



Institute for Development
of Freedom of Information

Overview of the Anti-Crisis Plan

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საქართველოსთვის

The European Union for Georgia

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Introduction

IDFI, with the support of the European Union (EU), is implementing the project – “Monitoring Covid-19 related public spending and human rights protection during the state of emergency and in the pre-Covid-19 period”. One of the main goals of the project is to monitor the implementation of the Georgian Government’s Anti-Crisis Plan and the effectiveness of the state programs enacted within its framework. The following report provides an overview of the initial anti-crisis plan and its progress during the pandemic as of December 2020.

Due to the pandemic, the Georgian economy is expected to shrink by 6% this year, a historic low across the last 20 years.

The Government's timely involvement and enacting a well-designed, flexible anti-crisis plan is critical in mitigating the damage caused by the COVID-19 pandemic. The anti-crisis support package should aim to help the most important sectors of the economy and the most vulnerable people in times of crisis.

Countries have responded to this global threat in different ways. On 24 April of 2020, Georgia presented an initial anti-crisis plan with a cost of GEL 3.5 bln . The plan accounts for 7.2% of the expected GDP in 2020. It is divided into two main parts: assistance to citizens and assistance to business. The following sectors were the largest focus of the plan: **tourism, agriculture, and development**. The plan was focused on formal employees and self-employed persons. Additionally, the plan included various assistance programs for socially vulnerable households. We offer you a brief overview of this plan and relevant recommendations below.

Key Findings

- **In 2020, the Georgian economy is expected to shrink by -6%.** This comes behind the expected growth rates of developing countries and the world.
- **The volume of the anti-crisis plan amounted to 7.2% of the expected GDP.** The biggest part of the GEL 3.5 bln anti-crisis plan (30%) was allocated to direct assistance to citizens.
- **One-third of the self-employed have received a GEL 300 assistance.** As of November 2020, 249 thousand people have received a total of GEL 74.6 mln.
- **Out of GEL 450 mln allocated for the “200 GEL assistance to the unemployed due to the pandemic program”, less than a third has been transferred.** The assistance was received by 162,220 unique beneficiaries, to whom a total of GEL 129 mln was transferred. The program is scheduled to be renewed for a period of six months on January 1, 2021.
- **“Utility subsidies” program costs have slightly exceeded the budget.** The utility subsidies program’s costs amounted to GEL 173 mln and exceeded the allocated amount by GEL 3 mln. The program is scheduled to be prolonged for an additional four months.
- **Compensation was provided to 925,000 children under 18.** In total, GEL 185 mln has been spent on the program, which exceeded the allocated budget by GEL 160 mln (+16%). The assistance was identical (200-GEL) regardless of the social status of the child.
- **Out of business sectors, the construction and the tourism sectors will receive the largest volume of assistance packages.** The government has allocated them assistance packages of GEL 434 and GEL 200 mln, respectively.
- **According to the updated anti-crisis plan, the government intends to continue subsidizing the economy in 2021.** On November 27, the government announced an updated anti-crisis plan for 2021 that includes GEL 1.1 billion assistance to the population and businesses in almost equal amounts - GEL 545 and 515 mln, respectively.

Anti-Crisis Budget: The Assistance of GEL 3.5 bln

The GDP of Georgia is expected to fall by 6%¹ in 2020. It falls short of the average growth rates of the world and other developing countries. The International Monetary Fund (IMF) forecasts a -4.4% decline for the world economy and -3.3% for emerging economies.

Given the current trends, more stringent restrictions will further reduce GDP by the end of the year. As a result of the restrictions imposed in Georgia, GDP in the second quarter has decreased to a record low for the last 10 years (-13.2%). The Georgian economy was down -5.6% in Q3 2020 and is expected to decrease by -7% in Q4 2020.

The University of Oxford has developed a COVID-19 response accounting mechanism. It rates the severity of the measures taken by countries on a scale from 0 to 100. The Stringency Index of Georgia was at the maximum (100 points) from March 21 to April. The largest drop in the real GDP was observed in Georgia during that period (-16.6% in April).

