ADB

Report and Recommendation of the President to the Board of Directors

Project Numbers: 49227-001 (TBC, Credo, and FINCA), 49380-001 (TA)
November 2015

Proposed Loans and Technical Assistance
Credo Microfinance Organization, FINCA Bank Georgia, and TBC Bank
Financial Inclusion for Micro and Small Business Growth
(Georgia)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 12 October 2015)

Currency unit	–	lari (GEL)
GEL1.00	=	$0.41841
$1.00	=	GEL 2.39

ABBREVIATIONS

ADB	–	Asian Development Bank
AMH	–	Access Microfinance Holding
BOD	–	board of directors
BOM	–	board of management
CAGR	–	compound annual growth rate
ESMS	–	environmental and social management system
FBG	–	FINCA Bank Georgia
GDP	–	gross domestic product
IFI	–	international financial institution
IPO	–	initial public offering
MIF	–	microfinance investment fund
MSEs	–	micro and small enterprises
MSMEs	–	micro, small, and medium-sized enterprises
NBG	–	National Bank of Georgia
NPL	–	nonperforming loan
ROA	–	return on assets
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

NOTES

(i) The fiscal year (FY) of Credo Microfinance Organization, FINCA Bank Georgia and TBC Bank ends on 31 December. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2015 ends on 31 December 2015

(ii) In this report, "$" refers to US dollars

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I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan of up to $23,000,000 or its lari equivalent to Credo Microfinance Organization (Credo); (ii) a proposed loan of up to $7,000,000 or its lari equivalent to FINCA Bank Georgia (FBG); and (iii) proposed loans to TBC Bank (TBC) consisting of (a) a subordinated loan of up to $50,000,000 or its euro equivalent or its lari equivalent, and (b) a senior loan of up to $50,000,000 or its euro equivalent or its lari equivalent, for the Financial Inclusion for Micro and Small Business Growth in Georgia. The report also describes technical assistance (TA) of up to $1,050,000 for Financial Inclusion for Micro and Small Business Growth in Georgia, and if the Board approves the proposed loans, I, acting under the authority delegated to me by the Board, approve the TA.[1]

II. THE FINANCIAL INTERMEDIARIES

A. Investment Identification and Description

2. Although real gross domestic product (GDP) grew at an annual average of 5.8% from 2010 to 2014, Georgia is exposed to high market volatility because of its small market size; dependence on imports of goods and capital, as well as remittances; and exposure to fluctuating demand from its trade partners. The current recession and political instability in the Russian Federation and Ukraine, coupled with the economic volatility of South Caucasus countries, have lowered Georgia's 2015 growth target to 2%. As a result of the trade deficit and reduced foreign currency inflows, the lari depreciated by 36% against the dollar in the market from October 2014 to October 2015. This depreciation stands in contrast to the stability of the lari during 2012 – 2014 and threatens the use of lari. The share of deposits denominated in foreign currency was 66% in March 2015. Reducing the dollarization of the economy, a long-term objective of the government, is essential for reducing market risks.

3. Although 43% of Georgians live in rural areas and 27% live in regional towns, these regions contribute only 28% to business turnover.[2] As 75% of farms engage in subsistence farming, agriculture contributes only 10% of GDP (2014). About 23% are small family farms between 1 hectare and 5 hectares, providing limited opportunities for serving urban markets; only 11,200 or 2% of farms have the scale for commercial operations. Hence, many self-employed farmers are trapped in low-productivity farms, which explains the high rural poverty headcount of 27.1% (2013). However, agriculture's potential for income and employment generation is large. Georgia benefits from diverse climate zones, which provide opportunities for export expansion and import substitution. Improving infrastructure, storage, processing and the quality of products requires capital, but only 4.4% of business loans go to agriculture.

