

The Biodiversity Finance Initiative Georgia

Biodiversity Expenditure Review

2017

Acknowledgements

This project relied on inputs from many people working in biodiversity conservation and other sectors. We would like to acknowledge the following valuable contributions:

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Nino Antadze	UNDP
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Any views and opinions expressed in this report are nevertheless those of the authors and do not necessarily reflect those of contributors.

Suggested citation: Ministry of Environment and Natural Resources Protection of Georgia (MoENRP). 2017. Biodiversity Finance Initiative (BIOFIN) – Georgia: Biodiversity Expenditure Review. Report written by Tornike Phulariani, Levan Inashvili, Dimitri Papashvili, Gigla Ramishvili and Lia Tergiashvili. MoENRP and United Nations Development Programme, Tbilisi.

Abbreviations

Abbreviation	Description
APA	Agency of Protected Areas
BAU	Business as Usual
BDD	Basic Data and Directions
BER	Biodiversity Expenditure Review
BFP	Biodiversity Finance Plan
BIOFIN	The Biodiversity Finance Initiative
CBD	Convention on Biological Diversity
DES	Department of Environmental Supervision
EEC	Energy Efficiency Centre
EIA	Environmental Impact Assessment
EPR	Environmental Performance Review
FNA	Financial Needs Assessment
GEF	Global Environment Facility
GEL	Georgian Lari (National Currency)
GEOSTAT	The National Statistics Office of Georgia
GCF	Green Climate Fund
GiZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GNTA	Georgian National Tourism Agency
IMF	International Monetary Fund
IUCN	International Union for the Conservation of Nature
LEPL	Legal Entity of Public Law
MoA	Ministry of Agriculture of Georgia
MoE	Ministry of Energy of Georgia
MENRP	Ministry of Environment and Natural Resources Protection
MoF	Ministry of Finance
NBSAP	National Biodiversity Strategy and Action Plan
NEA	National environmental Agency
NEAP	National Environmental Action Plan
NFA	National Forestry Agency
NTFP	Non-timber Forest Product
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PIR	The Biodiversity Finance Policy and Institutional Review
PPP	Purchasing Power Parity
RoR	Run of River
SEA	Strategic Environmental Assessment
SEM	Sustainable Ecosystem Management
TEEB	The Economics of Ecosystems and Biodiversity
UNDP	United Nations Development Programme
WWF	World Wide Fund for Nature

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EXECUTIVE SUMMARY

This is the first comprehensive review of biodiversity related public and private expenditures in Georgia. Like the majority of the developing countries, there are three main sources of biodiversity financing in Georgia.

- Public Sector
- International Donor Organizations and Civil Society
- Private Sector.

The largest percentage of financing comes from the state budget. Over time, there is positive trend of financing biodiversity (BD) related programs and activities by the government of Georgia. The other important source is Donor support which has been active since the early 90s. Almost all types of foreign support can be found in the sector of environmental protection and management (including BD protection). International NGOs are actively present in Georgia. The private sector cannot be considered as a key source of financing BD in Georgia although it was difficult to capture adequate data from this sector and an economic model was used to make a rough estimate. Reported support from private companies was mostly limited with the rare cases of donation in forms of corporate social responsibility (CSR) spending and private contributions through crowd funding.

Table 1. Total Biodiversity Spending in Georgia (nominal, million USD)

Source	2013	2014	2015	2016	2017
Public Sector	7.1	12.1	16.0	17.6	17.2
Donor	3.7	7.3	6.8	6.7	6.7
Private Sector*	1.2	1.9	2.6	3.2	4.0
TOTAL	12.0	21.3	25.4	27.5	27.8

** Private spending is an estimate of spending by EIA permit holders on HPPs*

Spending was primarily focused on protected areas and forests. Other biodiversity national targets were addressed to a lesser degree. Public sector spending on biodiversity mainly consists of the Ministry of Environment and Natural Resources Protection spending. Other ministries, which provided some funds, benefiting biodiversity, included Ministry of Agriculture and Ministry of Infrastructure and Regional Development, however their spending was relatively low compared to MENRP.

Although biodiversity expenditure rose gradually over the fiscal years of 2013 through 2017, the percentage of biodiversity expenditure as compared to total government budget remained very low and amounted to 0.3% of total government budget.

Structure of the Report

The report is structured as follows:

Section 1 provides an overview of the different steps taken in the process of elaboration of the BER, discusses the approach, methodology and background of the analyses;

Section 2 sets out a set of principles for the budgeting process in Georgia;

Section 3 outlines the macroeconomic and fiscal context; measures such as Gross Domestic Product (GDP), real GDP growth and inflation, unemployment rate, government budgets as a share of GDP, public debt are used to analyze the socio-economic status quo of Georgia;

Section 4 reviews public expenditures in sustainable biodiversity management and priority sectors, identifies the principal biodiversity finance actors in public sector and illustrates the trend of financing public entities responsible for biodiversity management;

Section 5 reviews the modes of financing from different international donor organizations. A thorough analysis of BD spending based on more than 200 different projects implemented in Georgia is presented;

Section 6 provides an idea on the spending on BD in the private sector. Different successful cases of BD financing from private sector are exemplified in this section;

Section 7 identifies future projections of BD expenditure considering the results of analyses of the existing BD financing trends;

Section 9 sets out some overall conclusions and recommendations of the BER;

Annexes present different types of quantitative and qualitative data on BD expenditures in forms of annexes

1. METHODOLOGY AND BACKGROUND OF ANALYSIS

1.1 Introduction

According to the BIOFIN Workbook 2016, “The aim of the Biodiversity Expenditure Review (BER) is to use detailed data on public, private, and civil society budgets, allocations and expenditures to inform and promote improved biodiversity policies, financing, and outcomes.”

Table 2. Objectives of the BER

Spending Basics:	Who spends money, how much do they spend, and what do they spend it on – establishing a “business as usual” scenario upon which to build a Biodiversity Finance Plan.
Biodiversity Categories:	What are the concentration patterns for spending within biodiversity categories, NBSAP targets and other key strategies?
Policy Alignment:	Is spending aligned with stated government policies and priorities? Which thematic areas are the better financed and why? How does financing compare to these sectors’ contribution to GDP? How does spending on biodiversity compare to spending on other sectors/objectives? Are there allocations that do not fit with stated government priorities?
Delivery Patterns:	Is all the money that is budgeted being allocated? Has all the money that has been allocated been disbursed and spent? If not, why? Are there barriers for spending allocated budgets? What opportunities exist for integrating biodiversity more effectively into the budgeting processes?
Financing Sources and Solutions:	Are there opportunities to for improved efficiency of biodiversity financing?
Future Spending:	What biodiversity expenditure trends and data can be identified to predict future spending? How do these projections compare to future expected biodiversity financing needs (the BIOFIN Financial Needs Assessment – FNA)?
Business Case:	How can we use the information in the BER to make a better business case? The outputs of the BER should be in the form of a

	comprehensive report supported by policy briefs that will answer the above questions, helping policymakers understand the general trends in biodiversity expenditures and their future consequences.
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A Biodiversity Expenditure Review is focused on all types of expenditure contributing to sustainable biodiversity protection and management. Along with the public-sector expenditures, private sector spending and spending by international donor organizations, and NGOs are analyzed. Based on these analyses, there are calculated total expenditure figures, useful to summarize the BD financing trends and status on national level.

The relevant stakeholders were classified as the following:

Public Sector:

- State Government (Ministries, Legal Entities of Public Law (LEPLs), Sub units, State own LLCs)
- Local Governments (Local municipalities)
- National Financial Institutions

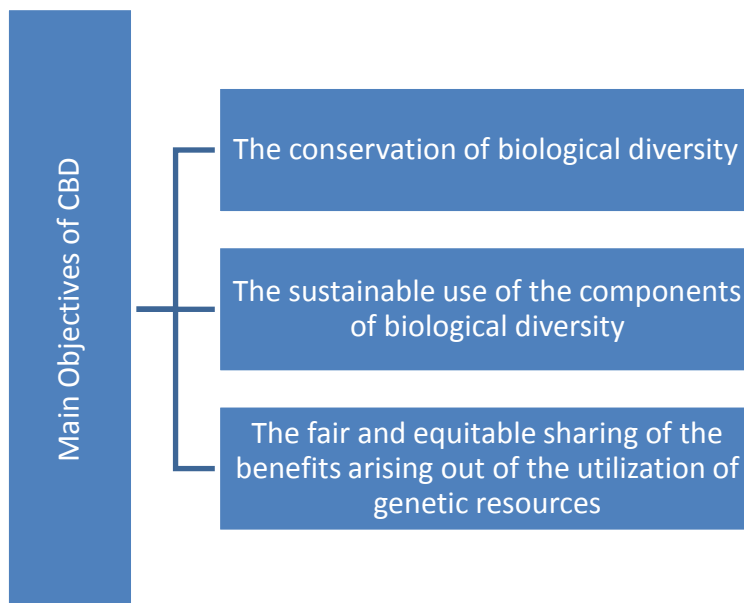
Private Sector:

- National Private Companies
- International Private Companies
- Private Foundations
- Households and individuals

International Donor Support:

- National/Local NGO
- International NGO
- International Financial Institutions
- Private Foundations international
- Bilateral Donor
- Multilateral Donor

Figure 1. Main objectives of CBD



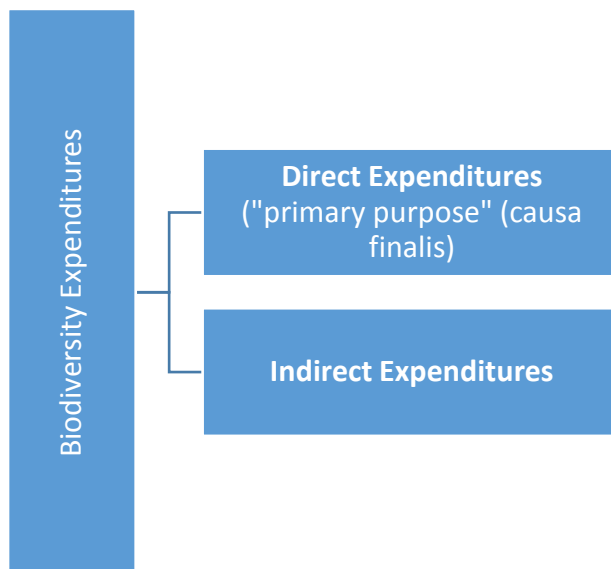
According to OECD Rio Markers: The activity will score “principal objective” (Direct) if it directly and explicitly aims to achieve one or more of the above three criteria.

Also, if the expenditure directly addresses a particular Aichi biodiversity target (CBD Strategic Plan) or National Biodiversity Strategy and Action Plan (NBSAP) target such as protection or restoration activities, then it can be considered as a direct expenditure.

Indirect expenditure, on the other hand, occurs when a CBD objective is also met but was not intended as the primary target of the action or expenditure.

It is important to comprehend respectively the definition of “biodiversity expenditure”. It is defined as “any expenditure whose purpose is to have a positive impact or to reduce or eliminate pressures on biodiversity broadly defined.” According to the methodology biodiversity expenditure is separated in two types: Direct expenditure, with the primary purpose to affect positively BD, and Indirect expenditure without primary accent on BD.

Figure 2. Biodiversity Expenditures



All direct and indirect BD expenditures have been classified based on the nature of the expenditure into different categories, such as national targets, Aichi targets, SEEA and BIOFIN categories.

After classifying expenditures into different categories of “biodiversity expenditures”, as described above, the amount of these expenditures that actually contributes to sustainable biodiversity management had been identified. This was done by sorting “direct” and “indirect” expenditures, and then determining what percentage of these expenditures should be counted.

The Program / Results approach was used in the case of collection the data from the public sector. Data associated with the spending units and directly linked to specific programs, projects, activities or outcomes was successfully used.

The Agency approach combined with the execution principle was used while gathering and working on the data from Donor organizations and NGOs to avoid double counting. We focused on implementing agency or organization that executes the action, rather than the source of financing.

The following steps were taken by the BIOFIN Georgia team in the process of working on the report.

- Defining the scope of the analysis, identifying key data sources, and developing a data management system;
- Gather Data – this entails identifying and collecting data from public, private, and civil society organizations and other data sources;

- Data Analysis – this includes analysis of macroeconomic issues and their relation to biodiversity expenditure as well as reviews of spending patterns of main organizations and sectors involved in biodiversity finance;
- Putting biodiversity expenditure in national context;
- Determine how effectively budgets are turned into expenditures;
- Identify trends in expenditure;
- Future expenditure projections;
- Formulate the conclusions and recommendations for each sector.

1.2 Budgeting Process

For the BER it is important to compare initial budgets with specific allocations and actual expenditures to determine whether planned budgets are actually disbursed as expenditures, both within sectors and by spending bodies or actors. Respectively, the proper comprehension of the budgeting system and related processes is crucial.

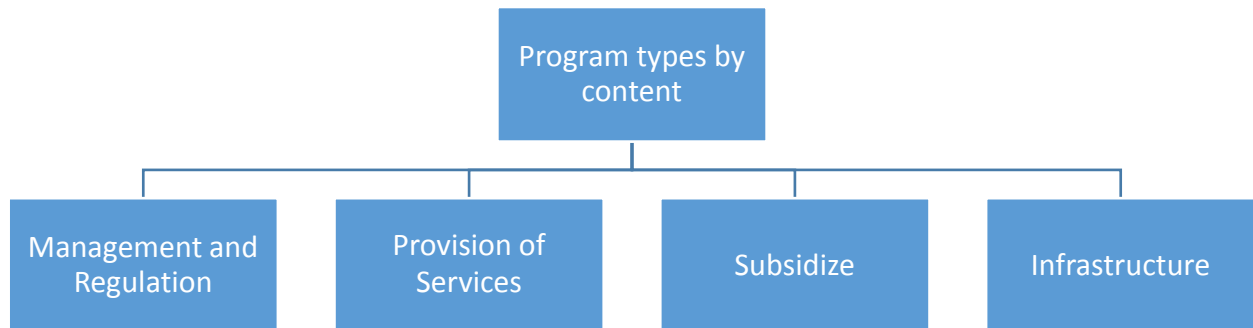
The process of reformation of the budgeting system in Georgia has been initiated in 2009. According to the new State Budget Code of Georgia (enacted in 2009), the responsibility of transferring from the organizational budgets to the program-based budgeting was officially/legally recognized. The very first state budget in program budgeting format has been introduced in 2012, while the autonomous republics and local self-governing units prepared their budgets in the same format only in 2013.

The guidelines for preparation of the state budget in program budgeting format is outlined the Order (№385; 2011) of Minister of Finance (MOF) of Georgia “On the approval of the methodology of elaboration program budget”.

As the “performance budgeting” is mainly focused on integration of “results” and “efficiency” in the process of budgeting and resource allocation, the fact of transferring to the new system of budgeting can be considered a positive step. According to OECD this type of budgeting is “a form of budgeting that relates funds allocated to measurable results”.

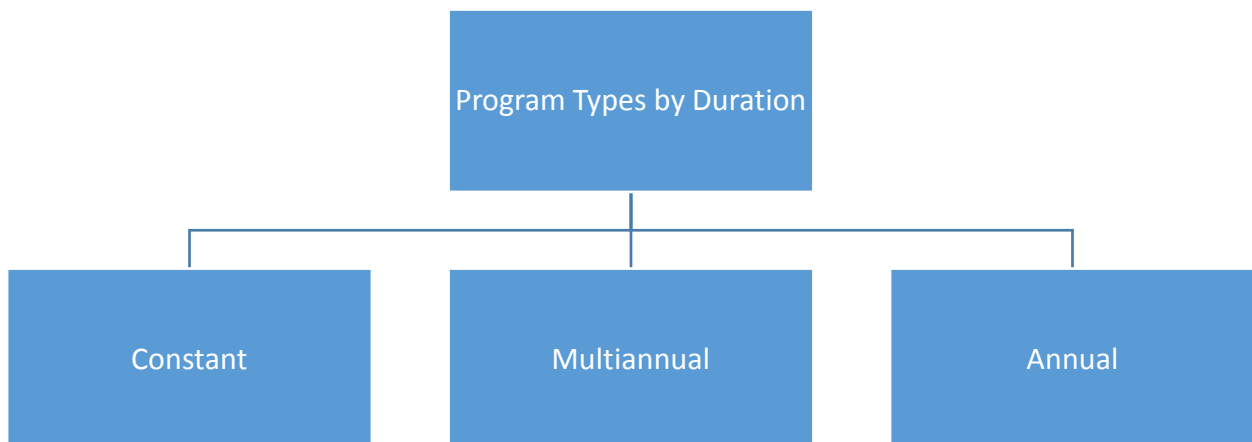
The Georgian legislation acknowledges four different types of programs considering the content (See Figure 3).

Figure 3. Program types by content



On the other hand, programs are differentiated due to the duration (See Figure 4).

Figure 4. Program types by duration



Typically, programs include sub-programs with designated implementing state units. Most of the programs related to BD protection, belong to the “management and regulation” type and are envisaged to be completed within a period of several years.

