



# Report and Recommendation of the President to the Board of Directors

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Project Number: 54239-001  
October 2020

## Proposed Loan Joint Stock Company Bank of Georgia Bank of Georgia COVID-19 Response to Support Micro, Small, and Medium-Sized Enterprises Project (Georgia)

This is a redacted version of the document approved by ADB's Board of Directors, which excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 1 October 2020)

Currency unit	–	lari (GEL)
GEL1.00	=	\$0.314
\$1.00	=	GEL3.180

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
BOD	–	board of directors
BOG	–	Bank of Georgia
BOGG	–	Bank of Georgia Group PLC
CAGR	–	compound annual growth rate
CEO	–	chief executive officer
COVID-19	–	coronavirus disease
DFI	–	development finance institution
EBRD	–	European Bank for Reconstruction and Development
ESMS	–	environmental and social management system
GDP	–	gross domestic product
IFC	–	International Finance Corporation
JICA	–	Japan International Cooperation Agency
LSE	–	London Stock Exchange
MSMEs	–	micro, small, and medium-sized enterprises
SMEs	–	small and medium-sized enterprises
WMSMEs	–	micro, small, and medium-sized enterprises owned by women

## **NOTES**

- (i) The fiscal year (FY) of the Joint Stock Company Bank of Georgia ends on 31 December.
- (ii) In this report, “\$” refers to United States dollars.

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## CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE FINANCIAL INTERMEDIARY	1
A. Investment Identification and Description	1
B. Business Overview and Strategy	3
C. Ownership, Management, and Governance	4
III. THE PROPOSED ADB ASSISTANCE	5
A. The Assistance	5
B. Implementation Arrangements	5
C. Value Added by ADB Assistance	5
D. Confidential Information Deleted	6
IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT	6
A. Development Impact, Outcome, and Outputs	6
B. Alignment with ADB Strategy and Operations	6
V. POLICY COMPLIANCE	7
A. Safeguards and Social Dimensions	7
B. Anticorruption Policy	8
C. Confidential Information Deleted	9
D. Assurances	9
VI. RECOMMENDATION	9
APPENDIXES	
1. Design and Monitoring Framework	10
2. List of Linked Documents	13

## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 54239-001	
<b>Project Name</b>	Bank of Georgia COVID-19 Response to Support Micro, Small and Medium-Sized Enterprises	<b>Department/Division</b>	PSOD/PSFI
<b>Country</b>	Georgia		
<b>Borrower</b>	Joint Stock Company Bank of Georgia		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54239-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=54239-001-PortAtaGlance</a>		
<b>2. Sector</b>		<b>ADB Financing (\$ million)</b>	
✓ Finance	<b>Subsector(s)</b> Small and medium enterprise finance and leasing	<b>Total</b>	100.00
			<b>100.00</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ Accelerating progress in gender equality		GHG reductions (tons per annum)	0
		Climate Change impact on the Project	Low
		<b>ADB Financing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 5.5		Gender Equity (GEN)	✓
SDG 8.10, 8.3		<b>Poverty Targeting</b>	
		General Intervention on Poverty	✓
<b>4. Nonsovereign Operation Risk Rating</b>			
<b>Obligor Name</b>		<b>Obligor Risk Rating</b>	<b>Facility Risk Rating</b>
Joint Stock Company Bank of Georgia			
<b>5. Safeguard Categorization</b>		<b>Environment:</b> FI	<b>Involuntary Resettlement:</b> FI-C
			<b>Indigenous Peoples:</b> FI-C
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>100.00</b>	
Nonsovereign LIBOR Based Loan (Regular Loan): Ordinary capital resources		100.00	
<b>Cofinancing</b>		<b>100.00</b>	
-Debt - Japan International Cooperation Agency (Not ADB Administered)		100.00	
<b>Others<sup>a</sup></b>		<b>0.00</b>	
<b>Total</b>		<b>200.00</b>	
<b>Currency of ADB Financing:</b> US Dollar, Lari			

<sup>a</sup> Derived by deducting ADB financing and Cofinancing from Total Project Cost.

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed senior unsecured loan of up to \$100,000,000 or its lari equivalent to the Joint Stock Company Bank of Georgia (BOG) for the Bank of Georgia COVID-19 Response to Support Micro, Small, and Medium-Sized Enterprises Project in Georgia.

