



**ASIAN INFRASTRUCTURE  
INVESTMENT BANK**

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**Project Document  
of the Asian Infrastructure Investment Bank  
Sovereign-backed Financing**

**Georgia**

**Georgia Emergency COVID-19 Response Project  
(under the COVID-19 Crisis Recovery Facility)**

## Currency Equivalents

(As at May 07, 2020)

Currency Unit – Georgian Lari (GEL)

GEL 1.00 = USD 0.31

USD 1.00 = GEL 3.21

EURO (EUR)

EUR 1.00 = USD 1.09

USD 1.00 = EUR 0.92

## Borrower's Fiscal year

January 1 to December 31

## Abbreviations

AIIB	Asian Infrastructure Investment Bank
COVID-19	Coronavirus Disease 2019
CRF	COVID-19 Crisis Recovery Facility
ES	Environmental and Social
ESCP	Environmental and Social Commitment Plan
ESF	Environment and Social Framework
ESMF	Environmental and Social Management Framework
ESP	Environmental and Social Policy
F&C	Fraud and Corruption
FM	Financial Management
GoG	Government of Georgia
GEL	Georgian Lari
HIES	Household Income and Expenditure Survey
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MoILHSA	Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health, and Social Affairs
NCDC	National Center for Disease Control
PHEIC	Public Health Emergency of International Concern
PIU	Project Implementation Unit
PMT	Proxy Means Test
PPE	Personal Protection Equipment
PPM	Project-affected People's Mechanism
PPSD	Project Procurement Strategy for Development
SESA	State Employment Support Agency
SSA	Social Services Agency
TSA	Targeted Social Assistance
WB	World Bank
WHO	World Health Organization

## Contents

<b>1. SUMMARY SHEET .....</b>	<b>2</b>
<b>2. PROJECT DESCRIPTION .....</b>	<b>5</b>
A. Project fit under the COVID-19 Crisis Recovery Facility.....	5
B. Project Objective and Expected Results .....	6
C. Description and Components .....	7
D. Cost and Financing Plan .....	9
E. Implementation Arrangements.....	9
<b>3. PROJECT ASSESSMENT .....</b>	<b>14</b>
A. Technical.....	14
B. Economic and Financial Analysis .....	15
C. Fiduciary and Governance.....	17
D. Environmental and Social.....	20
E. Risks and Mitigation Measures.....	23
Annex 1: Results Monitoring Framework .....	27
Annex 2: Detailed Project Description .....	30
Annex 3: Sovereign Credit Fact Sheet.....	35

## 1. Summary Sheet

**Georgia**  
**Georgia Emergency COVID-19 Response Project**

Project No.	000388-GEO
Borrower	Georgia
Project Implementation Agency	Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health, and Social Affairs of Georgia (MoILHSA)
Sector Subsector	Social Public Health Infrastructure / Social Infrastructure Preparedness and Mitigation Measures for Pandemic Emergencies
Project Objective	To prevent, detect, and respond to the threat posed by the COVID-19 pandemic and strengthen national systems for public health preparedness in Georgia.
Project Description	<p>The project will consist of the following three components, which are closely interlinked:</p> <ol style="list-style-type: none"> <li>1) Emergency COVID-19 Response: <ol style="list-style-type: none"> <li>1.1 COVID-19 Case Detection and Confirmation</li> <li>1.2 Health System Strengthening for Case Management</li> </ol> </li> <li>2) Enabling health measures to contain the COVID-19 outbreak through temporary income support for poor households and vulnerable individuals: <ol style="list-style-type: none"> <li>2.1 Cash transfers to poor and vulnerable households</li> <li>2.2 Temporary unemployment assistance for individuals who lost their job because of the COVID-19 outbreak</li> </ol> </li> <li>3) Project Management and Monitoring</li> </ol>
Implementation Period	Start Date: May 20, 2020 End Date: April 30, 2022
Expected Loan Closing Date	April 30, 2022
Cost and Financing Plan	<p>Estimated Project cost: USD 180 million (approximately equivalent to EUR 164.44 million)</p> <p><u>Financing Plan:</u>  AIIB loan: EUR 91.34 million (USD 100 million equivalent)  IBRD loan: EUR 73.10 million (USD 80 million equivalent)</p>

Size and Terms of AIIB Loan	EUR 91.34 million (approximately equivalent to USD 100 million) Final maturity of 26 years, and average maturity of 19.5 years, including a grace period of 13 years, with level repayments at AIIB’s standard interest rate for sovereign-backed loans.
Co-financing (Size)	World Bank (Lead Co-Financier): EUR 73.1 million (approximately USD 80 million equivalent).
Environmental and Social Category	World Bank Category: Substantial Risk (equivalent to Category B if AIIB’s Environmental and Social Policy (ESP) were applicable).
Risk (Low/Medium/High)	Medium
Conditions of Effectiveness	The Project Co-Lenders Agreement between World Bank and AIIB has been executed and the conditions precedent to its effectiveness have been fulfilled.
Key Covenants/Conditions for Disbursement	<p><u>Dated Covenants / Conditions:</u></p> <ul style="list-style-type: none"> <li>• MoLHSA shall establish a Project Implementation Unit (PIU) within 30 days following Effectiveness of the Loan Agreement, and vest responsibility for day-to-day implementation of the Project to such PIU.</li> <li>• The Borrower shall prepare and adopt a Project Operations Manual within 30 days following Loan Effectiveness, defining the eligibility criteria for identification of beneficiaries, and detailing the rules and procedures for project implementation,</li> <li>• The Borrower shall adopt a Global Budget and Reimbursements Manual related to activities for health-sector readiness within 30 days following Loan Effectiveness.</li> <li>• The Borrower shall ensure that the Project is carried out in accordance with the Environmental and Social Commitment Plan (ESCP) which requires the following: <ul style="list-style-type: none"> <li>○ ESMF to be prepared, disclosed and adopted within 30 days following Effectiveness.</li> <li>○ The Labor Management Procedure and SEP to be updated, re-disclosed and adopted within 30 days following Effectiveness.</li> </ul> </li> <li>• The Borrower shall adopt and implement a personal data collection Plan of Action<sup>1</sup> within 90 days following Effectiveness of the Loan Agreement.</li> </ul> <p><u>Disbursement Condition for Component 2:</u></p> <ul style="list-style-type: none"> <li>• The Borrower, through the Ministry of Finance, shall have adopted a decree governing and establishing an acceptable framework for Cash Transfers and Unemployment Benefits.</li> </ul>

<sup>1</sup> In accordance with the Law of Georgia on Personal Data Protection and international best practices.

Retroactive Financing (Loan % and dates)	Retroactive financing of up to 40% percent of the Loan amount will be allowed for eligible expenditures, from February 1, 2020 until the loan signing date.
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the Bank is in compliance with the policies applicable to the project.

President	Jin Liqun
Vice President	Konstantin Limitovskiy
Director General	Supee Teravaninthorn
Manager	Gregory Liu
Project Team Leader	Mehek Marwaha, Investment Operations Specialist
Co-Project Team Leaders	Martin Naegele, Client Relations Officer Kishor Uprety, Principal Programming and Project Structuring Officer
Team Members	Giacomo Ottolini, Principal Procurement Specialist Yogesh Malla, Financial Management Specialist Benedetta Magnaghi, Procurement Associate Gerardo Pio Parco, Senior Environmental Specialist Ildiko Almasi, Social Development Specialist Haiyan Wang, Senior Finance Officer Olga Dyakova, Senior Treasury Officer Marcin Sasin, Senior Economist Bernardita Saez, Senior Counsel Liu Yang, Counsel Shiyan Chao, Public Health Specialist (Consultant)

## 2. Project Description

### A. Project fit under the COVID-19 Crisis Recovery Facility.

1. **The COVID-19 Pandemic:** The rapidly evolving Coronavirus Disease 2019 (COVID-19) pandemic presents an unprecedented global challenge and has widespread and severe negative social, economic and financial impacts. The increasing breadth, depth and duration of the pandemic have placed significant strains on health care infrastructure, systems and supply chains. This has increased the risk of loss of life and suffering faced by people around the world. Meanwhile, the policy measures adopted by affected countries to contain the pandemic, while necessary, have resulted in sharp and sudden reductions in economic activities.
2. **Coordinated response by international financial institutions:** International financial institutions (IFIs), including AIIB, have undertaken initial efforts to provide strong, coordinated support to countries and private sector entities affected by COVID-19. In line with the G20's call to international organizations and multilateral and regional development banks to support emerging and developing countries facing the health, economic and social shocks of COVID-19, several multilateral development banks (MDBs) have announced emergency response packages to support their members and clients who are affected by the crisis. For example, as of April 15, 2020, the World Bank Group has announced USD 14 billion in financing, consisting of USD 6 billion from the World Bank (WB) and USD 8 billion from the International Finance Corporation (IFC). Meanwhile, the Asian Development Bank (ADB) has pledged USD 20 billion, the European Bank for Reconstruction and Development (EBRD) EUR 1 billion, the Islamic Development Bank (IsDB) USD 2.3 billion, and the Inter-American Development Bank (IADB) USD3.2 billion.
3. **Project's alignment with AIIB's COVID-19 Crisis Recovery Facility:** AIIB has announced a COVID-19 Crisis Recovery Facility (the Facility), with an initial size of up to USD 10 billion in order to respond effectively to the fast-evolving situation and respond flexibly and efficiently to client demands. The Facility supports:
  - Financing of emergency health sector responses, including the development of health system capacity, and provision of essential medical equipment and supplies to combat COVID-19, and well as the long-term sustainable development of the health sector of the member country.
  - Economic resilience, including provision of financing to supplement government productive expenditures to support the social and economic response and recovery and to mitigate the economic impact on AIIB members' economies. This includes not just investments in infrastructure but also social and economic protection to prevent long-term damage to the productive capacity of the economy. It would also protect and restore productive capital, including human capital.

The scope and components of the proposed project, as outlined in paragraphs 10 to 12 (and detailed in Annex 2), are fully aligned with the above stated objectives of the Facility.

**4. Swift Actions taken by Government of Georgia:** The Government of Georgia (GoG) has taken swift actions to combat the spread of COVID-19 since the confirmation of its first positive case on February 26, 2020, thus far relatively successfully containing a major outbreak, when compared to its immediate neighbors. According to the Georgian National Centre for Disease Control and Public Health (NCDC), the following activities were promptly carried out:

- Minimization of crossing at borders and suspension of intercity travel within 2 days of the laboratory confirmation of the first case.
- Initiation of efforts by the Ministry and NCDC, in the beginning of February, to communicate the risks by developing clear messages related to symptom recognition, first contact, appropriate use of health services, financial access and social protection measures related to COVID-19.
- Declaration of a Country emergency on March 21, 2020.
- Enforcement of total quarantine since March 31, 2020.