The first phase of working on the elaboration of the state budget has to be initiated before March 1st of each year. The government of Georgia has to identify the list of spending units that have to get engaged in the process of preparation of the Basic Data and Directions (BDD) document. The MOF should receive the following information:

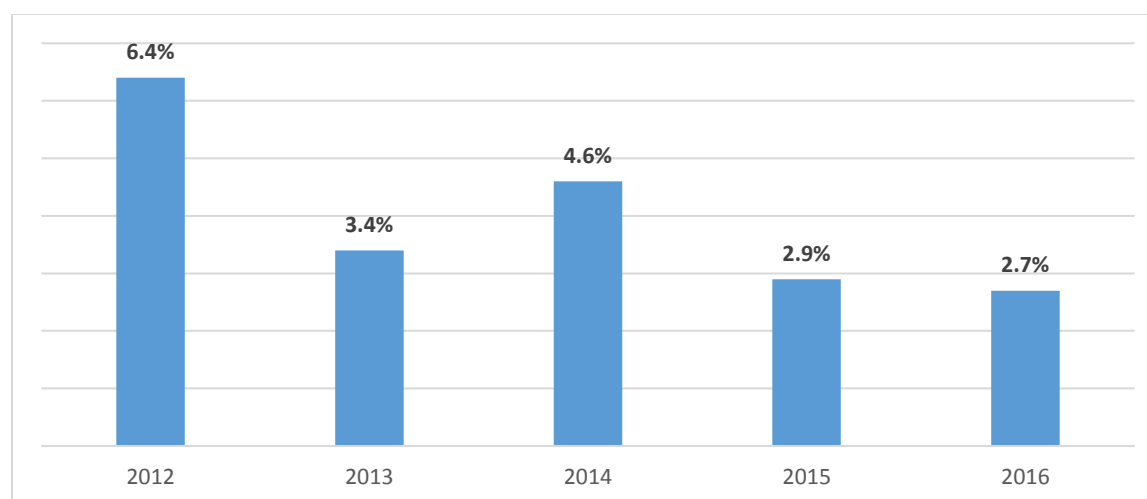
- Information about the allocations and goals achieved within the previous 2 years period;
- Allocations and expected results within the priorities of the ongoing year;
- A list of priorities for the next year with short descriptions, expected results and indicators;
- Medium-term budget of the priorities (in form of programs) for the upcoming years;
- Number of the employees at the spending units;
- The tentative ceilings of the allocations for the upcoming years.

It has to be noted that “the Ministry of Finance can be authorized to increase or reduce the ceilings of program budgets for the ministries based on the Prime Minister’s verbal assignment” (Order (№385; 2011) of Minister of Finance of Georgia “On the approval of the methodology of elaboration program budget”).

1.3 Macroeconomic and Fiscal Context

According to the World Bank “Following several years of robust growth performance in the post-financial crisis and conflict period of 2008–09, Georgia’s macroeconomic outlook and fiscal position have deteriorated in recent years, amid a weak external environment and policy changes. Concerns about domestic uncertainties faded relatively quickly after the 2012 elections, but soon after, there were tensions in the country’s external environment, and Georgia could not return to the earlier growth model of utilizing outside finance to support domestic growth.”

Figure 5. GDP Growth: Georgia



Source: GeoStat; Asian Development Outlook 2017

“Georgia’s economy grew by 2.7% in 2016, driven by construction and other non-tradables. Net exports declined mainly because of the slow adjustment of imports and continued decline in exports. Growth was supported primarily by investment that exceeded 30% of GDP in 2016. Meanwhile, tourism-related services performed well, as tourist arrivals from abroad increased significantly.

The decline in exports, along with the slow adjustment of imports, widened the current account deficit from 12% of GDP in 2015 to 12.4% in 2016. Foreign direct investment (FDI), however, financed nearly 90% of the deficit. External debt increased from 107% of GDP in 2015 to 111% in 2016 because of the higher external deficit and a 10% nominal depreciation of the lari (LCU).”

Country Snapshot - An overview of the World Bank’s work in Georgia, April 2017

Table 3. Macroeconomic trends (2011-2015)

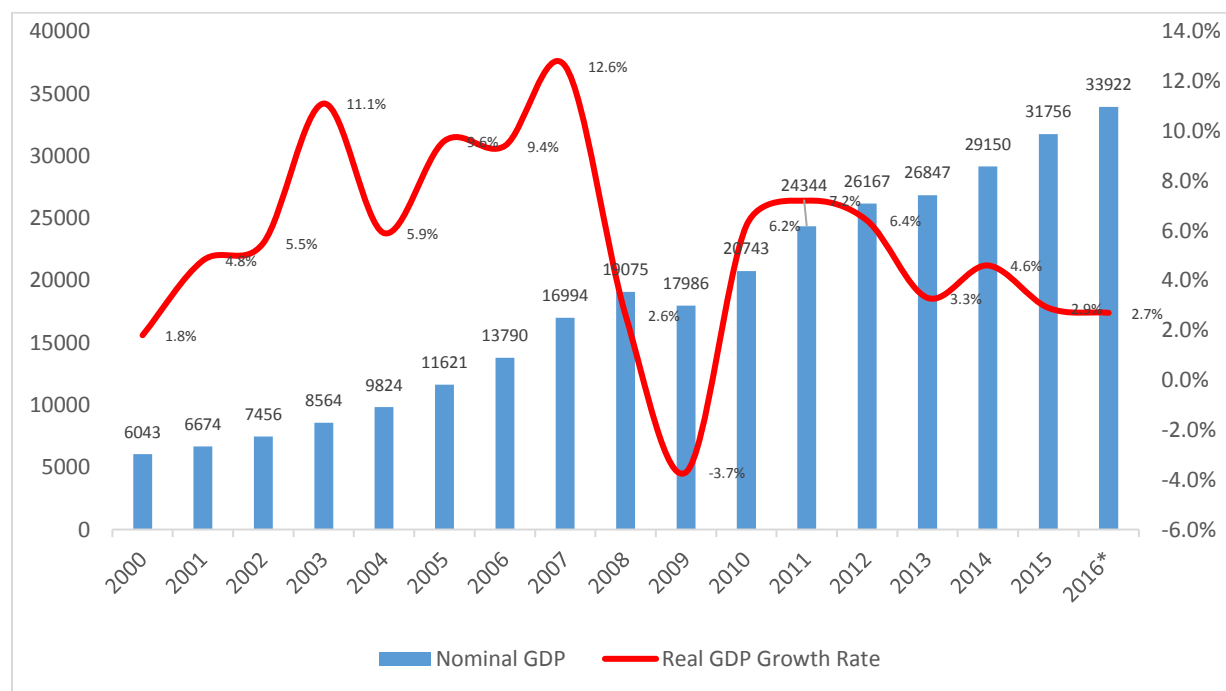
		2011	2012	2013	2014	2015
GDP (nominal) mln USD		14438.9	15846.8	16139.9	16507.8	13959.5
Budget (mln USD)	Revenues (mln USD)	4076.9	4578.5	4469.1	4597.6	3948.2
	Expenditures (mln USD)	3432.1	3933.9	4041.5	4377.8	3603.4
	Balance (mln USD)	644.8	644.6	427.5	219.8	344.9
Total Expenditures (Including non-financial assets) mln USD		4202.0	4672.2	4651.6	4925.8	4098.4

Population	4469.2	4497.6	4483.8	4490.5	3713.7
Inflation rate (%)	8.5	-0.9	-0.5	3.1	4.0
Unemployment rate (%)	15.1	15	14.6	12.4	12
Poverty rate (%)	32.5	28.9	25.6	22.4	20.8

Source: *Geostat*

The Georgian economy grew 4.7 percent year-on-year in the second quarter of 2017, compared with a 2.8 percent expansion in the same period of the previous year, a preliminary estimate showed. The growth was mainly driven by construction (16.4 percent from 12.2 percent in Q2 2016), hotel and restaurants (12.9 percent from 10.8 percent), transport (7 percent from -4.1 percent), communication (4.8 percent from 0.6 percent), wholesale and retail trade (3.7 percent from -2.2 percent); real estate, renting and business activities (7.2 percent from 3.4 percent) and health and social work (1.2 percent from 0.2 percent). GDP Annual Growth Rate in Georgia averaged 4.12 percent from 2006 until 2017, reaching an all-time high of 12.60 percent in the fourth quarter of 2007 and a record low of -9 percent in the second quarter of 2009.

Figure 6. Nominal GDP and Real GDP Growth Rate



Source: *Ministry of Finance of Georgia*

Thus, from a macroeconomic perspective, Georgia rapid economic growth has slowed due to external factors and the government is seeking to facilitate private sector investment and reduce the still substantial levels of poverty and unemployment in country. However, the elimination of environmental controls may put future economic growth at risk due to the fact that GDP neither captures environmental impacts nor social wellbeing.

The Government of Georgia is actively promoting Georgia's success in the World Bank's "Doing Business" rating (16th place in 2017) as one of the key indicators of improving the business environment in the country and the successful policy of the government. Moreover, indicating that Georgia is ahead of the developed countries like Germany, Holland, Iceland, Switzerland etc.

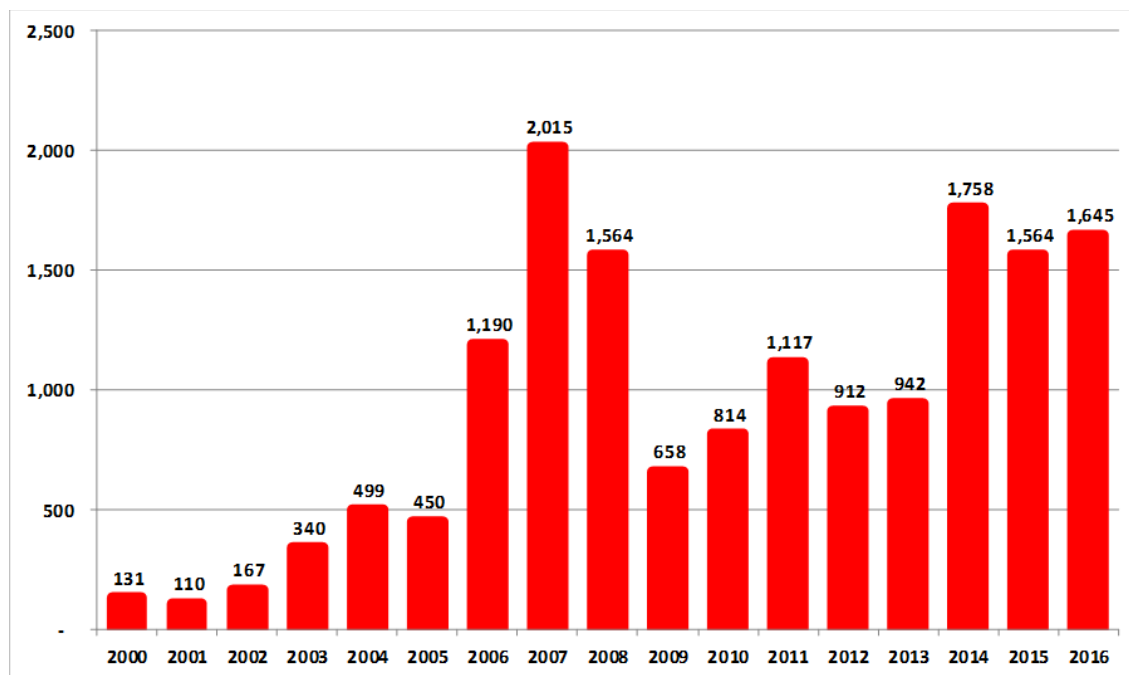
It is declared straightforwardly in the "GEORGIA 2020" strategy, that "the guiding principle of the country's strategy for economic development is establishing the necessary conditions for a free private sector operating under an optimal, efficient and transparent government. This means the establishment of an economy in which the private sector will be free to make its own decisions, in which the supremacy of property rights will be guaranteed, and in which the private sector will be the main driving force behind economic development".

Since the Rose Revolution of 2003, the various governments of Georgia have considered the simplification the legislative regulations and decreasing tax rates as an effective mean to support private sector and attract investments. As a result, number of initiatives had been introduced like "one-stop shop" principle, decreasing the number of activities subject to EIA and licenses, transferring the state property for symbolic prices (typically 1 GEL), and switching to the so-called "Estonian model of tax system", etc. In 2011, the "Law on Economic Freedom" was also adopted, according to which the introduction of new taxes in the country or the increase of the threshold of existing taxes is only possible through the referendum.

In terms of investments, Georgia is often the target of local or foreign companies with quite low reputation and standards. Such investors typically do not consider the issues of sustainability and BD protection in their business models.

The foreign investments are important for the Georgian economy. Foreign Direct Investment in Georgia increased by 346.60 USD million in the second quarter of 2017 compared to the previous quarter. Foreign Direct Investment in Georgia averaged 306.05 USD million from 2005 until 2017, reaching an all-time high of 726 USD million in the third quarter of 2014 and a record low of 75.60 USD million in the third quarter of 2005.

Figure 7. Annual Direct Foreign Investment (Mln USD)

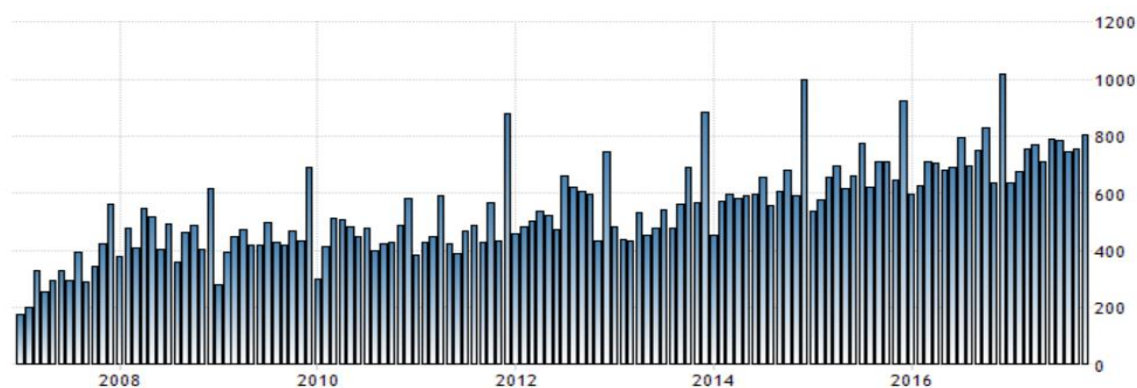


Source: Ministry of Finance of Georgia

The share of population below the poverty line is quite high in Georgia, exceeding 20 percent. This fact serves as one of the principal determinants for the social character of the recent state budgets of Georgia.

Fiscal Expenditure in Georgia decreased to 744.90 GEL Million in August from 783.30 GEL Million in July of 2017. Nominal Fiscal Expenditure in Georgia averaged 516.37 GEL Million from 2006 until 2017, reaching an all-time high of 1019.60 GEL Million in December of 2016 and a record low of 132 GEL Million in January of 2006.

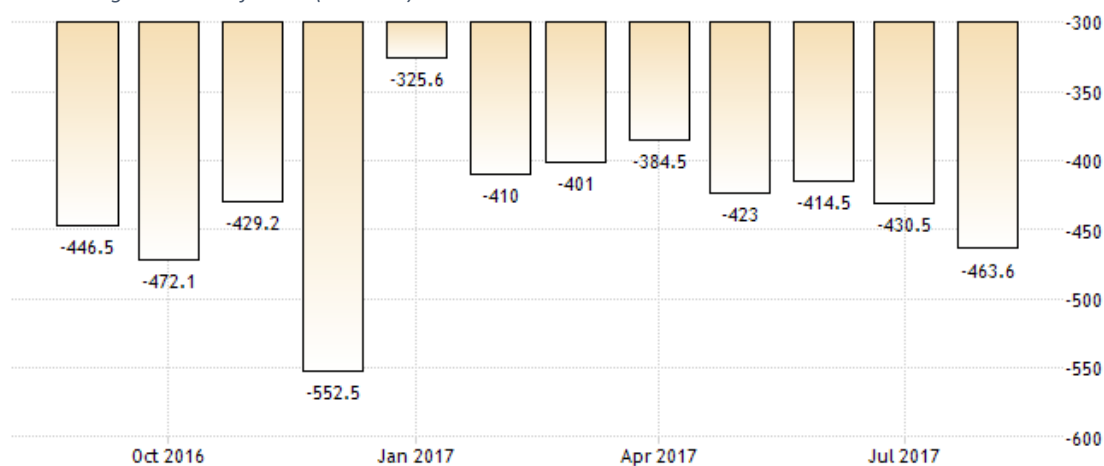
Figure 8. Georgia Fiscal Expenditure (Mln GEL)



Source: Geostat

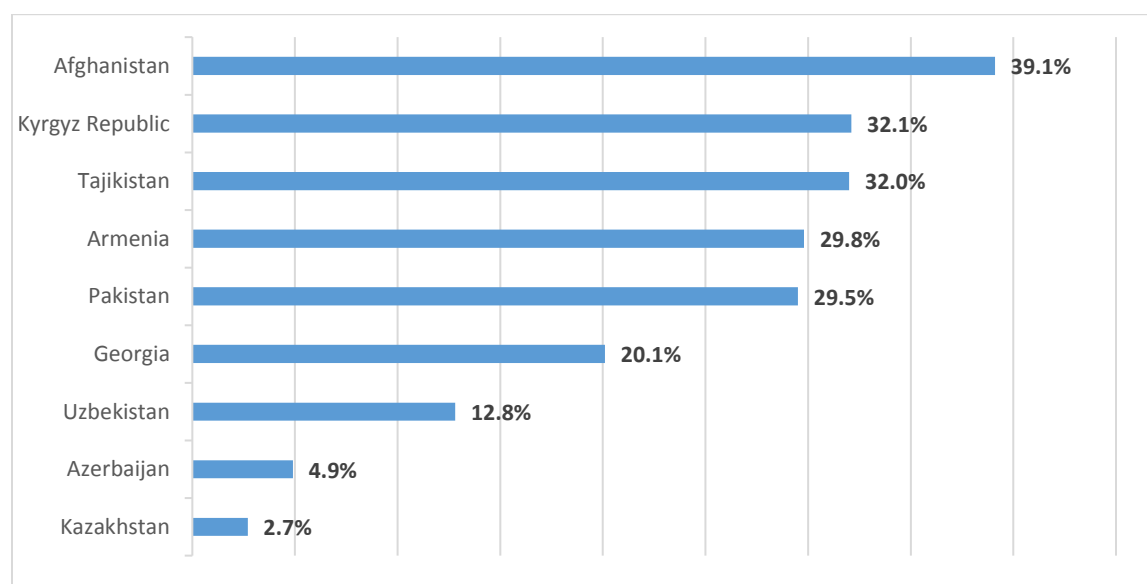
Balance of Trade in Georgia averaged -226.74 USD Million from 1995 until 2016, reaching an all-time high of -6.34 USD Million in April of 1995 and a record low of -1298.68 USD Million in June of 2016.