2. The loan to BOG, the second largest bank in Georgia, is considered an indirect coronavirus disease (COVID-19) response as it will assist sustainable businesses through continued access to finance by facilitating maintenance and growth of BOG lending to micro, small, and medium-sized enterprises (MSMEs),<sup>1</sup> providing critically needed funding to companies that have been affected by the pandemic's economic fallout. Access to financing for MSMEs has traditionally been limited and the pandemic has constrained sources of financing to this customer segment, as well as for the banking industry more broadly. It is anticipated that MSMEs owned by women (WMSMEs) will be supported through the creation of a special COVID-19 Women in Business Program, to help women entrepreneurs cope with the impacts of COVID-19.<sup>2</sup> The Asian Development Bank (ADB) also expects to mobilize a parallel loan of up to \$100,000,000 from the Japan International Cooperation Agency (JICA).

## II. THE FINANCIAL INTERMEDIARY

### A. Investment Identification and Description

3. **Impact of COVID-19.** Georgia took swift measures to contain COVID-19. Early closure of borders and economic activity has paid off—Georgia has one of the lowest ratios of COVID-19-related deaths per capita in the world, at less than 1,000 cases, and only 15 fatalities.<sup>3</sup> The country was in a state of emergency for 63 days between April and May, and only started opening its borders with five low-risk countries in mid-July. As a small, highly integrated economy dependent on tourism, remittances, and international trade, the impact of COVID-19 is expected to be severe. From an economic growth rate of 5.1% in 2019, ADB projects the economy to contract by 5.0% in 2020 because of lower exports, remittances, and tourism inflows. Economic recovery is expected in 2021, with projected gross domestic product (GDP) expansion of 5.0%, supported by higher domestic demand fueled by increased bank credit to households, the revival of foreign direct investment, and a rebound in workers' remittances and tourism inflows.<sup>4</sup> The Government of Georgia unveiled its Anti-Crisis Economic Plan in response to COVID-19 on 24 April 2020.<sup>5</sup> The plan includes a social assistance package for citizens, fiscal stimulus measures in the form of tax relief, liquidity injections for businesses, as well as increased funding for strengthening the health care system in light of the pandemic's contagion effects. The plan also includes the revamp of a credit guarantee scheme to support small and medium-sized enterprises (SMEs), with priority given to women entrepreneurs and other vulnerable groups.

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<sup>1</sup> Microenterprises are companies with annual turnover of less than GEL1.5 million, small enterprises have annual turnover of less than GEL5 million, and medium-sized enterprises have annual turnover of less than GEL20 million.

<sup>2</sup> WMSMEs are defined as MSMEs with more than 50% ownership by a woman or with a woman as chief executive officer or chief operating officer.

<sup>3</sup> R. Demytrie. 2020. [Coronavirus: How "Three Musketeers" Helped Georgia Fight Virus](#). BBC News. 6 July.

<sup>4</sup> ADB. 2020. [Asian Development Bank Outlook Supplement, June 2020: Lockdown, Loosening, and Asia's Growth Prospects](#). Manila.

<sup>5</sup> Government of Georgia, StopCoV.ge. [Prevention of Coronavirus Spread in Georgia](#). Tbilisi.

4. **Micro, small, and medium-sized enterprises.**<sup>6</sup> MSMEs account for a significant portion of businesses and are important contributors to the Georgian economy and employment. In 2017, they accounted for 99.7% of all private firms in Georgia, provided 62.0% of the country's jobs, and contributed 62.0% of GDP.<sup>7</sup> Their lower contribution to GDP is explained by their concentration in low value-added activities, which also makes MSMEs more vulnerable to the economic slowdown caused by COVID-19.<sup>8</sup> Weakening economic activity is depleting Georgian MSMEs' working capital cushions, which they need to keep paying salaries and retain employees. To avoid furloughs, MSMEs need additional loans or a postponement of payments by obtaining moratoriums on debt payments to financial institutions to substitute for the lack of cash flow from customers. For this reason, banks' ability to maintain healthy liquidity cushions—to provide moratoriums and extend credit during the crisis—is crucial.