**5. Additional interventions proposed by Georgia:** As of April 24, 2020, the total number of infected people in Georgia had risen to 431 with 132 recoveries and 5 fatal outcomes. Critical restrictions have been imposed on movement in line with social distancing practices that are emerging worldwide. Following the announcement of the state of emergency, all educational institutions, and many public venues, including gyms, museums, and theaters, malls, bars and restaurants have been closed. Strict transportation restrictions were introduced, including the suspension of air and rail traffic, as well as border closures with neighboring countries, Armenia, Azerbaijan, and Russia. Additional quarantine measures have followed, including curfew from 9:00 pm to 6:00 am; prohibition of meetings of more than 10 people, public events and other mass events, shift to online and distance-learning methods for schools and universities. Going forward, the Government has decided to make all medical care related to COVID-19 free of charge, regardless of whether patients have medical insurance. The Prime Minister of Georgia has also announced the country's coronavirus anti-crisis plan on April 24, 2020, which includes, inter-alia, the following key features:

- Support for ~350,000 citizens who have lost their jobs or are on unpaid leave
- State subsidies to employers for each maintained job
- One-time assistance for people employed in the informal sector or the self-employed
- Assistance to ~91,000 families (as per rating scores) and ~40,000 persons with disabilities
- Waiver of property and income taxes for businesses in the tourism sector
- Introduction of rules for inflation indexation of pensions

## **B. Project Objective and Expected Results.**

**6. Project Objective.** To prevent, detect, and respond to the threat posed by the COVID-19 pandemic, and strengthen national systems for public health preparedness in Georgia.

**7. Expected Results.** The project will be monitored through the following key result indicators:



- Number of people tested for COVID-19 identification according to MoILHSA protocol.
- Number of COVID-19 patients treated per SSA reimbursement guidelines.
- Share of households in the poorest quintile who are receiving the COVID-19 pandemic related social assistance programs.

- 8. Expected Beneficiaries.** The expected project beneficiaries will be the population at large given the nature of the disease, but importantly the infected people and at-risk populations, particularly the elderly and people with chronic conditions, medical and emergency personnel, medical and testing facilities, and public health agencies engaged in the response.

In addition, the expected project beneficiaries of social protection measures will be the poor and vulnerable households, including those with informal workers as identified through the existing government administrative systems, Internally Displaced Persons (IDPs), refugees, and formal private sector workers who are unemployed or will become unemployed due to the lockdown or due to the restrictions adopted by the Government of Georgia on March 21, 2020 to contain the spread of the COVID-19.

### C. Description and Components

- 9. Overview.** The project will have three main components, as outlined below, which would help to address the emergency healthcare needs and social protection measures, that are closely interlinked.

#### **10. Component 1: Emergency COVID-19 Response**

- Sub-component 1.1: Case Detection and Confirmation
  - It will strengthen public health laboratories and epidemiological capacity for early detection and confirmation of cases.
  - This sub-component will finance medical supplies and equipment, including personal protection equipment (PPE) and hygiene materials, COVID-19 test kits, laboratory reagents, polymerase chain reaction equipment, and specimen transport kits.
- Sub-component 1.2: Health System Strengthening for Case Management
  - It will strengthen health system preparedness, to improve the quality of medical care provided to COVID-19 patients, and to minimize the risks for health personnel and patients.
  - This sub-component will finance the procurement of ICU equipment (e.g. ventilators, patient monitors, bronchoscopes), as well as equipment for non-critical care and operating rooms for designated hospitals, and other capacity needs to improve service delivery for COVID-19.
  - It will also finance case management for non-severe cases in non-medical settings (e.g. hotels temporarily rented for this purpose) for those individuals who cannot self-isolate at home and will finance ambulances to support urgent transportation of patients across the hospital network to designated reference facilities.

**11. Component 2: Enabling health measures to contain the COVID-19 outbreak through temporary income support for poor households and vulnerable individuals**

- Component 2 is envisaged to complement the support provided under component 1, especially through mitigation measures in the form of financial support (cash transfers) for poor and vulnerable households to enable them to comply with social distancing and COVID containment measures and lockdown orders. These cash transfer programs, an integral part of government's response to the pandemic, are vital for preventing poor households from falling deeper into the poverty trap and for sustaining societal stability.
  - Sub-component 2.1: Cash transfers to poor and vulnerable households
    - This sub-component will provide income support to the extreme poor and the households that fall into poverty due the health measures adopted to contain the outbreak and the resulting economic downturn by (i) scaling up the TSA program for extreme poor households; (ii) a new temporary cash benefit for vulnerable households and (iii) a top-up benefit for households with more than 3 children.
  - Sub-component 2.2: Temporary unemployment assistance for individuals who lost their job because of the COVID-19 outbreak
    - This subcomponent, will finance (i) a temporary unemployment assistance benefit for private sector formal wage workers and (ii) a one-off benefit for informal workers who lose their jobs due to the negative impacts of the measures adopted to contain the outbreak and the resulting economic downturn.

**12. Component 3: Project Management and Monitoring:** This Component is to support project implementation and overall administration of the Project, including procurement, financial management, as well as regular monitoring and reporting on project implementation progress (and required fiduciary assessments).

A detailed description of all the proposed components is presented in **Annex 2**.

## D. Cost and Financing Plan

**Table 1. Estimated Cost and Indicative Financing Plan (USD/ EUR million)**

Project Component	Cost estimate		Financing Plan			
	USD million	EUR million	IBRD		AIIB	
			USD million	EUR million	USD million	EUR million
<b>Component 1: Emergency COVID-19 Response</b>	<b>71.67</b>	<b>65.29</b>	<b>31.85</b>	<b>29.06</b>	<b>39.82</b>	<b>36.23</b>
<i>Sub-component 1.1: Case Detection and Confirmation</i>	17.96	16.40	7.98	7.29	9.98	9.11
<i>Sub-component 1.2: Health System Strengthening for Case Management</i>	53.71	48.89	23.87	21.77	29.84	27.12
<b>Component 2: Enabling health measures to contain the COVID-19 outbreak through temporary income support for poor households and vulnerable individuals</b>	<b>107.58</b>	<b>98.47</b>	<b>47.82</b>	<b>43.74</b>	<b>59.76</b>	<b>54.73</b>
<i>Subcomponent 2.1: Cash transfers to poor and vulnerable households</i>	19.95	18.22	8.87	8.10	11.08	10.12
<i>Subcomponent 2.2: Temporary unemployment assistance for individuals who lost their job because of the COVID-19 outbreak</i>	87.63	80.15	38.95	35.64	48.68	44.61
<b>Component 3: Project Management</b>	<b>0.30</b>	<b>0.27</b>	<b>0.13</b>	<b>0.12</b>	<b>0.17</b>	<b>0.15</b>
Front-End Fees (WB+ AIIB)	0.45	0.41	0.20	0.18	0.25	0.23
<b>Grand Total</b>	<b>180.00</b>	<b>164.44</b>	<b>80.00</b>	<b>73.10</b>	<b>100.00</b>	<b>91.34</b>

**13. AIIB's Proposed Exposure larger than Lead Co-Financier:** Our lead co-financing partner, the World Bank, plans to provide loans to the extent of USD 80 million (equivalent in EUR), whereas we have been requested by the Govt of Georgia to consider support of up to USD 100 million (equivalent in EUR). The World Bank is supporting three projects in Georgia, as part of its overall COVID-19 response, which includes USD 80 million from its Fast Track Facility for the emergency response, a Development Policy Operation, as well as support for small and medium enterprises in its subsequent Phase 2 program, expected to be approved within the next 6-8 months, aggregating to approximately USD 200-225 million. In a broader sense, once the entire proposed financing has been mobilized, the total financing of the World Bank will exceed that of the AIIB.

## E. Implementation Arrangements

**14. Implementation period.** May 20, 2020 to April 30, 2022

**15. Implementation Management.** In Georgia, the responsibility for oversight of the health system, the quality of health services, as well as for managing the social protection and employment programs lies with the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia (MoILHSA). Therefore, the MoILHSA has been designated as the implementing agency for the Project. MoILHSA will also be responsible for the fiduciary and technical aspects of the Project as well as its operational implementation, which will be ensured in close coordination with the Ministry of Finance (MoF).

**16.** The Social Service Agency (SSA) and State Employment Support Agency

(SESA) are state subordinated institutions under the administration of MoILHSA, which is responsible for purchasing publicly financed health services in the country, implementing social services and employment support programs and for supporting the most vulnerable social groups. SSA serves approximately 2.5 million Georgian citizens (over 60 percent of the population).

17. The Project will, thus, be implemented using the existing institutions and capacities of the government, which are deemed adequate to assure the smooth technical implementation and oversight.
- The implementation of Component 1 will involve MoILHSA within its healthcare function, together with SSA and in coordination with the National Center for Disease Control (NCDC) and the State Procurement Agency. The MoILHSA will conduct centralized procurement of lab equipment, test kits, equipment, and supplies for the hospitals. As a purchasing agency, the SSA will reimburse the providers for COVID-19 related services. Activities conducted by the MoILHSA will be coordinated when necessary with the NCDC, which is at the forefront of the epidemic response.
  - Component 2 will be implemented by the MoILHSA within its social protection function and through the SSA and the SESA, together with the Revenue Service of the MoF. Specifically, the SSA will be in charge of (i) determining and verifying the eligibility to the TSA, emergency benefit and temporary unemployment benefits; and (ii) making payments to beneficiaries under Component 2 through their personal bank accounts (unemployment benefits) and through the special accounts at the Liberty Bank<sup>1</sup> and connected bank cards (for TSA and emergency benefits). No cash-based payment is envisioned. The main functions of the key agencies involved in the Project implementation are described in the Box 1 below:

**Box 1: Key agencies involved in Project implementation:**

**MoF** – guarantor and lead state agency. Provides routine oversight of the spending processes of all ministries to ensure compliance with pre-defined plan; leads the annual budget preparation process.

**MoILHSA** – Project implementing agency. In charge of healthcare, labor, social protection, and internally displaced persons' issues. Accountable for the health of the population by overseeing the health system and the quality of health services.

