Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 15-Nov-2020 | Report No: PIDC30649

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Georgia	P173975		Georgia Relief and Recovery for MSMEs (P173975)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EUROPE AND CENTRAL ASIA	Dec 03, 2020	Feb 16, 2021	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Economy and Sustainable Development	Enterprise Georgia, National Bank of Georgia	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to provide relief to micro, small, and medium-size enterprises and support their recovery, including by strengthening the enabling environment for access to finance.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	100.00

Environmental and Social Risk Classification	Concept Review Decision
Moderate	Track II-The review did authorize the preparation to

	continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Georgia's economy has grown rapidly over the past decade and it has recently graduated into the World Bank's upper-middle-income country category.** Georgia is a small open economy of 3.7 million people with a per capita gross domestic product (GDP) of US$4,785. Growth has been driven primarily by capital deepening and wide-ranging reforms to improve governance and the business environment. This has helped to nearly halve the poverty rate from 37.4 percent in 2007 to 20.1 percent in 2018. Georgia is heavily reliant on the external sector. Looking forward, making growth more inclusive and resilient is a key objective.

2. **The global COVID-19 pandemic has dislodged the country's growth trajectory, threatening the progress made on both economic development and poverty reduction.** According to World Bank projections, real GDP will is expected to contract by 4.8 percent in 2020, a 9.1 percentage point downward revision from the January 2020 forecast. While the health crisis has been well contained thus far, economic activity, including exports, tourism, and remittances have been severely affected by the lockdowns.

3. **Georgia's initial public health and safety net response to the pandemic was swift, and attention has now turned to managing uncertainty and planning for a resilient recovery.** A national state of emergency was put in place between March 21 and May 22, 2020. In collaboration with development partners, social transfers were expanded quickly, and the Government of Georgia (GoG) introduced a number of temporary relief measures for households and firms totaling GEL 515 million (US$172 million).[1] GoG also unveiled an Anti-Crisis Economic Plan (ACEP) totaling GEL 3.5 billion (US$1.2 billion) or 6.5 percent of GDP, for firms. Although the GoG response has been successful in flattening the COVID mortality curve, the outlook remains uncertain. There is the risk of a weaker recovery, given the resurgence of COVID-19 cases. This is particularly the case for vulnerable firms and households, the latter of which risk falling back into poverty.

Sectoral and Institutional Context

4. **Despite Georgia's success in improving its business environment, access to finance constraints for micro, small, and medium-sized enterprises (MSMEs) hampered firm growth and survivorship even before the pandemic.** MSMEs in Georgia are mainly in the trade and service sectors, and are therefore lower value-added activities. In 2018 MSMEs accounted for 99.7 percent of active enterprises, 64.0 percent of employment, and 61.0 percent of value-added. Georgia is among the most business-friendly countries globally, having undertaken several financial and private sector reforms. Nevertheless, access to finance for MSMEs is a persistent obstacle identified by firms. According to the 2019 Enterprise Survey, access to finance is the second main obstacle for firms, after political instability. Access to finance, especially for MSMEs, is still affected by macro-financial structural factors: political instability, high levels of dollarization, high collateral requirements (there is no secured transactions framework), and high interest rates. On the demand-side, access to finance is constrained by weak managerial skills, especially regarding the technology adoption needed to sustain and scale-up a business. Relatedly, only 30 percent of businesses survive past four years, while many young firms do not survive beyond 2–3 years. The shock from the COVID-19 pandemic will exacerbate these challenges.

5. **The COVID-19 crisis has severely affected firms and employment in Georgia through multiple channels, and particularly for those MSMEs that have not transitioned to digital solutions.** A follow-up Enterprise Survey in 2020 Q2

[1] This included subsidies for electricity and natural gas bills, price subsidies for certain primary food products, deferral of property and income taxes, and co-financing of interest payments for hotels. Also included is a three-month bank loan service moratorium for financial institutions.

found that 22 percent of firms closed temporarily and 3 percent permanently.[2] Initial impacts were more concentrated among MSMEs in hard-hit sectors, such as hospitality, restaurants, and catering. The combination of the drastic reduction in demand, difficulties in collecting cash payments, and changes in consumer behavior, has squeezed firm liquidity. Roughly 70 percent of firms saw cash flows decrease, and 28 percent of them anticipated falling into arrears on outstanding liabilities. Firms reported challenges with adjusting their operations, and only 19 percent of firms increased the use of digital platforms, which is lower than the global average of more than 30 percent.[3] The transition to online platforms and the adoption of digital solutions have been affected by the relatively low levels of electronic payment usage.

