

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:

Georgia

Project Title:

Improving Domestic Resource
Mobilization for Inclusive Growth

Lending/Financing
Modality:

Programmatic Approach Policy-Based
Lending (Loan)

Department/
Division:

Central and West Asia Department/Public
Management, Financial Sector, & Trade
Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

In its Socio-economic Development Strategy of Georgia (Georgia 2020), the government outlines its development program by establishing policy directions on sustainable and inclusive economic growth, macroeconomic stability and effective public administration, human capital development, access to finance, and private sector competitiveness. In the 2014–2016 National Action Plan for the Implementation of the Gender Equality Policy in Georgia, the government sets out the parameters for gender equality in the economic field. The interventions under the proposed policy-based loan (PBL) are consistent with the development priorities of the next 4 years as set out in the Basic Data and Directions (BDD), Georgia 2020's main vehicle for implementation. Under BDD 2014–2017, the government will enhance market competitiveness, strengthen tax efficiency, introduce a savings scheme based on mandatory pension insurance, and introduce greater efficiency and transparency in the management of public finances. Under the draft country partnership strategy, 2014–2018 of the Asian Development Bank (ADB), the proposed program will improve domestic resource mobilization (DRM)—comprising public revenues and private resources—to stimulate inclusive growth in Georgia. It will achieve fiscal consolidation and structural reforms to support DRM by strengthening debt management, measuring fiscal risk and contingent liabilities, increasing the efficiency of the tax system, improving public expenditure and capital expenditure management, improving the policy and institutional framework for long-term savings, and stimulating private resource mobilization through business financing and development. The proposed programmatic approach and PBL will support pension reforms and the introduction of mandatory savings. The existing pension system is a major instrument of poverty reduction in Georgia, where citizens are granted a pension at the age of 60 (women) and 65 (men). Pensions constitute the largest social spending item in the state budget, accounting for about 18% of public expenditure in 2013 and about 4% of gross domestic product.

B. Targeting Classification

☒ General Intervention ☐ Individual or Household (TI-H) ☐ Geographic (TI-G) ☐ Non-Income MDGs (TI-M1, M2, etc.)

The proposed PBL will not have specific pro-poor design features. However, initiatives to improve access to finance, including for old-age savings; the tax system; and income-generating opportunities through business development are designed to contribute to more inclusive growth. The PBL will contribute to the achievement of the following target results: (i) a reduction in poverty incidence, (ii) an increase in domestic savings, (iii) tax exemptions for private pensions, and (iv) an increase in the number of small businesses registered. These target results are expected to have a direct impact on the country's sustainable economic growth and human capital development, and help improve the living standards of the population.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

Key issues are economic reforms that have not achieved the government's objective of inclusive and sustained economic growth; high unemployment, with about 35% of the population in 2010 living on less than \$2.0 a day at purchasing power parity; inefficient fiscal management; and inadequate domestic resource generation and allocation. Weaknesses include the absence of a comprehensive legal framework for debt management and poor operational risk management. The tax collection process is inefficient and has resulted in a high level of tax arrears. Public pensions are inadequate, and the rising number of pensioners and limited alternative saving opportunities will have long-term fiscal sustainability implications. Private pension funds are voluntary and not well developed. Capital markets are underdeveloped, and lack of long-term financing underscores the premise that capital markets are not supporting growth in the real economy. Capital expenditures, which have been a significant driver of Georgia's economic growth, have declined due to spending pressures on the government budget. Alternative ways of funding infrastructure, e.g., through public–private partnership projects, can reduce costs to the government and create fiscal space.

2. Impact channels and expected systemic changes.

The poor will benefit from the proposed program because the pension reform will broaden their access to old-age savings,

and because stronger mobilization of private resources through business financing and development will generate more jobs. They also stand to benefit from greater efficiency in taxation and public revenue generation, and a stronger framework for public finance management. These measures will help increase DRM and thereby enable and deliver social programs for the poor.

These development results will require institution and capacity building at government ministries and agencies, such as the Ministry of Finance (MOF), Ministry of Economy and Sustainable Development (MOESD), Georgia Revenue Service (GRS), and the newly created Georgia Entrepreneurship Development Agency (GEDA) and Georgia Innovation and Technology Agency (GITA).

3. Focus of (and resources allocated in) the PPTA or due diligence.

Poverty and social issues that need to be reviewed during project design include the demand for old-age savings, options for delivery of old-age savings, and options to stimulate entrepreneurship and private resource generation. Issues should be considered also from the perspective of women's needs, taking into consideration cultural and social factors. Potential components and measures that should be considered include information and awareness campaigns explaining the benefits of old-age savings and the introduction of mandatory occupational savings.