**SESA** - State Employment Support Agency, state subordinated institution under the administration of MoILHSA, administers the state employment support programs.

**SSA** - State subordinated institution under the administration of MoILHSA. SSA administers the state social and health protection programs, notably state pension, social assistance, and health insurance.

**NCDC** - responsible for public health in Georgia, including immunization, surveillance, disease prevention, health promotion and the laboratory system. Several agencies are integrated within the NCDC: the epidemiological divisions of the Republican Sanitary–Epidemiological Station, the Medical Statistics and Information Centre and the Public Health Department.

**Revenue Service** - legal entity of public law of the MoF with the main task of supporting business in Georgia. Creates favorable environment for establishing new businesses and their development, and formation of a just, simple and reliable tax system.

**State Procurement Agency** - independent legal entity of public law in Georgia. Provides oversight to ensure compliance with the government procurement procedures by establishing policies for the regulation of the procurement process.

<sup>1</sup> Liberty Bank is the bank that is currently responsible for the payment of TSA benefits based on an existing agreement signed on December 23, 2014, between SSA and JS-LIBERTY Bank.

- Component 3, to be implemented by MoLHSA , with the assistance of a PIU, will mainly support coordination amongst the key agencies involved and project implementation for the overall administration of the Project, including procurement, financial management, as well as regular monitoring and reporting on project implementation progress, including community engagement. In addition to existing government staff, at least five consultants will be hired to cover the PIU key functions given the overwhelming scope of response to COVID-19 and the urgency of actions to be taken by all parties.

**18. A Project Implementation Unit (PIU) will be established within 30 days following effectiveness of the Loan Agreement** comprising existing staff from MoLHSA, SSA, MoF, State Procurement Agency, Treasury, and the NCDC and consultants hired under the project. The PIU will be led by MoLHSA. Several key consultant positions will be needed given the overwhelming scope of response to COVID-19 and the urgency of actions. These include consultants for procurement, financial management, social and environmental safeguards, and a consultant to support the overall coordination, monitoring, and evaluation of the Project activities. Other consultants can also be hired as needed during the Project implementation. The PIU, to be established under MoLHSA, will need to be adequately staffed for FM and procurement functions including accounting, reporting, budgeting and funds flow, internal controls as well as social and environmental aspects.

**19. As a designated implementing agency, the MoLHSA will assign a focal point to work with the World Bank / AIIB teams throughout Project implementation.** A 'Project Director', who could be a Deputy Minister supported by key technical staff, will be designated. Focal points from the MoLHSA will be designated for the health and social protection components. The focal points will also be responsible for interacting with the WB and AIIB teams on technical matters.

**20. Monitoring and Evaluation.** Monitoring and evaluation activities will be the responsibility of the PIU. The PIU will be expected to:

- (a) monitor project implementation;
- (b) collect data and information related to the PDO and intermediate indicators; and
- (c) prepare progress reports by coordinating with related departments at the MoLHSA, MoF, and other relevant agencies involved in Project implementation.

Progress reports will cover compliance with the planned project activities, the updated Procurement Plan, the achievement of indicators as defined in the Results Framework, and the Environmental and Social Framework (ESF). The PIU will submit these reports to the World Bank and AIIB on a semi-annual basis. The roles and responsibilities of staff of the implementing agency, participating institutions and all stakeholders involved in project implementation, as well as the methodology, will be described in the Project Operations Manual (POM) to be adopted within 30 days following the Loan's effectiveness.

- 21. AIIB's Implementation Support.** WB will be the lead co-financier and will supervise and monitor the project and provide the services identified in the corresponding Co-Financiers Agreement to be signed between AIIB and WB, in accordance with WB's applicable policies and procedures.
- 22.** AIIB will jointly supervise the project with the WB and participate in all implementation support missions once the prevailing travel restrictions are relaxed. Adequate resources will be made available within AIIB to match the frequency of WB's implementation support missions. AIIB may also consider hiring local consultants in close collaboration with the WB Country Office, in case in-house resources are not adequate. This joint collaborative approach has been successfully implemented in other ongoing co-financed projects with WB.
- 23.** Given the limited knowledge and experience in dealing with the COVID-19 pandemic, the exchange of information across countries, facilitated by international partners including the World Bank, will be instrumental for AIIB in managing their response to COVID-19. Lessons learnt from Georgia's approach to containment and preparedness activities, as well as the economic impact of disease outbreaks under different scenarios, shall be shared and could be applied, as relevant to other similar problems being faced by other member countries.
- 24. Procurement.** The WB has developed a project-specific set of arrangements that will be duly executed during project implementation. The World Bank's Procurement Regulations for IPF Borrowers apply to this project as AIIB is satisfied that they are materially consistent with the AIIB's Articles of Agreement and the Core Procurement Principles and Standards of the AIIB's Procurement Policy. As lead co-financier, the WB will be responsible for overseeing the procurement process, applying its own procurement rules, internal review and clearance procedures, and determining whether the procurement has been conducted in accordance with the agreed implementation arrangements. The rationale for the procurement approach agreed between the WB and the Borrower has been reviewed by the Bank's team and considered fit-for-purpose. AIIB will collaborate closely with the WB to review the PIM and the updates of the Procurement Plan and a Project Procurement Strategy for Development (PPSD), that shall be prepared for the project. Further, AIIB shall rely on the strong track record of the WB in the health sector and its ability to conduct adequate supervision and monitoring.
- 25.** Under Component 2 it is envisaged that there will no procurement conducted. Given the modality identified to deliver this component's 'cash transfers' the AIIB's Procurement Policy does not have any corresponding method, hence is not applicable. However, for component 2, both financial and technical audits will be undertaken to control that the flows of cash are going to the right beneficiaries and for the intended purposes, through the State Audit Office and an independent auditor. The control and audit mechanisms for payment disbursement will be specified in the POM, including the roles and responsibilities. The Project will be subject to the World Bank's Anti-Corruption Guidelines, including without limitation the Bank's right to sanction and the Bank's inspection and audit rights.

- 26. Financial Management.** MoLLHSA will be responsible for overall project financial management with the assistance of the PIU, that shall have been established under MoLLHSA 30 days following effectiveness Loan Agreement. The project planning, budgeting, funds flow, accounting, reporting, internal controls, and audit arrangements shall be aligned with the Government's system. The PIU shall prepare an annual project budget as per procurement plan and financing agreements.
- 27.** The PIU shall be staffed with qualified finance and accounts staff for maintaining acceptable project financial management. Considering capacity constraints and limited experiences in managing donor funded projects, the PIU will recruit an FM Specialist under terms and conditions satisfactory to WB and AIIB. The POM shall include details about the project's financial management and disbursement arrangements including cash transfers acceptable to WB and AIIB.
- 28.** The PIU shall prepare project accounts in accordance with International Public Sector Accounting Standards (IPSAS -Cash) and Government treasury system shall be used as default for project related payments. The POM shall also detail out internal control processes and procedures to be implemented in the project. The internal audit unit of PIU will carry out periodic internal audit of the project. The PIU shall prepare and submit IUFRRs to WB and AIIB within 45 days of the end of each calendar quarter. The annual audited project financial statement shall be submitted to WB and AIIB within six months after the end of each fiscal year. The State Audit Office of Georgia or an independent private auditor shall conduct the annual project audit in accordance with applicable standards and terms of reference acceptable to WB and AIIB. MoLLHSA will publicly disclose the audit reports on their websites within one month of the receipt from their auditor.
- 29.** WB's disbursement policies and procedures shall be used for the project disbursement following the Co-financing Framework Agreement. The detailed disbursement arrangements shall be set out in WB's Disbursement and Financial Information Letter (DFIL), which shall detail the authorized signatories, methods of disbursement, Designated Account arrangements, process of submitting claims and other terms and conditions of disbursements related to the project.

### 3. Project Assessment

#### A. Technical

- 30. Project Design and Operational sustainability.** The COVID-19 pandemic is unprecedented and evolving rapidly. Scientists are still seeking to understand and assess the epidemiology and clinical presentation of COVID-19. As on April 24, 2020, it is estimated that 10.7% of confirmed cases worldwide had a fatal outcome. However, the mortality rates have not been affirmed by WHO as yet, as the situation is unfolding, and testing and reporting constraints have inhibited an accurate understanding of the incidence and prevalence of the disease since it was first identified in late 2019.
- 31.** Initial data from many severely affected countries indicate that COVID-19 is more likely to cause severe respiratory distress, which necessitates intensive care and hospitalization in patients with underlying health conditions. High risk groups<sup>2</sup> include those who have or are immune suppressed, suffering from respiratory diseases, over the age of 70, with specific cancers, severe respiratory conditions, metabolic disorders, pregnant and have a significant congenital heart disease.<sup>3</sup>
- 32. Georgia's demographic characteristics and existing disease burden** suggests that the COVID-19 pandemic may have a significant impact on population health. As case fatality rates are higher<sup>4</sup> in older age groups, the country's aging population has been identified as a key vulnerability. Around 17.5 percent of the population is older than 60 years, and 3.3 percent of the population is older than 80 years in the country.<sup>5</sup> Of the top 10 causes of premature death in Georgia, seven are relevant co-morbidities for COVID-19 disease (including ischemic heart diseases, stroke, hypertensive heart diseases, lung cancer, chronic obstructive pulmonary disease, diabetes, chronic kidney disease<sup>6</sup>). A large share of the population has cancer (five-year prevalence cases are 20,742) and lung cancer is the most common form of cancer among men.<sup>7</sup> Given that COVID-19 affects the respiratory system, smoking is an important risk factor and appears to have played a large part in the gender distribution and severity of COVID-19 in China.<sup>8</sup> Thus, it stands to be an aggravating factor for the potential outbreak in Georgia, where 55.5 percent of men and 4.8 percent of women smoke.<sup>9</sup>
- 33. The interventions and investments supported by this Project reflect the outcome of a rapid technical assessment, conducted by the MoLHSA, the WHO and the WB.** The Project design proposes a set of investments which have considered existing knowledge of the disease's epidemiology and its

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<sup>2</sup> <https://digital.nhs.uk/coronavirus/shielded-patient-list>

<sup>3</sup> Heyman, D, Shindo, N, on behalf of the WHO Scientific and Technical Advisory Group for Infectious Hazards. 2020. The Lancet, [https://doi.org/10.1016/S0140-6736\(20\)30374-3](https://doi.org/10.1016/S0140-6736(20)30374-3).