5. **Access to finance constrained for micro, small, and medium-sized enterprises.** MSMEs are less able to obtain bank loans than large firms. In Georgia, the estimated total finance gap in 2017 was \$2.1 billion for SMEs, with enterprises owned by women accounting for 43.0% of the gap. For microenterprises, the finance gap was about \$383 million, with enterprises owned by women accounting for 27.0% of the gap.<sup>9</sup> This is mainly because of information asymmetries, creating difficulties for financial institutions to assess creditworthiness and adding operational costs, and high collateral requirements. In Georgia, the proportion of loans requiring collateral totaled 80.5% compared with the 77.7% global average, while the ratio of the value of collateral needed to the total loan amount was 194.2%. These structural constraints are typically exacerbated during crises, when financial institutions tighten their lending criteria to preserve asset quality. Flexible loan repayment arrangements and support through nonfinancial products, such as increasing MSMEs' access to markets through e-commerce platforms, are necessary.

6. **Micro, small, and medium-sized enterprises owned by women.** Women's participation in the workforce and new business creation has been underpinned since 2010 by Georgia's macroeconomic stability, a growing middle class with increasing purchasing power, improving education levels, and regulatory efforts toward the simplification of business registration and tax filing procedures. However, Georgia's share of companies with female ownership is 22.0% (26.0% in small enterprises and 17.0% in medium-sized enterprises), which is lower than the average for the Caucasus and Central Asia region (33.0%) and the world (35.0%).<sup>10</sup> Even though WMSMEs are a vital contributor to social mobility and play a major role in Georgia's economy, they face higher barriers to accessing finance. Limited credit availability for start-up capital and bank loans, combined with other institutional and market factors—such as lack of relevant business management and finance skills and knowledge, a low level of property and asset ownership, and lack of access to business networks usually led by men—further constrain women's ability to grow their business and improve productivity. WMSMEs are more severely affected by the COVID-19 crisis because they tend to operate in vulnerable

<sup>6</sup> A complete description of the economic and financial system is in Sector Overview (accessible from the list of linked documents in Appendix 2).

<sup>7</sup> Organisation for Economic Co-operation and Development. 2018. *Mid-Term Evaluation: Georgia's SME Development Strategy, 2016–2020*. Paris.

<sup>8</sup> EU4Business. 2018. *Georgia Country Report: Investing in SMEs in the Eastern Partnership*. Brussels.

<sup>9</sup> International Finance Corporation (IFC). 2017. *MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small, and Medium Enterprises in Emerging Markets*. Washington, DC.

<sup>10</sup> World Bank, European Bank for Reconstruction and Development, and European Investment Bank. 2019. *Enterprise Surveys: What Businesses Experience—Georgia 2019 Country Profile*. Washington, DC.

sectors of the economy, such as tourism, retail, and other services sectors; and they are typically smaller in size.

7. **Rationale.** Given the large needs of the MSME segment, which has been impacted by COVID-19, ADB is proposing to partner with BOG to fund this critical customer base and support economic revival. ADB has an existing relationship with BOG through its Trade Finance Program since 2010 and previous long-term debt transactions.<sup>11</sup> With 35.0% market share in the Georgian banking system, BOG is a systemically important bank. BOG has a large footprint, serving more than 2.5 million clients (out of a population of 4.0 million); a dedicated digital strategy to serve MSMEs; and a strong commitment to women entrepreneurship.

## B. Business Overview and Strategy

8. **Overview.** As of March 2020, BOG had total assets of GEL19.386 billion (\$6.3 billion equivalent) and was the country's second-largest bank after TBC Bank in terms of client deposits and gross loans (the market share of deposits was 39.8% for TBC Bank and 35.4% for BOG, while that of gross loans was 39.4% for TBC Bank and 35.6% for BOG). BOG is also the country's leading bank in terms of profitability (with a return on average equity of 26.9% in 2019). It has the largest distribution network, with 233 branches, 939 ATMs, and 3,183 express payment terminals (94.2% of transactions were made using digital channels as of June 2020).

9. **Business strategy.** BOG's strategy aims to deliver strong profitability, while investing in future digital and information technology capabilities and the brand franchise. The bank leverages its wide customer base and distribution network with digital services to improve efficiency and financial inclusion. During the pandemic, it has maintained a "business-as-usual banking environment" by fully leveraging the strong investments made in digitalization. While some isolated branches were closed during the state of emergency, BOG maintained operations at its main branches under strict health safety measures. Customers have been able to operate normally through the online banking single window. The bank has operated a multichannel strategy for years, and has migrated toward a one-stop digital platform that provides the foundation for all contact points—mobile, telephone, internet banking, self-service terminal, ATM, and branches. BOG plans to leverage its digital investments while maintaining, though not expanding, its physical branch network.

