

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Georgia	Project Title:	Improving Domestic Resource Mobilization for Inclusive Growth Program
Lending/Financing Modality:	Programmatic Approach and Policy-Based Loan	Department/Division:	Central and West Asia Department/Public Management, Financial Sector, and Trade Division

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: general intervention

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

In June 2014 the government approved its Socio-Economic Development Strategy of Georgia (Georgia 2020), including its poverty reduction strategy. Georgia 2020 aims to foster inclusive economic growth and reduce poverty by enhancing private sector competitiveness, developing human capital, and improving access to finance. Georgia 2020 targets average annual real gross domestic product growth of 7.0% by 2020, with 18.0% of the population living below the national relative poverty line, and a Gini coefficient of 0.35. In the 2014–2016 National Action Plan for Implementation of Gender Equality Policy in Georgia, the government sets out an action plan for gender equality, including in the economic and finance areas. The interventions under the program are consistent with the development priorities in the next 4 years set out in the Basic Data and Directions, 2014–2017, Georgia 2020's main vehicle for implementation. Under the Basic Data and Directions, 2014–2017 the government will de-monopolize the economy, implement initiatives to ensure unhampered access of small and medium-sized enterprises (SMEs) to the market, enhance market competitiveness, strengthen tax efficiency, introduce a savings scheme based on quasi-mandatory or mandatory pension insurance, and introduce enhanced efficiency and transparency in the management of public finances. Under the country partnership strategy 2014–2018, the Asian Development Bank (ADB) supports the implementation of the government's poverty reduction strategy by focusing on high and sustainable growth to create and expand economic opportunities, and by providing broader access to economic opportunities. The program will contribute to more inclusive economic growth in the following ways: (i) through its support for business development, the program will support broader access to finance and to economic opportunities to ensure that all citizens can participate and benefit from growth; and (ii) through its support to pension reform, the program will increase access to social safety nets to prevent extreme deprivation and poverty and in the longer term allow the current universal pension program to become more closely targeted to the vulnerable elderly population.

#### **B. Results from the Poverty and Social Analysis during PPTA or Due Diligence**

**1. Key poverty and social issues.** Economic growth averaged 6.1% per year during 2004–2012, increasing per capita incomes substantially. At the same time, unemployment remained high throughout the growth period and was 14.6% in 2013, and the rate of economically active people remained low, especially for women with a rate of 56.8% compared to 77.3% for men. Before 2010, poverty incidence remained at 18.0%–20.0%, and increased to 21.4% in 2013 in a lagged response to the economic crisis. The existing universal pension system is a major instrument of poverty reduction. All Georgian citizens are granted the right to receive pension benefits on an individual basis at any time after the age of 60 for women and 65 for men. The pension has risen considerably since 2004 to its present level of GEL150.0 per month, just below the minimum subsistence level of GEL161.4 per month. Pensions constitute the largest social spending item in the state budget, accounting for about 19.9% of public expenditure in 2014 and about 5.2% of gross domestic product. Sustaining growth will require engineering a shift in the growth model toward one financed more from domestic savings and driven by trade exports with considerable employment generation. Reform options to raise national savings will need to target increases in both public and private savings. Increasing public savings will require a shift in the fiscal framework toward lower growth of current expenditures and higher growth of capital expenditures. Increasing private savings includes the introduction of a private pension savings scheme, while maintaining in the short term the universal pension to alleviate poverty, and developing capital markets to widen and deepen availability of financial instruments for long-term savings. Productivity and growth of exports requires the support of skills training and investment promotion. The program contributes to the key reform options, promoting national savings while improving access to finance through investment and innovation promotion.