<sup>4</sup> For example, based on the data from the Italy outbreak, while case fatality is rare in children and rates are between 0.3% and 1% for adults aged 30 to 50 years, case fatality rates increase sharply in the older population groups: 1% for adults aged 50 to 50 years, 3.5% in the 60 to 69 bracket, 12.5% in the 70-79 bracket, 19.7% in 80-89 bracket, and 22.7% in the 90+ bracket.

<sup>5</sup> <https://www.geostat.ge/en/modules/categories/41/population>

<sup>6</sup> <http://www.healthdata.org/georgia>

<sup>7</sup> <https://gco.iarc.fr/today/data/factsheets/populations/268-georgia-fact-sheets.pdf>

<sup>8</sup> Cai, W. 2020. "Sex difference and smoking predisposition in patients with COVID-19." Lancet Respir Med, Doi.org/10.1016/Pll. At: <https://www.thelancet.com/action/showPdf?pii=S2213-2600%2820%2930117-X>

<sup>9</sup> [http://www.euro.who.int/data/assets/pdf\\_file/0020/337430/Tobacco-Control-Fact-Sheet-Georgia](http://www.euro.who.int/data/assets/pdf_file/0020/337430/Tobacco-Control-Fact-Sheet-Georgia)



potential evolution, as well as the state of the Georgia's health system. It was agreed that World Bank support would focus on case management and the provision of equipment and consumables. In accordance with WHO's recommendation, the selection of the activities has focused on *Pillar 7* of the WHO Operational Planning Guidelines to Support Country Preparedness and Response. These interventions have been informed by WHO recommendations of good practice in containing this epidemic, as well as more generalized evidence on what has been effective in similar situations. For example, providing front-line health workers with PPE helps to limit the transmission of the disease amongst much-needed health workers and maintain a health system's capacity to treat patients. In addition, communicating with populations about the measures needed to stem the tide of an epidemic has also been effective in a whole-of-population approach. Nevertheless, there is uncertainty over the volume of goods to be procured, depending on the case load and challenges in the global supply chain. The World Bank and AIIB teams shall jointly and closely consult with relevant development partners and the MoLHSA on the volume of equipment and consumables that are needed, including with flexibility to adjust in line with the progression of the outbreak in Georgia and the availability of supplies.

- 34. The design of the Project is flexible to accommodate changing needs in the face of a fast-moving epidemic and evolving knowledge.** The Project design recognizes the rapidly changing nature of the epidemic and, accordingly, has been designed to provide flexibility. The immediate health system response has been assigned to a single component, with a single expense category, so that activities can be easily adjusted as the epidemiology situation evolves and as knowledge improves, without the need for restructuring.

## **B. Economic and Financial Analysis**

- 35. Recent economic developments and poverty reduction.** Over the past decade, Georgia's economy has grown robustly, at 4.5 percent per year on average. The economy grew by 5.1 percent in 2019 and was expected to grow by 4.3 percent in 2020.
- 36.** Higher growth brought higher incomes and has led to a decline in unemployment to 12 percent in 2019. Coupled with a system of targeted social transfers this has led to nearly halving of the poverty rate, from 37.4 percent in 2007 to 20 percent in 2018 (by the national definition), and to improvements in the living conditions of lower-income population groups.
- 37.** However, due to COVID-19, the country now faces significant domestic and external risks. The growth outlook is now challenged by the global recession. Georgia's economy is expected to shrink, while risks to economic prospects include a potential further deterioration in key trading partner economies, domestic demand, tourism and remittance revenues, and liquidity in global financial markets, as well as the impact of lockdowns and the shuttering of businesses.
- 38. Under most plausible scenarios, and despite COVID-19, macroeconomic stability and debt sustainability are preserved.** Underlying this assessment are assumptions that: (i) the COVID-19 situation will be contained, and the shock turns out to be temporary; (ii) policy reforms continue in the medium term; (iii) donors' financing continues. Regarding (i), the authorities' response to the health and economic crisis has so far been appropriate—with quarantine

and social distancing measures, and with support to the economy, both financial and monetary. Regarding (ii), the authorities are said to be committed to fiscal consolidation (as soon as the crisis passes) and to their institutional reform agenda, including under the IMF program. Regarding (iii), many development partners have already committed resources, so the \$2bn financing gap over the next 12 months is covered. In a proactive move, the authorities are building an additional cash buffer equivalent to approximately 6 percent of GDP, as an insurance against adverse scenarios.

- 39.** Macroeconomic stability requires equilibria in the real, fiscal, monetary and external sectors. In that regard, according to the IMF, GDP is expected to decline by about 4 percent in 2020, but rebound by 4 percent in 2021 and then grow by 5-6 percent during 2022-25. The large fiscal deficit of 8.2 percent of GDP in 2020 is expected to be a one-off, and return below 3 percent from 2022 onwards under the fiscal consolidation plan. Despite depreciation and supply disruptions, inflation is nevertheless expected to be subdued, below 4 percent, due to weak demand. Current account deficit will widen to 11 percent of GDP, but is expected to return to more usual levels, of 5-6 percent of GDP by 2022. After depreciating by around 10-15 percent, the lari seems to have found an equilibrium recently, at least temporarily. International reserves fell initially as the central bank intervened, but are on the path to being replenished with donor funds, and stay at or around 100 percent of the IMF adequacy metric. The external financing gap that has opened due to COVID-19 is being closed with donor financing. However, confidence has not yet returned fully, as reflected by the still-high 700 bps spread on Georgia's international bonds.
- 40.** According to the most recent IMF assessment (April 2020), Georgia's public debt is sustainable despite the pandemic. Public debt is expected to increase from 42.7 percent of GDP in 2019 to about 62.8 percent of GDP in 2020 due to the higher deficit, lower GDP and depreciation, but also due to a buildup of government's precautionary cash deposits. Public debt (net of cash deposits) at 45-50 percent of GDP in the medium term, is moderate. Moreover, virtually all public external debt is owed to official creditors, which makes it easier to roll-over and more affordable (i.e. terms are more concessional and maturities longer). On the other hand, as much as 80 percent of Georgia's debt is denominated in foreign currency, which makes it vulnerable to depreciation. Total external debt, up from 85 percent of GDP in 2019 to the projected 110 percent of GDP in 2020, is elevated, reflecting foreign investors' interest in Georgia and banking sector's funding strategy, but also the intermittent episodes of depreciation.
- 41.** The successfully completed sixth review of the IMF program and the subsequent disbursement of IMF resources is a testament to Georgia's generally sustainable debt situation. Also, Georgia has so far avoided credit rating downgrades. In late April, Fitch affirmed Georgia at BB, but changed the outlook from stable to negative.
- 42. Economic impact of the proposed investment.** Epidemic prevention and control are deemed to have high economic returns. Public health is a prerequisite for any development. Georgia ranks 42nd on the Global Health Security Index, a measure of epidemic preparedness—even though this is above the global average, it is still only 52 out of 100 total points possible. Given the low base, returns to investment in health security are thus presumed to be high.

43. Hence, there is a strong rationale for the Project's investment to strengthen the Government's response to the COVID-19 pandemic. By strengthening capacity for early detection and confirmation of cases, as well as for diseases surveillance, it will help in controlling the spread of the virus. By this, it will contribute to (i) limiting loss of life, and (ii) limiting economic disruption. In fact, the duration and severity of the COVID-19-related economic recession is widely believed to be dependent on how quickly the virus is contained, and confidence restored. Many benefits are not quantifiable and/or extend across borders—for example control measures in Georgia also reduce pandemic risks in neighboring countries.
44. The social assistance component is expected to improve economic efficiency by (i) preventing loss of human capital and negative coping strategies among those affected; (ii) preventing the temporary negative shock from spiraling into second round effects; (iii) sustaining credibility of the insurance function of the state.

### C. **Fiduciary and Governance**

45. **Procurement and Financial Management.** Procurement Assessment: Under Component 1 of the Project, major procurement will comprise: necessary materials and technical equipment for case management, equipment for health facilities, procurement of fully equipped ambulances, PPE, minor repairs in public health facilities. A procurement plan is under preparation.
46. Retroactive financing of up to 40 percent of the amount of the Loan is allowed, provided that the items are procured in accordance with the applicable policies and regulations.
47. Hands-on expanded implementation support (HEIS) will be provided to the Borrower, in particular: the provision of draft technical requirements and specifications, assistance in the drafting of procurement documents, and advice on evaluation procedures.
48. The World Bank may provide the Borrower with proactive assistance in accessing existing supply chains through Bank Facilitated Procurement (BFP). This will include: the identification of available stock of the agreed list of goods in the quantities specified; assistance in negotiating prices, delivery terms, and other contract conditions; drafting final award letters and/or contracts adapted to specific market conditions; additional hands-on support in contracting to outsource logistics. However, the Borrower will remain fully responsible for signing and entering into contracts and implementation, and for procurement execution.

49. A streamlined PPSD and draft procurement plan have been prepared by the MoLHSA with support from the World Bank. All the selection methods defined in the World Bank's Procurement Regulations can be used. Priority will be given to streamlined and simple procedures, such as Direct Selection, Request for Quotation (RfQ) with no threshold limit for this method as deemed more appropriate and fit for purpose.
50. Fast Track Procurement will be the preferred procurement approach for the required goods, works and services.
51. Procurement of Second-hand Goods may be considered when needed and appropriate. Relevant risk mitigation measures related to the procurement of second-hand goods will be reflected in the PPSD. Procurement execution will be undertaken by the PIU under the MoLHSA with support from the World Bank (HEIS). The MoLHSA will designate a local procurement specialist who will work in close cooperation with both, the WB and AIIB.
52. **FM assessment** was carried out based on desk review of Public Expenditure & Financial Accountability (PEFA) 2018 report of the borrower, discussions with stakeholders and WB's FM assessment report. The proposed project financial management arrangements are considered adequate provided proposed mitigation measures are carried out:
- (i) PIU will recruit an FM Specialist under terms and conditions satisfactory to WB and AIIB;
  - (ii) POM shall be adopted by the Borrower, detailing the project financial management and disbursement arrangements including cash transfers acceptable to WB and AIIB;
  - (iii) Global Budget and Reimbursements Manual, should be adopted by MoLHSA with satisfactory FM arrangements agreeable to WB and AIIB within 30 days following Loan effectiveness;
  - (iv) An internal audit ToR shall be prepared by the Government in consultation with WB and AIIB detailing the specific areas of internal audit engagement, periodicity and reporting mechanism; and
  - (v) All cash transfers shall be channeled through banks/financial institutions.
53. FM arrangements for the project shall be aligned with the Government's systems, including planning, budgeting, funds flow, accounting, reporting, internal control procedures and audit arrangements. An Audit Committee shall be setup within PIU/PIA to timely address any audit observations especially related to questionable expenditures.
54. The overall project financial management risk is considered as High due to emergency nature of the project with high cash transfers, capacity constraints and limited experiences of the Line Ministry in managing donor funded projects.
55. **Disbursements.** WB's disbursement policies and procedures shall be used for the project disbursement following the co-financing framework agreement. The withdrawal applications shall be submitted to the WB for review. The payment instructions shall be communicated by the WB to AIIB, based on the specified ratio between WB and AIIB financing. The WB will (a) review each withdrawal application furnished by the implementing agency to verify that the amount requested is eligible for financing under the Co-Financing Agreement; and (b) notify AIIB that the withdrawal application is in proper order, and that it has determined that the amount requested is eligible for financing under the Co-Financing Agreement.