10. **Bank of Georgia's support to micro, small, and medium-sized enterprises.** With an MSME client base of 220,603 customers (31.6% of market share) and an MSME portfolio of GEL2.83 billion (\$920 million equivalent) in March 2020, of which GEL1.6 billion (\$520 million equivalent) represents loans to microenterprises, BOG is a key financial supporter of Georgian MSMEs. BOG's MSME portfolio has been growing at a CAGR of 26.2% since 2016, above total loan book CAGR of 19.5%, reflecting the bank's strategy to increase the share of this segment in its total portfolio. BOG plans to increase the share of its MSME portfolio in its overall portfolio to about 25.0% (from 22.6% as of March 2020). To reach this target, the bank plans to leverage

<sup>11</sup> In 2007, ADB disbursed a \$25 million 3-year loan for SME onlending to BOG (ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Loan—Joint-Stock Company Bank of Georgia*. Manila). In 2010, ADB disbursed a 5-year \$50 million loan for SME onlending (ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Loan—Joint-Stock Company Bank of Georgia*. Manila). Both projects were fully repaid and both were rated *successful* in ADB. 2014. *Extended Annual Review Report*. Manila. Since BOG joined ADB's Trade Finance Program in 2010, ADB has covered a cumulative amount of \$154 million in the form of trade finance guarantees supporting 66 underlying transactions.



its strong digital financial services and digital support ecosystem. BOG's competitive advantage in the MSME segment is underpinned by advanced analytics tools to expedite lending to MSMEs (credit scoring, risk-based pricing, and lending technology scorecards), digital products for MSMEs (first digital factoring software in the country, an online supply chain finance program, and smart point of sale device software), MSME business support (BOG offers a digital solution for MSME clients, designed to help optimize MSMEs' daily operations; access their most recent data on sales transactions, inventory, revenues, and profitability; and make timely decisions with relevant information on hand).

**11. Bank of Georgia's commitment to micro, small, and medium-sized enterprises owned by women.** BOG is fully committed to promoting women entrepreneurship. It has grown its WMSME portfolio steadily since 2015, with 26,689 WMSME borrowers at the end of 2019 (36.0% of BOG's total MSME borrowers). BOG was recognized as the Best Issuing Bank Partner for Women Owned Businesses in Europe and Central Asia in 2017 by the International Finance Corporation (IFC), notably collaborating with IFC and the European Bank for Reconstruction and Development (EBRD) under the Women in Business program. BOG developed a product that targets women businesses, called Women Startup, with additional funding from EBRD. This is the first time a bank has given women the opportunity to start a business in Georgia.<sup>12</sup>

**12. Bank of Georgia's COVID-19 Women in Business Program.** As BOG's WMSME clients are mostly in the informal and services segments (72.1% of BOG's WMSME loan portfolio is comprised of microenterprises, followed by 20.4% in services), they are more vulnerable to the impacts of COVID-19, less resilient in securing income, and will take longer to recover. Aware of their higher vulnerability, BOG has commenced designing a COVID-19 Women in Business Program.

### **C. Ownership, Management, and Governance**

**13. Ownership.** BOG is ultimately almost entirely (99.5%) owned by the Bank of Georgia Group PLC (BOGG), a holding company based in the United Kingdom and listed on the premium segment of the LSE.

**14.** ADB conducted integrity due diligence on BOG, its board of directors (BOD), shareholders and their BODs, and managers.<sup>13</sup> None of the companies or individuals appear to constitute a significant or potentially significant integrity risk to ADB. ADB's review of the entities does not give ADB cause to believe that these have been established or are being used for money laundering or terrorism financing in the jurisdiction involved in the project. Tax integrity due diligence was not required.

**15. Corporate governance.** Given its premium listing on the LSE, BOGG complies with the United Kingdom's highest standards of regulation and corporate governance in terms of accountability, transparency, and probity, as well as its focus on the long-term success and sustainability. BOGG's governance structure consists of a BOD with four dedicated committees for audit, risk, nomination, and remuneration issues; and the management team, headed by the

<sup>12</sup> Bank of Georgia. [Women Startup](#). Tbilisi.

<sup>13</sup> ADB. 2003. [Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism](#). Manila.

chief executive officer (CEO), who reports to the BOD. The BOD implements the principles of good corporate governance according to the revised 2018 UK Corporate Governance Code.<sup>14</sup>

16. **Management.** BOG's top management team consists of 14 highly experienced individuals: the CEO, Archil Gachechiladze, who is also a member of the BOD; six deputy CEOs in charge of BOG's main divisions; and seven additional managers heading key departments.