Chart 1: Real GDP growth of Georgia (%)

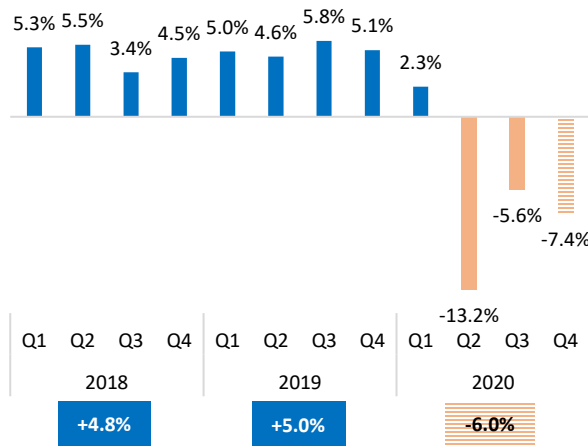
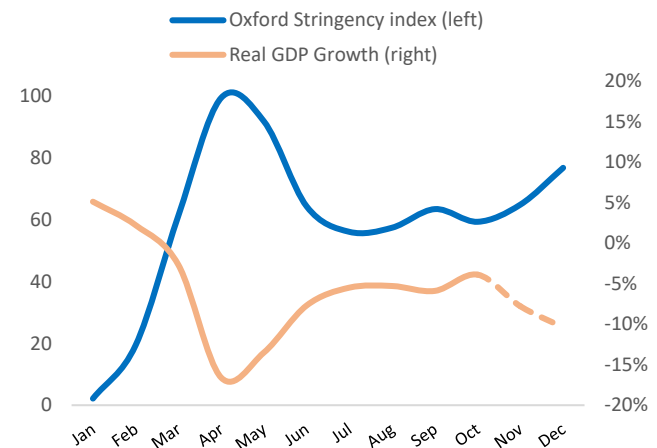


Chart 2: Real GDP growth and Stringency Index



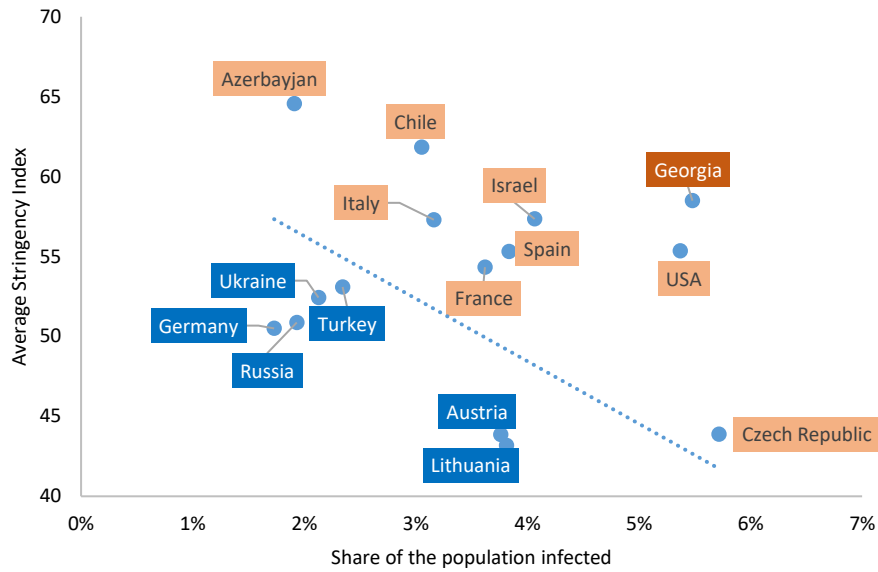
Source: Geostat, Oxford's COVID-19 GOVERNMENT RESPONSE TRACKER, IDFI

Interestingly, the average annual severity index in Georgia is one of the highest compared to other countries, but this has not curtailed the spread of the infection².