4. Georgia has only about 40,000 active enterprises. Its unrecorded economy is estimated at 14% of GDP (2014). About 2,100 small and medium-sized companies employ the bulk of the enterprise workforce (57%), or 20% of the total workforce. Since 2010, annual employment growth in such entities has averaged 9.8%—far outpacing smaller units, which grew at only 4.1% per year. However, low-productivity sectors, such as wholesale, retail, construction and services, generate 75% of value-added output in 2014. A World Economic Forum survey identified the major obstacles to business growth as inadequately qualified management and

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[1] The design and monitoring framework is in Appendix 1.
[2] National Statistical Office Georgia. Preliminary Results of the Census 2014, and GeoStat Database. http://www.geostat.ge/?action=page&p_id=32&lang=eng. (accessed 16 June 2015).

workforce and limited access to finance. Although the regulatory framework of the finance sector is robust, the penetration of banking is low by international standards, pointing to the need for leaner, business-friendly lending processes.[3] On the demand side, many clients are unable to articulate their business plans and improve their marketing and staff performance.

5. Despite recent efforts to revive agriculture and improve the income of the poor through social transfer programs, 21% of Georgians lived below the national poverty line in 2013.[4] Georgia relies heavily on private investments to maintain and generate employment and depends on the finance sector to fund its investment and working capital needs. With the continued high incidence of poverty in rural regions and secondary towns, a dual-track approach is needed to simultaneously (i) boost microbusinesses and farmers in order to stabilize incomes of the poor and (ii) help small businesses become the drivers of income and employment.

6. Finance sector assets totaled GEL22.2 billion or 71% of GDP in 2014. Banks held 93.2% of the assets, dwarfing nonbank financial institutions (6.8%). From 2010 to 2014, the compound annual growth rate (CAGR) of bank loans to the private sector was 19.8%. The depth of the financial system also improved, with private sector credit increasing from 29.3% of GDP to 43.6% from 2010 to 2014.[5] However, the high share of retail credit (50%) obscures the modest penetration of private enterprise credit, which is equivalent to only 20% of GDP. The market is concentrated in Tbilisi, which receives 78% of loans. Although services to the regions are improving, many small businesses and farms remain underserved.

7. The bank regulatory framework has helped improve the sector's resilience since 2009.[6] Internal capital adequacy assessment programs, supported by ongoing TA financed from the Asian Development Bank (ADB), became mandatory for banks in 2014 and include improvement of the banks' forecasting and regulatory oversight. As Georgia is moving towards Basel III capital adequacy regulation in 2018, cyclical buffers for market volatility and structural buffers for three systemically important banks (including TBC), as well as the alignment of International Financial Reporting Standards and national accounting standards are expected.. Banking regulation is conservative compared with regional peers and includes higher capital surcharges and liquidity reserves for foreign currency loans and deposits, especially of nonresidents.[7]

8. The differential between loans and deposits priced in local and foreign currencies has increased since 2012, because of the higher demand for lari during the period of stable exchange rates that ended in October 2014. Since March 2014, international financial institutions (IFIs), including ADB, the European Bank for Reconstruction and Development, and the International Finance Corporation issued lari-denominated bonds, supported by the National Bank of Georgia (NBG) and the government. The recent large depreciation in the market has resulted in higher dollarization and limits banks' ability to lend in lari.

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[3] World Economic Forum. 2014. *Global Competitiveness Report*. Geneva

[4] The relative poverty line is equal to 60% of the median consumption.

[5] National Statistics Office of Georgia. Georgia Statistics Database. http://www.geostat.ge/?action=page&p_id=32&lang=eng. (accessed 1 June 2015).

[6] The International Monetary Fund concluded its Financial Sector Assessment Program and Financial Sector Stability Assessment in October 2014, acknowledging substantial improvements in bank regulation and supervision by the National Bank of Georgia (NBG).

[7] ADB. 2012. *Technical Assistance to Georgia for Promoting Financial Sector Resilience*. Manila.