Figure 9. Georgia Balance of Trade (Mln USD)



Source: National Bank of Georgia

Figure 10. Share of population below the national poverty line (%)



Source: ADB Basic Stats 2017

On the other hand, it has to be noted that GDP of Georgia tells us nothing about sustainability. Like GDPs in other countries, it fails to track the depletion and/or degradation of natural and

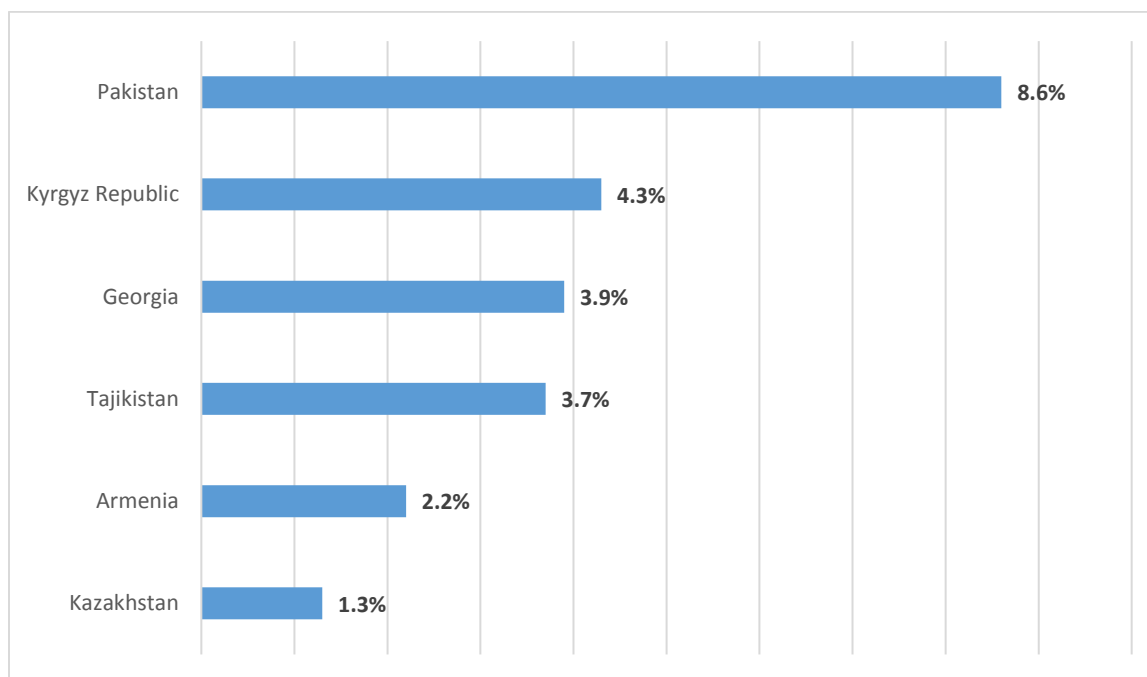
social capital on which all economic activities ultimately depend. It fails as well to consider the integral unsustainability of economic activities financed by debt.

According to the OECD, “Green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies.” (OECD, 2011) The concept of green growth reframes the conservative growth model and re-considers many of the investment decisions in meeting energy, agriculture, and other resource demands of economic growth.

The Green Gross Domestic Product is an economic growth index that quantifies and calculates the environmental consequences of that growth.

The processes of encouraging private sector investments, mainly orchestrated by the government of Georgia, typically lack the consideration of Green growth principle. That means that, while the Georgian economy might look like it's growing now, the damages caused by that growth will inevitably drag it downward in the future.

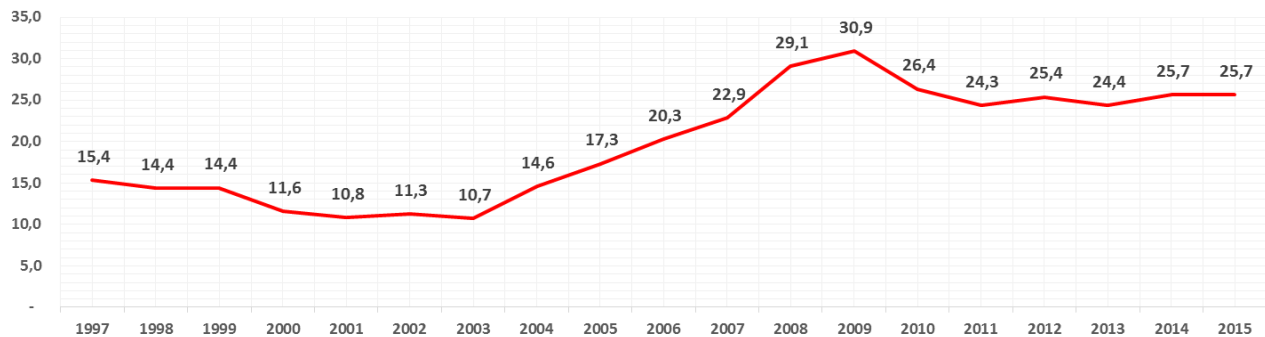
Figure 11. Employed population below \$1.90 purchasing power parity a day (%)



Source: ADB Basic Stats 2017

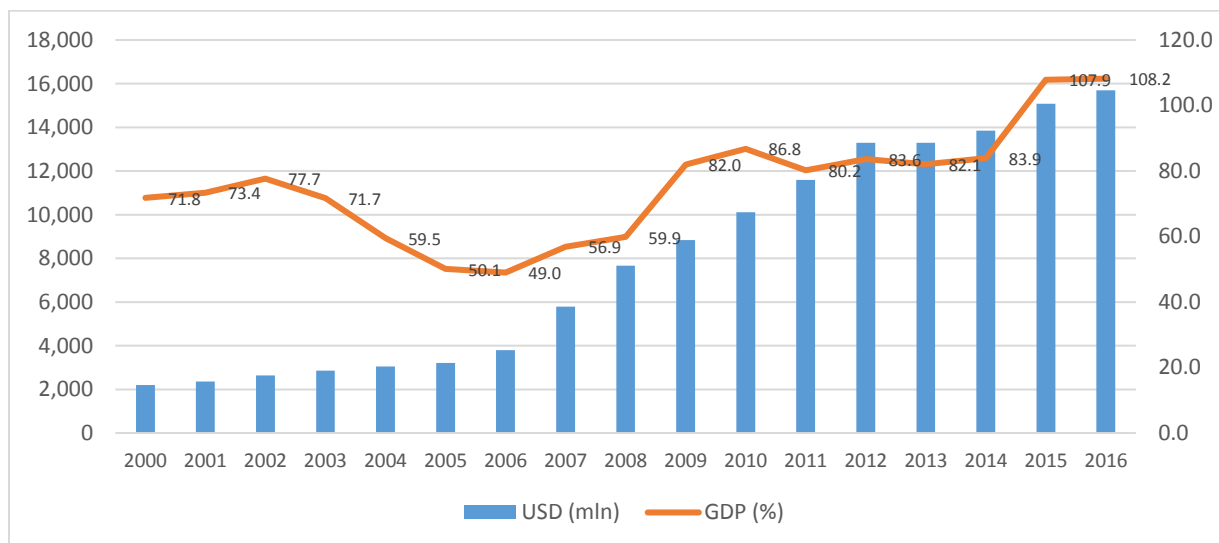
Figure 12. Share of Expenditures GDP (%)

Share of Expenditures GDP (%)



Source: Geostat, World Bank

Figure 13. Total Foreign Debt of Georgia



Source: Ministry of Finance of Georgia

2. MAIN SOURCES OF BIODIVERSITY FUNDING

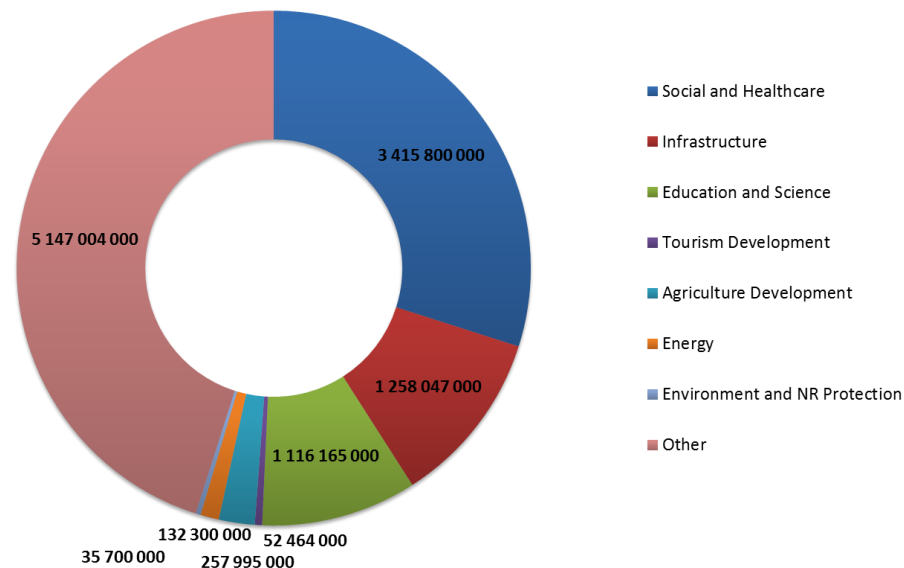
2.1 Public Sector

The existing of social and economic challenges in the country partially determine the priority sectors financed from the state budget.

Table 4. Selected Priority and Environmental Sectors Financed from State Budget (Bln GEL)

	2012	2013	2014	2015	2016
Social and Healthcare	1.783	2.126	2.643	2.906	3.265
	22.8%	26.2%	29.3%	29.9%	31.7%
Infrastructure	0.655	0.799	0.905	0.898	0.972
	8.4%	9.9%	10.0%	9.3%	9.4%
Education and Science	0.627	0.676	0.741	0.804	0.948
	8.0%	8.3%	8.2%	8.3%	9.2%
Tourism Development	0.007	0.006	0.012	0.026	0.028
	0.1%	0.1%	0.1%	0.3%	0.3%
Agriculture Development	0.228	0.227	0.266	0.290	0.330
	2.9%	2.8%	2.9%	3.0%	3.2%
Energy	0.279	0.156	0.169	0.150	0.189
	3.6%	1.9%	1.9%	1.5%	1.8%
Environment and NR Protection	0.017	0.021	0.032	0.038	0.042
	0.2%	0.3%	0.4%	0.4%	0.4%

Figure 14. Selected Priority and Environmental Sectors According to State Budget 2017 (GEL)



Source: Ministry of Finance of Georgia

As we have analyzed in the PIR Georgia, environment protection and sustainable biodiversity management is one of the priorities declared by the Government throughout the number of national strategies (State program “For Strong, Democratic, United Georgia” (2015), State Strategy of Regional Development of Georgia 2010–2017, Socio-Economic Development Strategy of Georgia

(Georgia 2020), National Security Concept of Georgia etc.), but in terms of financing it falls far behind if compared to other sectors.

Financing priority sectors is aimed on boosting economic development and increasing revenues in the country in the short and medium term (e.g. infrastructure development (9.4 % of the 2016 State Budget, agriculture (3.2 % of the 2016 State Budget)), while the others are expected to ease the critical social situation in the country (e.g. Social and healthcare 31.7% of the 2016 State Budget).

It is obvious that the role of biodiversity is less associated with the economic success (financing of the tourist facilities and attractions of PAs to support the development of ecotourism can be considered as an exception). Biodiversity is also not associated with population health care and improvement tool for their social status.

As the BER methodology outlines, “using detailed programmatic data allows for the attribution of biodiversity expenditures in the most accurate way possible”. The existing budgeting system of Georgia allowed us to use/analyze the “Program/Results data”, linked to specific state budget programs, projects and activities. Compared with the “Agency approach”, the “Program approach” gave the opportunity to measure the cost effectiveness of each priority.

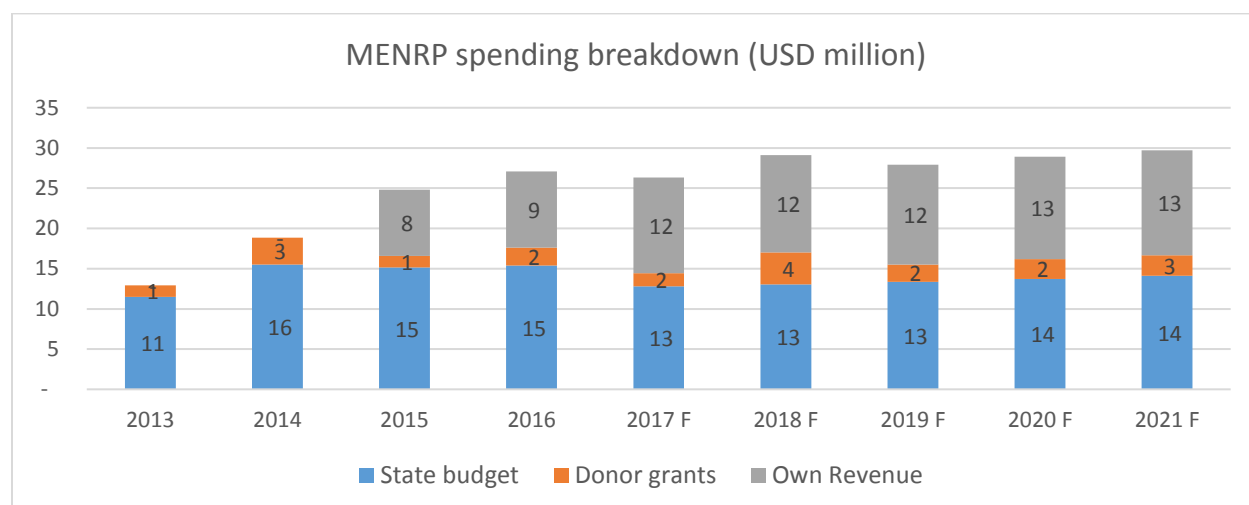
In order to analyze public sector, three elements of the public sector which finance biodiversity, have been identified. These were:

- The Ministry of Environment and Natural Resources Protection;
- Other ministries comprising the central government of Georgia;
- Regional municipalities.

The Ministry of Environment and Natural Resources Protection

The principal state authority responsible for most of the activities related to sustainable biodiversity management is the Ministry of Environment and Natural Resources Protection of Georgia. The detailed budget of the Ministry of Environment and Natural Resources Protection has been obtained for the years 2013-2017. The chart below provides the summary of the budget:

Figure 15. MENRP spending breakdown



The spending budget of MENRP consists of three main sources:

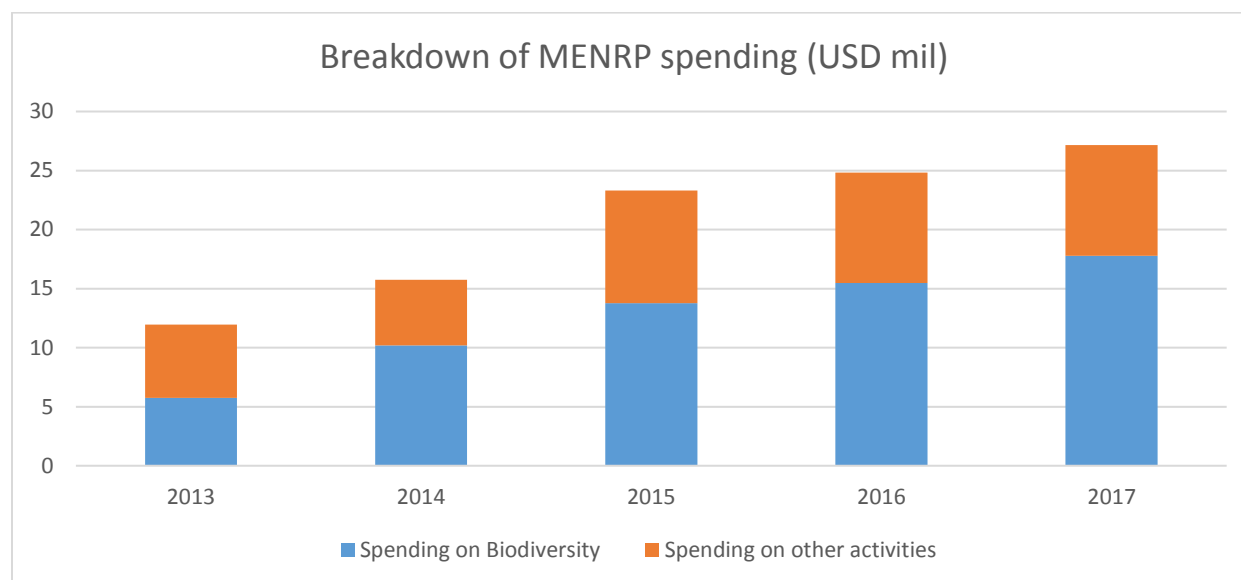
- Funds provided by the state budget,
- Funds obtained from donor organizations,
- The revenue generated by the ministry itself: organizations, which are part of the ministry are allowed to receive their own revenue. Revenue is mainly generated by regulation fees paid by license holders, entrance and service fees generated by Protected Areas and revenues generated by the forestry department through social cutting of the forest, sale of wood for commercial purposes and compensation paid by infrastructure projects of high importance. . It must be noted that for the years 2013 and 2014 there are no data for the revenue generated by the ministry, as the revenue had not been recorded prior to 2015.

In order to analyze the spending of the Ministry of Environment and Natural Resources Protection, the team has employed a detailed program approach. Detailed spending of the ministry for the years 2013-2017 by specific programs has been obtained, as well as the description of the works completed and the results achieved. The detailed documents containing this data can be seen in the annexes of this report (in Georgian).

Biodiversity attribution rates were applied individually to the sub-programs of the ministry in order to approximate the part which was spent on biodiversity. The judgement was based on the results achieved by the sub-program. In cases, where biodiversity spending was less than 100%, judgement had to be used, as there was a lack of financial data for separate activities of the program.

The result of biodiversity attribution can be seen on the graph below, which depicts total budget of the MENRP and the share of biodiversity spending:

Figure 16. Total budget of the MENRP and the share of biodiversity spending



It is evident that about 60% of the total budget of the MENRP is spent on biodiversity related activities. This is due to the fact that two of the largest agencies of the ministry are the Agency of Protected Areas (APA) and the forest department. Both of the entities are related to biodiversity for almost 100% of their total spending.

