

Ex-Ante Evaluation  
Private Sector Investment Finance Division,  
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

Country: Georgia

Project: Micro, Small and Medium Enterprises Support Project

Loan Agreement: December 9, 2021

2. Background and Necessity of the Project

(1) Current State and Issues of the Development of the Micro, Small and Medium Enterprises Sector in Georgia

In Georgia, Micro, Small, and Medium Enterprises (MSMEs) play an important role in the Georgian economy, accounting for 99.7% of all business enterprises in the country and 62% of total employment there in 2017<sup>1</sup>. On the other hand, financial access for MSMEs is insufficient, mainly for three reasons: relatively higher risks than those involved in large corporations, insufficient analysis of MSMEs' needs by financial institutions, and underdeveloped governance at MSMEs. The finance gap rate<sup>2</sup> for MSMEs in 2014 was high, at 68%, and this is an issue to be addressed for the growth of MSMEs<sup>3</sup>. Meanwhile, the major MSME industries in Georgia consist of manufacturing, construction, and tourism, but in all these areas, their common problems are limited access to long-term financing and the need to improve the business skills of managers.

Against this backdrop, in 2015 the Georgian government announced the SME Development Strategy of Georgia 2016-2020. This Strategy cited as three priority issues enhancing the competitiveness of the private sector, developing highly competitive human resources, and providing better financial access, and by setting the goal of increasing MSMEs' output by 10% and the number of persons employed by MSMEs by 15%, the government is working to expand the MSME market and improve financial access. Up to now, laws for public subsidies and the government's financial assistance for MSMEs have been put in place, and in addition, there have been initiatives led by financial institutions such as seminars aimed at improving the financial literacy of managers.

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<sup>1</sup> Monitoring Georgia SME Development Strategy 2016-2020, OECD Financing in Georgia, EIU

<sup>2</sup> This is the World Bank's indicator of differences between the supply of financial access for MSMEs and latent demand for financing in developing countries. The average rate for developing countries is 55%.

<sup>3</sup> MSME Finance Gap, World Bank

Meanwhile, due to the impact of COVID-19, which broke out at the end of fiscal 2019<sup>4</sup>, the tourism industry declined, lowering the real GDP growth rate to minus 6.1%. Because of delay in the recovery of the tourism industry, the growth rate in 2021 is expected to remain at 3.1% despite expanding exports and recovering consumer spending, and the Georgian economy is predicted to grow at the 4% level in the medium to long run.

Approximately 70% of visitors to Georgia come from neighboring countries such as Russia, Azerbaijan, and Turkey, but since the movement of people is limited as these countries fail to suppress COVID-19 infection, ensuring financing and liquidity at MSMEs in service and other industries (including tourism) is an urgent issue to be addressed. Under these circumstances, as part of its efforts to support MSMEs, the government has helped finance MSMEs and assisted their business, including providing 500 million lari (about 17 billion yen) to grant loans to MSMEs chiefly, through Joint Stock Company Bank of Georgia (BoG), and other local banks and allowing up to 600 SMEs to carry forward lease payments by three months. However, due to decreased tax revenue and increased expenditure resulting from COVID-19 prevention and other measures, the International Monetary Fund (IMF) predicts that the ratio of fiscal deficit to GDP will grow from 1.8% in 2019 to 9.3% in 2020. The IMF also reckons that it will exceed 7% in 2021, making it difficult for the government to continue MSME support involving fiscal burdens. By financing BoG, which has a 31.6% share of the market for MSME loans in Georgia, this project aims at providing MSMEs with better financial access, an issue that has existed since early on and is becoming even more urgent due to COVID-19.

## (2) Japan and JICA's Policy and Operations in the Private Sector

Japan's Country Development Cooperation Policy for Georgia (April 2014) cited as a major goal, providing assistance to contribute to promoting economic growth and stabilizing society, and therefore, this project, which provides support to MSMEs, the driving force behind Georgia's economic growth and the sector that offers large employment opportunities, is consistent with the policy.

## (3) Significance of this project

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<sup>4</sup> The measures taken by Georgia to prevent infection with COVID-19, which has spread worldwide since the end of 2019, were considered an exceptional example of success in the world, as the number of confirmed cases per day in the country remained in a single digit until July 2020. After mid-September 2020, the number rose sharply and then the infection subsided temporarily, but after July 2021, the number grew rapidly again, and after mid-August, 4,000-6,000 cases were confirmed daily. After mid-September, the number started to fall, but it has recently continued to increase again as 6,024 cases were confirmed on November 3.

This project is in line with Georgia's development challenges and the assistance policies and analysis of the government of Japan and JICA. The project will contribute to SDG Goal 8 (improving access to financial services), Goal 9 (promoting industrialization through expanding access to finance for small businesses), and Goal 17 (partnerships).