9. Since 2007, ADB's Private Sector Operations Department has been active in Georgia's finance sector by providing loans to banks that have primarily supported small and medium-sized enterprises (SMEs) in the capital. To improve outreach to the regions (outside the capital) and diversify risk, ADB provided a loan and TA to TBC in 2013, which—backed by ADB's first lari bond issue—was converted into a lari loan in February 2015.[8] TBC's full integration of Bank Constanta, its microfinance arm, provides opportunities to improve services to rural customers. TBC, Credo, and FBG offer alternative approaches to serving the target market. TBC's loans to micro, small, and medium-sized enterprises (MSMEs) average $42,600 (August 2015). Credo, through its village lending model, provides microloans averaging $800 per loan. FBG, through its farm household service model, provides loans with an average of $1,038 per loan.

10. Competition among lenders that use alternative strategies and distribution channels benefit the financing for micro and small enterprises (MSEs), as well as small farmers. Since 2013, ADB has had a close relationship and extensive dialogue with TBC, which has demonstrated sound financial performance, an improving risk profile and good corporate governance. TBC has proven its commitment to reach out to small businesses through lending and knowledge services supported under ADB's TA. ADB also has a relationship with FINCA Microfinance Holding, the owner of FBG and FINCA Azerbaijan.[9] The loan to Credo builds upon ADB's relationship with Access Microfinance Holding (AMH), which includes investments in Azerbaijan (footnote 11) and Tajikistan. In addition, reputable IFIs are substantial shareholders of the holdings, bringing their sound credit culture, responsible finance policies, and quality service to low-income segments.

B. Credo Microfinance Organization

11. **Ownership and business strategy.** Established in 1997 by World Vision as a microfinance organization, Credo was purchased in October 2014 by a consortium led by AMH (60.2%), two microfinance investment funds (MIFs) managed by Triodos Investment Management BV (19.8%) and three MIFs managed by responsAbility Participation AG and responsAbility Investments AG (20.0%). Credo benefits from its shareholders' high integrity and responsible finance standards and AMH's hands-on knowledge transfer. With 67% of loans to agriculture, Credo has a strong rural footprint and is now seeking to provide banking services to SMEs.

12. **Management and board.** Credo is governed by the meeting of shareholders and a two-tier board comprising a board of directors (BOD) and the senior management team. The BOD oversees Credo's operations and risks. All current BOD members are bankers with extensive international MSME banking and BOD experience. Credo has an experienced team of managers, most of who moved up from loan officers to their current positions.

13. **Capital adequacy**. The capital to total assets ratio exceeds 20%.

14. **Loan portfolio and asset quality**. Credo serves 178,000 clients, 45% of whom are women. The loan book is highly granular, well diversified and well distributed across Georgia's

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8 ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Loan to TBC Bank Georgia for Promoting Financial Sector Growth and Service Diversity.* Manila. The loan was redenominated in GEL100 million and fully disbursed on 19 February 2015, funded by an ADB 3-year lari bond.

9 ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Loans AccessBank Azerbaijan and FINCA Azerbaijan Improving Financial Service Outreach for Agriculture in Azerbaijan.* Manila. ADB provided a loan to FINCA Azerbaijan in April 2015.

regions. With an average loan tenor of 20 months (2014), the portfolio has a quickly liquidating low-risk cash cycle. Credo has excellent asset quality with a portfolio at risk ratio (portfolio at risk for more than 30 days) of 0.5% (2014), including restructured assets. Credo has a conservative provisioning policy with loan loss reserves exceeding nonperforming loans (NPLs).

15. **Earnings and profitability.** During 2011–2014, the CAGR for Credo's net income was 53%. Return on equity exceeded 40% in that period, primarily the result of fast business growth and good interest margins. Net interest margins remain strong. Credo follows a conservative dividend policy to generate capital through retained earnings.

16. **Funding and liquidity.** With its development-focused business model, Credo is strong in mobilizing funding from IFIs, MIFs, and commercially oriented and philanthropic investors.

C. FINCA Bank Georgia

17. **Ownership and strategy.** Founded in 1998, FBG obtained its banking license in August 2013. FINCA Microfinance Coöperatief U.A., a Netherlands-based cooperative owns FBG. FINCA Microfinance Holding, a Delaware-registered company fully owns the cooperative. FBG's high standard of governance was shaped by its parent transferring knowledge and providing oversight. With 38% of its loans in agriculture, FBG has a strong rural footprint.

