

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Georgia	Project Title:	Financial Inclusion for Micro and Small Business Growth
Lending/Financing Modality:	Senior Loan and Subordinated Loan	Department/ Division:	Private Sector Operations Department Private Sector Financial Institutions

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The project is aligned with the Georgia CPS 2014-2018 and the government's Social-Economic Development Strategy of Georgia (Georgia 2020). Both recognize that limited access to affordable bank financing is a constraint to inclusive growth. The project contributes to the national poverty reduction and inclusive growth strategy by enabling three local financial institutions to deepen access to finance for micro, small and medium enterprises (MSME) and farmers to term finance, especially in regions outside the capital Tbilisi where 70% of the population reside. As strong growth during the past decade has not delivered commensurate declines in unemployment and poverty, this project is focused on promoting inclusive economic growth through lending to entrepreneurs to increase employment. As 61% of the national working population in 2013 was self-employed, and outside the capital Tbilisi this figure is 70%, directly targeting MSMEs with lending products that can enable expansion will facilitate absorption of the unemployed and contribute to poverty reduction.

B. Poverty Targeting

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

Preliminary Census 2014 figures showing a decline in total population confirms anecdotal evidence of out-migration for the purpose of employment and the increase in remittances over the last decade. This trend also parallels a slowing in the increase over the past five years in beneficiaries of the country's subsistence allowance for people living under the poverty threshold (known locally as an indicator of 'registered poverty'). Through targeting individual MSME entrepreneurs with improved access to finance, the project will assist in slowing regional out-migration and improving economic growth with corresponding poverty reduction.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

Potential beneficiaries are MSME entrepreneurs and farmers and their households. They will benefit through the provision of improved access to finance especially in rural areas where non-subsistence employment is limited and social assistance dependence is greater. The percentage of the population living below the national poverty line was 21.4% in 2013 as against 23.9% in 2003. The CPS states that percentage of the population living on less than \$2.00 a day at purchasing power parity decreased only marginally from 36.7% in 2003 to 35.6% in 2010, while the poverty headcount ratio at \$1.25 a day at purchasing power parity slightly increased from 17.7% to 18.0% over the same period. The World Bank Spring 2015 Economic Update reports that despite reduction in poverty, large urban-rural disparities persist with rural poverty being nearly double that of urban areas.

2. Impact channels and expected systemic changes.

Through the provision of improved access to finance, the project will support better opportunities for beneficiaries to raise their income and standard of living. The project will work through three financial institutions that target different cross-sections of the population (urban-rural, and micro through to SME borrowers) where they reside, thereby reducing potential access constraints. Each institution has in place controls to limit potential borrower over indebtedness (i.e. Smart Campaign).

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

During the due diligence, effort will be focused on potential means for targeted poverty reduction in project design. This will involve developing a deeper understanding of pre-existing lending product penetration in areas registering higher poverty incidence.

4. Specific analysis for policy-based lending. N/A

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?

The CPS states that only about half of economically active women are employed, and women are concentrated in the informal sector and lower-paying part-time work. While women earn 36% less than men, entrepreneurship is seen in Georgia as a crucial option for women to gain a livelihood. The project could consider encouraging intermediary institutions to focus on (i) capacity building to address women's lack of business skills, (ii) building women's business

confidence and networks, and (iii) increasing women's access to finance. Employment data provided each of the three institutions confirms positive participation by women in the banking sector being funded through the loans.

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 Please explain.

Georgia is showing progress toward gender equality, and while women's economic participation remains a challenge, the project's financial intermediaries have shown strong commitment to gender inclusiveness in lending.

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

Yes No Please explain.

The project's financial intermediaries do not discriminate in their lending and practice highly inclusive outreach to all potential borrowers while ensuring over indebtedness is avoided.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) 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.

The main stakeholders are borrowers of the project's participating financial institutions. They participate through already extensive market research activity conducted by the institutions in determining the most appropriate lending products for individual entrepreneurs.

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 project's participating financial institutions have extensive national networks of branches and village councilors through which to engage and empower beneficiaries. The various lending products of the institutions that will be supported through the project are designed for specific socio-economic groups such as the poor and excluded to allow for their inclusion in productive economic activity. The project also includes technical assistance to support loan product offerings and enhance the efficiency of services through branchless banking.

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?

Information generation and sharing (H) Consultation (H) Collaboration (N) Partnership (N)

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

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

Sub-loans requiring land acquisition will only be funded on a willing-seller willing-buyer basis.

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

Sub-loans having any adverse impact on ethnic minorities will not be funded.

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

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 (H)
 Adhering to core labor standards (H)
 Labor retrenchment
 Spread of communicable diseases, including HIV/AIDS
 Increase in human trafficking
 Affordability (H)
 Increase in unplanned migration
 Increase in vulnerability to natural disasters
 Creating political instability
 Creating internal social conflicts
 Others, please specify _____

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

The environmental and social management system arrangements for each institution include social protection requirements for staff and customers, and each institution ensures its products are affordable through the loan application process.

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 (v) 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?

Preliminary pre-due diligence research has been conducted with the financial institutions to assess pre-existing environmental and social management system arrangements, and their lending products. Branch visits have been conducted to assess the capability of staff in delivering the expected outcomes. Visits included meetings with bank customers at their homes and places of work to understand how lending products are used to sustain and grow their businesses.