

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Georgia	Project Title:	Improving Domestic Resource Mobilization for Inclusive Growth Program
Lending/Financing Modality:	Programmatic approach and policy-based loan	Department/ Division:	Central and West Asia Department/ Public Management, Financial Sector, and Trade Division

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: general intervention

#### A. Links to the National Poverty Reduction and Inclusive Growth Strategy, and Country Partnership Strategy

In June 2014, the government approved the Socio-Economic Development Strategy of Georgia (Georgia 2020), which includes its poverty reduction strategy. Georgia 2020 targets average annual real gross domestic product (GDP) growth of 7.0% by 2020, a decline of the population living below the national relative poverty line to 18%, and a Gini coefficient of 0.35. Georgia 2020 aims to foster inclusive economic growth and reduce poverty by enhancing private sector competitiveness, developing human capital, and improving access to finance.<sup>a</sup> In the 2014–2016 National Action Plan for Implementation of the Gender Equality Policy in Georgia, the government sets out its targets for gender equality in the finance sector. The interventions under the Asian Development Bank (ADB) program are consistent with the development priorities set out in the Basic Data and Directions 2014–2017, Georgia 2020's main vehicle for implementation. Under the Basic Data and Directions 2014–2017, the government is de-monopolizing the economy, implementing initiatives to ensure unhampered access for small and medium-sized enterprises (SMEs) to the market, boosting market competitiveness, strengthening tax efficiency, introducing a savings scheme based on quasi-mandatory pension insurance, and enhancing efficiency and transparency in the management of public finances. Under its country partnership strategy, 2014–2018 for Georgia, ADB supports the implementation of the government's poverty reduction strategy by focusing on high and sustainable growth to create and expand economic opportunities, and by providing broader access to economic opportunities.<sup>b</sup> The ADB program will contribute to more inclusive economic growth by supporting micro, small, and medium-sized business development; and broader access to finance and economic opportunities to ensure that all citizens can participate in and benefit from growth. It will also support pension reform; the universal pension reduces or prevents poverty among the elderly, and the introduction of the indexation mechanism will ensure that the benefit maintains its value in line with inflation.

#### B. Results from the Poverty and Social Analysis during Project Preparation or Due Diligence

**1. Key poverty and social issues.** Economic growth averaged 5.1% per year during 2010–2015, increasing per-capita incomes substantially. Meanwhile, unemployment remained high throughout this period and currently stands at 12.4% (2014); with an unemployment rate of 10.4% for women and 14.0% for men. The percentage of the population living below the poverty line decreased from 24.6% in 2004 to 21.4% in 2013. The existing universal pension is a major instrument for poverty reduction. All Georgian citizens are granted the right to receive state pension benefits on an individual basis once they reach the age of 60 (women) or 65 (men). The pension has doubled between 2010 and 2015 from GEL60 per month to GEL160 per month, just above the minimum subsistence level of GEL143.9 per month. Pensions represent over half of the total social spending item in the state budget, accounting for 16.0% of total public expenditure in 2015 and 4.1% of GDP. Sustaining growth in the long run will require a shift in the growth model, driven by greater domestic savings and greater exports, with considerable employment generation. Reform options to raise national savings will need to target increases in both public and private savings. Increasing public savings will require a shift in the fiscal framework toward lower growth of current expenditures and higher growth of capital expenditures. Increasing private savings includes the introduction of a private pension savings scheme while maintaining in the short term the universal pension to alleviate poverty, and developing capital markets to widen and deepen availability of financial instruments for long-term savings. Productivity and growth of exports requires the support of skills training and investment promotion. The program contributes to the key reform options, promoting national savings while improving access to finance through investment and innovation promotion.

**2. Beneficiaries.** The program will benefit citizens across Georgia and includes targeted support for women. It is expected that the program will help reduce the incidence of absolute poverty. The population, including SMEs and poor and vulnerable groups, is not reaching its economic potential because of weaknesses in the legal, regulatory, and institutional business environment, and inadequate levels of business management skills and financial literacy. Savings mobilization is poor, with private pension funds being voluntary and underdeveloped.

**3. Impact channels.** Poor and vulnerable groups will benefit from more effective mobilization of domestic resources for public and private investment, which will contribute to higher living standards and more employment opportunities. Citizens, in particular the elderly, will benefit from greater generation of savings through pension reform, calling for a pension savings system with quasi-mandatory elements. SMEs, including those owned by women, will continue to benefit from greater mobilization of public and private resources for investment.

**4. Other social and poverty issues.** The program does not focus on health and education, since other development partners are providing support to these areas of the government's social development agenda.