18. **Management and board.** FBG has a two-tier board, comprising a BOD and a board of management (BOM). FINCA Microfinance Holdings nominates FBG's five-member BOD all of which are bankers with extensive international microfinance and BOD backgrounds. The BOM is led by an experienced chief executive officer chosen from the FINCA network. The BOM also includes the chief financial officer, the chief operations officer and the chief commercial officer, all experienced bankers in Georgia. Most senior managers moved up from loan officers to their positions.

19. **Capital adequacy.** FBG's capital adequacy ratio of 21% (2014) exceeds the prudential requirement of 12%. FBG mainly builds its capital through retained earnings.

20. **Loan portfolio and asset quality.** With an average loan size of GEL2,483 ($1,038) and an average tenor of 2 years, FBG's loan book is highly granular, well-diversified, and quickly liquidating. In addition to agriculture, FBG lends to the trade (29%), services (24%) and production sectors (12%). With 84% of its loans outside Tbilisi, it has a strong regional footprint. FBG's asset quality is sound with a portfolio at risk ratio (more than 30 days) of 2.2% (2014). Its loan loss provisions are prudent exceeding NPLs (2014).

21. **Earnings and profitability.** FBG's net income reached GEL5.0 million ($2.8 million) in 2014. FBG plans to increase its profitability through greater selectivity of quality microenterprise customers and the introduction of lending to small business customers with higher margins.

22. **Funding and liquidity.** FBG sources its funding primarily through IFIs and MIFs. Although not internationally rated, FBG has established a good track record of borrowing from IFIs and MIFs because of its development orientation, sound lending process, and asset quality.

D. TBC Bank

23. **Ownership and strategy.** As Georgia's second-largest bank with market shares of 27.7% for loans and 28.4% for retail deposits in 2014, TBC is a systemically important bank.

Established in 1992, TBC carried out an initial public offering (IPO) on the London Stock Exchange in June 2014. The two Georgian founders own 22.42%, while IFIs hold 23%. TBC has a strong franchise in the micro, SME, retail, and corporate segments. Its unique strength lies in its business sophistication and outreach through cost-effective electronic distribution channels. With the full integration of Bank Constanta, TBC improved its rural presence and maximized synergies using retail and MSME lending processes for Constanta clients and branches.

24. **Management**. TBC's board of management comprises the chief executive officer, the chief operating officer, the chief financial officer, the chief risk officer, and three business heads.

25. **Capital adequacy.** TBC's regulatory capital adequacy ratio reached 15.0% in 2014. TBC raised capital through retained earnings, facilitated by a conservative dividend policy and the issuance of new shares and subordinated debt.

26. **Loan portfolio and asset quality**. In 2014, TBC's gross loan portfolio reached GEL3.7 billion, of which agriculture represents 7.2%. TBC has improved its risk profile since 2012 by reducing its high corporate exposure concentration and by diversifying into micro and SME loan segments (14% of loans) and retail (45%). The net NPL (classified loans net of provisions) ratio dropped from 3.0% to 1.9% during the same period.

27. **Earnings and profitability.** TBC is highly profitable. Net income increased by 28% to GEL157.5 million in 2014 because of robust loan growth and a stable net interest margin of 8.5%, while its ROA improved to 3.3% (from 3.1% in 2013). Return on equity decreased to 18.4%, from 18.7% in 2013, because of the IPO-funded capital increase.

