

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA37335

Project Name	Georgia National Innovation Ecosystem (GENIE) Project (P152441)
Region	EUROPE AND CENTRAL ASIA
Country	Georgia
Sector(s)	General information and communications sector (30%), Other industry (50%), General industry and trade sector (20%)
Theme(s)	Infrastructure services for private sector development (20%), Micro, Small and Medium Enterprise support (20%), Export development and competitiveness (20%), Technology diffusion (20%), Education for the knowledge economy (20%)
Lending Instrument	Investment Project Financing
Project ID	P152441
Borrower(s)	Georgia
Implementing Agency	Georgia's Innovation and Technology Agency
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	19-Nov-2015
Date PID Approved/Disclosed	30-Nov-2015
Estimated Date of Appraisal Completion	24-Nov-2015
Estimated Date of Board Approval	04-Feb-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Since the early 2000s, Georgia has been implementing far-reaching reforms to improve the business environment, spur investment, and shake off the lingering rigidities of a centrally planned economy. After the fall of the Soviet Union and through the early 2000s, Georgia was among the poorest-performing transition economies in the region mainly due to conflict and governance issues, and GDP by 2003 had barely recovered to 40 percent of its 1989 level. Starting in 2004, reforms undertaken to strengthen public finances, deregulate markets, fight pervasive corruption, liberalize trade, and upgrade infrastructure helped attract record foreign direct investment (FDI) inflows (peaking at 16.5 percent of GDP in 2007) and brought the country global recognition as a top reformer. In the process, Georgia's Doing Business ranking improved from 112th in 2005 to 15th in 2015 and its World Economic Forum Global Competitiveness Index ranking improved from 90th place in 2008-2009 to 66th in 2015-16.

While these reforms have helped to kick start GDP growth, the economy has still not fully returned to its pre-transition size and the sustainability of growth is tenuous amidst slowing productivity growth and declining export competitiveness. GDP growth averaged close to 6 percent per year during 2004-2013, but Georgia remains one of the only countries in Europe and Central Asia (ECA) that has not yet caught up to its 1990 level of real GDP. GDP growth during this period also benefited from a spurt in productivity growth—11.5 percent, on average, between 2004 and 2008—which has since slowed to an average rate of 3.9 percent since 2010. Meanwhile, manufacturing exports have stagnated and the composition and dynamics of Georgia's export basket also reveal significant weaknesses and loss of competitiveness: (i) declining market share in key markets and products; (ii) stagnant and low product sophistication and quality given Georgia's level of development; (iii) lack of product diversification, with scrap metal, re-export of used cars, wine and processed food, water, and tourism still dominating; and (iv) low survival of export firms compared to the rest of the region.

Prospects for resurgence in productivity growth and exports are constrained by low levels of innovation, human capital development, and entrepreneurship. Innovation and entrepreneurship are key drivers of job creation and productivity growth, but Georgia lags its regional peers and other low-and-middle income countries on various global indicators of these dimensions.

Sectoral and institutional Context

Weak performance of micro, small and medium enterprises (MSMEs) is at the root of Georgia's innovation, productivity, and competitiveness challenges. Although MSMEs in Georgia represent 94 percent of registered businesses and more than 47 percent of formal jobs, they account for less than 20 percent of GDP as compared to global averages of 40-50 percent and 60 percent in the Europe and Central Asia (ECA) region. Most of this is due to their poor productivity, which is three times lower than that of large enterprises, and to their low rates of innovation. The capacity of these MSMEs to innovate and move up the value chain is constrained by four key interrelated factors:

(a) Low “innovation-readiness” of workforce and firms: Currently in Georgia, entrepreneurial education is incipient, and the Georgian educational system is not building a pool of talent needed for sustained innovative research and development (R&D). Coaching, mentoring, and specialized training opportunities for innovative entrepreneurs is extremely limited.

(b) Underdeveloped innovation infrastructure: Incubators, accelerators, and technology transfer offices (TTOs)—commonly used instruments to foster start-ups and technological innovations at the enterprise level—are few and far between in Georgia. Those that exist are concentrated in Tbilisi and have limited capacity, funding, and staff expertise.

(c) Limited access to finance for innovation: According to the World Bank's 2013 Enterprise Survey, firms in Georgia consider access to finance to be one of the top two business environment constraints. Most credit to MSMEs is provided by private commercial banks, but with high collateral requirements usually in the form of real estate. Alternative financing sources, such as angel, seed, and venture capital, matching grants and leasing/factoring are largely unavailable.