4. Specific analysis for policy-based lending.

Transmission channels of the policy intervention are: (i) greater efficiency in taxation and public revenue generation for investment; (ii) improvement of public expenditure and capital expenditure frameworks; (iii) an institutional framework for long-term savings; and (iv) policy, legal, regulatory, and institutional frameworks that enhance private resource mobilization through business financing and development, including women's businesses. Short-term (1–3 years) impacts include (i) a reduction in tax arrears and implementation of a medium-term public debt management framework, (iii) strategies for pension and capital market reforms, (iv) tax exemption for private pensions, and (v) an increase in the number of capital projects implemented with public–private partnerships. Medium-term (4–10 years) impacts include increased domestic savings and reduced fiscal deficit. Indirect impacts include reduced poverty incidence.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?

In compliance with Article 12.3.a) of the Law on Gender Equality, the Parliament of Georgia issued in January 2014 a decree on the approval of the 2014–2016 National Action Plan for the Implementation of the Gender Equality Policy in Georgia. The action plan recognizes gender equality issues in the economic field, and intends to study further the existing situation through a gender analysis of employment in the public and private sectors. Earlier studies found that households headed by women are more likely to be poor than those headed by men. Unemployment is also higher among women (75%) than among men (59%).^b Of the women employed, most are in lower-paid positions in the less profitable sectors of the economy. A study by the United States Agency for International Development (USAID) says that women are more likely to run micro, small, and medium-sized businesses than large businesses. This is also supported by the World Bank's Enterprise Survey, which indicates that women largely run small businesses. About 19% of firms have women in their top management, although about 40% of firms have at least one female manager in the company. In firms owned by women, employment of women as full-time workers is high. Research of the United Nations Economic Commission for Europe (UNECE) reports that women face more constraints in setting up and running their business than do men, e.g., difficulties in accessing credit and lack of capital necessary to operate a business in Georgia.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

☒ Yes ☐ No

The proposed program will include women as target beneficiaries of pensions and of components relating to business financing and development. The proposed PBL will (i) undertake a public communication and awareness program for pension reform, which includes a special component aimed at women's need for old-age savings; (ii) allocate 30% of grants to small businesses run by women; and (iii) allocate 30% of annual training resources to women who run small businesses.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

☐ Yes ☒ No

The proposed program is not expected to have an adverse impact on women and/or girls or widen gender inequality.

4. Indicate the intended gender mainstreaming category:

☐ GEN (gender equity theme) ☒ EGM (effective gender mainstreaming)
☐ SGE (some gender elements) ☐ NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

MOF, MOESD, GEDA, GITA, and GRS are the main stakeholders. The concept of the proposed program is based on an

initial set of consultations with these stakeholders and they will be further consulted to substantiate the design of the program, including discussions on required policy actions. Target beneficiaries, including the private sector, will be consulted to ensure that the design responds to their needs.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

The proposed PBL includes institution and capacity building to enable the pertinent ministries and agencies to carry out required policy actions and specific interventions to achieve the objectives of the PBL. The target beneficiaries will also receive funding resources and capacity building to enable them to fully participate in the economic activities of the country.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

M Information generation and sharing **M** Consultation **M** Collaboration **L** Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? ☐ Yes ☒ No

The design of the proposed program does not envisage participation of the poor and excluded. Poor and the excluded will benefit from policy reforms which contribute to increase domestic resource mobilization for public and social expenditures through (i) strengthened fiscal and risk management, (ii) increased efficiency of tax policy administration, (iii) strengthened public expenditure management, (iv) enhanced generation of domestic savings, and (v) increased mobilization of private resources for investment.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category ☐ A ☐ B ☒ C ☐ FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? ☐ Yes ☒ No

The proposed program is not anticipated to involve land acquisition resulting in physical and economic displacement. No action is anticipated.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

☐ Resettlement plan ☐ Resettlement framework ☐ Social impact matrix
☐ Environmental and social management system arrangement ☒ None

B. Indigenous Peoples Category ☐ A ☐ B ☒ C ☐ FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? ☐ Yes ☒ No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? ☐ Yes ☒ No

The proposed program is not anticipated to affect indigenous peoples. No action is anticipated.

3. Will the project require broad community support of affected indigenous communities? ☐ Yes ☒ No

The proposed program does not anticipate the participation of civil society organizations.

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

☐ Indigenous peoples plan ☐ Indigenous peoples planning framework ☐ Social impact matrix
☐ Environmental and social management system arrangement ☒ None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

☐ Creating decent jobs and employment(N) ☐ Adhering to core labor standards(N) ☐ Labor retrenchment(N)
☐ Spread of communicable diseases, including HIV/AIDS (N) ☐ Increase in human trafficking (N) ☐ Affordability(N)
☐ Increase in unplanned migration(N) ☐ Increase in vulnerability to natural disasters(N) ☐ Creating political instability(N)
☐ Creating internal social conflicts(N) ☐ Others, please specify(N) Not Applicable

2. How are these additional social issues and risks going to be addressed in the project design?

Not Applicable

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (vi) other social risks. Are the relevant specialists identified?

☒ Yes

☐ No

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence?

Staff resources will be used to conduct gender analysis. The consultant's terms of reference of the policy and advisory technical assistance include consideration of gender issues.