28. **Funding and liquidity.** As the retail deposit market leader, TBC sourced 75% of its funding (2014) through deposits. It supplements the remainder through IFI term loans and domestic borrowings. TBC's funding is highly dollarized. The Basel III net stable funding ratio, which measures the stability of funding of maturities above 1 year, was 115% at the end of 2014, comfortably above NBG's prudential requirement of 100%.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

29. The ADB transactions will support financial inclusion for MSMEs and farmers. The proposed ADB assistance comprises (i) a senior loan for Credo of up to $23 million (or its lari equivalent) with a 4-year tenor; (ii) a subordinated loan for TBC of up to $50 million (or its euro or lari equivalent) with a 10-year bullet maturity; (iii) a senior loan for TBC of up to $50 million (or its euro or lari equivalent) with a tenor of up to 6.5 years; (iv) a senior loan for FBG of up to $7 million (or its lari equivalent) with a 4-year tenor; and (v) a TA grant of up to $1.05 million to support (a) TBC's MSME Academy services; and (b) each of the three banks' efficiency improvements and the development of loan and assistance to skills improvement to MSMEs and farmers, including branchless banking and associated financial literacy programs to their customers.

B. Implementation Arrangements

30. Credo, FBG, and TBC will provide annual audited financial statements, quarterly financial statements, and compliance certificates for loan covenants. Reporting will include

updates on (i) financial, solvency, and profitability metrics; (ii) governance, safeguards, and social protection compliance; and (iii) business performance and utilization of the ADB loans.

C. Value Added by ADB Assistance

31. **Economic diversification and widening access to finance.** The loans will support diversification into rural areas and secondary towns and will improve access to working and fixed investment capital for MSMEs and farms. The long tenor of the ADB loans will allow the borrowers to increase investment loans with longer tenors and enable funding several loan cycles to the target group, thereby enhancing the impact of the transactions. The concurrent support of three lenders will foster competition to the benefit of the target group, improving incomes and reducing poverty in the regions.

32. **Boosting local currency use and leveraging lending to micro, small, and medium-sized enterprises.** The senior loans to the three lenders will enhance term lending to MSMEs and farmers. The subordinated loan to TBC will help TBC maintain its capital adequacy and further leverage lending to MSMEs by a factor of at least 5. ADB's Private Sector Operations Department is also working closely with ADB's Treasury Department to secure lari funding through ADB lari bonds (depending on market conditions) following the successful launch of the first ADB lari bond. ADB loans will also help lengthen the tenor for MSME loans through long-term funding that cannot be raised through deposits and domestic borrowings. ADB's contribution also helps diversify the borrowers' funding sources and boost market confidence.

33. **Leveraging micro and small enterprise finance networks**. ADB's relationship with the international AMH and FINCA networks and TBC will deepen through collaboration and develop business for financial inclusion in the South Caucasus and Central Asia.

34. **Technical assistance.** The TA will help (i) TBC expand its advisory services to MSMEs; (ii) Credo, FBG, and TBC improve their respective MSME finance product offerings; and (iii) Credo, FBG, and TBC increase their respective outreach to, and financial literacy in, remote villages to address possible over-indebtedness of households.

D. Technical Assistance

35. The capacity development technical assistance is estimated to cost $6.10 million, of which $1.05 million will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). Credo, FBG, and TBC will each provide matching funding of their respective components. To ensure adequate management, accountability, ownership of the beneficiary institutions over the execution of the services, and a timely response to local needs identified during implementation, the administration (selection and execution) will be delegated to Credo, TBC, and FBG to be carried out in accordance with ADB policies and established commercial practices acceptable to ADB. The role of ADB will be to monitor the compliance of consultant selection, procurement, and the use of funds with ADB policies, and to track outputs for development effectiveness.

IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impact, Outcome, and Outputs

36. The development impact will be improved competitiveness and increased availability of credit to farmers and MSMEs. The outcome will be sustainable improvement in financial

servicing of MSMEs and farmers in the regions. The institutions are expected to set examples for other financial institutions on how to deepen their outreach, while retaining good asset quality and funding private enterprise activities that generate jobs. The outputs will be the expanded capacity of Credo, FBG, and TBC to provide financing to MSMEs and farmers in Georgia by offering a wider product range customized to their needs.