### III. THE PROPOSED ADB ASSISTANCE

#### A. The Assistance

17. ADB will provide a senior unsecured loan to BOG of up to \$100 million or its lari equivalent with a tenor of up to 5 years.<sup>15</sup> ADB expects to mobilize a parallel loan of up to \$100,000,000 from JICA. ADB's exposure might be reduced through risk transfer arrangements with eligible counterparties.

#### B. Implementation Arrangements

18. **Use of proceeds.** BOG will use the proceeds of the ADB loan to finance business loans to MSMEs and WMSMEs in Georgia.

19. **Reporting arrangements.** ADB will monitor the project throughout its duration. BOG will, at predetermined regular intervals and, as requested, provide ADB with financial reports including (i) quarterly unaudited financial statements; (ii) annual audited financial statements; (iii) quarterly compliance certificates for financial covenants; (iv) semiannual reporting on the MSME loan portfolios; (v) annual reporting on selected development indicators agreed by ADB and BOG, including gender targets; and (vi) an annual environmental and social management system (ESMS) performance report.<sup>16</sup>

20. **Evaluation.** Monitoring reports will be prepared and submitted to ADB at least annually. The first report will be submitted no later than 12 months after the first disbursement.

#### C. Value Added by ADB Assistance

21. **Supporting the banking industry and growth of micro, small, and medium-sized enterprises.** ADB's funding will support the growth of MSMEs, which are the backbone of the Georgian economy, and will address their lack of access to finance, especially during the COVID-19 pandemic. By partnering with a bank that has a large network and a solid MSME business digital strategy, ADB can maximize its development footprint. ADB's longer tenor loan will also allow BOG to maintain sufficient liquidity levels to keep expanding its MSME portfolio at a CAGR of 20% over the next 5 years. Access to longer tenor financing remains critical for banks in ADB's developing member countries, particularly during this pandemic.

22. **Helping micro, small, and medium-sized enterprises owned by women cope with the COVID-19 crisis.** In anticipation of, and prompted by, ADB's loan, BOG has commenced

<sup>14</sup> A full description of BOG's corporate governance is in Ownership, Management, and Governance (accessible from the list of linked documents in Appendix 2).

<sup>15</sup> There will be a limited number of disbursements and the tenor will apply on a per-disbursement basis.

<sup>16</sup> Accessible from the list of linked documents in Appendix 2.

designing and proposes to implement a COVID-19 Women in Business program aimed at providing essential nonfinancial products and services to help WMSMEs cope with the effects of the COVID-19 crisis.

23. **Catalyzing development finance.** ADB expects to mobilize a parallel loan of up to \$100 million from JICA, thereby introducing a new lender to BOG and broadening the DFI liquidity pool available to BOG, which will be very valuable in the future. In addition, ADB may transfer some of its risk to private sector insurers.

#### **D. Confidential Information Deleted**

### **IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT**

#### **A. Development Impact, Outcome, and Outputs**

24. **Impact.** The project is aligned with the Government of Georgia Anti-Crisis Economic Plan to minimize the economic damage caused by COVID-19. The government has implemented measures to stimulate the economy that will help affected sectors recover quickly from the pandemic.<sup>17</sup>

25. **Outcome.** The project will have the following outcome: BOG's capacity to support MSMEs with a focus on WMSMEs increased.

26. **Outputs.** The outputs will be (i) BOG's liquidity buffer is maintained; (ii) BOG's COVID-19 financial response is gender-equitable, extending moratoriums to MSMEs, especially WMSMEs; (iii) BOG's COVID-19 business support response is gender-equitable, offering nonfinancial support products, with special emphasis on WMSMEs; and (iv) gender equality in BOG's work environment improved.

#### **B. Alignment with ADB Strategy and Operations**

27. **Consistency with ADB Strategy 2030 and Country Partnership Strategy.** ADB's Strategy 2030 emphasizes support to the finance sector to achieve greater financial inclusion; gender equality; job creation; and access to affordable housing, insurance, and savings.<sup>18</sup> The transaction contributes to finance sector development by supporting the growth of a financial institution that plays a key role in Georgia's finance sector. It also contributes to accelerating progress in gender equality, an operational priority of ADB's Strategy 2030. The transaction is also aligned with the Operational Plan for Private Sector Operations, which aims to support vibrant, stable, and efficient finance sectors and financial inclusion.<sup>19</sup> According to ADB's country partnership strategy, 2019–2023 and country operations business plan, 2020–2022 for Georgia, ADB's nonsovereign operations will continuously support the creation of an enabling environment to catalyze access to financial services for MSMEs, including women entrepreneurs.<sup>20</sup>

<sup>17</sup> Government of Georgia. 2020. [Measures Implemented by the Government of Georgia Against COVID-19 Report](#). Tbilisi.