Ministries other than the Ministry of Environment and Natural Resources Protection

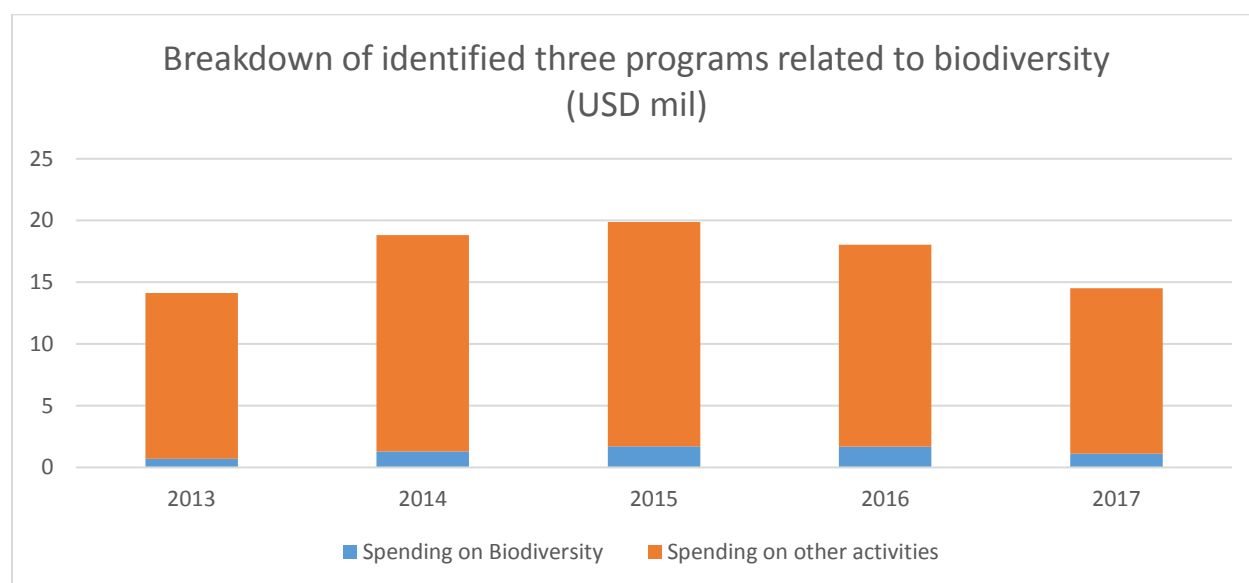
In order to analyze the spending of other ministries in the Government of Georgia, reports have been obtained which outlined the total budget of specific programs and detailed the results achieved. Based on the results, the programs which contributed to biodiversity protection have been selected and biodiversity attribution rates were applied based on expert judgement, as detailed financial breakdown of separate activities was not available. In total, three programs have been identified which contributed to biodiversity. The table below summarizes the identified programs and respective biodiversity attribution rates.

Table 5. Identified programs, expenditures, and respective biodiversity attribution rates

GEL	Biodiversity attribution rate		2012	2013	2014	2015	2016	2017
Scientific research in Agriculture	25%	Total			3,104,991	8,279,920	9,340,500	4,970,000
		Bio			776,248	2,069,980	2,335,125	1,242,500
Food security, plant protection and epizootic safety	5%	Total	8,961,094	16,987,425	24,943,332	30,053,519	26,730,400	20,175,000
		Bio	448,055	849,371	1,247,167	1,502,676	1,336,520	1,008,750
Shore protection works on coastal lines	5%	Total	4,587,389	6,528,389	5,200,000	6,808,380	6,598,239	10,874,000
		Bio	229,369	326,419	260,000	340,419	329,912	543,700
Total	7%	Total	13,548,483	23,515,814	33,248,323	45,141,819	42,669,139	36,019,000
		Bio	677,424	1,175,791	2,283,414	3,913,075	4,001,557	2,794,950

The chart below summarizes the finding for other ministries. Given the fact that the share of expenditures on biodiversity in the budget of ministries other than the Ministry of Environment and Natural Resources Protection is very low, the chart below depicts only the share of spending on biodiversity relative to the total budget of the three identified programs. This share is still very low and is hardly visible.

Figure 17. Share of biodiversity spending in biodiversity related programs by ministries other than MENRP



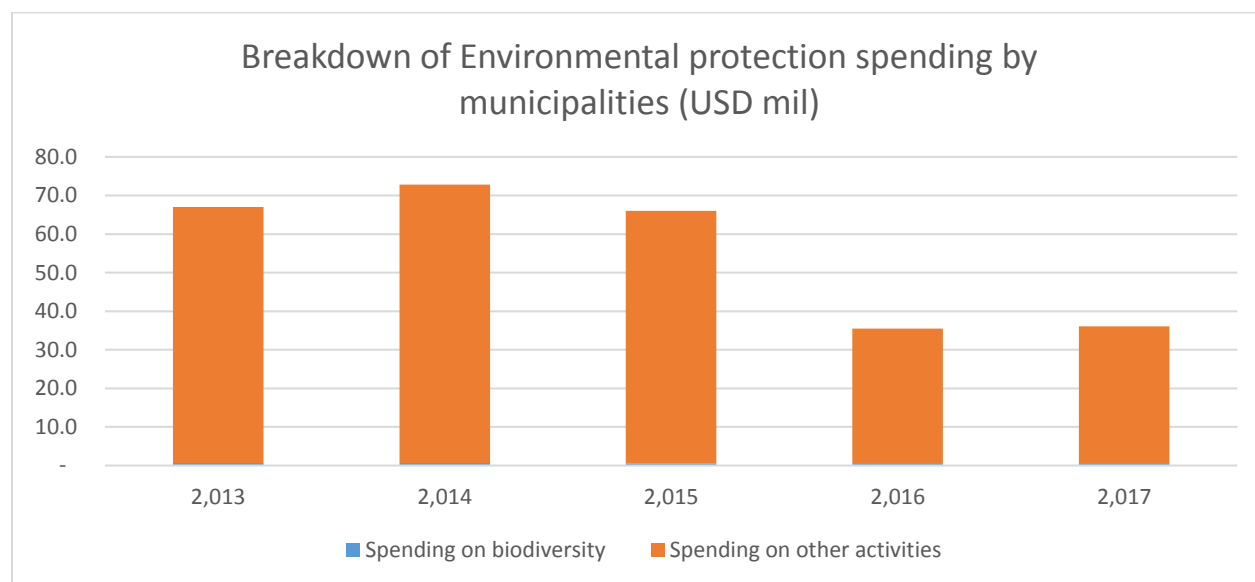
Regional Municipalities

To analyze the spending of the municipalities, respective reports have been obtained, separating the spending of different municipalities by the respective functions, including environmental protection. The items, which potentially contributed to biodiversity protection have been outlined and studied further. In order to understand the nature of the activities comprising each function, several municipality employees were interviewed. Based on the information received

from interviews, respective biodiversity attribution rates have been applied to the spending under different functions. The summary table can be seen below.

The chart below presents the total budget for environmental protection of municipalities and the share of biodiversity expenditures. The share is negligible (about 1 percent): significant part is spent on waste management, while other activities are not related to biodiversity as well.

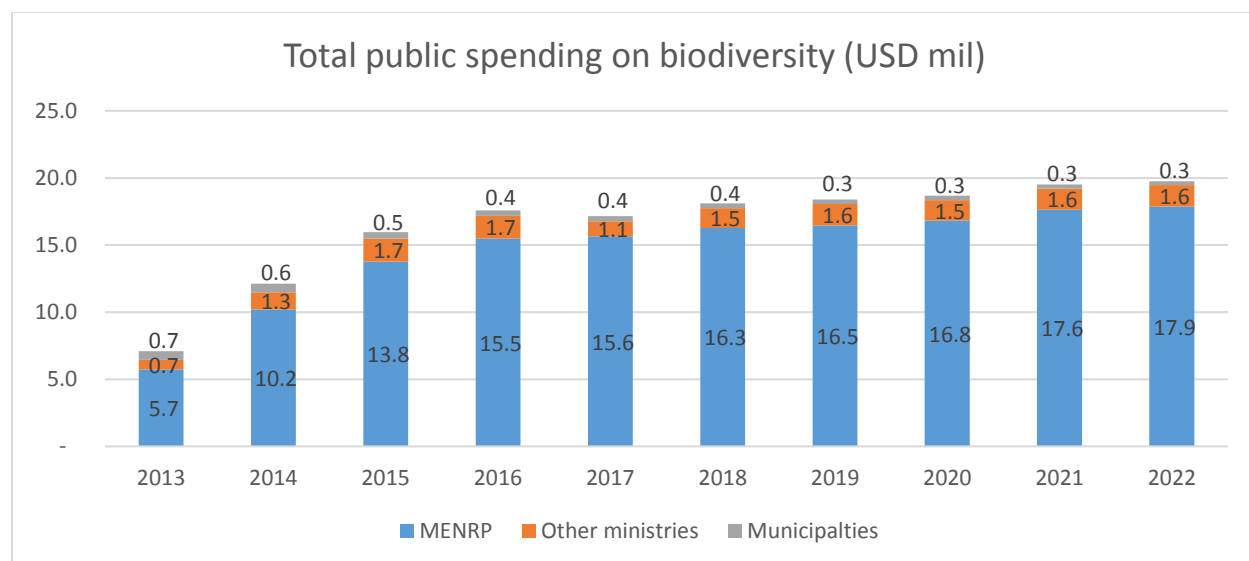
Figure 18. Total budget for environmental protection of municipalities and the share of biodiversity expenditures



* Due to small share of biodiversity expenditure in total budget, the line is not visible on the graph.

The chart below summarizes biodiversity spending for the three separated sections of the government: 1) the Ministry of Environment and Natural Resources Protection, 2) other ministries and 3) municipalities:

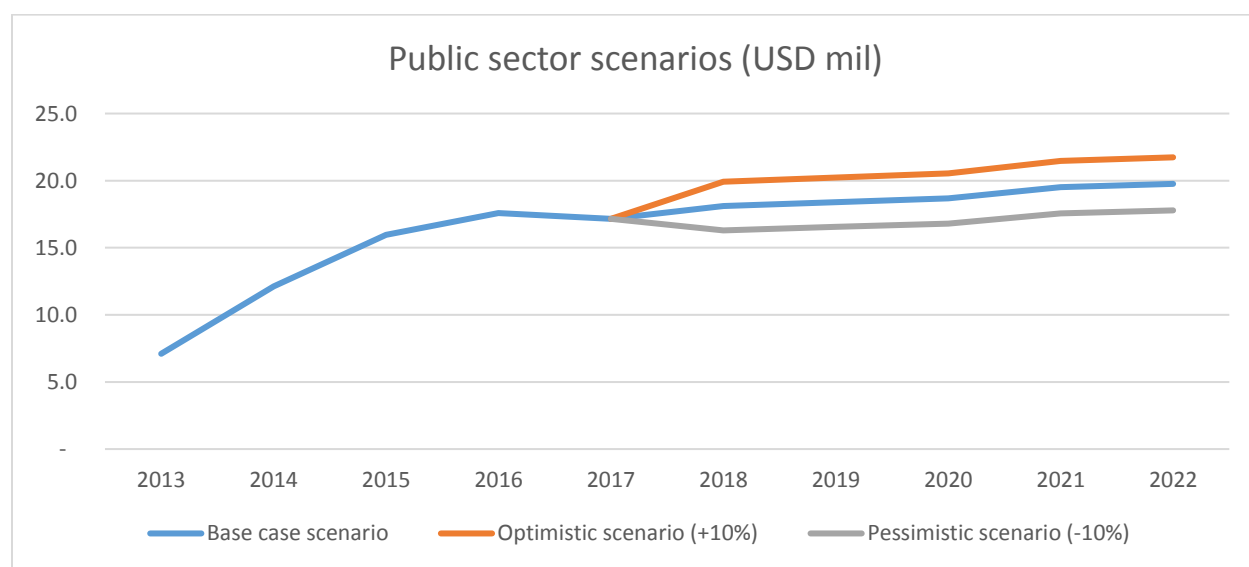
Figure 19. Biodiversity spending for the three separated sections of the government: MENRP, other ministries and municipalities



The relatively low level of spending in 2013 and 2014 is caused by the lack of inclusion in the figures of “own revenue” of MENRP, due to the fact that it was not recorded up until 2015. MENRP spending constitutes a significant majority of total biodiversity expenditures by the government, with relatively small contributions by other ministries and municipalities.

The graph below provides estimated forecasts of future total biodiversity spending by the public sector under three different scenarios:

Figure 20. Total biodiversity spending by the public sector for three different scenarios



Public sector spending on biodiversity is expected to increase by an average of 2.2% per year as a base case scenario. The calculation was done using the 4-year spending plan created by MENRP. The team, however, applied certain modifications to account for overoptimistic budgeting of own revenues and reflected 70-80% completion rate of own revenues in the projections. The “pessimistic scenario” reflects a decrease of 10% in total limit of the public spending, while “optimistic scenario” reflects a 10% increase in total budget limit.

Analysis of Public sector biodiversity spending

In order to analyze biodiversity spending in the public sector, each program and activity was assigned a general sector (for example forest, agriculture and hunting, water, etc.), a national target, BIOFIN category, Aichi target, respective SDG and SEEA. Programs have also been split into investments and recurring costs. The results by each of these categories can be seen on the graphs below. The amounts are presented in USD spending after applying biodiversity attribution rates as described above.

Table 6. Public sector biodiversity spending by national targets (USD)

National Targets	2013	2014	2015	2016	2017	Total 2013-2017
Target 5: Habitat loss halved or reduced	496,885	4,237,036	6,555,112	7,328,588	10,157,018	28,774,640
Target 11: Protected areas increased and improved	2,329,908	2,406,845	2,522,274	2,718,467	3,180,777	13,158,270
Target 8: Pollution reduced	1,904,536	2,254,314	3,047,423	2,769,709	2,424,916	12,400,898
Target 13: Genetic diversity maintained	964,275	1,568,368	1,875,582	1,808,389	1,168,810	7,385,424
Target 1: Awareness increased	245,567	476,140	400,212	1,576,426	333,994	3,032,340
Target 12: Extinction prevented	242,909	247,820	736,077	662,301	830,666	2,719,773
Target 4: Sustainable production and consumption	535,558	593,955	517,403	437,893	405,193	2,490,003
Target 14: Ecosystem services restored and safeguarded	196,236	147,234	149,951	139,397	219,207	852,026
Target 7: Sustainable agriculture, aquaculture and forestry	184,207	189,166	163,339	146,679	120,481	803,873
Target 3: Harmful subsidies eliminated, positive incentives developed	616	518	531	604	7,257	9,527
Grand Total	7,100,698	12,121,397	15,967,904	17,588,454	18,848,318	71,626,772

Table 7. Public sector biodiversity spending by general sectors (USD)

National Targets	2013	2014	2015	2016	2017	Total 2013-2017
Forests	681,092	4,426,202	6,718,451	7,475,267	10,277,499	29,578,513
Cross-cutting	2,636,947	2,996,021	3,715,308	3,347,604	3,056,574	15,752,453
Protected Areas	2,329,908	2,406,845	2,522,274	2,718,467	3,180,777	13,158,270
Agrobiodiversity	510,624	1,145,826	1,573,719	1,551,377	907,652	5,689,198
Species and Habitat	696,560	670,362	1,037,940	919,312	1,091,823	4,415,998
Awareness	245,567	476,140	400,212	1,576,426	333,994	3,032,340
Grand Total	7,100,698	12,121,397	15,967,904	17,588,454	18,848,318	71,626,772

Table 8. Public sector biodiversity spending by BIOFIN categories (USD)

BIOFIN Categories	2013	2014	2015	2016	2017	Total 2013-2017
Sustainable use	1,191,716	5,572,029	8,292,170	9,026,645	11,185,151	35,267,710
Protected areas and other conservation measures	2,864,718	2,893,448	2,854,972	2,975,478	3,454,029	15,042,645
Pollution management	1,904,536	2,254,314	3,047,423	2,769,709	2,424,916	12,400,898
Restoration	357,986	330,993	855,193	801,699	1,037,778	3,383,649
Biodiversity awareness and knowledge	245,567	476,140	400,212	1,576,426	333,994	3,032,340
Biodiversity and development planning	535,558	593,955	517,403	437,893	405,193	2,490,003
Green Economy	616	518	531	604	7,257	9,527
Grand Total	7,100,698	12,121,397	15,967,904	17,588,454	18,848,318	71,626,772

Table 9. Public sector biodiversity spending by SDGs (USD)

SDG	2013	2014	2015	2016	2017	Total 2013-2017
SDG 15 Biodiversity, forests, desertification	7,100,698	12,121,397	15,967,904	17,588,454	18,848,318	71,626,772
Grand Total	7,100,698	12,121,397	15,967,904	17,588,454	18,848,318	71,626,772

Table 10. Public sector biodiversity spending by SEEA Categories (USD)

SEEA	2013	2014	2015	2016	2017	Total 2013-2017
11 Management of timber resources	907,610	4,460,133	7,215,006	7,913,249	10,709,370	31,205,368
6 Protection of biodiversity and landscapes	4,719,365	5,231,503	5,548,618	5,417,454	5,651,627	26,568,567
13 Management of other biological resources (excluding timber and aquatic resources)	672,373	1,329,586	2,278,961	2,213,679	1,726,223	8,220,821
9 Other environmental protection activities	801,349	1,100,176	892,454	1,986,077	717,472	5,497,529
8 Research and development for environmental protection	0	0	32,865	36,966	24,191	94,021
7 Protection against radiation (excluding external safety)	0	0	0	21,030	19,437	40,467
Grand Total	7,100,698	12,121,397	15,967,904	17,588,454	18,848,318	71,626,772

Table 11. Public sector biodiversity spending by sectors (USD)

Sector	2013	2014	2015	2016	2017	Total 2013-2017
Environmental protection	5,550,996	6,218,375	6,994,144	7,919,869	6,931,317	33,614,701
Forest	842,842	4,609,962	7,250,091	7,956,780	10,770,705	31,430,381
Agriculture	510,624	1,145,826	1,573,719	1,551,377	907,652	5,689,198
Infrastructure	196,236	147,234	149,951	139,397	219,207	852,026
Environmental Agencies	0	0	0	21,030	19,437	40,467
Grand Total	7,100,698	12,121,397	15,967,904	17,588,454	18,848,318	71,626,772

Table 12. Public sector biodiversity spending by category (Recurrent/Investment)

Recurrent/Investment	2013	2014	2015	2016	2017	Total 2013-2017
Investment	92,400	650,277	188,988	353,909	203,604	1,489,179
Recurrent	7,008,298	11,471,120	15,778,916	17,234,545	18,644,714	70,137,593
Grand Total	7,100,698	12,121,397	15,967,904	17,588,454	18,848,318	71,626,772

It should be noted that the split of public spending into recurring/investment activities, indicated that about 95% of all the funds are used for recurring expenses. Recurring expenses are by definition, expenditures which are incurred in order to sustain the current state of biodiversity, while the investment expenses are aimed at improvement of existing status. The high share of recurring expenditures indicates that currently, budgeted amounts for biodiversity spending are probably not enough to drive positive change in the sector.