B. Alignment with ADB Strategy and Operations

37. **Consistency with ADB strategy and country strategy.** Under the Midterm Review of Strategy 2020, ADB aims to strengthen its support for the finance sector by assisting the development of financial infrastructure, institutions, and products and services; and by promoting inclusive growth.[10] The borrowers' emphasis on funding segments where the potential for employment and income generation is high will support inclusive growth. The ADB loans will help the borrowers provide loans to MSMEs in order to realize their investment needs. This is consistent with the government's efforts to promote growth in rural areas and ADB's country partnership strategy for Georgia, 2014–2018.[11]

38. **Consistency with sector strategy and relevant ADB operations.** ADB plays a tangible role in supporting the deepening of financial services in Georgia. Since 2007, ADB has provided nonsovereign loans of $125 million to banks, comprising two loans to Bank of Georgia and one loan to TBC, as well as TA to NBG and TBC. Bank of Georgia and TBC also benefit from ADB's Trade Finance Program, with an exposure limit of $30 million. The loans to TBC will build on the ongoing loan; the loans to FBG and Credo will be the first. ADB nonsovereign efforts align with efforts to develop the local currency bond market, as well as sovereign support for capital markets, including contractual savings under a program approved in 2014.[12] Staff of the ADB Central and West Asia Department participated in processing the transactions.

39. **Lessons from previous operations.** ADB's ongoing loan and TA to TBC helped streamline TBC's lending process for small business borrowers and improve the awareness and business skills of SME business owners through targeted advisory sessions. Since mid-2013, more than 3,000 entrepreneurs have benefited from the TA. A second phase will widen the scope to targeted one-on-one business advisory sessions to SMEs and basic training for microenterprises. The provision of capital for investment and knowledge services through banks provides opportunities for SMEs to overcome obstacles of growth through a graduation process whereby entrepreneurs learn to identify and realize market opportunities.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

40. ADB's loans are classified category FI for TBC, Credo, and FBG for impacts on the environment, and category FI treated as C for impacts on involuntary resettlement and indigenous peoples. ADB's loans will not finance subloans classified as environment category A and involuntary resettlement and indigenous peoples safeguards categories A and B. The borrowers' business activities have minimal or no adverse environmental impacts and are

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[10] ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific.* Manila.
[11] ADB. 2014. *Country Partnership Strategy: Georgia, 2014–2018.* Manila.
[12] ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loans for Subprogram 1 Georgia: Improving Domestic Resource Mobilization for Inclusive Growth Program.* Manila.

unlikely to entail impacts on involuntary resettlement and indigenous peoples. The borrowers will (i) apply ADB's prohibited investment activities list, (ii) ensure that investments using ADB funds abide by applicable national laws and regulations, and (iv) comply with ADB's Safeguard Policy Statement (2009). The borrowers will confirm this in their periodic report to ADB. The TBC environmental and social management system (ESMS) complies with ADB's Safeguard Policy Statement. Given the small average size and caps on subloans, the ESMSs of Credo and FBG are adequate. FBG and Credo will improve their ESMSs before introducing small business lending to satisfy ADB's Safeguard Policy Statement requirements. All transactions are classified as having some gender elements. Credo, FBG, and TBC will comply with national labor laws, pursuant to ADB's Social Protection Strategy,[13] and will take measures to comply with the internationally recognized core labor standards. The borrowers will report regularly on their compliance with such laws and the measures taken. Information disclosure and consultation with affected people will be conducted in accordance with ADB requirements.

B. Anticorruption Policy

41. Credo, FBG, and TBC were advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism; and remedies for ADB in the event of noncompliance.

C. Investment Limitations

42. The proposed loans are within the medium-term, country, industry, group, and single investment exposure limits for nonsovereign investments.

D. Assurances

43. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),[14] ADB will proceed with the proposed assistance upon establishing that the Government of Georgia has no objection to the proposed assistance to Credo, FBG, and TBC. 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

44. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the (i) loan of up to $23,000,000 or its lari equivalent to Credo Microfinance Organization, (ii) loan of up to $7,000,000 or its lari equivalent to FINCA Bank Georgia, (iii) subordinated loan of up to $50,000,000 or its euro or lari equivalents to TBC Bank; and (iv) loan of up to $50,000,000 or its euro or lari equivalents to TBC Bank, from ADB's ordinary capital resources for the Financial

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[13] ADB. 2003. *Social Protection Strategy.* Manila.
[14] ADB. 1966. *Agreement Establishing the Asian Development Bank.* Manila.