#### (4) Necessity of Assistance with Private-Sector Investment Finance

This project will provide long-term loans to BoG, a major commercial bank in Georgia, in cooperation with the Asian Development Bank (ADB). The project will provide stable financial access to MSMEs, which play an important role in Georgia's social economy. Due to the prolonged impact of COVID-19, it is difficult for private banks to provide BoG with a 5-year loan so the necessity of providing assistance through the Private-Sector Investment Finance is high.

### 3. Project Description

#### (1) Project Objective

The objective of this project is to maintain and improve financial access for MSMEs in Georgia, by financing BoG, thereby contributing to sustainable economic growth in the country.

#### (2) Project Site/Target Area

The whole country of Georgia

#### (3) Project Component

Financial support provided by BoG to MSMEs in the entirety of Georgia through bank loans to BoG

#### (4) Funding Plan

200 million U.S. dollars

#### (5) Project Implementation Structure

1) Borrower: Joint Stock Company Bank of Georgia (Bank of Georgia)

2) Executing Agency: Joint Stock Company Bank of Georgia (Bank of Georgia)

#### (6) Environmental and Social Consideration / Cross-sectoral Issues / Gender Categorization

##### 1) Environmental and Social Considerations

(a) Category: C

(b) Reason for Categorization: The project's negative impact on the environment and society is judged to be minimal, based on the JICA Guidelines for Environmental and Social Considerations (announced in

April 2010).

(c) Other / Monitoring: It has been agreed with the borrower in writing on the policy of “selecting projects that meet JICA’s Category C standard can only be approved as the sub-projects.” A system has also been established that enables JICA to confirm that projects other than Category C ones are not included during the financing period. Since, through these measures, it is determined that the negative impact on the environment is judged to be minimal based on the Guidelines, the project falls into Category C. The category of projects financed by the Asian Development Bank, a co-financier, is B, but loans from JICA are limited to Category C projects.

2) Cross-Cutting Issues: None in particular

3) Gender Category: ■GI (S) (Gender Activities Integration Project)

<Activity Components / Reason for Categorization>

The reason is that initiatives based on the Asian Development Bank’s gender action plan and the amount of loans earmarked for Women-owned MSMEs (WMMSMEs) are set as indicators. The project can also be recognized as a 2X Challenge initiative due to the percentage of WMMSME borrowers (accounting for 36.3% of all borrowers of loans for MSMEs) and that of female employees to the total (68%) as of 2Q 2020.

(7) Other Important Issues: None in particular.

#### 4. Targeted Outcomes

##### (1) Quantitative Effects

The Project will measure quantitative effects using the indicators such as the loan balance for MSMEs, the number of borrowers of MSME loans, the loan balance for WMMSMEs<sup>5</sup>, the number of borrowers of WMMSME loans and the number of MSME borrowers with the benefit of repayment being postponed due to COVID-19

##### (2) Qualitative Effects

Improvement in financial access for MSMEs and maintenance of employment at MSMEs

##### (3) Internal Rate of Return

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<sup>5</sup> Women-owned MSMEs are defined as MSMEs that meet one of the following three requirements: (1) a woman holds, or women hold, a 50% stake or more, (2) a woman serves as Chief Executive Officer (CEO), and (3) a woman serves as Chief Operating Officer (COO).

Since this is a bank loan project, the economic internal rate of return (EIRR) and the financial internal rate of return (FIRR) are not calculated.

#### 5. External Factors and Risk Control

(1) Prior Conditions

None

(2) External Factors

None

#### 6. Lessons Learned from Past Projects

Two lessons learned mainly through the results of ex-post evaluation of the Micro, Small and Medium Enterprises Support Project for the Arab Republic of Egypt, a Japanese ODA loan project, are that when organizing similar projects to help finance micro and small enterprises, it is important for lenders to (1) have rich experience in financing and (2) own many branches to analyze the creditworthiness of customers distributed nationwide. Through examinations, the present project has confirmed BoG's experience in financing operations, branch system, and efforts to step up the digitization of financing decisions. It has also been confirmed that BoG opened its branches and provided financial services without delay after it took appropriate measures to prevent infection even as COVID-19 affected banking operations and that despite the effects of the pandemic, BoG maintained its full financing capacity as it held fast to the policy of further promoting the digitization of financing, a task to which it had paid particular attention since early on, with the prolongation of COVID-19 in mind.

#### 7. Evaluation Results

This project is consistent with Georgia's development tasks and development policy as well as with Japan's and JICA's cooperation policy and analysis. It also contributes to providing MSMEs, including those managed by women and those in which women play an active role, with better financial access and furthermore to sustained economic growth. Therefore, it will contribute to Goal 5 (gender equality), Goal 8 (economic growth and employment), Goal 9 (infrastructure and industry), and Goal 17 (implementation means and partnerships) of the SDGs, and the assistance it gives through overseas investment and finance is highly significant.

## 8. Plan for Future Evaluation

### (1) Indicators to Be Used

As shown in Section 4 above.

### (2) Timing

Ex-post evaluation: December 2025.

End