6. **The banking sector entered the crisis with strong buffers, but high dollarization, uncertainty, and the delayed impact of forbearance measures continue to present headwinds.** As of December 2019, deposit-taking institutions reported system non-performing loans at 1.9 percent and system capital adequacy at 19.5 percent. The National Bank of Georgia (NBG) leveraged this position to make countercyclical adjustments in capital and liquidity thresholds, which released resources equivalent to 3 percent of GDP. Georgia took a more conservative approach to regulatory forbearance and frontloaded some expected loan losses at the end of 2020 Q1.

7. **Relief measures, though announced promptly, will need to be adjusted to address the evolving needs of the real economy.** The packages announced in June 2020 included GEL 500 million (US$166 million) to support the expansion of existing interest rate co-financing and microgrant programs, and a significant expansion of the revamped credit guarantee scheme. These are administered by Enterprise Georgia (EG), the national business and export promotion agency under the Ministry of Economy and Sustainable Development (MOESD). The parameters of these programs –including size, coverage and purpose of funds– have been adjusted with support from the World Bank to the unique challenges posed by the pandemic. However, flexibility will be key to customize these programs, as information continues to emerge. Finally, given the challenges in digitization, investing firm managerial capabilities, faster customer due diligence, and in payment system upgrades will support the transition to a cash-less economy as well as e-commerce.

Relationship to CPF

8. **The Project is aligned with the World Bank Group (WBG) Georgia Country Partnership Framework (CPF) for 2019–2022, namely Focus Area 1 on enhancing inclusive growth and competitiveness.** The Project design is most closely aligned with the following CPF objectives: (a) diversifying sources of financing and strengthening innovation capacity, and (b) strengthening the resilience of households. The Project also reflects the priorities of the Georgia 2020 vision and is designed to reflect the priorities and measures announced by the Government under the ACEP and, in doing so, strives to structure the firm and employment targets around two pillars of the WBG's COVID-19 Crisis Response Approach: (a) ensuring sustainable business growth and jobs creation and (b) rebuilding better. This Project complements the World Bank's 2020 Q2 Georgia Emergency COVID-19 Response Project and the Economic Management and Competitiveness Development Policy Operation.

C. Proposed Development Objective(s)

The Project Development Objective (PDO) is to support micro, small, and medium-size enterprises for relief and recovery, as well as related institutional strengthening.

Key Results (From PCN)

9. The following PDO indicators are currently being considered:

a. Volume of financial support disbursed to MSMEs affected by the pandemic (cumulative, US$), as measured by the sum of disbursements of grants, co-financing of interest payments, and guaranteed loans under the Project;
b. Number of measures and reforms adopted to strengthen institutions and programs, measured as:

[2] By 2020 Q3, the situation had not improved. A PricewaterhouseCoopers survey reported that approximately 55 percent of microenterprises and 30 percent of medium and large enterprises had suspended their activities.
[3] The World Bank. 2020. Business through the COVID-19 shock: firm-level evidence from 46 countries.

i. Number of changes in program designs and implementation;
ii. Approval of secured transactions reform;
iii. Institutional strengthening measures (including improvements in human resources, IT systems, monitoring & evaluation, mainstreaming gender and climate change resilience, environmental and social (E&S) risks screening).

c. Number of digital payment transactions through the new instant payment system.

D. Concept Description

10. **The proposed financing instrument is a US$100 million Investment Project Financing with Performance-Based Conditions (IPF-PBCs).** The Project includes the components listed in Table 1.