Public sector spending efficiency

In order to analyze the efficiency of spending the budgeted resources of the public sector, the team focused on the largest contributor to biodiversity in the sector, namely the Ministry of Environment and Natural Resources Protection. Spending has been analyzed on two levels:

- Allocation compared to Budget,
- Actual Spending compared to Allocation.

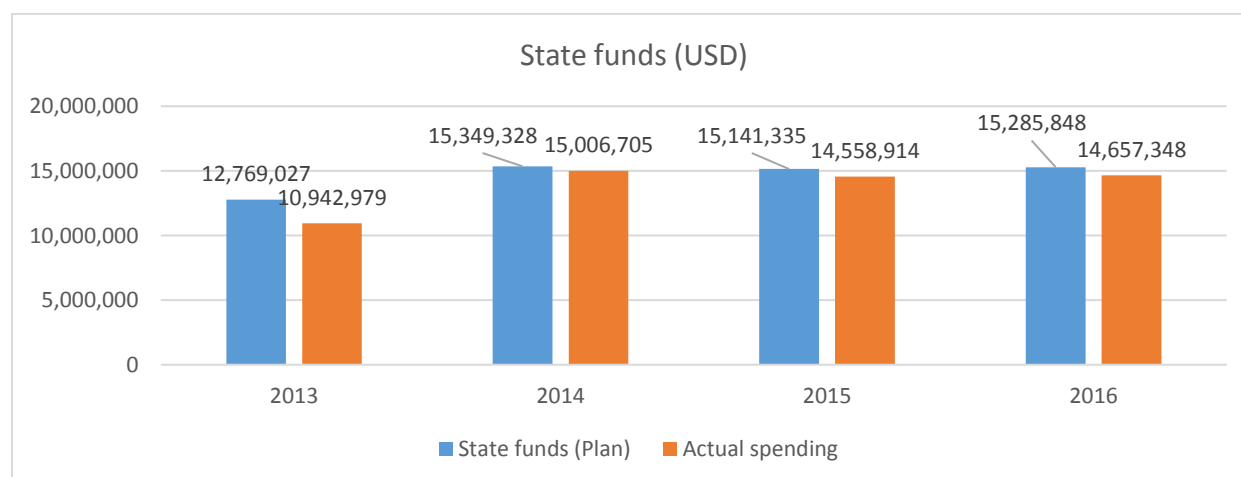
Official reports showing the completion levels were provided by the national treasury. More detailed version of completion reports was provided by MENRP.

In order to analyze the differences, comparison has been done for different sources of income of the Ministry. There are three main sources: state budget, donor financing and own revenues.

State budget financing

According to reports, allocations compared to budgeted amounts were 100% for all the programs through the years, which were financed by the state budget. There were however differences in actual spending compared to allocated amounts. The chart below indicates the difference between allocated funds and actual spending (in GEL):

Figure 21. State budget financing (2013-2016)

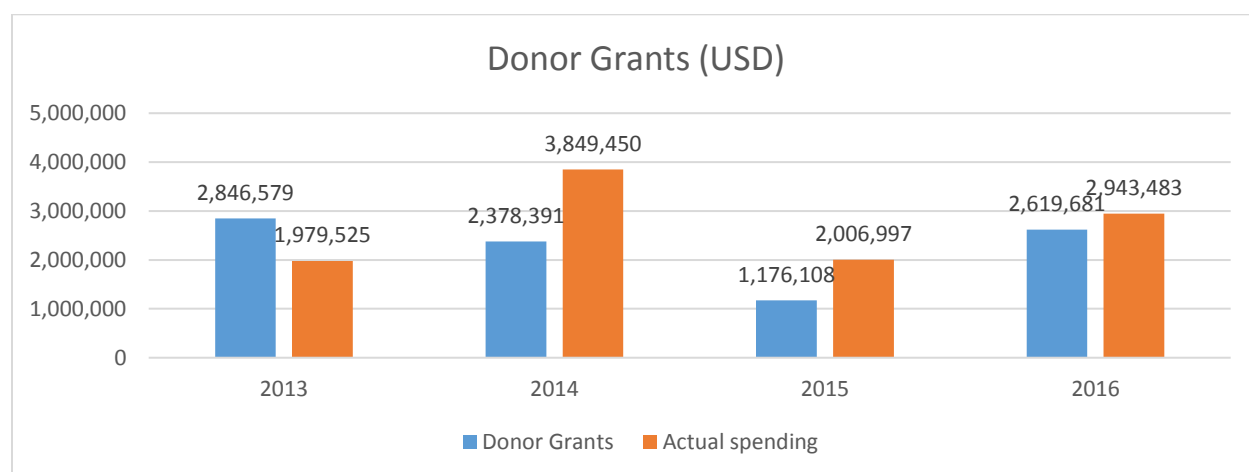


Completion rate through the years was approximately 95%. The main sources of difference were complications during the tendering process of certain services and activities. To a smaller degree, the difference was also caused by tendering economies: cases where the ministry was able to purchase services for lower amounts than planned. Such economies amounted to about 300,000 GEL per year. In total, spending of state funds appeared to be comparatively effective, as 95% completion rate is rather good.

MENRP donor financing

The finances budgeted to be received, or spent by the donors was analyzed separately. Ministry has relatively lower control over the amounts spent by the donors, as the budget for such funds are mainly used as a rough indication of donor spending. Therefore, the completion rates of donor spending budgets were relatively volatile. The chart below provides information on the comparison of spending to budget:

Figure 22. MENRP donor financing

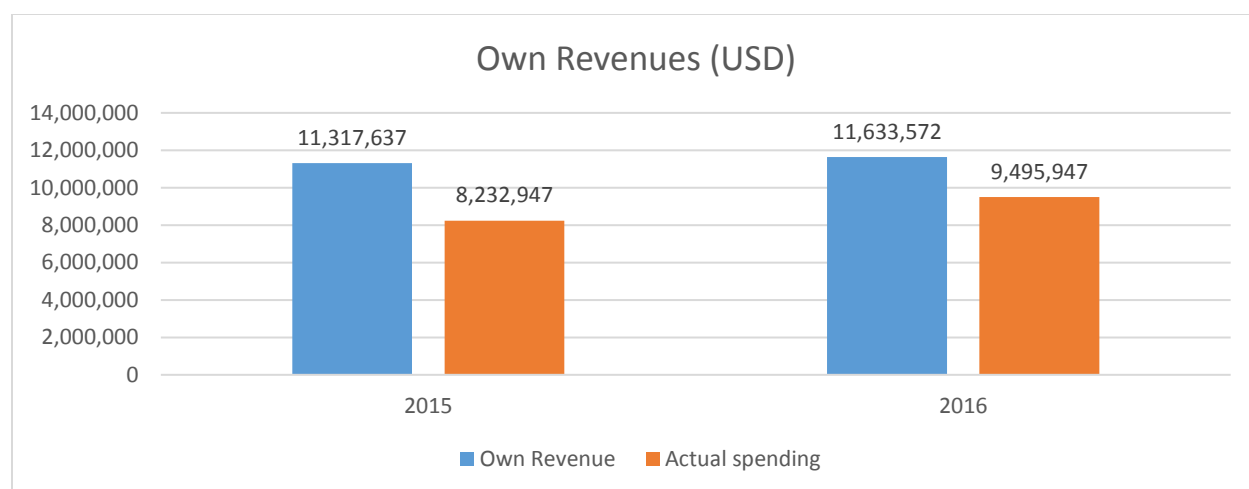


The team has interviewed MENRP representatives regarding donor spending volatility. Representatives indicated that the ministry could not control the completion of this part of budget and the differences were mainly caused by the late allocation of funds by the donors.

MENRP agencies own revenues

In order to analyze the completion of budgeted own revenues financed spending, the team has obtained data for 2015 and 2016, as the recording of own revenue started from 2015. The chart below provides data on the comparison of budgeted own revenue spending to actual spending:

Figure 23. MENRP agencies own revenues



The completion rate was approximately 70-80%. The team has interviewed MENRP representatives to determine the cause of the difference. Representatives indicated that the main reason was over-optimistic budgeting of own revenues. Therefore, the main problem lies in allocation of funds, rather than spending efficiency.

Table 13. MENRP agencies own revenues by year

USD	2015 Actual	2016 Actual
MENRP total	8,232,947	9,495,947
Environment monitoring agency	4,706,581	4,153,378
National Forestry Agency	2,089,748	3,754,186
Agency of Protected Areas	1,030,702	1,136,855
National Nursery Agency	327,276	353,082
Environment protection educational centre	78,640	77,459

Public Sector – observations

Based on the analysis of the data used for the creation of BER report, there are several key observations regarding public sector spending in Georgia, which could potentially translate into biodiversity finance plan actions:

- **Secure increased state financing for investment projects:** The BIOFIN team has conducted interviews with both MENRP and Ministry of Finance representatives in order to pinpoint the main reasons hindering the increase of the budget for environmental protection and biodiversity. The main identified reason was the lack of necessary justification for the increased funding. The team has reviewed existing documents, which were used by MENRP to justify specific programs and secure increased funding from the state. It was noted that the justification could benefit from a clearer outlining of positive consequences of completing the project, or the negative impacts of inaction. Based on

information received from the Ministry of Finance, new program justification would be significantly stronger if it contained specific links to the economic development of Georgia. This is due to the fact that a significant portion of the Georgian population lies below the poverty line and the most pressing issue for the government remains economic development. Thus, linking biodiversity protection with economic benefits could attract significant support from the state.

- **Biodiversity vision:** the team has observed that MENRP would significantly benefit from the creation of unified biodiversity vision, which would present a coherent and holistic picture of biodiversity in Georgia including its most pressing challenges and opportunities. Actions from NBSAP could be directly linked to specific biodiversity protection areas in an intuitive way and outline positive outcomes of completing an action, especially from an economic point of view. Mainstreaming such a coherent and intuitive vision could equip top decision makers with necessary understanding and could lead to significant increase in financing. The unified vision could be used as a basis for justification of new state programs mentioned above.
- **Increase in own revenues:** several opportunities have been outlined which are related to the increase in the revenue of agencies comprising the MENRP. One such opportunity could include creation of Protected Area visitor fees, which could be used for improvement of protected area infrastructure and creation of new protected areas. Currently entrance into Protected Areas is free of charge.
- **Cost recovery:** one possible opportunity could be an increase in fees for provision of certain services, such as EIA inspection. Inspection department representatives claim that the department is too short staffed to adequately complete the workload of the department. Currently, the fees for inspection are very low. An increase in such fees could potentially be used as a tool for recovering the cost of new employees, necessary to complete the workload.

Regulation Fee



The respective amendment was made in the “Law of Georgia on Regulation Fees” in 2011, and the legal entities of public law regulating the use of natural resources in the same way as the national regulatory bodies were granted the right to collect a regulatory fee from license holders. Therefore, the holders of the licenses for use of natural resources were obliged to pay the regulatory fee. Since 2013, the function of regulating the use of natural resources was transferred to the LEPL National Environmental Agency (NEA) of the Ministry of Environment and Natural Resources Protection of Georgia. Article 5 of the “Law of Georgia on Regulation Fees” explains that “the regulation fee should be non-discriminatory and should be sufficient to fully cover the expenses envisaged in the budget of the National Regulatory Authority.”

Considering traditionally limited funding for environmental protection in Georgia, introduction of such a resource mobilization tool was positively assessed. The fact that the NEA is the only public environmental agency fully self-financed has also to be noted. It is noteworthy that the regulation fee is set for some types of natural resources, while all other resources such as timber, snowdrops (*Galanthus*), Cyclamen, Sochi cones and other objects of wildlife and minerals are free of charge (see Figure 24). So, the methodology and principles of calculation of the fees remains to be clarified. It has to be outlined that some Georgian NGOs still question the legal basis for the regulation fees on natural resources and have drawn attention to the compliance to the provisions in the constitution of Georgia.

Source: "Regulation fee for use of natural resources - Legitimacy and Corruption threats ", public policy essay, Green Alternative, 2015

Figure 24. Regulation fees paid by license-holders

No	Natural resource	Agency of Natural Resources - 2011	Agency of Natural Resources - 2012	Agency of Natural Resources – until 12.05.2013	National Environmental Agency – 12.05.2013-31.12.2013	National Environmental Agency – 2014	National Environmental Agency – 01.07.2015
1	Coal	12,591.53	134,941.55	35,720.93	36,458.34	83,750.05	40,333.70
2	Manganese	352,692.93	1,462,923.05	446,474.84	968,084.05	1,505,855.13	988,214.82
3	Ferrous metals	2,066,591.11	6,912,995.99	2,147,180.38	1,274,198.50	5,013,656.12	3,410,298.16
4	Carbon dioxide	55,873.23	129,167.4	49,282.81	79,082.00	130,411.92	99,889.17
5	Underground mineral water	239,003.26	470,653.54	276,143.22	406,573.57	752,084.69	309,318.44
6	Underground fresh water	99,881.90	101,089.98	33,212.00	32,772.23	53,353.73	24,771.25
7	Underground fresh water (Commercial)	134,376.80	334,419.45	101,476.70	269,286.24	463,858.24	171,455.58
8	The European anchovy		762,527.00	529,752.00	445,250.00	1,309,839.23	617,027.44
	Sum	2,961,010.76	10,308,717.96	3,619,242.88	3,511,704.93	9,312,809.11	5,661,318.56

2.2 The Private Sector

The report considered different industries, including those having direct impacts on ecosystems and biodiversity (e.g. mining and Hydro Power Plants “HPPs”), businesses that depend on healthy ecosystems and biodiversity for production (e.g. agriculture and fisheries), industrial sectors that finance and undergird economic activity and growth (e.g. banks and other Financial Institutions - FIs), and businesses that are selling ecosystem services or BD related products (e.g. eco-tourism operators). As a result of their activities private companies in most cases are inevitably responsible for a number of harmful impacts on biodiversity in Georgia, but it is a fact that the private sector is the most passive source of financing biodiversity. A number of reasons can be outlined to explain this fact including inflexible legislative regulations, the absence of respective incentives from the government, low awareness by both the private sector and the government on the economic role and importance of biodiversity and ecosystem services, etc.

Private sector spending has been separated into two parts:

- **Obligatory spending**, mandated by Environmental Impact Permits and License terms and conditions;
- **Voluntary spending**: the amounts spent as a part of Corporate Social Responsibility or other motives.

Obligatory spending

2.2.1 Environmental Permitting

Companies engaged in certain activities, such as production of electricity through Hydro Power Plants (HPPs), are subject to Environmental Impact Assessment by the Ministry of Environment and Natural Resources Protection and are granted Environmental Impact Permits (EIP) based on Environmental Impact Assessment (EIA) Reports. A State Ecological Expertise serves as a verification mechanism for obtaining the environmental impact permit. The permit specifies actions that should be followed in order to minimize the impact on the surrounding nature (including biodiversity) and/or compensate for the possible negative effects on environment. The actions are given for both the construction and operation phases of the business. Some actions, specified in EIP are targeting the protection of biodiversity. Therefore, by attaching a monetary value to the cost of these actions, biodiversity spending by companies, subject to EIP, was approximated.

The number of companies that obtained EIPs during the period 2008-2015, by the main activity of the company, are presented in the table below:

Table 14. Number of companies that obtained EIPs during the period 2008-2015 by the main activity

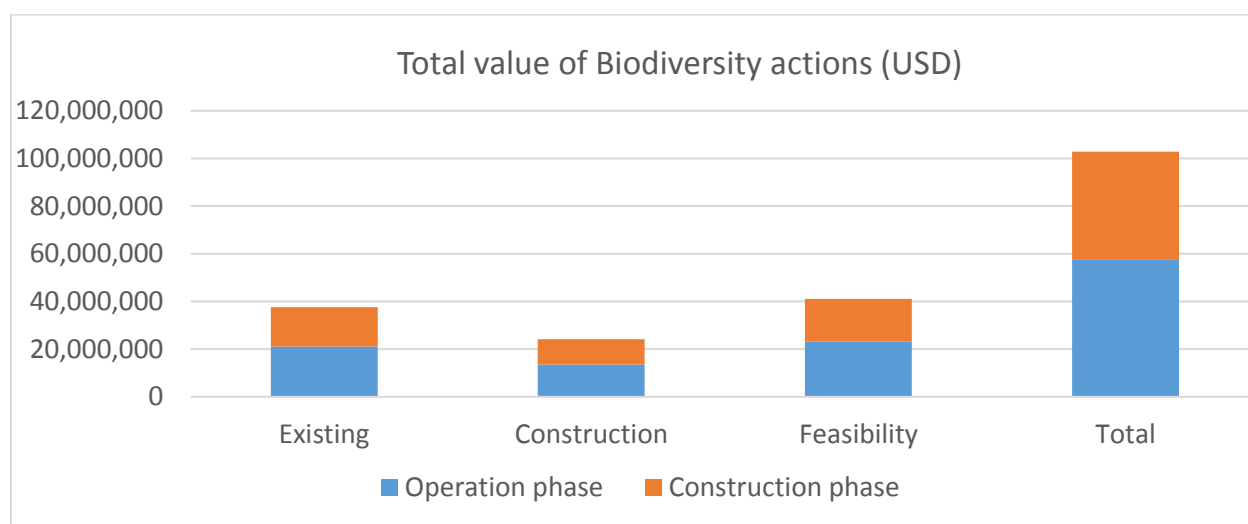
	Number of issued permits 2008-2016
Hydro Power Plant construction	61
Asphalt production	85
High voltage cable network	48
Cement production	42
Oil and oil products storage facilities	43
Waste Management	62
Other	278
Total	619

The analysis concentrated on the Hydro Power Plant sector, based on the fact that this sector matches one of the five sectors selected in BIOFIN PIR. In order to calculate the value of agreed to biodiversity related actions which should have been implemented by HPP's, 10 EIPs for different HPP's have been obtained. The actions listed in EIP's have been evaluated based on

their impact on biodiversity and assigned respective biodiversity attribution rates. Finally, the cost of meeting the actions has been estimated based on the magnitude and the nature of activities by the BIOFIN technical team.