56. The detailed disbursement arrangements shall be set out in WB's Disbursement and Financial Information Letter (DFIL), which shall detail the authorized signatories, methods of disbursement, Designated Account arrangements, process of submitting claims and other terms and conditions of disbursements related to the project. This will also be reflected in the AIIB Loan Agreement.
57. MoLHSA shall open a pooled Designated Account (DA) at Treasury Account, MoF held at the National Bank of Georgia, on terms and conditions acceptable to WB and AIIB. MoLHSA will also open a project account in local currency, where funds can be transferred to make payments in local currency including project operating costs, if any. These funds will not be combined with other funds.
58. **Retroactive Financing:** Retroactive financing up to EUR 36.54 million (i.e. up to 40 percent of the AIIB Loan) will be allowed for reimbursement of eligible expenditures for payments made by the GoG between February 01, 2020 and the signature date of the legal agreements. Alignment with the percentage and terms of retroactive financing proposed by the lead co-financier shall be ensured. It shall be allowed only if the expenditures are eligible, including that they are incurred or items are procured in accordance with applicable WB's Procurement Regulations, as well as other WB and AIIB requirements. Indicative list of expenditures eligible to be financed retroactively are placed at Annex 2.
59. **Governance and Anti-corruption.** AIIB is committed to preventing fraud and corruption in the projects it finances. For this project, WB's Anti-Corruption Guidelines shall apply, which are materially consistent with AIIB's Policy on Prohibited Practices (2016) (PPP). However, AIIB's PPP will apply to the prohibited practices that are not covered under the WB's Anti-Corruption Guidelines. AIIB reserves the right to undertake investigations regarding the Prohibited Practices not covered under the WB's Anti-Corruption Guidelines.
60. **Institutional Capacity.** The Project includes the necessary implementation arrangements, technical assistance, and institutional capacity building activities to attain and sustain Project objectives. The Project will strengthen the MoLHSA's capacity to effectively respond to future pandemics and to address current challenges in outbreaks of other infectious and vaccine-preventable diseases. By investing in strengthening laboratory capacity and enhancing monitoring and surveillance systems, the Project will contribute to strengthening Georgia's health system and ensure preparedness.
61. **Data Protection.** Large volumes of personal data, personally identifiable information and sensitive data are likely to be collected and used in connection with the management of the COVID-19. In order to guard against abuse of that data, the Project will incorporate best international practices for dealing with such data in such circumstances. To this effect, the Borrower will adopt and initiate implementation of a data collection Plan of Action within 90 days following effectiveness of the Loan Agreement.

## D. Environmental and Social

- 62. Environmental and Social Policy (including Standards).** The Project will be co-financed with WB. To ensure a harmonized approach in addressing environmental and social (ES) aspects of the Project, as permitted by AIIB's Environmental and Social Policy (ESP), WB's Environmental and Social Framework (WB ESF) will apply to the Project. AIIB has reviewed WB ESF and is satisfied that: i) the WB ESF is consistent with the AIIB's Articles of Agreement and materially consistent with the provisions of the AIIB's ESP and the relevant ES Standards; and ii) the monitoring procedures that are in place are appropriate for the project.
- 63. Categorization.** Given the nature and potential of spread of the COVID-19 pathogen, the ES risks are rated "Substantial" by WB, which is equivalent to Category B if AIIB's ESP were applicable. However, the project is expected to have mostly positive E&S impacts, insofar as it should improve capacity of public health laboratories and epidemiological capacity for early detection and confirmation of cases and provide social protection measures.
- 64. Instruments.** The Project will be implemented by the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs (MoILHSA). MoILHSA will disclose the agreed Environmental and Social Commitment Plan (ESCP) and make it available on their website. The ESCP provides that the Environmental and Social Management Framework (ESMF) will be prepared within 30 days of Loan effectiveness and updated regularly as the COVID-19 situation evolves. The ESMF will include: a Code of Environmental Practice (CoEP) for minor works associated with installation of modular laboratory and isolation units; Infection Prevention and Control and Waste Management Plan (IPC&WMP); Labor Management Procedures (LMP) for direct and contracted workers to ensure proper working conditions and management of worker relationships, occupational health and safety and to prevent sexual exploitation and abuse and sexual harassment. The ESMF will be prepared in accordance with the WB ESF. It will be reviewed and approved by the WB and AIIB and will be disclosed on MoILHSA's website and on the websites of WB and AIIB promptly upon its preparation. Until the ESMF has been approved, MoILHSA will strictly follow current WHO Guidance and will not commence any civil works. A Stakeholder Engagement Plan (SEP) with Grievance Redress Mechanism (GRM) will also be established including a community outreach approach and two-way engagement with stakeholders, in appropriate languages, including the vulnerable and disadvantaged groups. The preliminary SEP and GRM have been prepared and will be updated by the MoILHSA and re-disclosed within 30 days after the Effectiveness Date.
- 65. Environmental Aspects.** Overall E&S due diligence, impact, and risk management for the Project will be carried out under WB ESF. The main environmental risks identified are: (i) insufficient occupational health and safety at the sites of small-scale civil works for the refurbishment of hospital premises, (ii) insufficiency of the design and quality of safety arrangements to be put in place within hospital boxes and laboratories for avoiding internal spread of infection and its transmission to hospital personnel, (iii) inadequacy of medical waste management systems and facilities related to the handling, transportation and disposal of hazardous and infection healthcare waste. As no civil works other than remodeling and refurbishment of hospital interiors are to be undertaken, environmental risks associated with these works are expected to be moderate and easy to mitigate.

Organization of medical waste management is of the highest concern related to other E&S risks associated with the project, however, readily implementable and effective mitigation measures are in place in the form of WHO guidance, Environmental Health and Safety (EHS) Guidelines of the World Bank Group and other good international industry practice (GIIP).

- 66. Biomedical Waste Management (BMWM).** There will be generation of waste from the operations of the health care facilities to be supported by the project. Wastes that may be generated include Infectious waste, Pathological waste, sharp objects, Pharmaceutical waste, and Chemical waste. The disposal of such waste requires special handling and awareness, as it may pose an infectious risk to healthcare workers in contact with the waste. Informal disposal may lead to contamination of soil and groundwater, but more importantly, this may lead to further spreading of the virus to nearby communities. In order to mitigate the risks associated with medical waste management and disposal, the project will invest in the procurement of appropriate waste management equipment, including containers, PPE, high pressure autoclaves and/or incinerators. Training of medical, laboratory and waste management personnel will be done in parallel to ensure compliance with the IPC & WMP, WHO guidance and GIIP. This will be documented in the IPC & WMP as part of the ESMF.
- 67. Social Aspects.** The Project is not expected to involve any land acquisition and /or involuntary resettlement. The Project will strengthen public health laboratories and epidemiological capacity for early detection and confirmation of cases. The activities under the project will include procurement of medical equipment, hygiene materials, laboratory reagents, polymerase chain reaction equipment, specimen transporting kits, testing kits and personal protective equipment (PPE) for medical staff. All activities will be conducted within existing government facilities and ground, and new land will not be required or accessed. The overall social impact of the project is expected to be positive by providing enhanced health services to persons suffering from COVID-19 and those who are at risk of infections; improved personal protection of medical staff and social assistance to persons, workers and families whose livelihoods were adversely affected due to the economic impacts of the COVID-19 pandemic in Georgia. Social risks and impacts are considered temporary, predictable and readily managed through the Project's Environmental and Social Management Framework (ESMF), Stakeholder Engagement Plan (SEP) – including a Grievance Redress Mechanism (GRM) and Labor Management Procedure (LMP including workers' GRM) in addition to any site-specific Environmental and Social Management Plan (ESMP) in line with the applicable ESS of the WB's new ESF and the WHO's guidance tools for COVID-19 preparedness and response.
- 68. Vulnerable Groups.** A key social risk related to the COVID 19 Pandemic is the potential for inequitable access to project supported facilities, services and livelihood, particularly for vulnerable groups (internally displaced persons (IDPs), poor, disabled, elderly, ethnic minorities, people living in rural areas), and eligibility of workers who lost their jobs to receive unemployment benefits. In order to mitigate these risks, the MoILHSA will commit in the ESCP to the provision of services and supplies to all people, regardless of their social status, based on the urgency of the need, in line with the latest data related to the prevalence of the cases, and the implementation of the WHO guidance tools for COVID-19 risk communication and engagement. There is a risk that not all eligible people can access social assistance support. This risk will be addressed in project design by providing clear eligibility criteria, formulas and accessibility procedure for eligible persons and families to receive benefits. Further, equal access to social protection benefits will be addressed in the project design providing a mechanism to verify that eligible vulnerable persons receive unemployment and social assistance benefits.