¹ IDFI

² As of December 20

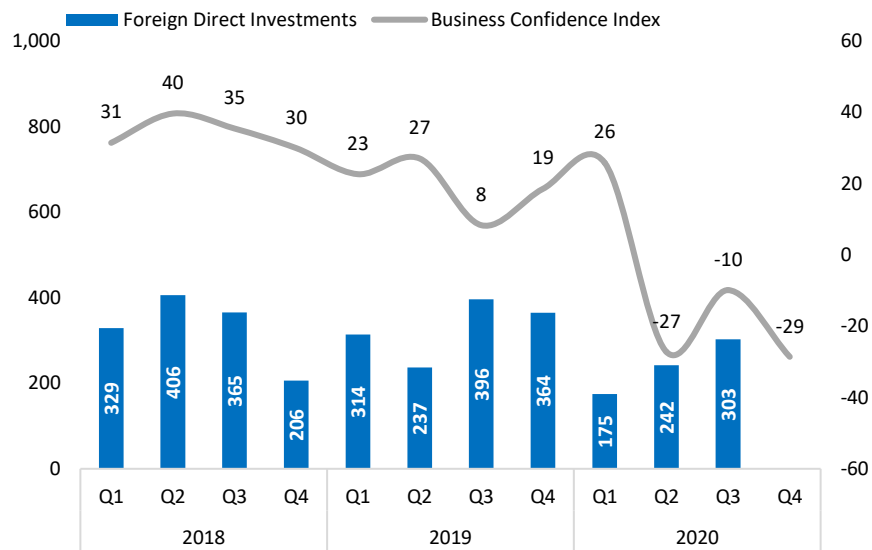
Figure 3: Average Stringency Index and % of the infected population



Source: Worldometer, WB, Oxford's COVID-19 GOVERNMENT RESPONSE TRACKER, IDFI

With the severe restrictions and reduced GDP, business confidence has deteriorated in all sectors, resulting in the Business Confidence Index hitting an all-time low. The largest decrease is observed in the trade and service sectors. As of Q3 2020, FDI has decreased by -24% and amounted to USD 719 mln.

Chart 4: Business Confidence Index and FDI (USD mln)



Source: ISET PI, IDFI

Georgia has allocated GEL 3.5 bln for its 2020 anti-crisis plan, which is 7.2% of the expected GDP of 2020³. This is less than the funds allocated to crisis management in the neighboring Russia and Turkey, which have allocated 10% and 15% of their GDP, respectively, to mitigate the damages caused by the pandemic. It is also important to note that the accumulation of the Georgian Anti-Crisis fund came at the expense of the increased government debt.

It is expected that the public debt in 2020-2021 will exceed 60% of the GDP, above the 60% threshold set by the law “On Economic Freedom”.

Chart 5: Government Debt to GDP (%)

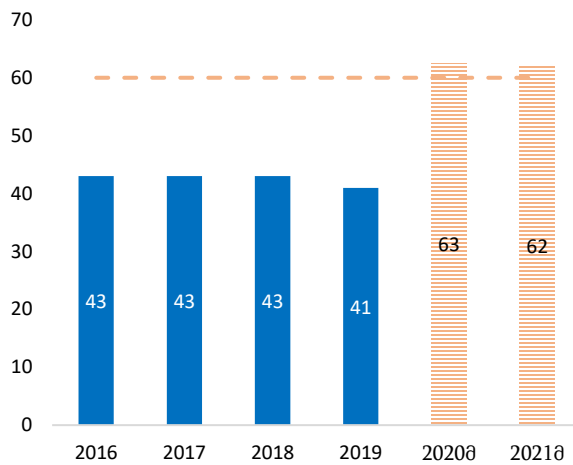
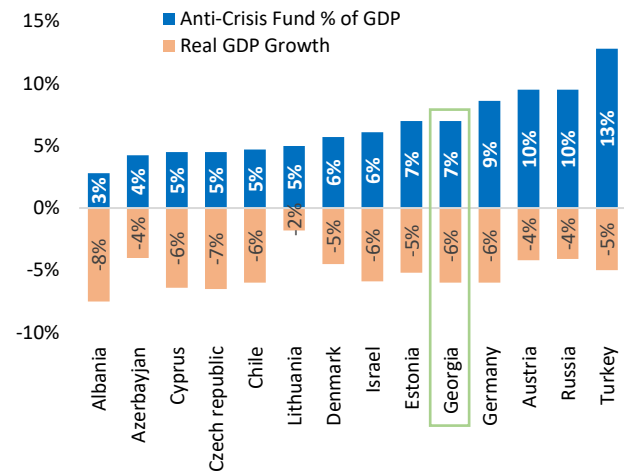


Chart 6: Anti-crisis fund volume and real GDP growth (%)