The figure below summarizes the results of this exercise for HPP's in Georgia, which were split into three categories: existing HPPs, HPPs in the construction stage and HPPs in feasibility study stage. The numbers are given in USD.

Figure 25. An estimate of the value of agreed Biodiversity actions (based on 166 identified HPPs)



The amount which in theory should have been spent on biodiversity by HPPs alone, for all of the three categories amounted to about 100 million USD.

In order to assess, whether the activities presented in EIPs were completed fully, the team has obtained 10 inspection reports for different HPPs. The inspection reports detailed actions, which were completed by the EIP holder and the actions which were not implemented and thus resulted in a penalty. The team has observed that in certain cases, especially in cases with larger HPPs, about 30-50% of actions had not been completed.

The following procedures take place in case the violation of EIP terms are identified: there is a fine for the violations of EIP conditions for the first inspection amount to 5,000 GEL (approximately 2,000 USD) for all companies, regardless of the company size and the scope of violation. The fine is usually disputed in court by the company. In case of losing the case, the company can go to a second instance of appeal via the court. If the case is lost for the second time, the company is given a certain time period during which it should complete the actions in full. After the assigned time period elapses, a second inspection is conducted. The fine for not completing the actions increases to 15,000 GEL (about 6,000 USD) and remains fixed. The results

of the second inspection can be disputed in court as well two times. In the case of losing the court case, the company is again assigned a time period to complete the actions. After a third inspection, incomplete actions result in 45,000 GEL penalty (about 18,000 USD) and possible suspension of activities of the company.¹

2.2.2 Companies Regulated by License Terms - Mining

Mining activities are currently not subject to Environmental Impact Assessment. The obligations for such activities are specified in License terms and conditions, which amount to the remediation of the surrounding area after the operations have been completed. It must be noted that officially, practically no remediation works have ever been completed in the territory of Georgia following mining activities. The number of license holders in the mining industry currently is approximately 3,300. Assigning monetary value to remediation works proves difficult due to the diverse nature and magnitude of the works involved.

In order to approximate the bear minimum of the value of remediation works, about USD 25 million has been estimated using team's judgement, using 7,800 USD as an average price of one remediation. The average price is low due to a high number of small license holders: more than 50% of mining license holders paid less than 2,000 USD for license, while the cost of mining license depends on the magnitude of works.

2.2.3 Mandatory Spending - Inspection Capacity

An important factor for the implementation of mandatory spending by private companies is the capacity of the Ministry to supervise the completion of regulations. Currently, MENRP employs 78 inspectors for the planned inspections of the companies.

The number of license holders of all types subject to supervision by inspectors is about 4,000. The number of companies which started operations in 2008-2016 and received an EIP is 619. These companies are also subject to planned inspections by inspection officers. The number of various commercial entities subject to technical regulations (air, water, etc.) is about 8,000.

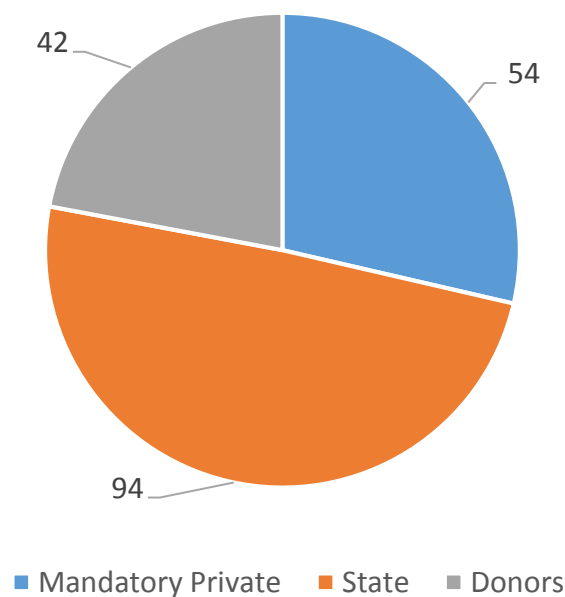
The representative of inspection department has confirmed that the inspection capacity is low and the number of commercial entities to be supervised puts a significant strain on inspectors.

The team has approximated the funds which should be spent on biodiversity by companies, which are subject to regulations in the mining and HPP sectors in 2018-2023 and compared the figures to the estimate of spending by donors and the government. These two sectors represent the majority of the mandatory spending on biodiversity from the private sector, however does not encompass all of the necessary expenditures. Given the fact that HPP and mining were the

¹ The information here is primarily based on an interview with the inspection department representative of the MENRP, September, 2017.

chosen sectors during the PIR stage of BIOFIN, the team concentrated on these two areas. The chart below outlines the comparison (numbers are in USD millions):

Figure 26. Funds which should be spent on biodiversity by companies subject to regulations in the mining and HPP sectors in 2018-2023 compared to estimates of spending by donors and the government (in USD millions).



As indicated by the chart, at least a third of the spending on biodiversity should come from the mandatory spending by private companies according to their license agreements. Therefore, ensuring that the funds are spent indeed and increasing the efficiency of this private spending could have a significant impact on biodiversity financing in Georgia.

2.2.4 Voluntary Spending

Public sources have been used in order to collect information on voluntary spending by private companies and individuals in Georgia. The sources included CSR reports of the largest companies in Georgia and the reports by organizations involved in environmental protection.

There are several companies or funds, which facilitate individual and private company contributions to biodiversity management in Georgia:

- Caucasus Nature Fund
- Treepex

- **Kolkheti PAs Development Fund**

Kolkheti PAs Development Fund

The Kolkheti PAs Development Fund was established in 2008, upon the agreement between the MENRP Georgia and the Black Sea Terminal. According to the agreement, the Black Sea Terminal had to implement all the compensatory measures as defined in the Environment Impact Assessment of the railway line built to connect to the Kulevi Terminal.

Kolkheti lowland is characterized by the largest biological diversity of the Black Sea region. A large number of species of migratory birds (including many endemic and relic species of plants and unique wetlands) is presented locally. The part of the area, lately assigned to the terminal, was territory taken out of the Kolkheti National Park.

Up to 8 mln USD has been allocated by the Terminal to the fund. Financial resources are directed towards infrastructure development, restoration, rehabilitation, monitoring and research work in Kolkheti National Park, Kobuleti Strict Nature Reserve and Kobuleti Managed Reserve. This is a type of compensation action and could be termed a biodiversity offset.

Spending Trend (USD)

2013	2014	2015	2016	2017
282679,5	586384,3	740763,8	930924,1	610901,1



Caucasus Nature Fund (CNF)

Caucasus Nature Fund (CNF) is one of the most active supporters for the Agency of Protected Areas of Georgia since 2008. By providing support and management assistance for the protected areas in Caucasus ecoregion (Georgia, Armenia and Azerbaijan), CNF seeks to conserve the distinctive biodiversity of the Caucasus for future generations while at the same time improving the lives of the adjacent communities today.

The mission of the foundation is to protect and strengthen the protected areas system in Caucasus Ecoregion. The abovementioned mission is implemented by supporting the protected areas of Georgia financially and promoting their sustainable development.

The Foundation is co-financing covered costs of administrations for PAs. Basically, operating costs are covered (including top-up salaries for employees), developing eco-tourism infrastructure and improving the technical base. Moreover, the Foundation is focused on creating and financing planned protected areas, like Svaneti, Racha and Samegrelo. Consequently, a significant increase of financing is expected.

On the international level, the Foundation's strategic partners are: the German government, Kreditanstalt für Wiederaufbau (KfW), the World Wildlife Fund (WWF), United Nations Development Program (UNDP), HSBC, Global Environmental Facility (GEF), etc.

The Foundation also has cooperated successfully with the Georgian private sector (Bank of Georgia, Procredit Bank, TBC Foundation, Qartu Foundation etc).

The total of financial donations from the Georgian private sector from 2012 through 2016 was USD 540,000, while the non-financial contributions exceeded USD 550,000.

The CNF looks for additional sources of financing on a regular basis. In Georgia, the focus is on Corporate Social Responsibility while dealing with potential donors. Therefore, a number of Georgian companies, including banks, have been actively cooperated with CNF.

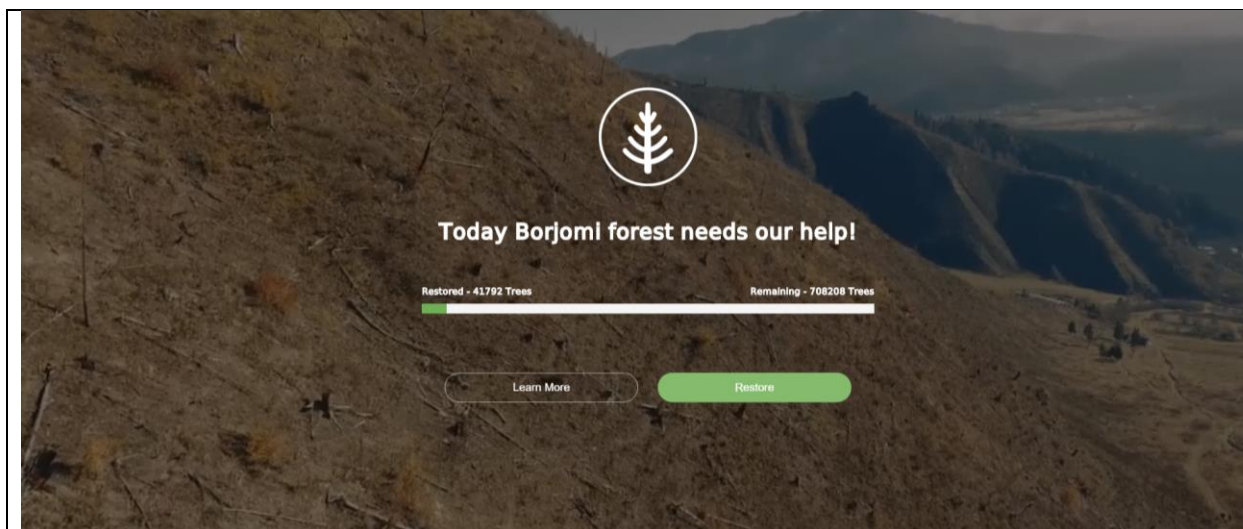


TREEPEX/AGHADGINE.GE Case

Treepex is a private company in Georgia, which mainly targets restoration of forest in Borjomi region in Georgia, which has been destroyed during 2008 Russia-Georgia conflict. In 2017, the company has initiated an online donation platform – “Aghadgine.ge” (“Restore.ge”) and launched a crowd funding campaign targeted at the general population and the companies operating in Georgia. The donated funds were to be used for the restoration of the forest. The platform allows private companies and individuals to purchase the seedlings online and track the process of how many trees were planted within the campaign, how much oxygen was produced by their plants and to monitor the growth during the next five years. The price of one seedling is 10 GEL for business companies and 12.5 GEL for individuals.

By September 2017, 440,000 GEL has been gathered from companies and individuals combined, which could be used for restoration of 41,500 trees. The objective of the organization is to plant 750 000 (seven hundred and fifty thousand) seedlings.

It should be noted that before the project was launched in 2017, there has been no readily available mechanism for the private sector to provide funds for the restoration of the forest. Since the 2008 conflict up to 2017, an eight-year period, only 3,217 trees have been planted through private companies' initiatives. However, the creation of the mechanism has resulted in gathering significantly more funds in less than a year.



2.2.5 Private Spending – Observations:

The following observations regarding private spending in Georgia could potentially translate into biodiversity finance actions:

- Mandated private company spending:
 - **Inspection capacity improvement:** as mentioned, limited inspection capacity reduces control over regulated companies and their implementation of activities, demanded by EIP. An increase in capacity could significantly improve the quality and regularity of inspections.
 - **Change in EIP violation penalty system:** the current system of penalties does not take into account the magnitude of the violation and does not discriminate between companies which have a huge or repeated impact on the environment and human health and companies which are relatively small and have a smaller impact. Larger companies are unlikely to be motivated to follow the regulations due to low penalties and inefficient enforcement system in comparison to the scale of their investments. Introduction of gradations in fine levels, as well as changes in enforcement procedures could ensure the completion of actions required by existing regulations. Several other solutions, including bank guarantee provision by the company (environmental management bonds), before the start of operations, in order to ensure the completion of the actions, could also be effective.
 - **Biodiversity background information collection:** currently MENRP lacks information on baseline biodiversity status in different regions of Georgia. Inspections therefore, have limited ability to assess the damage to biodiversity caused by operations of the company. This may be resulting in substantial loss of biodiversity without appropriate compensation or actions by private companies. The collection of background information for different species and habitats could eliminate this problem.

- **Renewing damage calculation methodology:** current environmental damage calculation methodology is outdated and derives from old, soviet-era calculation methods. Renewing methodology to include modern environmental economic valuation methods could create a more efficient framework of compensation for damages done to ecosystems and biodiversity.
 - **Companies, in many cases, do not understand their regulatory obligations:** In many cases, companies, which need EIPs in order to start operations do not understand the details of their obligations mandated by the EIP. This results in non compliance, lack of regulated actions, and potential damage to biodiversity. Ensuring that the companies understand their obligations could result in a more environmentally friendly business practices with minimal costs of time and money.
- Voluntary spending:
- **limited mechanisms for private donations towards biodiversity:** the examples provided of biodiversity finance mechanisms, such as Treepex and Caucasus Nature Fund, show that there is demand for private donations and outline the opportunity for a targeted mechanism, which would enable private entities to invest or donate money for improving biodiversity conditions in Georgia. Potential solutions could include the creation of specific campaigns for financing separate NBSAP actions, with subsequent reporting on the outcomes of the project, its benefits and connection to the economy and quality of life in Georgia. The campaign could estimate the target budget and even approach private companies directly. The campaigns can be created either by one of the existing NGO's or by a new fund, focused on voluntary donations.

2.3 International Donor Organizations

Foreign financial support is still crucial for the BD protection in Georgia. The local civil society is quite dynamic and has successfully received donor funding since early 90s. Most of the NGOs (national and international) dealing with the BD in Georgia, successfully channel support from a range of national and international sources into specific BD actions and projects.

In total, more than 200 donor activities have been identified, with respective budgets and spending time-frames. Biodiversity rates have been attributed based on the description of works and the aims of the project.

Each activity has been assigned a general sector (for example forest, agriculture and hunting, water, etc.), a national target, BIOFIN category, Aichi target, respective SDG and SEEA. Donor

activities have also been split into investments and recurring costs. The results by each of these categories can be seen on the graphs below.

Table 15. International donor organizations biodiversity spending by Aichi targets ranked by total spending (USD)

Aichi Target	2013	2014	2015	2016	2017	Total 2013-2017
Target 11: Protected areas increased and improved	2,111,818	4,264,873	3,400,952	3,449,787	4,105,271	17,332,700
Target 7: Sustainable agriculture, aquaculture and forestry	379,418	691,407	1,041,791	1,136,287	630,628	3,879,531
Target 15: Ecosystems restored and resilience enhanced	224,667	744,486	635,501	39,000	70,000	1,713,654
Target 19: Knowledge improved, shared and applied	177,560	350,585	410,632	514,829	193,105	1,646,711
Target 12: Extinction prevented	377,647	384,593	413,655	252,657	130,074	1,558,627
Target 8: Pollution reduced	67,826	247,042	316,277	300,371	190,071	1,121,586
Target 2: Biodiversity values integrated	48,908	18,601	76,778	306,637	417,967	868,891
Target 5: Habitat loss halved or reduced	97,958	171,267	59,440	324,463	159,138	812,265
Target 13: Genetic diversity maintained	30,568	38,451	155,491	97,617	130,128	452,256
Target 6: Sustainable management of marine living resources	29,444	39,942	69,994	116,860	135,207	391,447
Target 1: Awareness increased	54,828	64,672	56,562	90,815	82,884	349,761
Target 4: Sustainable production and consumption	25,679	25,687	22,112	280	242,500	316,257
Target 20: Financial resources mobilized	0	0	0	69,545	130,000	199,545
Target 9: Invasive alien species prevented and controlled	0	85,935	70,399	4,666	9,073	170,073
Target 18: Traditional knowledge respected	0	29,894	27,755	27,897	55,362	140,909
Target 3: Harmful subsidies eliminated, positive incentives developed	60,000	37,000	2,100	0	0	99,100
Target 14: Ecosystem services restored and safeguarded	0	42,881	39,027	72	0	81,980
Target 16: (ABS) Nagoya Protocol in force and operational	0	8,091	26,745	0	0	34,836
Target 17: NBSAPs adopted as policy instrument	13,046	19,714	1,374	0	0	34,135
Grand Total	3,699,369	7,265,119	6,826,585	6,731,782	6,681,410	31,204,265

Table 16. International donor organizations biodiversity spending by National Targets (USD)

National Targets	2013	2014	2015	2016	2017	Total 2013-2017
Protected Areas	1,781,096	4,042,873	3,255,901	3,541,056	4,180,129	16,801,056
Forest	297,932	1,145,453	1,411,856	1,348,179	836,221	5,039,641
Species and Habitat	806,067	848,672	962,086	557,733	562,574	3,737,133
Agrobiodiversity	500,538	673,375	650,238	501,873	206,533	2,532,557
Awareness	176,215	307,427	286,515	380,656	210,648	1,361,460
Cross-cutting	93,046	143,266	107,628	221,446	512,195	1,077,581
Black Sea	29,444	29,444	59,496	135,610	153,957	407,952
Biosafety	0	60,452	50,577	4,666	9,073	124,768
Inland Waters	15,029	14,157	42,287	40,563	10,079	122,116
Grand Total	3,699,369	7,265,119	6,826,585	6,731,782	6,681,410	31,204,265