<p><b>5. Design features.</b> Women are less likely to work in formal sectors and generally earn lower wages. Life expectancy is higher for women, making it likely for them to outlive their husbands (who often provide a larger share of family income), hence survivors' pensions are significant for women. Women currently comprise 70% of the persons receiving pension and social packages from the state, a result of the lower retirement age for women and greater longevity. The pension reform will take gender aspects into account, including the equitable treatment of men and women in pension benefits. In particular, the pension reform will eventually bring equality for women and men by setting the same retirement age, reducing the gap in pension wealth, and thereby achieving more comparable pension income. The introduction of supplementary pensions will reduce the pressure on the government to adjust the universal pension payment beyond the cost-of-living increases.</p>
<p><b>C. Poverty Impact Analysis for Policy-Based Lending</b></p> <p><b>1. Impact channels of the policy reform(s).</b> The population will benefit from the shift in the growth model through policy reforms that increase domestic resource mobilization, and efficiency in public and social expenditures. The employed population will benefit from the introduction of a supplementary private pension scheme, which will also provide incentives to bring informal employees into the system. Export-oriented SMEs will benefit from better access to finance.</p> <p><b>2. Impacts of policy reform(s) on vulnerable groups.</b> The poor and women will benefit from the continuation of a sustainable and affordable universal pension. The pension reform will ensure equitable treatment for men and women, both for the universal pension and for the supplementary private pension savings system.</p> <p><b>3. Systemic changes expected from policy reform(s).</b> The systemic changes expected from the policy reforms include a reduction in absolute poverty to 18.0% by 2020 (from 21.4% in 2013) and the reduction of the Gini coefficient to 0.35 by 2020 (from 0.41 in 2012).</p>
<p align="center"><b>II. PARTICIPATION AND EMPOWERING THE POOR</b></p> <p><b>1. Participatory approaches and project activities.</b> Consultations were held with ministries, legal entities, the National Bank of Georgia, commercial banks, insurance companies, the stock exchange, and international development partners. The consultations helped to better align the program with the local context and harmonize activities with those of other development partners, and reflect a broad range of information and perspectives. Consultations also added value to the program design by increasing ownership and sustainability, with potential benefits for poverty reduction.</p> <p><b>2. Civil society organizations.</b> Focus group consultations were held in Tbilisi, Rustavi, Kutaisi, and Batumi with major stakeholders (including representatives from employers' organizations and trade unions, self-employed people, and those out of formal labor market) as part of the work to develop the new pension plan and other related programs. The findings of these consultations also provide information to guide the design and implementation of a nationwide education and awareness campaign to support the rollout of the supplementary private pension saving scheme.</p> <p><b>3.</b> The following forms of participation by civil society organizations are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA). <input checked="" type="checkbox"/> Information gathering and sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p><b>4. Participation plan.</b> <input type="checkbox"/> Yes. <input checked="" type="checkbox"/> No. Policy actions will apply across Georgia with the overarching objective of benefiting all citizens, and the government will conduct communication and public awareness campaigns to ensure wider participation and buy-in by the public. Information will be generated, shared, and disclosed in accordance with ADB's Public Communications Policy 2011.</p>
<p align="center"><b>III. GENDER AND DEVELOPMENT</b></p> <p>Gender mainstreaming category: effective gender mainstreaming</p> <p><b>A. Key issues.</b></p> <p>Women's economic participation remains a challenge in Georgia. In 2015, Georgia ranked 82nd among 145 countries in the World Economic Forum's Global Gender Gap Index. This puts Georgia in the lower half of the rankings of lower- and middle-income countries in the Europe and Central Asia region. The economic activity rate for women is 57.1%, compared with 77.4% for men, according to 2014 data. Factors restricting women's economic participation include unpaid domestic work, absence of affordable childcare, unequal access to assets and resources, and insufficient attention to gender in economic development policies. In 2014, the Government of Georgia approved the National Action Plan on Gender Equality (2014–2017) to tackle the challenges of equal opportunities and women empowerment in Georgia, with concrete measures to increase women's participation in economic and business activities by 2017. Special attention is given to educational and skills development activities for various groups of women such as internally displaced persons or women of rural areas and ethnic minorities, and those engaged in agribusiness. The Entrepreneurship Development Agency (EDA) provides women with access to finance and advice for starting a business. The Ministry of Agriculture also targeted development of women-led business cooperatives in rural areas. The share of women-led cooperatives is approximately 10% (2015).</p> <p><b>B. Key actions.</b></p> <p><input checked="" type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p> <p>Subprogram 3 of the policy loan has several gender features. The Georgia Revenue Service is increasing the number of in-house tax auditors, and has allocated at least 50% of the positions to women. Pension reforms will be approved</p>