Inclusion for Micro and Small Business Growth 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.

Takehiko Nakao
President

16 November 2015

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with
Improved MSME competitiveness and access to finance. (Government of Georgia, 2014)[a]

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Credo, FBG, and TBC servicing to MSMEs and farmers in the regions improved in a sustainable manner	By 2021: 1.a. Credo's volume of business loans for agriculture and MSMEs increases to GEL626 million (June 2015 baseline: GEL316 million) 1.b. Credo NPLs (more than 30 days) remain less than or equal to 5% of gross loans (2014 baseline: 0.5%) 2.a. FBG's volume of business loans for agriculture and MSEs increases to GEL217 million (June 2015 baseline: GEL138 million) 2.b. FBG NPLs (more than 30 days) remain less than or equal to 5% of gross loans (2014 baseline: 2.2%) 2.c. TBC Basel III capital adequacy exceeds 10.5% of risk weighted assets (2014 baseline: Not applicable)	1.a.–b. Credo's annual progress reports 2.a.–b. FBG's annual progress reports 3.a.–d. TBC's annual progress reports	Adverse changes in agriculture market conditions Macroeconomic and currency instability, which constrain the business of MSMEs
Outputs 1. Credo's capacity for financing MSMEs expanded	By 2021: 1.a. Credo MSME borrowers reach 148,000 (June 2015 baseline: 103,000) 1.b. Credo MSME borrowers reach 128,000 outside Tbilisi (June 2015 baseline: 93,000) 1.c. Credo services at least 114,000 women (June 2015 baseline: 82,000)	1. Credo's annual progress reports	Insufficient demand for lending to agriculture and MSMEs Credo, FBG and TBC do not use capacity development TA effectively
2. FBG's capacity for financing MSMEs expanded	2.a. FBG MSME borrowers reach 80,000 outside Tbilisi (June 2015 baseline: 57,300) 2.b. FBG's services reach 40,000 farmers (June 2015 baseline: 27,000 farmers) 2.c. FBG services at least 36,000 women (June 2015 baseline: 24,200 women)	2. FBG's annual progress reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
3. TBC's capacity finance MSMEs expanded	3.a. TBC tracks MSME trainees by gender servicing at least 1,000 women (August 2015 baseline: not available)	3. TBC's annual progress reports	

Key Activities with Milestones

1. Credo's capacity for financing MSMEs expanded
1.1 ADB executes loan agreement with Credo by June 2016
1.2 Disbursement of loan occurs through March 2018
1.3 ADB provides TA to support financial literacy and product development activities through December 2018
1.4 Monitoring and review missions (2016 onward)

2. FBG's capacity for financing MSMEs expanded
2.1 ADB executes senior loan agreement with FBG by June 2016
2.2 Disbursement of loan occurs through March 2018
2.3 ADB provides TA to support financial literacy and product development activities through December 2018
2.4 Monitoring and review missions (2016 onward)

3. TBC's capacity for financing MSMEs expanded
3.1 ADB executes senior and subordinated loan agreements with TBC by June 2016
3.2 Disbursement of loans occurs through March 2018
3.3 ADB provides TA to support business and financial literacy, and product development activities, through December 2021
3.4 Monitoring and review missions (2016 onward)

Inputs

ADB (senior loan) to Credo Microfinance Organization: $23 million or lari equivalent
ADB (senior loan) to FINCA Bank Georgia: $7 million or lari equivalent
ADB (senior loan) to TBC Bank: $50 million or euro or lari equivalent
ADB (subordinated loan) to TBC Bank: $50 million or euro or lari equivalent
ADB (technical assistance): $1,050,000