- 69. Gender.** The initial assessment indicated that the risk of sexual exploitation and abuse and sexual harassment associated with project activities is low. Sexual exploitation and abuse and sexual harassment risks will be further assessed and addressed during implementation through the ESMF and LMP, including screening and putting in the corresponding measures to prevent and mitigate risks. The MoILHSA in the ESCP will commit to the implementation of the WHO Code of Ethics and Professional Conduct which includes provisions for sexual exploitation and abuse and sexual harassment prevention. Furthermore, the SEP has been prepared to provide for inclusive and meaningful consultation and information disclosure including female stakeholders.
- 70. Occupational Health and Safety (OHS).** Healthcare workers are particularly vulnerable to infections like COVID-19 especially when OHS standards are inadequate. The Infection Prevention and Control (IPC) and Waste Management Plan (WMP) will contain detailed procedures based on WHO guidance, for protocols necessary for treating patients and handling medical waste as well as environmental health and safety guidelines for staff, including the necessary PPE. Proper disposal of sharps, disinfectant protocols and regular testing of healthcare workers will be included. In addition, the LMP will cover occupational health and safety provisions to protect health care workers, in addition to proper working conditions and management of workers relationships.
- 71. Stakeholder Engagement, Consultation and Information Disclosure.** A preliminary SEP has been prepared for engaging with stakeholder on the E&S risks of the project and will be disclosed on the MoILHSA website (<https://www.moh.gov.ge>) and the World Bank website (<https://www.worldbank.org>). The SEP covers the broader project activities, identifies and analyses key stakeholders (i.e. affected parties, other interested parties and disadvantaged and vulnerable groups) and describes the process and modalities for sharing information on the project activities, incorporating stakeholder feedback into the Project. The SEP also outlines the project's GRM. MoILHSA will update the SEP during project implementation and no later than 30 days after Loan effectiveness. The updated SEP will outline culturally appropriate approaches for consultation and information dissemination. The SEP will also acknowledge the particular challenges related to vulnerable social groups, especially those living in remote or rural areas, while keeping a clear focus on those who are most susceptible to the transmission of the novel coronavirus such as the elderly and those with compromised immune systems due to pre-existing conditions. Stakeholder engagement strategies will point out ways to minimize close contact and follow the recommended good hygiene procedures as outlined in WHO guidance. The GRM will be operationalized ensuring core elements are in place to enable affected people and the project workforce to raise concerns and complaints. The final SEP and GRM will be shared with relevant stakeholders and redisclosed on MoILHSA's and the World Bank's website with printed copies placed in health centres. The WB and AIIB will also disclose project E&S documentation on their respective websites.
- 72. Monitoring and Supervision.** WB will conduct regular monitoring and supervision of the project implementation. The reports of the Supervision and Monitoring conducted by WB will be shared with AIIB. AIIB will primarily conduct Post Review and conduct joint Missions with WB. WB and AIIB ES specialists will be working in close coordination and will share information on a periodic basis. In addition, the WB /AIIB missions will randomly review related financial documents, particularly related to direct cash payments. AIIB will be able to provide inputs on corrective measures following the joint Missions to project sites.



**73. Project Grievance Redress Mechanism (GRM).** The GRM will be established for Project Affected People and Workers. The updated SEP will include details of GRM for addressing any concerns and grievances raised across all components. The project will also ensure a responsive GRM to allow workers to quickly inform involved agencies of labor issues, such as a lack of PPE, unreasonable overtime, unsatisfactory work conditions, etc.

**74. Independent Accountability Mechanism.** As noted above, WB ESF will apply to this project instead of the Bank’s ESP. Pursuant to the Bank’s agreement with the WB, the Bank will rely on the WB’s corporate Grievance Redress Service (GRS), and its independent accountability mechanism, the Inspection Panel (IP) to handle complaints relating to ES issues that may arise under the project. Consequently, in accordance with the AIIB’s policy on the Project affected People’s Mechanism (PPM), submissions to the PPM under this project will not be eligible for consideration by the PPM. For information on how to submit complaints to the WB’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the WB Inspection Panel, please visit <http://www.inspectionpanel.org>.

**E. Risks and Mitigation Measures**

**Table 2: Summary of Risks and Mitigating Measures**

Risk Description	Assessment Ratings	Mitigation Measures
<b>FM Risks:</b> Inadequate/delay in annual project budgets.	Medium	PIU shall prepare annual project budget as per procurement plan and financing agreements and submit for approval as per budget calendar.
<b>FM Risks:</b> Internal control weaknesses	High	<ul style="list-style-type: none"> <li>• POM will detail internal control processes and procedures.</li> <li>• Use of MIS and Treasury systems in channeling cash transfers.</li> <li>• Specific internal audit ToR detailing out the specific areas of internal audit engagement, periodicity and reporting mechanism.</li> <li>• Ex-ante/ex-post control in cash transfers, intensive WB/AIIB supervision.</li> <li>• All cash transfers shall be channeled through banks/ financial institutions.</li> </ul>

Risk Description	Assessment Ratings	Mitigation Measures
<p><b>FM Risks:</b> Limited experiences in managing IFI funded projects' financial management procedures</p>	<p>Medium</p>	<p>POM will detail project financial management and disbursement arrangements including cash transfers.</p>
<p><b>FM Risks:</b> Increased number of audit observations and delays in its resolution.</p>	<p>Medium</p>	<p>An audit committee shall be setup within PIU/PIA to timely address any audit observations.</p>
<p><b>Procurement Risks:</b> The major risks to procurement are: (a) slow procurement processing and decision making; (b) poor contract management system with potential time and cost overrun and poor-quality deliverable; and (c) increased risk of F&amp;C (abuse of simplified procurement procedures, false delivery certification, inflated invoices) These risks are elevated by the global nature of the COVID-19 outbreak, which creates shortages of supplies and necessary services, especially for PPE.</p>	<p>High</p>	<p>The WB and AIIB teams will monitor and support implementation to agree with the MoLHSA. Given the constant evolution of availability of PPEs and other key materials, the procurement plan will be adapted to reflect that to maximize outcomes considering the market response and needs.</p>

Risk Description	Assessment Ratings	Mitigation Measures
<p><b>Environmental and Social</b> The major risks are:</p> <ul style="list-style-type: none"> <li>i) occupational health and safety for medical staff, laboratory staff, communities during detection, transportation of patients/tests/chemicals and reagents;</li> <li>ii) medical waste management;</li> <li>iii) temporary environmental risks associated with minor repair works at healthcare facilities;</li> <li>iv) difficulties in verifying that social assistance is delivered to the intended vulnerable groups.</li> </ul>	Medium	<p>The project will include an Infection Prevention and Control and Waste Management Plan addressing occupational health and safety risks and biomedical waste management.</p> <p>The ESMF and site specific ESMPs will address temporary environmental risks and propose mitigation measures. The ESMF and site specific ESMPs will identify vulnerable groups and ensure equal access to project benefits regardless of gender, race, ethnicity, geographical location, and formal employment status. Regular monitoring will be carried out including spot checks, as part of the ESMF.</p>
<p><b>Implementation Capacity Risk:</b></p> <ul style="list-style-type: none"> <li>• MoILHSA has no previous experience in implementing any WB/ AIIB operation in the past. The implementation of the proposed project will require technical, operational and fiduciary staff at the ministry.</li> <li>• The project implementation unit will be comprised of existing staff in different government agencies (MoILHSA, MoF,</li> <li>• Treasury, State Procurement Agency) whose scope of work will be increased to manage the project. There is a risk that they will pay limited attention to project activities compared to their regular activities</li> </ul>	High	<p>Most of the existing staff who will be part of the PIU do not have prior experience with WB / IFI fiduciary procedures. To mitigate the high implementation capacity risk, the team will be adequately staffed to ensure intense supervision of the project.</p> <p>In addition to existing government staff from MoILHSA, SSA, MoF, State Procurement Agency, Treasury, and the NCDC, at least five consultants will be hired to cover the PIU key functions given the overwhelming scope of response to COVID-19 and the urgency of actions to be taken by all parties.</p> <p>Supervision of the ES aspects of the project will require adequate familiarity with the agreed safeguards instruments i.e. ESCP, ESMF and ESMPs. Focused training on the safeguards instruments will be necessary at the start of the project.</p>

Risk Description	Assessment Ratings	Mitigation Measures
<p><b>Macroeconomic Risk</b></p> <ul style="list-style-type: none"> <li>• The pandemic and the associated travel disruptions may adversely impact tourism industry, a sector that contributes over 7 percent to GDP.</li> <li>• Additional disruptions include remittances as well as commodity prices. This will reduce external inflows and pose risks to stability given high dollarization and unhedged balance sheets.</li> <li>• Containment efforts (social distancing measures) have further dampened consumer confidence and demand.</li> </ul>	<p>High</p>	<p>The economic shock of the COVID pandemic leads to high macroeconomic risk. However, access to concessional financing from international financial institutions partly mitigates these risks.</p>
<p><b>Other Risks</b></p> <ul style="list-style-type: none"> <li>• Unemployment rate may increase significantly due to the closure of public places.</li> </ul>		<p>The project has been carefully designed to include various mitigation measures to target vulnerable population groups and provide various subsidies to protect the formal and informal labor force and the poor.</p>

## Annex 1: Results Monitoring Framework

<b>Project Objective:</b>	The proposed project development objective is to prevent, detect, and respond to the threat posed by the COVID-19 pandemic and strengthen national systems for public health preparedness in Georgia.						
<b>Indicator Name</b>	<b>Unit of measure</b>	<b>Base-line</b>	<b>End Target</b>	<b>Frequency</b>	<b>Source</b>	<b>Methodology</b>	<b>Responsibility</b>
<b>Project Objective Indicators:</b>							
1. Number of people tested for COVID-19 identification per MoLHSA protocol	No.	9,699.00	100,000.00	Every 6 months	MoLHSA and NCDC	Administrative data, audits	MoLHSA and NCDC
2. Number of COVID-19 patients treated per SSA reimbursement guidelines.	No.	431.00	2,000.00	Every 6 months	MoLHSA	Administrative data records, field verification of the availability of equipment.	MoLHSA and SSA
3. Share of population in the poorest quintile who are receiving the COVID-19 pandemic related social assistance programs	%	36.00	45.00	Annually	HIES survey	Nationally representative household survey data	GEOSTAT