Table 17. International donor organizations biodiversity spending by BIOFIN categories (USD)

BIOFIN Categories	2013	2014	2015	2016	2017	Total 2013-2017
Protected areas and other conservation measures	2,155,805	4,351,964	3,637,024	3,670,697	4,284,050	18,099,540
Sustainable use	588,519	1,181,415	1,488,124	1,793,223	1,317,702	6,368,983
Biodiversity and development planning	214,514	418,794	441,011	616,272	378,468	2,069,058
Access and benefit sharing	55,000	745,398	634,866	39,000	70,000	1,544,265
Restoration	520,323	335,953	353,058	129,364	36,424	1,375,122
Biodiversity awareness and knowledge	79,828	64,672	132,090	393,451	500,851	1,170,893
Pollution management	71,807	73,810	61,969	84,830	84,842	377,257
Biosafety	0	85,935	70,399	4,666	9,073	170,073
Pollution management	13,572	7,179	7,396	0	0	28,147
Green Economy	0	0	647	280	0	927
Grand Total	3,699,369	7,265,119	6,826,585	6,731,782	6,681,410	31,204,265

Table 18. International donor organizations biodiversity spending by SDGs (USD)

SDG	2013	2014	2015	2016	2017	Total 2013-2017
SGD 15 Biodiversity, forests, desertification	3,533,823	7,041,861	6,543,770	6,401,204	6,372,712	29,893,370
SDG 12 Sustainable consumption and production	66,102	95,814	150,318	154,293	84,742	551,269
SSDG 14 Oceans	29,444	29,444	59,496	135,610	153,957	407,952
SDG 13 Climate change	70,000	98,000	73,000	39,000	70,000	350,000
SDG 4 Education	0	0	0	1,675	0	1,675
Grand Total	3,699,369	7,265,119	6,826,585	6,731,782	6,681,410	31,204,265

Table 19. International donor organizations biodiversity spending by SEEDs (USD)

SEEA	2013	2014	2015	2016	2017	Total 2013-2017
6 Protection of biodiversity and landscapes	2,154,017	5,000,891	4,224,673	3,362,749	4,270,876	19,013,206
11 Management of timber resources	190,012	239,950	644,533	984,558	836,221	2,895,275
8 Research and development for environmental protection	622,535	681,704	607,119	690,684	109,790	2,711,832
16 Other resource management activities	95,657	298,620	275,297	474,166	553,265	1,697,005
9 Other environmental protection activities	173,362	382,957	350,769	449,229	247,202	1,603,519
13 Management of other biological resources (excluding timber and aquatic resources)	248,754	355,125	339,419	72,804	316,818	1,332,920
15 Research and development activities for resource management	54,444	105,659	197,021	480,949	130,000	968,073
3 Waste management	71,807	73,810	61,969	84,830	84,842	377,257
1 Protection of ambient air and climate	70,000	98,000	73,000	39,000	70,000	350,000
4 Protection and remediation of soil, groundwater and surface water	18,779	17,907	42,287	92,813	62,396	234,183
12 Management of aquatic resources	0	10,498	10,498	0	0	20,995
14 Management of water resources	0	0	0	0	0	0
Grand Total	3,699,369	7,265,119	6,826,585	6,731,782	6,681,410	31,204,265

Table 20. International donor organizations biodiversity spending by sector (USD)

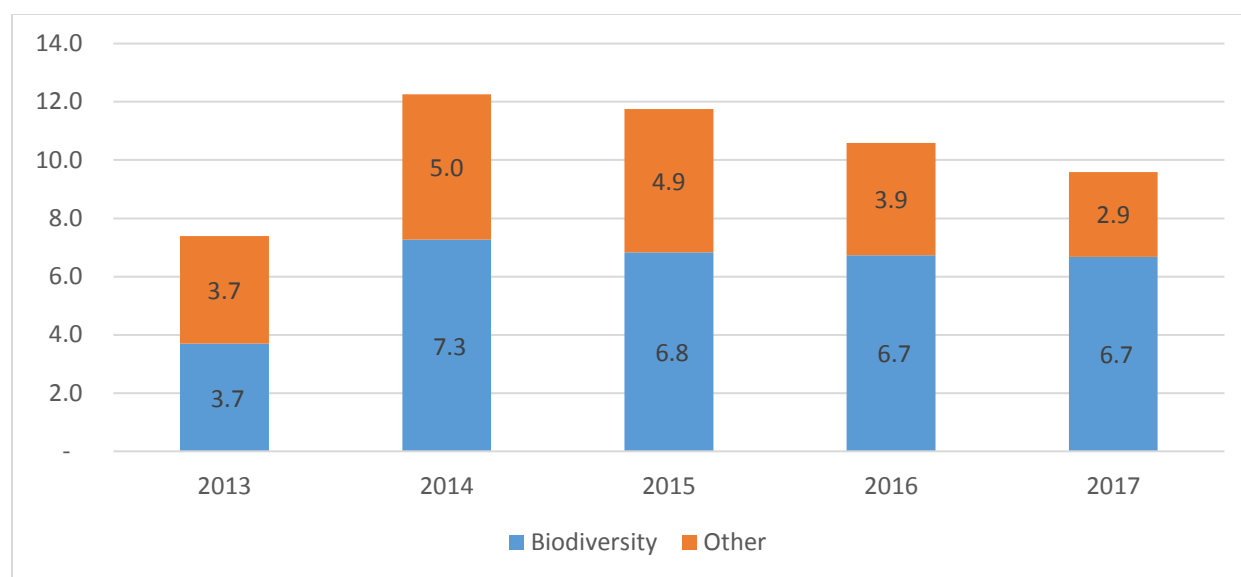
Sector	2013	2014	2015	2016	2017	Total 2013-2017
Environmental protection	2,846,544	5,206,465	4,621,384	4,774,905	5,066,362	22,515,660
Forest	423,402	1,207,228	1,306,004	1,080,553	604,568	4,621,755
Agriculture and Hunting	232,955	380,530	361,481	218,329	460,085	1,653,381
Education, Science, and Research	67,408	195,971	230,851	278,637	93,553	866,420
Public Administration (General Governance / Finance / Planning)	99,618	99,646	83,266	84,348	91,099	457,977
Water	15,029	14,157	72,339	147,423	130,286	379,235
Tourism and Recreation	14,411	75,243	51,736	55,970	100,454	297,815
Other	0	25,000	50,000	75,000	75,000	225,000
Energy	0	50,381	39,027	72	0	89,480
Infrastructure and Real Estate	0	0	0	0	60,003	60,003
Fishing	0	10,498	10,498	0	0	20,995
Finance	0	0	0	16,545	0	16,545
Grand Total	3,699,369	7,265,119	6,826,585	6,731,782	6,681,410	31,204,265

Table 21. International donor organizations biodiversity spending (Recurrent/Investment)

Recurrent/Investment	2013	2014	2015	2016	2017	Total 2013-2017
Investment	3,336,184	6,910,117	6,569,007	6,385,883	6,276,135	29,477,327
Recurrent	363,185	355,002	257,578	345,900	405,275	1,726,939
Grand Total	3,699,369	7,265,119	6,826,585	6,731,782	6,681,410	31,204,265

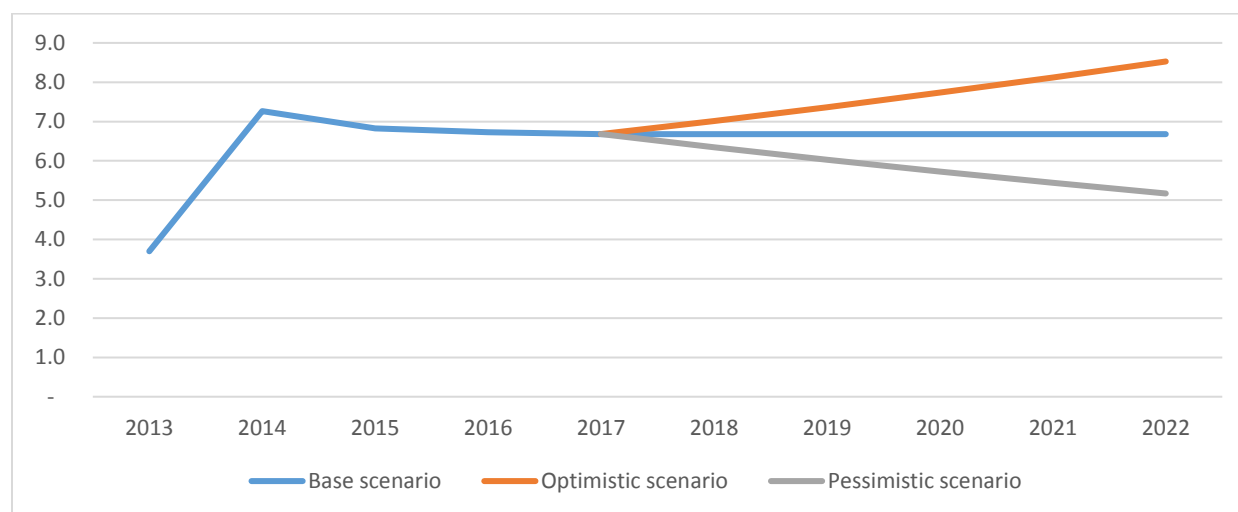
The figure below shows the total spending of biodiversity related projects, financed by donors, split into biodiversity part and other aims, based on biodiversity attribution rates (in USD millions):

Figure 27. Donor spending by years, split into biodiversity part and other aims (USD millions)



The figure below provides projections of biodiversity spending by donors for 2018-2022:

Figure 28. Projections of biodiversity spending by donors for 2018-2022 (USD millions)



The chart indicates that in the base case scenario, spending by the donors remains the same for the following years. This is based on the data for the years 2015-2017, where the spending remained practically the same. The pessimistic scenario depicts annual 5% decrease in financing provided by the donors, while the optimistic scenario assumes a 5% increase in financing year over year.

2.3.1 Donor spending – observations

There are several observations regarding donor spending in Georgia, which could potentially translate into biodiversity finance actions:

- **Lack of clearing house mechanism:** currently there is no unifying database on projects conducted throughout Georgia which target biodiversity. This could translate into coordination problems for donors and doubling of the effort. The Ministry of Environment and Natural Resources Protection is sometimes left without the findings of the studies conducted by different donors, thereby limiting the usefulness of this information for planning by the ministry and other stakeholders. The provision of effective clearing house mechanism would improve the coordination, thereby eliminating related problems and creating opportunities for effective spending.

- **Potential for creating a “project menu” for donors:** currently the donors are deciding which projects to finance on their own accord, with little help from the Ministry of Environment and Natural Resources Protection. One potential solution could be increasing the effectiveness of strategic goals communication by MENRP to the donors. The creation of an effective list of projects with accurate descriptions, timeframes, achieved results, benefits and approximate budget would give donors sufficient information to take more efficient decisions and potentially increase financing. The list would enable the Ministry to be more proactive with the donors and attract more financing into the sector.

Summary

The graphs below outline the total spending estimated per sector: Public, Donors and Private.

Figure 29. Total biodiversity spending breakdown by sectors - nominal (USD)

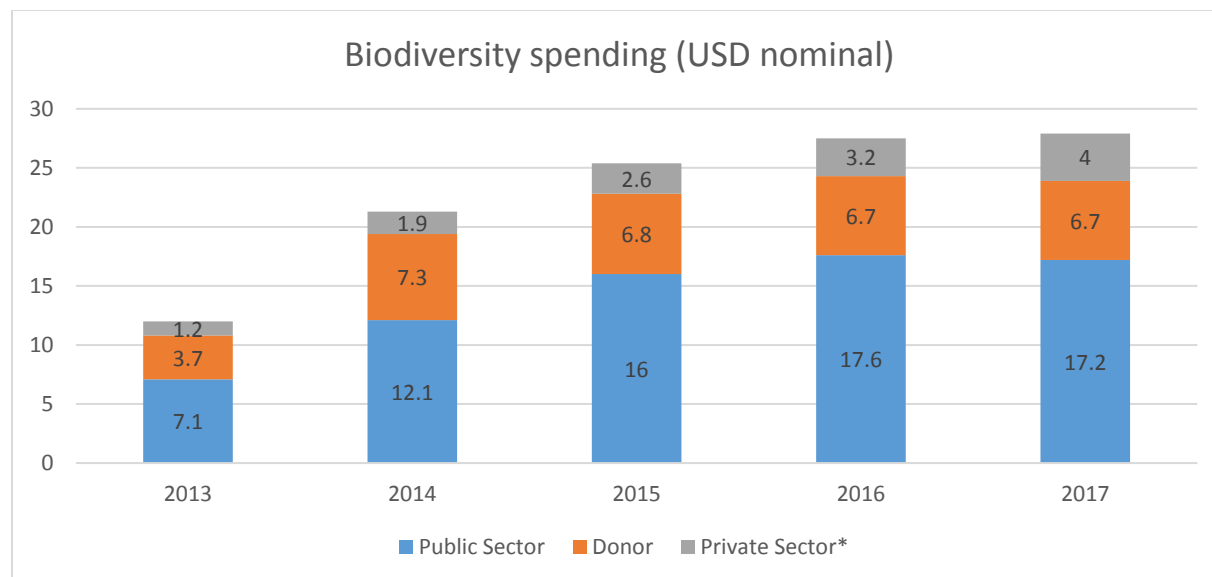
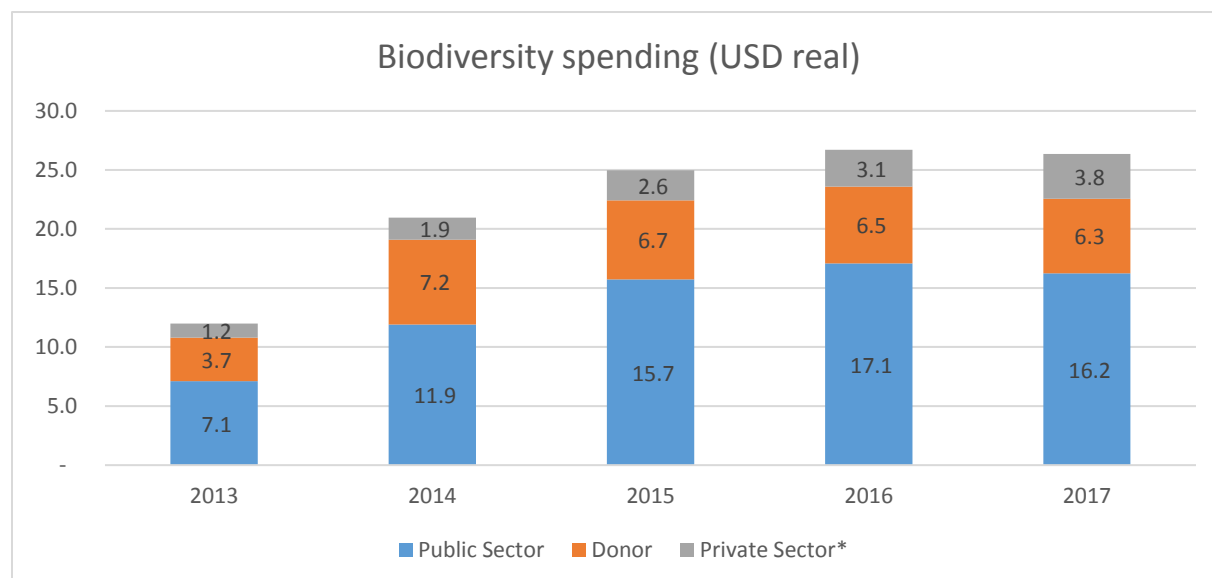


Figure 30. Total biodiversity spending breakdown by sectors - real (USD)



* Private sector consists of an estimated spending for HPP's and mining

It can be seen that public spending comprises the majority of spending on biodiversity. It must be noted that in 2013 and 2014, there is no data regarding own revenues spent by the MENRP,

which skews the results in those years. General conclusion is that the total spending mostly stays flat or increase slightly.

Table 22. Biodiversity spending share in GDP

USD mln	2013	2014	2015	2016	2017F
GDP	16,140	16,508	13,988	14,378	15,054
BD spending	12	21	25	28	28
Share of BD	0.07%	0.13%	0.18%	0.19%	0.18%

Share of biodiversity spending in GDP has mostly remained the same. Years 2013 and 2014 lack the data on own revenue spending by MENRP, which skews the results.

Table 23. Total biodiversity spending by national targets (USD)

National Targets	2013	2014	2015	2016	2017	Total 2013-2017
Forest	979,024	5,571,655	8,130,307	8,823,446	11,113,720	34,618,152
Protected Areas	4,111,004	6,449,718	5,778,175	6,259,523	7,360,906	29,959,326
Cross-cutting	3,929,993	5,039,287	6,422,936	6,769,050	7,568,769	29,730,035
Agrobiodiversity	1,011,162	1,819,201	2,223,957	2,053,250	1,114,185	8,221,755
Species and Habitat	1,502,627	1,519,034	2,000,026	1,477,045	1,654,397	8,153,129
Awareness	421,782	783,567	686,727	1,957,082	544,642	4,393,800
Black Sea	29,444	29,444	59,496	135,610	153,957	407,951
Biosafety	0	60,452	50,577	4,666	9,073	124,768
Inland Waters	15,029	14,157	42,287	40,563	10,079	122,115
Grand Total	12,000,065	21,286,515	25,394,488	27,520,235	29,529,728	115,731,031

It is evident that the main part of spending on biodiversity in Georgia is related to forests, protected areas and cross-cutting activities.

