The Ministry of Finance’s oversight is limited in three regards. First, donor pledges and budgets contain the operating costs of donors themselves and expenses for technical assistance, notably consultants’ salaries. The ministry does not ask donors to share this data. Second, the ministry of its own accord steers clear of donor-NGO relationships. Third, the ministry does not get involved in agreements between donors and commercial banks.

The Ministry of Finance is currently setting up an Aid Coordination Council at vice-ministerial level, in which representatives from all key ministries will participate. The council will be chaired by the Minister of Finance and co-chaired by the Deputy Minister of Finance in charge of donor coordination.

The Ministry of Finance is considering a scheme under which all donors will submit quarterly or semi-annual reports on their activities, ideally on the ministry’s website.
Parliamentary Budget and Finance Committee

The parliamentary committee is the legislative counterpart of the Ministry of Finance, and responsible for revising and commenting on draft budgets submitted by the ministry. However, most experts consulted by TI Georgia expressed doubt as to whether parliament as whole has the capacity to meaningfully engage with the complexities of aid.

Anti-Crisis Council

The Anti-Crisis Council was first proposed by President Saakashvili in late August. The initial idea was to bring together politicians from across the political spectrum with civil society representatives and aid beneficiaries in a forum that would “control the income of aid and its distribution”. Originally, there were to be several councils, including several in the conflict-affected areas. To date, there is only one Anti-Crisis Council in Tbilisi, which is headed by a member of the parliamentary opposition. So far, council activities have centered on issues unrelated to international aid.

Financial Policy Coordination Council

As prime minister, Lado Gurgenidze was the key government counterpart of the international Joint Needs Assessment team that set the agenda for the donor conference in Brussels. Since the cabinet reshuffle on October 27th, in which he lost his position, Gurgenidze has co-chaired the new finance council, which advises on financial policies and the investment climate, but he is reportedly no longer directly involved in international aid negotiations.

Complexities of Aid

International aid to Georgia is extremely complex, flowing from dozens of state donors and financial institutions, each with their own funding channels and systems of disbursal.

Aid Carriers

For example, the United States pledged a total of one billion dollars in Brussels, 720 million of which was scheduled for 2008. The main channels for this American aid are USAID, Office of Foreign Disaster Assistance, the Department of State, the Department of Defense, OPIC and Millennium Challenge Georgia. Each of these agencies and organizations in turn may either provide aid directly, or provide it via other organizations who themselves in turn may subcontract others, with mechanisms for disbursal and oversight differing from one player to the next.

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5 According to one source, in the aftermath of an earlier donor conference for Georgia in 2004, American aid was channeled through a total of 15 different entities.
Pledges vs Disbursals

Also, donors can change their minds over time. Poland pledged 4.35 million dollars at the aid conference, but less than two months later raised its pledge to 7.5 million dollars.\(^6\) Faced with the global financial crisis, parliaments in donor countries may not approve all of the foreign aid pledged by their governments in the years to come. The European Commission’s political conditionalities are a further question mark; before Brussels’ conditions have been set and published, it is hard to estimate whether the Georgian government will be able to meet them.

Financial Cycles

Different donors have different financial cycles, and for large construction projects like roads, funds are not transferred in a single lump sum, but step-by-step as work on the ground progresses, sometimes over a period of several years. Therefore, donor funds are virtually impossible to segment on a year-by-year basis. Many donors have not finalized the allocation of their pledges for 2008, let alone for the coming years, making it difficult to track funding by target sector. Many donors are expected to post more complete data for 2008 in December.

Access to Information on Aid

While the World Bank has belatedly released a breakdown of donor pledges by country and by sector,\(^7\) it has still not published donor-by-donor information on who pledged what for which sector at the conference. The World Bank has recently indicated to TI Georgia that it plans to release this vital information in the near future. This would bring the World Bank closer to fulfilling the promise made in Accra earlier this year that “beginning now, donors will provide full and timely information on annual commitments and actual disbursements”.

There is currently no publicly accessible central source of information on aid to Georgia. While the Ministry of Finance appears to be doing well in tracking and coordinating aid, the ministry’s website does not provide comprehensive information on donors’ activities to the public.

Short of securing an appointment at the Ministry of Finance, the only way to get information on aid to Georgia is to research and compile the activities of the dozens of donors involved. While most – though not all – donors provide comprehensive information on past activities on their websites, information on current activities and future plans is usually scarce. Noticeably lacking from donor websites is information on how their Brussels pledges translate into individual projects, and which projects are included in their Brussels pledge brackets. Due to this missing link between pledges and projects, TI Georgia contacted donors directly for more detailed information.

When contacted by TI Georgia, some donors appeared extremely reluctant to share any substantive information on the aid that they are providing. For example, Japan pledged 200 million dollars at the Brussels conference, but repeated emails and phone calls have failed to elicit how this money will be spent; the IFC has been similarly reticent. In contrast, Germany, Sweden, Switzerland and the Asian Development Bank have been extremely responsive to enquiries, as has been the Georgian Ministry of Finance.