<b>Intermediate Results Indicators:</b>							
<b>Indicator Name</b>	<b>Unit of measure</b>	<b>Base-line</b>	<b>End Target</b>	<b>Frequency</b>	<b>Source</b>	<b>Methodology</b>	<b>Responsibility</b>
<b>1. Emergency COVID-19 Response</b>							
a. Number of designated laboratories with COVID-19 diagnostic equipment, test kits, and reagents per MoILHSA guidelines	No.	0.00	4.00	Every 6 months	MoILHSA	Laboratory Audit	MoILHSA
b. Number of personal protection equipment (PPE) purchased	No.	0.00	800,000.00	Every 6 months	MoILHSA	Administrative data	MoILHSA
c. Number of designated public hospitals with fully equipped and functional intensive care units (ICUs)	No.	0.00	4.00	Every 6 months	MoILHSA	Administrative data records, field verification of availability of equipment	MoILHSA
d. Number of designated public hospitals with isolation capacity	No.	0.00	4.00	Every 6 months	MoILHSA	Administrative data and audit reports	MoILHSA
<b>2. Enabling health measures to contain the COVID-19 outbreak through temporary income support for poor households and vulnerable individuals</b>							
a. Number of vulnerable households receiving temporary emergency cash benefit	No.	0.00	70,000.00	Every 6 months	Social Registry (SSA)	SSA Administrative data	SSA in MoILHSA
b. Number of formal private sector workers laid off because of COVID-related lock down restrictions who receive a temporary unemployment benefit, by gender	No.	0.00	135,000.00	Every 6 months	Revenue Service	Cross-check with the Social Registry (SESA and SSA) for verification	SESA in MoILHSA
c. Number of TSA beneficiary households	No.	118,100.00	124,000.00	Every 6 months	Social Registry (SSA)	SSA Administrative data	SSA
d. Complaints received related to COVID-related social assistance programs	%	0.00	5.00	Every 6 months	SSA MIS	SSA monitoring report	SSA in MoILHSA

e. Number of informal workers who receive the one-off benefit, by gender	No.	0.00	340,000	Every months	6	SESA	SESA	MoILHSA
<b>3. Project Management</b>								
a. Percentage of beneficiaries reporting that community engagement and outreach meet their needs	%	0.00	70.00	Every months	6	SSA MIS	SSA monitoring report	SSA and MoILHSA

## **Annex 2: Detailed Project Description**

### **Component 1: Emergency COVID-19 Response (USD 71.67 million or EUR equivalent)**

#### **Sub-component 1.1: Case Detection and Confirmation (USD 17.96 million or equivalent in EUR)**

The objective of this sub-component is to help to strengthen public health laboratories and epidemiological capacity for early detection and confirmation of cases. It will support the strengthening of diseases surveillance systems and the capacity of the selected public health laboratories to confirm cases by financing medical supplies and equipment. It will include personal protection equipment (PPE) and hygiene materials, COVID-19 test kits, laboratory reagents, polymerase chain reaction equipment, and specimen transport kits. The support under the Project will enable Georgia to increase the testing capacity to 1000-1200 samples per day.

#### **Sub-component 1.2: Health System Strengthening for Case Management (USD 53.71 million or equivalent in EUR)**

- The Project aims to contribute to the strengthening of health system preparedness, improve the quality of medical care provided to COVID-19 patients, and minimize the risks for health personnel and patients. This sub-component will also finance PPE and hygiene materials for health workers and other staff who may be at high risk of exposure to COVID-19 at public and private facilities, including individuals working in quarantine facilities and border posts.
- Under this sub-component, the government will procure equipment, drugs and medical supplies to strengthen the capacity of the seven public health facilities designated for COVID-19. Among these is Rukhi Hospital, which is a newly built hospital located near Abkhazia serving a large internally displaced population that is particularly vulnerable to COVID-19. The Project will support the procurement of essential equipment and supplies to operationalize the hospital for admitting COVID-19 patients. This will include the procurement of ICU equipment (e.g. ventilators, patient monitors, bronchoscopes), as well as equipment for non-critical care and operating rooms. In the other designated public hospitals, the Project will finance intensive care units (ICUs) and beds, as well as minor repairs, such as remodeling ICUs and increasing the availability of isolation rooms, and other capacity needs to improve service delivery for COVID-19.
- Under this sub-component, funds will also be transferred directly to hospitals to ensure preparedness for receiving COVID-19 patients and to reimburse facilities for the costs incurred for treating COVID-19 patients. Funds will be transferred to public and private facilities that are designated to receive COVID-19 patients to compensate them for idle capacity and ensure standby readiness to provide COVID-19 care. This fixed amount calculated per bed covers salaries of medical staff and utility bills, as well as operational costs. The Project will also finance case management and treatment of COVID-19 patients in public and private facilities by supporting the reimbursement of claims by the SSA for COVID-19 related services. The SSA will reimburse facilities for the actual costs of medicines, diagnostics and consumables used to treat COVID-19 cases. To ensure sustainability, the Project will support consulting services to revise the payment methods for health care services, including



tariff setting for COVID-19. It will also finance case management for non-severe cases in non-medical settings (e.g. hotels temporarily rented for this purpose) for those individuals who cannot self-isolate at home and will finance ambulances to support urgent transportation of patients across the hospital network to designated reference facilities.

**Component 2. Enabling health measures to contain the COVID-19 outbreak through temporary income support for poor households and vulnerable individuals (USD 107.58 million or EUR equivalent)**

The objective of component 2 is to complement the support provided under component 1, especially through mitigation measures in the form of financial support (cash transfers) for poor and vulnerable households to enable them to comply with social distancing and COVID containment measures and lockdown orders.

- These cash transfer programs, an integral part of government's response to the pandemic, are vital for preventing poor households from falling deeper into the poverty trap and for sustaining societal stability.
- These programs will also help to implement social distancing measures allowing the poor and workers who lost jobs not to have to work under unsafe working conditions that may spread the virus.
- Cash transfer programs will provide expedited and much needed support to enable poor households to feed their children and the elderly so as to sustain and strengthen their immunity with the needed nutrition.
- In this emergency situation, cash transfers offer three important forms of relief: a rapid and cost-effective way to provide basic needs like food and shelter; a means to recover and rebuild after the crisis; and protection from future shocks.

**Subcomponent 2.1: Cash transfers to poor and vulnerable households (USD 19.95 million or EUR equivalent)**

- This outbreak will have tremendous negative impacts on Georgia's economy, the health system and its population, particularly for the vulnerable population (people with chronic conditions, the elderly, and the poor). This sub-component will provide income support to the extreme poor and the households that fall into poverty due the health measures adopted to contain the outbreak and the resulting economic downturn by (i) scaling up the TSA program for extreme poor households; (ii) a new temporary cash benefit for vulnerable households and (iii) a top-up benefit for households with more than 3 children.
- By design, the TSA program targets extreme poor households based on a Proxy Means Test (PMT) scoring formula which is partially shock responsive. It is expected that about 38,000 new households will apply and be eligible to the TSA program<sup>10</sup>. During the next few months in a scenario where 20 percent of formal wage workers will lose their jobs and where wage workers staying in their jobs will see their labor income reduced by 20 percent. The project will finance only part of the expected new eligible households (about 6,000 households). The benefit amounts remain the same<sup>11</sup>. This subcomponent will also finance a temporary cash transfer for households which are vulnerable to fall into poverty due to measures adopted to contain the outbreak and the resulting economic downturn. The temporary benefit will be on-demand and provide a flat benefit of GEL 100 (around US\$31) per month per household. Households registered in the socially vulnerable household database will be identified based on the existing PMT scoring formula.

Eligible households for this temporary benefit are those with a score between with a score between 65,000 and 100,000. The benefit will be given for a period up to 6 months in addition to the existing social assistance benefits (child benefits and other small benefits administered at the municipal level). About 70,000 households<sup>12</sup> are expected to be eligible to this temporary cash benefit. Female headed households will be actively pursued for this temporary cash benefit as they are more likely to work in an informal sector and therefore being affected during the pandemic. Finally, this subcomponent will support a top-up benefit of GEL 100 for TSA and child benefit beneficiary households<sup>13</sup> with three or more children for a duration of six months.

- The implementation of this sub-component will rely on the existing administration through SSA which will determine and verify the eligibility and will contract with Liberty Bank to make payments. Application procedures and the implementation processes have been already simplified and adapted to minimize the risk of contagion in compliance with the regulations on social distancing.

**Subcomponent 2.2: Temporary unemployment assistance for individuals who lost their job because of the COVID-19 outbreak (USD 87.63 million or equivalent in EUR).**

- The Project, under this subcomponent, will finance (i) a temporary unemployment assistance benefit for private sector formal wage workers and (ii) a one-off benefit for informal workers who lose their jobs due to the negative impacts of the measures adopted to contain the outbreak and the resulting economic downturn.
- The temporary unemployment assistance benefit will consist of a flat benefit of 200 GEL (US\$63) per month provided to formal wage workers in private companies who are laid off as a result of COVID-related restrictions and economic lockdown of non-essential businesses. The benefit amount is commensurate to the cost of living: the monthly social pension is set at 220 GEL (US\$70) per person per month (old age pension) as a comparison. The duration of the unemployment assistance benefit is for a period of up to 6 months. In a conservative scenario where 20% of wage workers are laid off, about 135,000 formal wage workers are expected to be dismissed and eligible for this unemployment benefit.<sup>14</sup> The Revenue Service will compile a list of laid off workers based on companies' income tax declarations and validate the accuracy of bank accounts details.. The Revenue Service will submit the list of unemployed and their bank account details to the State Employment Support Agency (SESA) under the MoILHSA, which will further verify eligibility (eligible unemployed individuals must not be beneficiaries of TSA and of the temporary cash benefits in subcomponent 2.1). SESA will proceed with the payment of the unemployment benefits to respective bank accounts as provided by the Revenue Service.

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<sup>10</sup> Households with a score less than 65,000 are eligible for the TSA program.

<sup>11</sup> The average monthly TSA transfer is estimated to be 283 GEL per household, nearly three quarters of their average aggregate monthly consumption, estimated at 384 GEL (Household Income and Expenditure Survey 2018, Geostat).

<sup>12</sup> Assuming a take up of 80 percent of eligible households in a scenario where 20 percent of wage workers lose their jobs.

<sup>13</sup> Households with PMT score less than 100,000

- This sub-component will also support the introduction of a one-off benefit targeted to informal workers who lost their job due to the measures adopted to contain the outbreak and the resulting economic downturn. The one-off benefit will be on-demand through an online portal and SESA. Beneficiaries will be selected if they comply with the following criteria, among others: (i) not having any source of declared income as verified through the tax income payroll database of the Revenue Service; (ii) not being a beneficiary of public social assistance (including the TSA, the social pensions and the temporary cash transfers supported by subcomponent 1). The one-off benefit amount will be around GEL 300 (around US\$96). The eligibility determination and verification processes will be carried out by SESA in coordination with the Revenue Service, in compliance with regulations on social distancing.
- Funds allocated to Component 2 of the Project would not be sufficient to address all needs of vulnerable individuals in the country. Although it will be difficult to estimate precisely financing needs given that the situation evolves on a daily basis, the financial needs for social protection are expected to be fairly large. The Government will likely use its own resources and funds from other development partners. State budget will also be used to finance information campaigns to raise awareness on the new benefits supported by this component.