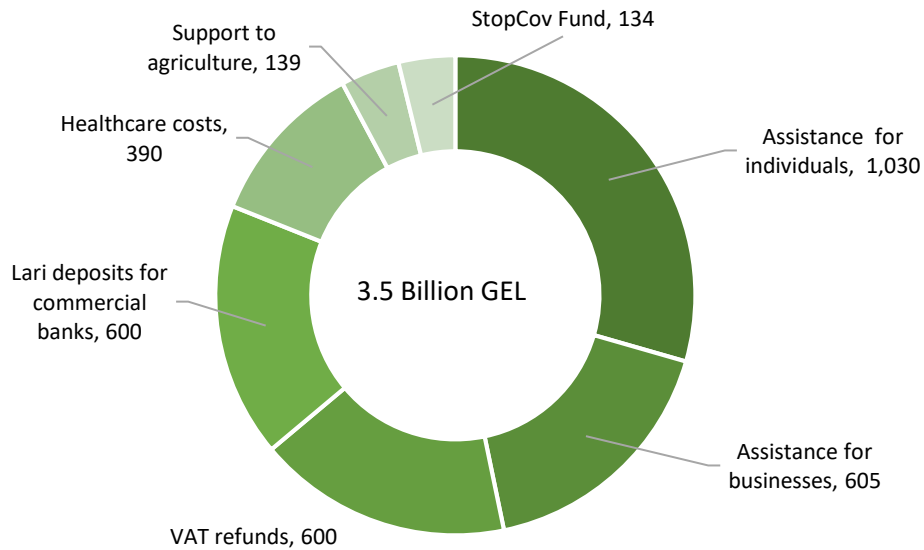


Source: IMF, Ministry of Finance, IDFI

The initial anti-crisis plan of April 24, which was developed for 2020, envisages more than GEL one bln of direct assistance to citizens, which is 29.5% of the total anti-crisis fund. These benefits include assistance to the self-employed and the unemployed as a result of the pandemic, as well as utility subsidies.

³ IDFI

Graph 7: Structure of the initial anti-crisis plan (GEL mln)



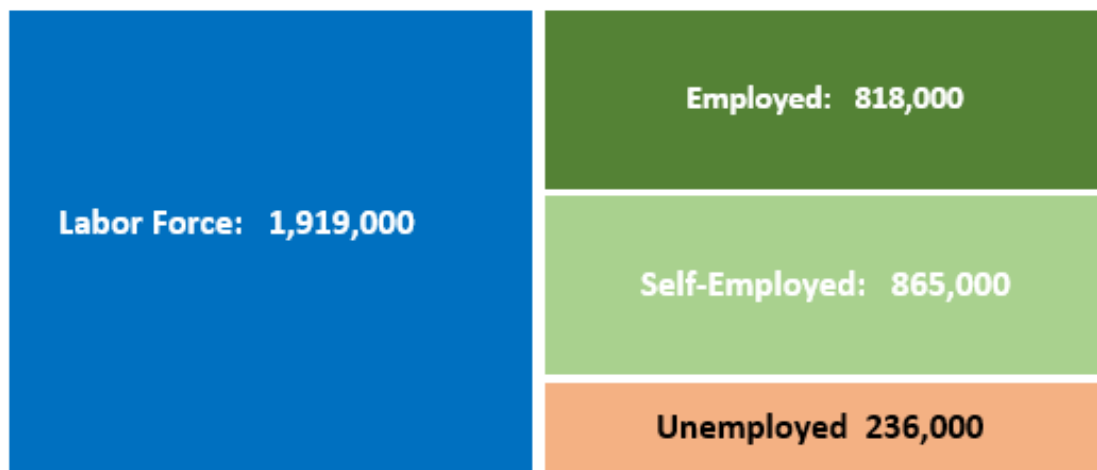
Source: IMF, IDFI

Unemployment Assistance Programs

During the January-September period of 2020, the volume of salaries paid in Georgia decreased by GEL 670 mln, while the level of employment in the Q2 2020 was down by -2% YoY and decreased to a total of 1.7 mln people (of which 51% was self-employed).

The Pandemic has especially damaged the informal sector, which accounts for 51% (0.87 mln) of total employment. The World Bank estimates that by 2020 160,000 Georgians may have fallen into poverty.