An underlying theme of most donor communications with TI Georgia was the limited performance of most (though not all)\(^8\) donors in quickly and effectively responding to requests for detailed information. Donor offices sometimes appeared confused as to who was responsible for responding to public enquiries, staff members were

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\(^7\) See [http://go.worldbank.org/38ZWL0Z6Q0](http://go.worldbank.org/38ZWL0Z6Q0)

\(^8\) As part of its ongoing aid monitoring efforts, TI Georgia will develop and publish a transparency ranking of donors in Georgia in 2009.
unsure about what kind of information they were permitted to release, and several donor representatives refused to provide some kinds of data in writing, but were willing to provide it verbally over the telephone.

Coupled with the lack of a publicly accessible central source of information on aid to Georgia, the limited public outreach performance of donors makes it virtually impossible for Georgian stakeholders to gain an overview of who funds what, when, where and how. TI Georgia itself, after two months of full-time research by a dedicated staff member, still has only an incomplete picture of donor activities.
Democratic Involvement

The lack of easily accessible and up-to-date information on aid in the public realm directly reduces the transparency and accountability of aid, and limits the scope for democratic politics.

For example, it is impossible to tell from publicly available information whether donors have pledged sufficient funds to finance the resettlement of IDPs who have been living in collective shelters since 1992. The Joint Needs Assessment\(^9\) put a price tag of 576 million dollars on IDP housing, but the “Internally Displaced Persons” line item in the World Bank’s breakdown of donor pledges at the donor conference shows that only 350 million were pledged for this purpose. Presumably, some of the 586 million earmarked for “budget and macro-financial support” will also be used for IDP housing, as may part of the 766 million pledged that have not been allocated so far, but details are not readily available.

Without this information, the Georgian media, civic groups and political representatives cannot possibly tell whether plans for resettling IDPs are on track or not, and whether they should advocate for additional funding for this purpose out of the state budget. Long-term IDPs themselves have no way of finding out what the future holds for them. An issue that is absolutely central to the lives of around 100,000 Georgians has been completely removed from the realm of democratic politics, in direct contravention to the promises made by donors in the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action.

TI Georgia Recommendations

Lack of accessible information on aid has a direct negative impact on democracy in Georgia, and undermines democratic accountability mechanisms in the country. While TI Georgia to date has neither looked for, nor found, any instances of corruption linked to international aid to Georgia in the aftermath of the Brussels donor conference, the current lack of information and resulting lack of transparency heightens the risk that aid will be misallocated, wasted or stolen in the coming years.

In order for international aid to contribute to the development of a stable, democratic and prosperous Georgia, both donors and key players in Georgia must work together to actively increase public access to comprehensive (and comprehensible) information on aid. Where aid is concerned, transparency, good public relations and positive outcomes often go hand in hand.

- **Donors** should take steps towards actively providing easily accessible and comprehensible information on their activities to the Georgian public. A simple first step would be to clearly identify one person responsible for responding to public enquiries, and specifying what information (if any) is considered confidential and cannot be shared with the public.

- **Donors** should take swift action on their Accra promises to immediately “provide full and timely information on annual commitments and actual disbursements”, “regularly make public all conditions linked to disbursements”, and give “regular and timely information on their rolling three- to five-year forward expenditure and/or implementation plans”. At present, many donors active in Georgia are still far from meeting these key benchmarks for transparency.

- **Donors** should note their Accra pledge to fully meet their earlier commitments to transparency, accountability and democratic participation under the Paris Declaration on Aid Effectiveness by 2010. Georgia, with a fully literate population and functional government, is one of the aid recipient countries in

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\(^9\) The full version of the JNA has still not been released, reportedly at the insistence of the Georgian government. For more information on the JNA, see TI Georgia’s earlier report: http://www.transparency.ge/index.php?lang_id=ENG&sec_id=215&info_id=447
which the Paris Declaration should be easiest to implement. Time is running out, and there are no excuses.

- While the Ministry of Finance appears to be very successful at tracking aid, it does not actively engage in public outreach on aid issues. Making information accessible to Georgian citizens in a comprehensible format is not an optional extra, but a core function of a government body in a democratic society. As the only entity in Georgia that has the mandate and capacity to keep track of international aid, the ministry should assume responsibility for public outreach on aid.

- The opposition, both inside and outside of parliament, should take a more active interest in aid issues. Actively engaging with the major donors to learn about and discuss their aid plans should be the first step towards active participation in aid issues.

Project Background

This study was produced in the framework of the project “Effective Aid through Public Participation”, a two-month TI Georgia project financed with 14,620 Euros by the OSCE Mission to Georgia. It has been distributed to over 2,000 people in Georgia and abroad.

Key Documents and Links

Accra Agenda for Action

Paris Declaration on Aid Effectiveness

TI Georgia report on the Joint Needs Assessment (October 2008)

TI Georgia press release on the Donor Conference (October 2008)

TI Georgia press release on Bush’s Billion Dollar Aid Pledge (September 2008)

Ministry of Finance
http://www.mof.ge/