### **Component 3. Project management and monitoring (USD 0.30 million or EUR equivalent)**

- This component will support project implementation for the overall administration of the Project, including procurement, financial management, as well as regular monitoring and reporting on project implementation progress (and required fiduciary assessments). A Project Implementation Unit (PIU) will be established within 30 days from Loan Effectiveness in MoILHSA relying on existing government structures and staffing. In addition to existing government staff, at least five consultants will be hired to cover the PIU key functions given the overwhelming scope of response to COVID-19 and the urgency of actions to be taken by all parties. These include consultants for procurement, financial management, social and environmental safeguards, a health specialist, and a consultant to support the overall coordination, monitoring, and evaluation of the Project activities. Other consultants can also be hired as needed during the Project implementation. As such, the MoILHSA will be responsible for the overall administration, fiduciary functions, environmental and social aspects, communication and outreach for both components 1 and 2. Strong communication efforts will be supported through the state budget and other donors. A large communication campaign is planned to inform potential beneficiaries of the introduction of the emergency temporary benefits and the unemployment benefits and their application procedures. Employers will also be targeted as they are the ones submitting information about layoffs and workers' eligibility for the unemployment benefits.
- Large volumes of personal data, personally identifiable information and sensitive data are likely to be collected and used in connection with the management of the COVID-19 outbreak under circumstances where measures to ensure the legitimate, appropriate and proportionate use and processing of that data may not feature in national law or data governance regulations, or be routinely collected and managed in health information systems or systems providing social assistance. In order to guard against abuse of that data, the Project will incorporate best international practices for dealing with such data in such circumstances. Personal data will be processed to determine and verify eligibility to temporary social assistance benefits supported by the project in compliance with the Georgia personal data protection law, in accordance with existing personal data sharing agreements between the Revenue Service and the MoILHSA which will be assessed to ensure alignment with

international standards on personal data protection policies. In order to guard against abuse of such data, the Project will incorporate good international practices for dealing with such data in such circumstances. Such measures may include, by way of example, data minimization (collecting only data that is necessary for the purpose); data accuracy (correct or erase data that are not necessary or are inaccurate), use limitations (data are only used for legitimate and related purposes), data retention (retain data only for as long as it is necessary), informing data subjects of use and processing of data, and allowing data subjects the opportunity to correct information about them.

### **Eligible Expenditures for Retroactive Financing:**

The list of eligible activities under retroactive financing include:

#### Sub-component 1.1: Case Detection and Confirmation

- i. Medical supplies and equipment (PPE, Hygiene materials, test kits for COVID19, laboratory reagents, polymerase chain reaction equipment, specimen transport kit)

#### Sub-component 1.2: Health system strengthening for case management

- i. ICU and beds for hospitals
- ii. PPE and hygiene materials for medical and other staff
- iii. Minor repair works, including remodeling of ICU
- iv. Case management and treatment of COVID-19 patients in public and private facilities
- v. Consulting services to revise the payment methods for health care services
- vi. Ambulances
- vii. IT equipment

Eligibility criteria: Retroactive financing up-to 40% of the loan amount, i.e. up to EUR 36.54 million, will be applied to the eligible activities under the project which will meet the following conditions: (i) comply with Bank's anti-corruption guidelines, (ii) will be subjected to audit, (iii) will be procured in accordance with World Bank's procurement regulations from eligible suppliers/ manufacturers /contractors (i.e. not debarred by the World Bank and AIIB).

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<sup>14</sup> Based on MOF, there are about 670,000 private sector wage workers in the income payroll tax database

### Annex 3: GEORGIA - Sovereign Credit Fact Sheet, April 2020

Georgia is an upper-middle-income country, located in the Caucasus, with population of about 3.7 million and income per capita of about USD4,100. Over the past decade, Georgia's economy has grown robustly, at 4.5 percent per year on average, and has shown resilience to numerous shocks, including the Global Financial Crisis, regional conflict with Russia, and downturns in key economic partners. Decisive reforms in economic management, governance and business climate have made Georgia a darling of investors and development partners and have facilitated strong inflows of FDIs. In 2019 Georgia was upgraded to "BB" sovereign credit rating.

Since 2014 Georgia has been continuously under an IMF program, main objective of which was to lend approval to authorities' reform agenda and to bolster confidence in the economy, which nonetheless remains vulnerable to various shocks, real and financial. The current USD280 million IMF arrangement has been recently extended to April 2021.

In 2019 economic growth remained strong, despite the ban on direct flights from Russia, and reached 5.1 percent. Growth was driven by strong export performance and supported by fiscal spending, including on public investment.

Inflation increased to 4.9 percent in 2019, and further to 6.1 percent in March 2020, driven by depreciation of the lari during 2019 and higher food prices. The central bank reacted by tightening the monetary policy (the policy rate went up by 250 basis points, to 9 percent, at the end of 2019) and by selling reserves sales to prevent further depreciations. However, core inflation (excluding the most volatile items) remains moderate, at 3.3 percent.

Fiscal situation in 2019 was relatively favorable. On the revenue side, growth in VAT and non-tax revenues was strong, thanks to robust economic growth and improved collections. This has enabled a healthy increase in public investment. Fiscal deficit in 2019 is estimated at 1.8 percent of GDP. Public debt increased by about 1.5 percentage points to an estimated 42.7 percent of GDP.

Key Economic Indicators 1/ 2/	2018	2019	2020	2021	2022
GDP growth	4.8	5.1	-4.0	4.0	6.0
Inflation (CPI change)	2.6	4.9	4.7	3.6	3.0
Government balance	-0.8	-1.8	-8.2	-4.4	-2.7
Public investment	6.4	7.9	6.4	6.4	4.9
Public debt 3/	41.3	42.7	62.8	59.6	55.5
Gross public financing needs	5.2	6.3	13.2	11.5	6.8
Current account balance	-6.8	-5.1	-11.3	-7.5	-6.0
External debt 4/	82.2	85.0	111.4	102.2	94.2
Gross external financing needs	30.5	28.8	36.4	26.9	23.0
Gross international reserves 5/	3.3	3.5	3.5	3.6	3.8
Broad money growth	14.0	16.0	3.1	8.3	7.0
Exchange rate (average GEL/US\$) 6/	2.53	2.82	3.20	..	..

Source: IMF Sixth EFF Review Staff Report Apr 2020

1/ Level variables in percent of GDP, changes in percent year-on-year, period average—unless indicated otherwise;

2/ Data for 2018-19 actuals; 2020-22 projections; 3/ Comprises central government and NBG; 4/ Excludes intercompany loans; 5/ USD billion; 6/ Georgia's currency is the lari (GEL), rate for 2020: as of May 6

In 2019, the current account deficit reached 5.1 percent of GDP, a historic low, thanks to a robust (albeit slowing export) growth—12 percent year-on-year—and imports slowing down on the back of lari depreciation and lower oil prices. Growth in remittances was 5.9 percent in USD terms

(down from 15 percent growth in 2018). Gross international reserves increased from USD2.9 billion in mid-2018 to USD3.7 billion in mid-2019, as the lari depreciated by about 20 percent, but then fell as the central bank started intervening in the market. Ultimately, by the end of 2019, the reserves reached USD3.5 billion or about 100% of IMF's adequacy metric.

The size of the banking sector is about 100 percent of GDP. Banks are reported to be well-capitalized, profitable and well-managed. The key vulnerability is the high share of foreign currency denominated liabilities that expose the sector to the foreign exchange risk.

### **COVID-19 impact**

The first positive case of COVID-19 in Georgia was confirmed on February 26, 2020. So far, the authorities seem to have been relatively successful in preventing a major outbreak. National emergency was declared on March 21 and total quarantine enforced since March 31. As of May 6, the number of confirmed cases stands at 610, with 9 reported deaths. Georgia's health system scores relatively high on access and the doctors-to-population ratio.

Economic fallout from the pandemic is expected to be substantial, working through numerous channels—decline in remittances, tourism and export, the effect of lockdowns and social distancing, as well as capital outflows and liquidity crunch. Georgia's cost of funds at international markets spiked by more than 500 basis points (from 2.1 to 7.4 percent). The lari has initially depreciated by 25 percent, but later regained 15 percent after the central bank has intervened, and, importantly, IMF has swiftly announced additional financial assistance, later defined to be about USD200 million. The IMF financing will catalyze additional funds from other development partners.

On April 1 the government announced a GEL2 billion (4 percent of GDP) support package, including suspension of some taxes and provision of subsidies to the most affected sectors, increase in credit guarantee scheme, higher public investment, support to the vulnerable groups, unemployment subsidy, support to the health sector, etc.

### **Outlook and risks**

GDP is expected to decline by about 4 percent in 2020, according to the IMF, which is more than 8 percentage point drop from previous projections. Other institutions are somewhat less pessimistic. Provided that pandemic is contained by the second quarter of 2020 without major damage to the economic fabric, GDP should rebound to 4 percent in 2021. Government deficit is expected to expand to over 8 percent of GDP (against 2.2 expected previously) and the current account to widen again (to 11 percent of GDP). Deficits are likely to be financed by a mix of additional domestic borrowing as well as financing from development partners. As a result, public debt is expected to increase from 42.7 to about 62.8 percent of GDP due to the higher deficit, lower denominator and depreciation, but also due to a buildup of government's precautionary cash buffers by as much as 6 percent of GDP. External debt (net of intercompany loans) should grow from 85 to 111 percent of GDP, due to depreciation and higher external financing needs.

According to the most recent IMF assessment (April 2020), Georgia's public debt is sustainable despite the pandemic. Sustainability is underpinned by the expected temporary nature of the shock, authorities' commitment to fiscal consolidation under the IMF program and beyond, and donors' financing commitments. Public debt (net of precautionary cash deposits) at 45-50 percent of GDP in the medium term, is moderate. The key vulnerability is that as much as 80 percent of it is denominated in foreign currency, which makes it vulnerable to depreciation. On the positive side, virtually all public external debt is owed to official creditors, which makes it easier to roll-over and more affordable (i.e. terms are more concessional and maturities longer). Total external debt, at about 100%, is somewhat elevated, reflecting foreign investors' interest in Georgia and banking sector's funding strategy, but also the intermittent episodes of depreciation.