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

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

<p><b>4. Other social and poverty issues.</b> The program does not focus on health and education, as other development partners are providing support to these parts of the government's social development agenda.</p> <p><b>5. Design features.</b> Women are less likely to work in formal sectors and generally earn lower wages, both in formal and informal sectors. Life expectancy is higher for women, more likely to outlive their husbands, who often provide a larger share of family income. The longer life expectancy of women means that they are more likely to become widows than men are to become widowers, making survivors' pensions significant to them. Women comprise 65% of the people receiving pension and social packages from the state. The pension reform will take gender impact into account, including the equitable treatment of men and women in pension benefits. In particular, the pension reform will over time bring equality in retirement ages for women with men, allowing them to reduce the gap in pension wealth and thereby achieve more comparable pension income. The introduction of supplementary pensions will allow the government to gradually reform the current universal pension program, which is likely to become unsustainable in its current form, to a targeted program supporting the most vulnerable in their old age. Through capacity building, business development, innovation, and matching grant funds will be available to business, with particular benefits to SMEs owned by women, provided through the Entrepreneurship Development Agency and the Georgia Innovation Technology Agency.</p>
<p><b>C. Poverty Impact Analysis for Policy-Based Lending</b></p> <p><b>1. Impact channels of the policy reform(s).</b> The entire population will benefit from the shift in the growth model through policy reforms which contribute to increased domestic resource mobilization and efficiency for public and social expenditures. The employed population will benefit from the introduction of a supplementary private pension providing incentives to bring informal employees into the system. Export-oriented SMEs in particular will benefit from improved access to finance.</p> <p><b>2. Impacts of policy reform(s) on vulnerable groups.</b> Poor people and women will benefit from the continuation of a sustainable and affordable universal pension. The pension reform will ensure continuity of equitable treatment for men and women, both for the universal pension and for the supplementary private pension savings system. Improved debt management and budget efficiency will create fiscal space to address problems of vulnerable groups.</p> <p><b>3. Systemic changes expected from policy reform(s).</b> The systemic changes expected from the policy reforms include a reduction in absolute poverty to 18.0% by 2020 from 21.4% in 2013 and reduction of the Gini coefficient to 0.35 by 2020 from 0.41 in 2012.</p>
<p><b>II. PARTICIPATION AND EMPOWERING THE POOR</b></p>
<p>1. Participatory approaches and project activities. Consultations were held with ministries, legal entities, the National Bank of Georgia, commercial banks, insurance companies, the stock exchange, and international development partners. The consultations contributed to better relating the program design to the local context, harmonizing with other development partners, and reflecting a broad range of information and perspectives. Consultations contributed to adding value to program design, increasing ownership and sustainability, and offering potential benefits to poverty reduction and the excluded.</p> <p>2. Civil society organizations. Focus group consultations were held in Batumi, Kutaisi, Rustavi and Tbilisi with major stakeholders (including representatives from employers' organizations and trade unions, the self-employed, and those out of the formal labor market) as part of the work to develop the new pension plan and other related programs. The findings of these consultations will also provide information to guide the design and implementation of a nationwide education and awareness campaign to support the rollout of the Pillar II pension system.</p> <p>3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA). <input type="checkbox"/> Information gathering and sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>4. Participation plan. <input type="checkbox"/> Yes. <input checked="" type="checkbox"/> No. Policy actions will apply across Georgia with the overarching objective of benefiting all citizens, with the government ensuring extensive public communication campaigns and public awareness drives to assure wider participation and buy-in of the public. Information generation and sharing will be disclosed in accordance with ADB's Public Communications Policy 2011.</p>
<p><b>III. GENDER AND DEVELOPMENT</b></p>
<p>Gender mainstreaming category: Effective Gender Mainstreaming</p>
<p><b>A. Key issues.</b></p> <p>Women's economic participation remains a challenge. In 2013, Georgia ranked 86th among 136 countries in the World Economic Forum's Global Gender Gap Index. With this ranking, Georgia falls in the lower half of the rankings in Europe and Central Asia. Only 49% of economically active women in Georgia are employed. Factors hampering women's economic participation include unpaid domestic work, absence of affordable child care, unequal access to assets and resources, and insufficient attention to gender in economic development policy. Recent developments have included policy changes that accord equal rights and opportunities to women and men, although implementation of the laws and policies needs to be enhanced. In 2014, the Government of Georgia approved the National Action Plan on Gender Equality to address the challenges of equal opportunities and empowerment of women in Georgia. Concrete measures are identified for increasing women's participation in economic and business activities to take place by 2016. Special attention is given to educational and skills development activities for various groups of women, including internally displaced persons, women from rural areas, and ethnic minorities, as well as to women's engagement in agribusiness.</p>
<p><b>B. Key actions.</b></p> <p><input checked="" type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p>

Subprogram 2 of the policy loan has the following gender features. The Georgia Revenue Service is increasing the number of in-house tax auditors, allocating an equitable number of positions for women. Pension reforms will ensure continuity of equitable treatment of men and women, allowing both to accumulate sufficient pension assets for adequate income during old age, while maintaining prevention of old-age poverty through the universal pension. The Entrepreneurship Development Agency (EDA) and the Georgia Innovation Technology Agency (GITA) have been established under subprogram 1. EDA provides matching grants to micro, small, and medium-sized enterprises to spur investments. Entrepreneurship is seen in Georgia as a crucial option for women to gain a livelihood. Obstacles include (i) lack of appropriate skills, information, and familiarity with the business environment; and (ii) questions of self-confidence, lack of networks, aversion to risk, and inexperience in running a business. EDA is expected to spur investment allocation to women entrepreneurs. To date, 30% of matching grants have been allocated to women entrepreneurs for business development. GITA has funds allocated to support private sector innovation and technology development, of which an increasing share is allocated to women entrepreneurs. In addition the government will continue to implement the gender action plan which has actions for women's participation in economic life and in particular in business development.

#### IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

##### A. Involuntary Resettlement

Safeguard Category:  A  B  C  FI

1. Key impacts. NA
2. Strategy to address the impacts. NA
3. Plan or other actions.  No action

##### B. Indigenous Peoples

Safeguard Category:  A  B  C  FI

1. Key impacts. NA Is broad community support triggered?  Yes  No
2. Strategy to address the impacts. NA
3. Plan or other actions.  No action

#### V. ADDRESSING OTHER SOCIAL RISKS

##### A. Risks in the Labor Market

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

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

##### B. Affordability

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

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

1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):

NA Communicable diseases  NA Human trafficking  NA Others (please specify) \_\_\_\_\_

2. Risks to people in project area. NA

#### VI. MONITORING AND EVALUATION

1. Targets and indicators. Performance targets and monitorable indicators that address poverty reduction and inclusive social development include (i) absolute poverty reduced to 18.0% of population by 2020 (2013 baseline: 21.4%); (ii) Gini coefficient reduced to 0.35 by 2020 (2012 baseline: 0.41); (iii) changes to basic pension law instituted by September 2016 to ensure continuity of equitable treatment of men and women on pension benefits; (iv) at least GEL12 million provided to SMEs by September 2016 as matching grant facility to spur investments, of which at least 30% is allocated to women entrepreneurs; and (v) at least GEL9.5 million provided to SMEs by September 2016 as financial instruments to support private sector innovation and technology development, of which at least 30% is allocated to women entrepreneurs. Sources include a government decree, Ministry of Finance public notifications, annual reports published by the Ministry of Economy and Sustainable Development and the Ministry of Finance, National Statistics Georgia, and annual reports published on the Georgia Revenue Service website on women tax auditors.

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

3. Information in the project administration manual. NA

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

Sources: ADB. 2015. *Country Partnership Strategy: Georgia, 2014-2018. Poverty Analysis*. Manila. Government of Georgia. 2013. *Socio-Economic Development Strategy of Georgia, 2020*. Tbilisi.