<sup>18</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

<sup>19</sup> ADB. 2019. [Operational Plan for Private Sector Operations, 2019–2024](#). Manila.

<sup>20</sup> ADB. 2019. [Country Partnership Strategy: Georgia, 2019–2023—Developing Caucasus's Gateway to the World](#). Manila; and ADB. 2019. [Country Operations Business Plan: Georgia, 2020–2022](#). Manila.

28. **Consistency with ADB sector strategy and relevant ADB operations.** The loan complements ADB's sovereign operations support package to Georgia, which includes a COVID-19 Active Response and Expenditure Support (CARES) loan of \$100 million approved on 28 May 2020,<sup>21</sup> and a protection and fiscal management programmatic policy-based loan of \$350 million expected to be approved later in 2020, as well as increasing other existing programs to support reforms in energy, urban water, and education. The loan complements the countercyclical pandemic response's SME access to finance component via the government credit guarantee scheme, by providing funds for banks to lend to this segment.

29. **Lessons learned from previous operations.** The project draws on the experience of previous ADB loans to BOG in 2007 and 2010,<sup>22</sup> as well as lessons from ADB's support to MSMEs during times of crisis.<sup>23</sup> These lessons include (i) the need to provide timely and relevant response in times of crisis (previous loans were approved at a critical time during the 2008 financial crisis, equipping BOG with valuable resources to withstand the crisis and keep playing a critical role in the economy as a systemic bank providing essential services and deepening financial markets); (ii) providing local currency (the project includes the possibility to disburse in lari); and (iii) incorporating flexibility via multi-staged disbursements (loans can be drawn in different tranches within the availability period).

## V. POLICY COMPLIANCE

### A. Safeguards and Social Dimensions

30. ADB has categorized the investment in compliance with ADB's Safeguard Policy Statement (2009) as follows: environment (*category FI*), involuntary resettlement (*category FI treated as C*), and indigenous peoples (*category FI treated as C*).<sup>24</sup>

31. **Category FI.** ADB has assessed the investment's potential environment and social impacts, its risks associated with BOG's existing or likely future portfolio and its commitment and capacity for environmental and social management. Based on BOG's portfolio, MSMEs operate in agriculture and forestry, construction, financial institutions, mining and mineral processing, retail or services, and transport and communications. BOG has confirmed that it has an annual volume of loans that can utilize ADB proceeds for lending to MSMEs, classified *category C* (or low risk), for a tenor of 5 years. BOG will exclude any investment that is category A for environment or category A or B for social safeguard impacts from using ADB loan proceeds. BOG has a comprehensive ESMS that is reviewed twice a year and will be reissued with updates in the fourth quarter of 2020. ADB assessed the ESMS and found it compliant with ADB's Safeguard Policy Statement requirements. BOG will provide an annual representation to ADB to indicate that business activities have not caused medium or high-risk impacts on the environment, involuntary resettlement, or indigenous peoples, and that the proceeds were used for general low- or medium-risk MSMEs.

32. BOG's environmental and social capacity is adequate, as it has a dedicated team involved in the credit review, due diligence, and monitoring processes. The environmental and social team comprises an environmental expert and a social expert, and BOG is planning to hire

<sup>21</sup> ADB. 2020. [Report and Recommendation of the President to the Board of Directors: Proposed Countercyclical Support Facility Loan to Georgia for the COVID-19 Active Response and Expenditure Support Program](#). Manila.

<sup>22</sup> ADB. 2015. *Validation Report. Georgia: Bank of Georgia*. Reference number: XVR2015-72. Manila (October).

<sup>23</sup> Independent Evaluation Department. 2020. [Responding to COVID-19: Lessons from Previous Support to Micro, Small, and Medium-Sized Enterprises](#). *Synthesis Note*. No. 3 (COVID Series-1). Manila: ADB.