that ensure equitable treatment of men and women, allowing both to accumulate sufficient pension assets for adequate income during old age, while maintaining prevention of old-age poverty through the universal pension. Nationwide public awareness campaigns will be conducted on pension reforms and on the benefits of capital market development, including gender aspects. EDA and Georgia Innovation Technology Agency (GITA), established under subprogram 1, will increase the financing available to women in subprogram 3. EDA provides matching grants to micro, small, and medium-sized enterprises to spur investments, 40% of which were allocated to women entrepreneurs under subprogram 3. Entrepreneurship is viewed as a key opportunity for women to gain livelihoods in Georgia, supported by access to finance. Obstacles include (i) lack of appropriate skills, information, and familiarity with the business environment; and (ii) questions of self-confidence, lack of networks, aversion to risk, and inexperience in running a business. GITA has increased its budget allocation to support private sector innovation and technology development, with 40% of financing allocated to women entrepreneurs under subprogram 3. In addition, the government will continue to implement the gender action plan, which has actions to boost women's participation in the reforms supported by the program, and in particular SME development. A government report on the implementation of the National Action Plan on Gender Equality (which also includes promotion of women-owned SMEs) will be available by the end of 2016.

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**IV. ADDRESSING SOCIAL SAFEGUARD ISSUES**

**A. Involuntary Resettlement** **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. – Not applicable  
 2. Strategy to address the impacts. – Not applicable  
 3. Plan or other Actions. ☒ No action

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**B. Indigenous Peoples** **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. NA Is broad community support triggered? ☐ Yes ☒ No  
 2. Strategy to address the impacts. – Not applicable  
 3. Plan or other actions. ☒ No action

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**V. ADDRESSING OTHER SOCIAL RISKS**

**A. Risks in the Labor Market**

1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L). ☐ unemployment ☐ underemployment ☐ retrenchment ☐ core labor standards

2. **Labor market impact.** Citizens will benefit from income-generating opportunities through access to finance and support for business development and innovation. The government will ensure that core labor standards and applicable laws and regulations of the government, including workplace occupational safety norms, are complied with during program implementation.

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**B. Affordability**

The risk that program benefits will flow primarily to non-poor consumers, and that poor groups will remain underserved or excluded from the service, will be mitigated by program reforms aimed at achieving more effective mobilization of domestic resources for more public and private investment. The pension reform proposes a relatively modest contribution rate from workers (2% of salary, with matching contributions from both the employer and the government, for a total of 6%). The nominal amount of government subsidy is likely to fall over time but should remain significant for workers with lower incomes. The EDA matching grant facility makes access to finance more affordable for SMEs.

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**C. Communicable Diseases and Other Social Risks**

1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):  
☒ Communicable diseases ☒ Human trafficking ☒ Others (please specify) \_\_\_\_\_

2. Risks to people in project area. – NA

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**VI. MONITORING AND EVALUATION**

1. **Targets and indicators.** Performance targets and monitorable indicators that concern poverty reduction and inclusive social development include: (i) absolute poverty is reduced to 18.0% of population by 2020 (2013 baseline: 21.4%); (ii) Gini coefficient is reduced to 0.35 by 2020 (2012 baseline: 0.41); (iii) changes to the basic pension law are instituted by September 2016 to ensure continuity of equitable treatment of men and women on pension benefits; (iv) at least GEL12.0 million provided by EDA to SMEs by September 2016 as a matching grant facility to spur investments, of which at least 40% is allocated to women entrepreneurs; and (v) at least GEL9.5 million is provided by GITA to SMEs by September 2016 as financing to support private sector innovation and technology development, of which at least 40% is allocated to women entrepreneurs. Sources of information include a government decree, public notifications by the Ministry of Finance, an annual report published by the Ministry of Economy and Sustainable Development and the Ministry of Finance, data from National Statistics Georgia, and an annual report published on the Georgia Revenue Service website on women tax auditors.

2. **Required human resources.** Regular review missions will monitor the poverty and social impacts of the program.

3. Information in the project administration manual. – Not applicable

4. **Monitoring tools.** Regular review missions will assess compliance with loan covenants, evaluate performance against targets in the project design and monitoring framework, and review progress against the gender action plan.

<sup>a</sup> Government of Georgia. 2013. *Socio-Economic Development Strategy of Georgia, 2020*. Tbilisi.

<sup>b</sup> ADB. 2014. *Country Partnership Strategy: Georgia, 2014–2018*. Manila.