(d) Low uptake of ICT: Despite some innovation success stories by Georgian companies adopting state-of-the-art ICT through imports and FDI, overall use of ICT in industry is still limited and its

competitive benefits are not properly understood by many firms, particularly MSMEs. Only half of businesses surveyed in 2013 had their own Web site, compared with 66 percent in Tunisia, and 84 percent in Poland. While mobile broadband subscriptions are at about 24 percent of the population, subscription to fixed broadband (high-speed Internet) services is only at about 15 percent of the population, most of this concentrated in the main cities. There is a significant gap in personal computer ownership and Internet subscriptions across the poor and non-poor, with the rural poor far behind in digital access. Only 6 percent of the rural poor are connected to the Internet, compared with 15 percent of the rural non-poor, and 50 percent nationally.

Against this backdrop, the Government seeks to promote inclusive growth through an innovation-driven and knowledge-based economy. This Project supports this objective by developing specific elements of the national innovation ecosystem. It focuses on inclusion—connecting more people and businesses, primarily outside of Tbilisi, to the innovation and knowledge-based economy—and promoting innovative start-ups and SMEs—offering enterprises access to infrastructure, services, and financing to help them innovate and grow. This Project will invest in activities that build on the critical reforms and investments in infrastructure, business climate, and rule of law undertaken by the Government in recent years.

II. Proposed Development Objectives

The PDO is to increase innovative activities of firms and individuals and their participation in the digital economy.

III. Project Description

Component Name

Innovation Infrastructure

Comments (optional)

This component will support the development of GITA's envisioned hub-and-spoke network of innovation centers across Georgia, as well as increase the use of broadband Internet services among rural households and SMEs. The component will finance: (a) the development of approximately eight Regional Innovation Hubs (RIHs); (b) smaller Community Innovation Centers (CICs) in about fifty second-tier towns and village; and (c) a voucher and cash-back program to help connect eligible households and SMEs outside of Tbilisi to the digital economy.

Component Name

Innovation Services

Comments (optional)

This component will deliver services, many in coordination with the CICs and RIHs, tailored to Project beneficiaries at various stages/levels of the innovation ecosystem. It will finance: (a) building the innovation community through events (innovation competitions, exhibitions, conferences), publicity and media; (b) digital economy skills development through structured training programs; and (c) business innovation support through specialized training, coaching, mentoring, and technical consulting.

Component Name

Innovation Financing

Comments (optional)

This component will finance: (a) matching grants to private enterprises to develop innovative products, process, and services and adopt new technologies; (b) administration of the matching

grants program and coaching for grant recipients; and (c) technical assistance to stimulate other types of innovation financing. Two types of matching grants are foreseen: (i) “Start-up” grants to innovative early-stage MSMEs incorporated in Georgia within the last two years; and (ii) “Innovation” grants to MSMEs that anticipate a product, technological or business process innovation or technology adoption that is new to the firm and has market potential.

Component Name

Project Implementation Support

Comments (optional)

This component will aim to ensure efficient and effective implementation of all Project components. This will include financing consultants to support project management, component technical implementation, procurement, safeguards, financial management, monitoring and evaluation (M&E), and an expert advisory body. The component will also finance the design and implementation of: (i) tools to monitor the results framework; (ii) M&E studies/surveys to establish baselines for Project results indicators and measure their evolution during Project implementation; (iii) impact evaluation for selected Project activities.

IV. Financing (in USD Million)

Total Project Cost:	42.00	Total Bank Financing:	40.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
International Bank for Reconstruction and Development			40.00
LOCAL BENEFICIARIES			2.00
Total			42.00

V. Implementation

The Project will be implemented by Georgia's Innovation & Technology Agency (GITA). GITA will be responsible for all project implementation, procurement, safeguards, financial management and disbursements. The Government established GITA in February 2014 to lead the implementation of innovation policy, including addressing supply-side market failures that limit the quantity and quality of research and innovation in Georgia. This includes failures in early-stage finance and innovation infrastructure. GITA will also address demand-side constraints related to the lack of innovative efforts by domestic firms.

The Ministry of Economy and Sustainable Development (MoESD) is expected to establish a Coordinating Board to: (i) provide implementation oversight for the Project and GITA; and (ii) facilitate coordination of Project activities and cooperation across Government and state agencies, and with donors and other development initiatives. Overall oversight of the innovation agenda will be by the National Research and Innovation Council.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x

Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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