<sup>24</sup> ADB. [Safeguard Categories](#).

a health and safety specialist in 2021. BOG screens all investments against a list of activities that are excluded or limited from financing, which is aligned with ADB's prohibited investment activities list. The ESMS requires that BOG lending abide by applicable national laws and regulations. It also sets out requirements, as applicable, for compliance with national labor laws and measures to comply with the internationally recognized core labor standards, pursuant to ADB's Social Protection Strategy.<sup>25</sup> The ESMS also contains requirements, as applicable, for information disclosure and consultation with affected people in accordance with ADB requirements.<sup>26</sup> BOG has an internal audit unit that performs annual ESMS implementation audits. The last audit, performed in March 2020, did not identify any issues regarding MSMEs or low-risk transactions. BOG's annual environmental and social performance report to investors will be amended to include an update on the use of ADB's loan proceeds. BOG will include in its regular reporting information to ADB (i) the nature of subprojects and categorization, (ii) compliance with the safeguard and social requirements, and (iii) compliance with applicable national and international laws and standards.

33. The project will not contribute to the reduction of greenhouse gas emissions. No climate mitigation or adaptation financing has been estimated for this project.

34. **Gender equity as a theme.** This project is classified as *gender equity theme*. BOG has incorporated measures to directly address gender equality and women's empowerment in its business activities to narrow gender disparities. It has adopted a corporate sustainability approach, motivated by being the employer of choice for which social responsibility and employees matter. As noted, in anticipation of, and prompted by the ADB loan, BOG commenced the design and implementation of a COVID-19 Women in Business program, which aims at easing the impacts of the economic crisis on WMSMEs. This program aims to address the two main factors that have been identified as potential solutions to help WMSMEs cope with the effects of COVID-19: (i) more flexibility on credit terms to help WMSMEs repay in a sustainable way, and (ii) expanding their access to markets to sell their products in a nontraditional way such as online commerce.<sup>27</sup> ADB has assisted BOG to develop a gender action plan to promote better access to finance for WMSMEs. Key gender indicators include lending at least 50% of ADB's loan to WMSMEs, developing online training modules catered to WMSMEs (both existing and potential clients) on economic strategies to deal with the economic crisis, and aiming to increase the onboarding of WMSMEs to an e-commerce platform by 2025.<sup>28</sup> Corporate gender indicators include increasing the number of female staff who benefit from training on business management skills and the internal Leadership Talent Pool for BOG women leaders. BOG will be required to submit periodic reports on the implementation of these gender indicators to ADB.

## B. Anticorruption Policy

35. BOG was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. BOG's know-your-customer and anti-money-laundering policy mitigates the risks of money laundering and terrorism financing. ADB will ensure that the investment documentation includes appropriate

<sup>25</sup> ADB. 2003. [Social Protection](#). Manila (adopted in 2001).

<sup>26</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

<sup>27</sup> World Bank. 2020. Gender Innovation Lab. [Supporting Women Throughout the Coronavirus \(Covid-19\) Emergency Response and Economic Recovery](#). Washington, DC.

<sup>28</sup> BOG's online marketplace is free for its MSME clients. It is the second-largest consumer-to-consumer e-commerce platform in Georgia, with 350,000 monthly active users, and 80,000 registered buyers and sellers.

provisions prohibiting corruption, money laundering, and the financing of terrorism; and remedies for ADB in the event of noncompliance.

**C. Confidential Information Deleted**

**D. Assurances**

36. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),<sup>29</sup> ADB will proceed with the proposed assistance upon establishing that the Government of Georgia has no objection to the proposed assistance to BOG. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

**VI. RECOMMENDATION**

37. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the senior unsecured loan of up to \$100,000,000 or its lari equivalent from ADB's ordinary capital resources to the Joint Stock Company Bank of Georgia for the Bank of Georgia COVID-19 Response to Support Micro, Small, and Medium-Sized Enterprises Project in Georgia, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Masatsugu Asakawa  
President

26 October 2020

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<sup>29</sup> ADB. 1966. [Agreement Establishing the Asian Development Bank](#). Manila.

## DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Government of Georgia Anti-Crisis Economic Plan to minimize the economic damage caused by COVID-19 <sup>a</sup>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<b>Outcome</b>  1. BOG's capacity to support MSMEs with a focus on WMSMEs increased <sup>b</sup>	By 2025:  a. Total loan portfolio to MSMEs increased to \$XX billion by 2025 (Q4 2019 baseline: \$XX million)  b. Total loan portfolio to WMSMEs increased to \$XX million by 2025 (equivalent to XX % of the total MSME portfolio in 2025) (Q4 2019 baseline: \$XX million, equivalent to XX % of the total MSME portfolio)  c. Number of MSME borrowers increased to XX by 2025 (Q4 2019 baseline: XX)  d. Number of WMSME borrowers increased to XX by 2025 (equivalent to XX % of the total number of MSME borrowers in 2025) (Q4 2019 baseline: XX, equivalent to XX % of the total number of MSME borrowers)  e. ADB funds to WMSMEs are at least 50% of the total ADB facility by 2025 (Q4 2019 baseline: 0)	Development effectiveness monitoring reports	Operational risks caused by lack of people's mobility and deterioration in domestic operating conditions  Reduced capacity of sourcing and distribution network because of quarantine restrictions  Macroeconomic and foreign currency risks  Potential deterioration in the COVID-19 pandemic situation
<b>Outputs</b> 1. BOG's liquidity buffer maintained  2. BOG's COVID-19 financial response is	1a. Liquidity coverage ratio maintained above XX % until 2025 (Q4 2019 baseline: XX %)  2a. Number of MSME borrowers that benefited from COVID-19-related	1-4. Development effectiveness monitoring reports	Operational risks caused by lack of people's mobility and deterioration in domestic operating conditions  Reduced capacity of



Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>gender-equitable, extending moratoriums to MSMEs, especially WMSMEs</p> <p>3 BOG's COVID-19 business support response is gender-equitable, offering nonfinancial support products, with special emphasis on WMSMEs</p> <p>4. Gender equality in BOG's work environment improved</p>	<p>repayment holidays increased to XX by 2022 (Q4 2019 baseline: 0)</p> <p>2b. Number of WMSME borrowers that benefited from COVID-19-related repayment holidays increased to XX by 2022 (equivalent to XX % of all MSMEs benefiting from repayment holidays by 2022) (Q4 2019 baseline: XX)</p> <p>3a. Number of WMSMEs that used BOG training modules reached XX by 2025 (Q4 2019 baseline: XX)</p> <p>3b. Number of WMSMEs that used BOG e-commerce platform reached XX by 2025 (Q4 2019 baseline: XX)</p> <p>3c. Number of WMSMEs reached by advertising campaign that targets WMSMEs with information on product offerings and how to cope with COVID-19 effects reached XX by 2025 (Q4 2019 baseline: XX)</p> <p>4a. Percentage of staff that benefited from training program on business management skills who are women reached at least XX % by 2025 (Q4 2019 baseline: XX)</p> <p>4b. Internal leadership talent pool for BOG women leaders increased to XX women by 2025 (Q4 2019 baseline: XX)</p>		<p>sourcing and distribution network because of quarantine restrictions</p> <p>Macroeconomic and foreign currency risks</p> <p>Potential deterioration in the COVID-19 pandemic situation</p>



Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	XX women)  4c. Number of BOG female staff reached by the internal communication campaign with gender-sensitive information and referral advice about the COVID-19-exacerbated vulnerabilities, such as gender-based violence, reached XX % by 2025 (Q4 2019 baseline: XX)		
<b>Key Activities with Milestones</b> 1. ADB executes loan agreement with BOG by XX. 2. ADB disburses first tranche to BOG by XX .			
<b>Inputs</b> ADB senior unsecured loan: \$100,000,000			
<b>Assumptions for Partner Financing</b> Not applicable			

ADB = Asian Development Bank, BOG = Joint Stock Company Bank of Georgia, COVID-19 = coronavirus disease, MSMEs = micro, small, and medium-sized enterprises, Q = quarter, WMSMEs = micro, small, and medium-sized enterprises owned by women.

<sup>a</sup> Government of Georgia. 2020. *Measures Implemented by the Government of Georgia Against COVID-19 Report*. Tbilisi.

<sup>b</sup> WMSMEs are defined as MSMEs with more than 50% ownership by a woman or with a woman as chief executive officer or chief operating officer.

Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=54239-001-4>

1. Sector Overview
2. Confidential Information Deleted
3. Confidential Information Deleted
4. Contribution to Strategy 2030 Operational Priorities
5. Confidential Information Deleted
6. Country Economic Indicators
7. Summary Poverty Reduction and Social Strategy
8. Gender Action Plan
9. Environmental and Social Management System: Audit Findings and Details of Arrangement