Table 1. Project Components with Tentative Counterpart Co-Financing

Project Components	Agency	Existing Program	PBC	IBRD (US$, millions)
Component 1 - Financial relief and recovery for MSMEs				**78.0**
Subcomponent 1.1 - Grants for micro and small firms	EG	✓	✓	27.7
Subcomponent 1.2 - Co-financing of interest payments	EG	✓	✓	14.9
Subcomponent 1.3 - Partial credit guarantees	EG	✓	✓	29.4
Subcomponent 1.4 - Support for COVID-proofing and digitization	EG	×	×	6.0
Component 2 - Digital payments & financial infrastructure upgrading				**17.0**
Subcomponent 2.1 - Upgrading payments infrastructure & know-your-customer registry	NBG/EG	×	×	15.0
Subcomponent 2.2 - Secured transactions reform	NBG/EG	×	×	2.0
Component 3 - Project management and monitoring	EG/NBG	n.a.	×	**5.0**
Component 4 - Contingency Emergency Response Component	EG	n.a.	×	**0.0**
Total Project Cost				**100.0**

11. **The Project envisions that part of the disbursements will be conditional on the achievement of Performance-Based Conditions (PBCs).** The design of the Project recognizes the importance of leveraging existing government programs to provide continuity to the relief and recovery programs. EG has expressed interest increasing the efficiency and effectiveness of its programs. PBCs can provide incentives to strengthen: (a) the design, governance, implementation, and monitoring of programs to increase efficacy and respond to firms' needs under different stages of intervention (relief, restructuring, and recovery), and (b) the institutional capacity of EG. PBCs are likely to be structured around the Project midterm (2022–2023) to provide continued liquidity for ongoing programs while strengthening systems and building capacity.

Component 1 - Financial relief and recovery for MSMEs (US$78.0 million)

12. **The objective of this component is to alleviate the financial constraints of firms and help them adjust their business to the post-COVID-19 scenario.** The goal is to preserve productive assets and existing economic relationships (with workers, suppliers, and customers) that are costly and time-consuming to rebuild while also ensuring that firms undertake changes to build resilience for the recovery phase. While the focus is on immediate financial relief, the component will also support investments in business expansion and new projects of entrepreneurs seeking opportunities in growth sectors. The component will support the expansion of the following financial instruments implemented by EG: (a) grants for MSMEs through EG's Micro and Small Entrepreneurship Support Program, (b) co-financing of interest payments through EG's Produce in Georgia Program, and (c) partial credit guarantees (PCGs). Nonfinancial support will include training and technical assistance to help firms adjust to new conditions, improve their business skills, and increase their resilience.

Component 2 - Digital payments and financial infrastructure upgrading (US$17.0 million)

13. **The Project will finance investments to strengthen financial infrastructure and increase digital payments.** The objective is to strengthen the financial sector's infrastructure to enable access and usage of digital financial services, through upgrades in: the payment system, the know-your-customer registry, and the secured transactions framework. The component aims to expand access to finance to small and medium sized enterprises (SMEs), including through greater use of movable collateral. The project will support further alignment of the Georgian secured framework with international standards.

Component 3 - Project management and monitoring (US$5.0 million)

14. **Component 3 will finance project management, implementation, and monitoring needs.** The component will finance expenses related to: (a) implementation costs of EG, including operational expenses and additional staff needs for financial management and E&S standards; (b) expenses for disbursement agents under Subcomponent 1.1; and (c) Monitoring & Evaluation (M&E) activities, including enterprise surveys and other forms of impact assessments.

Component 4 – Contingency Emergency Response Component (CERC) (US$0 million, initially)

15. **This is an unfunded contingency component to be considered in the case of a relevant emergency event.** It will be used for relief measures if a rapid requirement of liquidity is required, beyond aspects listed in Component 1. This is in the context of the COVID-19 pandemic and the new 2020 Q4 geopolitical risks in the region.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

16. **Environmental and social risks of the Project are expected to be Moderate. Risks are mostly related to Component 1, which may be used for operating expenses such as salaries, utility bills, among others, and/or acquisition of assets or equipment.** Given the size of the micro-grants, it is not anticipated that major acquisitions will be conducted with grant funds. Other Project activities in Component 1 will focus on co-financing of loan interest rates and underwriting loan guarantees which will require more environmental and social screening. The financing to facilitate digitization of payment systems, establishing a know-your-customer registry and upgrading the secured transactions will not trigger environmental or social risks. The Borrower will prepare an Environmental and Social Management Framework including Labor Management Procedures (LMP), a Stakeholder Engagement Plan (SEP), and an Environmental and Social Commitment Plan (ESCP) prior to Project Appraisal.

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APPROVAL

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