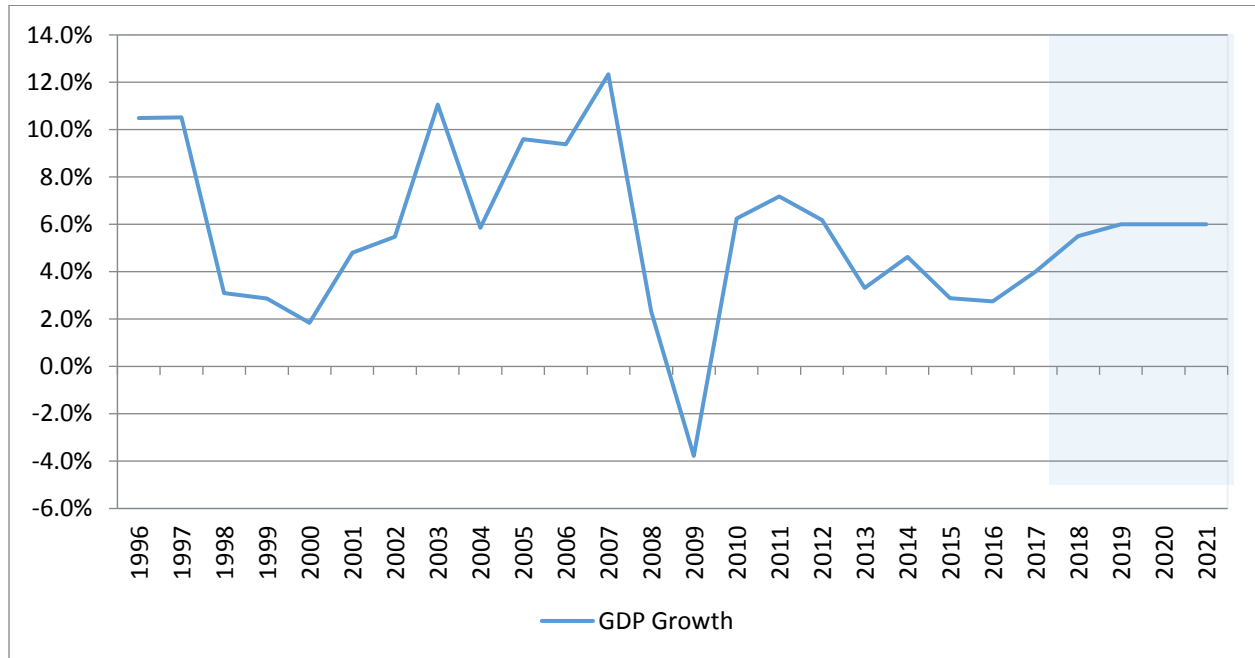
Table 24. Total biodiversity spending by categories (recurrent/investment) (USD)

Recurrent/Investment	2013	2014	2015	2016	2017	Total 2013-2017
Investment	3,828,584	8,193,727	7,624,662	7,806,459	7,813,072	35,266,506
Recurrent	8,171,483	13,092,789	17,769,827	19,713,778	21,716,656	80,464,532
Grand Total	12,000,067	21,286,516	25,394,489	27,520,237	29,529,728	115,731,038

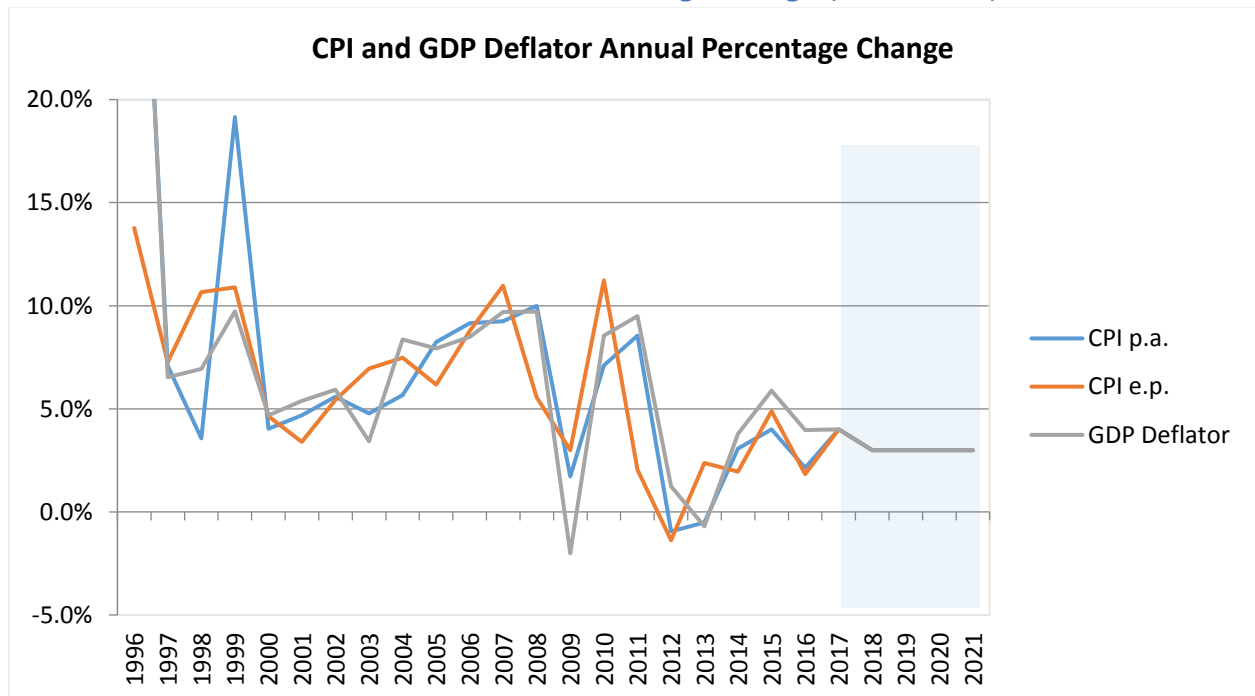
About 70% of the biodiversity spending is recurrent, with about 30% investment spending.

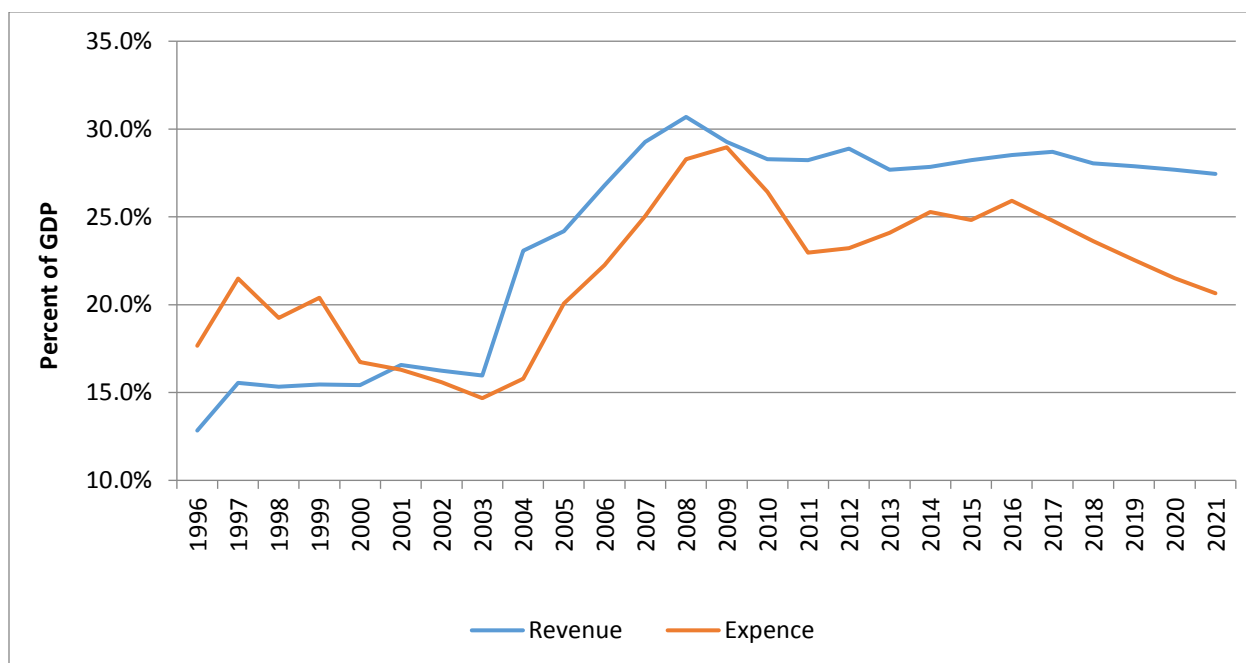
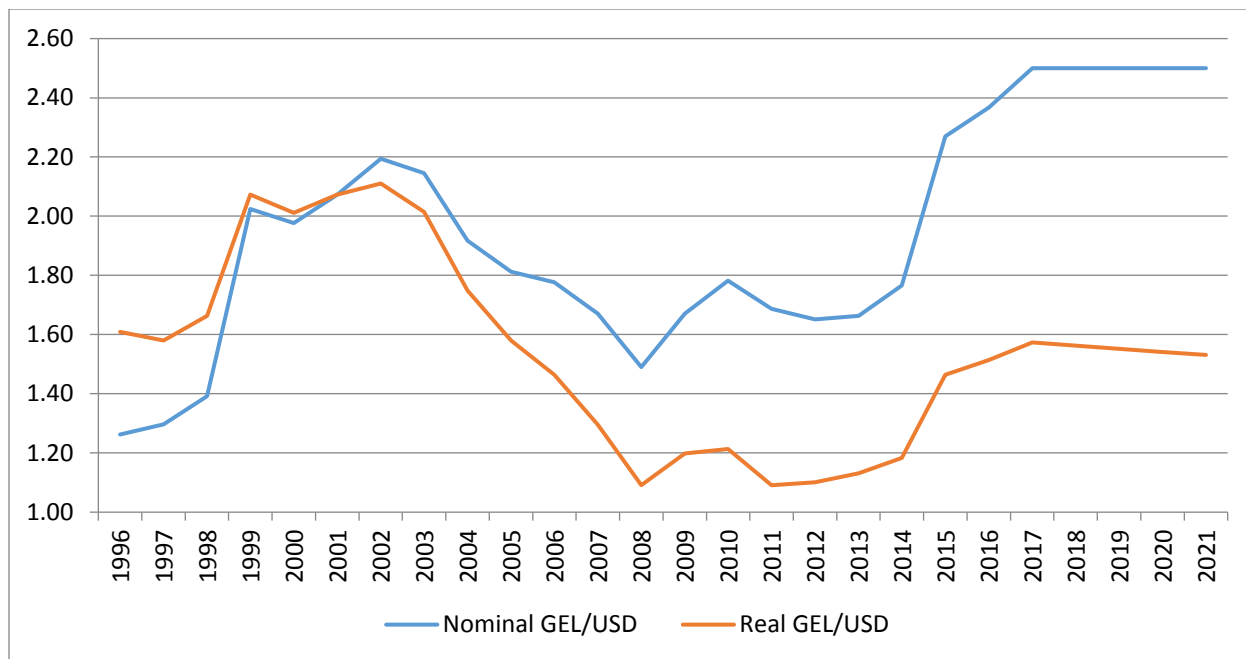
ANNEXES:

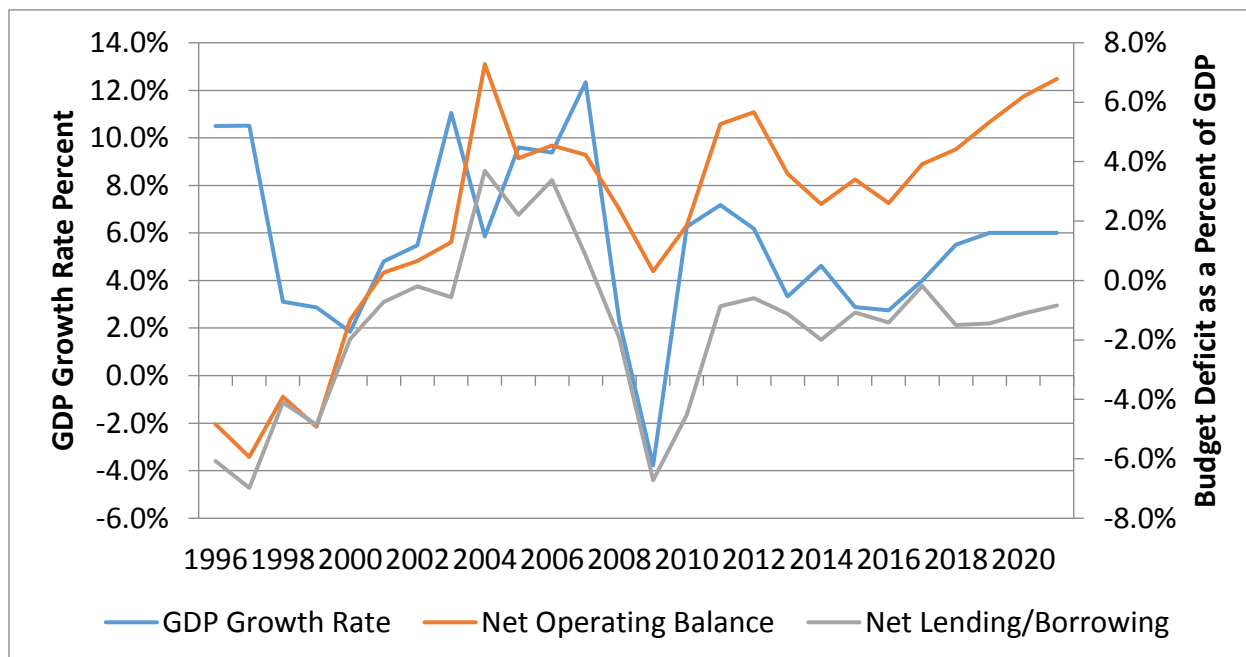
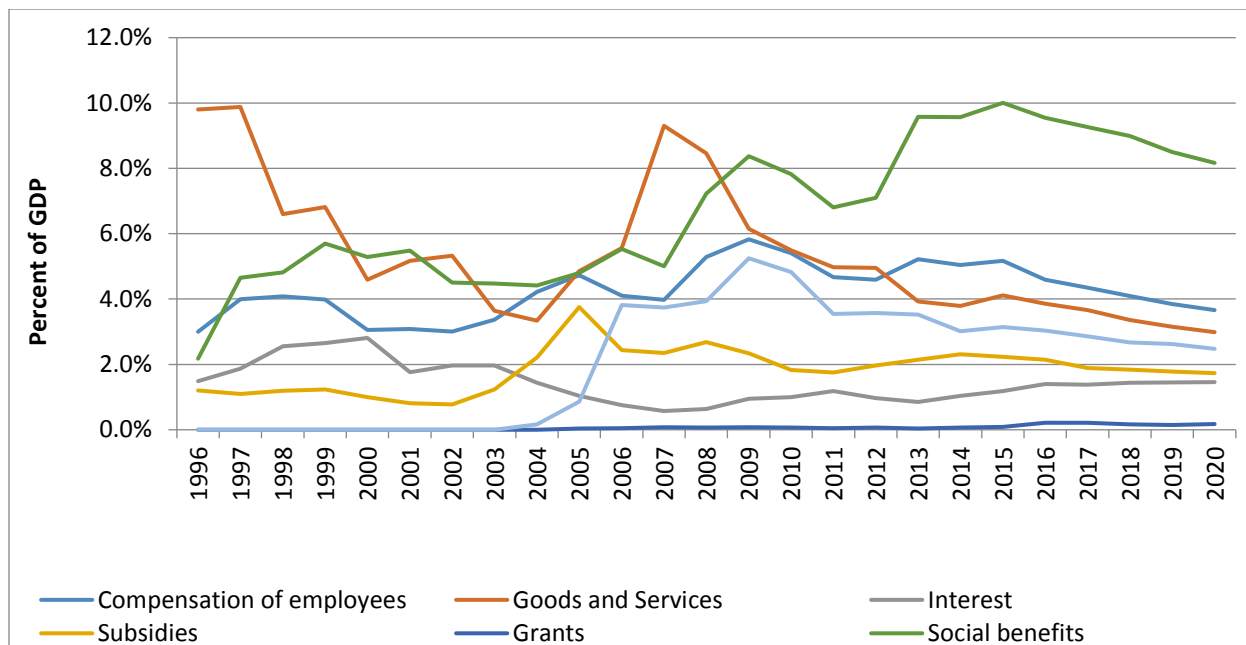
Annex 1. GDP Growth (1996-2021)



Annex 2. CPI and GDP Deflator Annual Percentage Change (1996-2021)







Annex 3. Amount of regulation fees according the Law of Georgia on Regulation Fee

№	Natural resource	Units of measure	Amount of regulation fee (GEL)
1	Coal	1 Ton	0,10
2	Manganese (Mn)	1 Ton / 1% content	0,10
3	Copper (Cu)	1 Ton	127,5
4	Lead (Pb)	1 Ton	14,8
5	Zinc (Zn)	1 Ton	36,0
6	Gold (Au)	1 Gram	1,5
7	Silver (Ag)	1 Gram	0,02
8	Diatomite	1 Ton	3,0
9	Carbon dioxide (CO ₂)	1 Ton	10
10	Oil: 1) Investor's share of oil (Including compensation oil); 2) Government's share of oil	1 Ton	24,19
11	"Borjomi" mineral water	1 m ³	3
12	"Nabeglavi" mineral water	1 m ³	3
13	"Sairme" mineral water	1 m ³	3
14	Other underground mineral water	1 m ³	3
15	Underground fresh water	1 m ³	2
16	Commercial underground fresh water, used as the main raw material	1 m ³	2,5
17	Other minerals	1 m ³	0,0
18	Timber products	1 m ³	0,0
19	Bulbs of Galanthus, Cyclamen verum	1 Kilogram	0,0
20	Spruce seeds	1 Kilogram	0,0
21	The European anchovy	1 Ton	15
22	Other species of fauna	1 representative of mammals and avian species, 1 Ton for fish and aquatic animals.	0,0
23	Oil and gas transportation activities	1 Ton/1000 m ³	0,0
24	Processing of gas (Methane, Ethane, Propane, Butane etc.)	1000 m ³	0,0
25	Oil processing (Compounding):	1 Ton	0,0

	1) light distillate (gasoline, kerosene, diesel etc); 2) Heavy distillates (heavy fuel oil, bitumen, paraffin etc)	1 Ton	0,0
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