Figure 8: Distribution of labor force, Q2 2020



Source: Geostat, IDFI

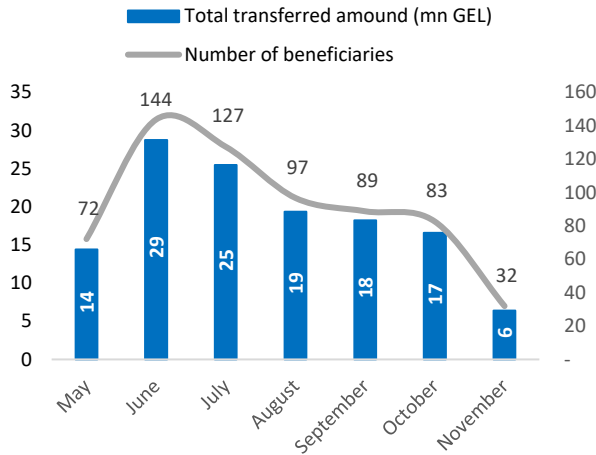
On April 24, 2020, a GEL 300 assistance program for 250,000 self-employed workers was announced, with GEL 75 mln allocated to this end. Under the terms of the program, the self-employed found it difficult to provide proof of their income, resulting in 171,000 (68%) out of 251,000 self-employed receiving assistance on the first stage. In total, GEL 51 mln was issued for the assistance program.

In the second stage, the money was transferred to an additional 78,000 self-employed people who were rejected during the first stage. In this way, the budget was almost fully spent (GEL 74.6 mln). The assistance program covered a total of 29% of the self-employed. Despite the importance of the program, the government, with insufficient incentives in a crisis, was unable to disburse the allocated funds promptly, which resulted in delays and disbursements to those people who failed to meet the demands made by the government.

GEL 450 mln was allocated from the 2020 budget for the GEL 200 monthly assistance program of the unemployed due to the pandemic. During the program period (May-November 2020), not even a third of the allocated funds could be transferred. This was partly due to the precondition for terminating the assistance, which included transfer of salary income (more than GEL 10) to the beneficiaries' accounts.

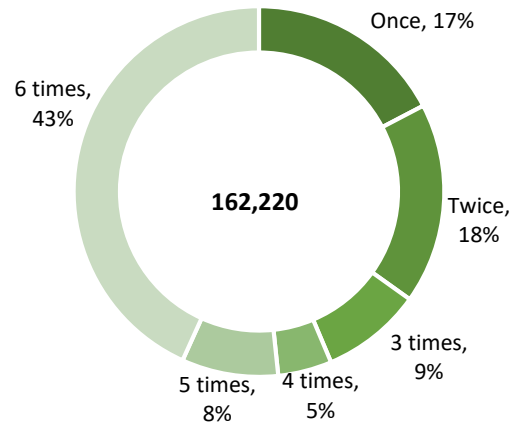
The largest amount of assistance through the unemployed program was issued in June. Overall, a total of 162,220 unique beneficiaries have received a total of GEL 129 mln. After the rapid growth of aid recipients in June, the volume of aid and the number of recipients decreased in the following months. The program is scheduled to be renewed for six months on January 1, 2021.

Figure 9: Number of beneficiaries and total transferred amount (GEL mln) of the unemployment program



Source: State Employment Promotion Agency, IDFI

Graph 10: Distribution of beneficiaries (%) by frequency of GEL 200 transfers



Other Social Assistance Programs

Utility Subsidization Program is one of the most universal programs. As of September, GEL 173 mln was spent on it, which exceeded the allocated budget by GEL 3 mln. The program will be renewed for 4 months during November-February in 2021.

Supporting socially vulnerable people is especially important during the pandemic. The budgets of assistance programs for the socially vulnerable and the disabled faced an overrun, which means that insufficient funds were allocated to these programs. According to data from November, a total of GEL 64.75 mln was transferred for social assistance. The total budget of these programs was GEL 58 mln.

A total of GEL 26 mln was allocated to people with severe disabilities and children with disabilities, while the program budget was determined at GEL 25 mln. It is also important to note that other groups of people with disabilities have been left without assistance from such programs.

Part of the presentation of the April 24 anti-crisis plan involved increased pensions for people aged over 70 and pensioners living in highland settlements. From July 1, 2020, pensions were up by GEL 30 and reached GEL 250 for people aged over 70. This change benefits approximately 410,000 pensioners (monthly volume – GEL 12.3 mln). For pensioners living in highland settlements, the pension has been increased to GEL 300.

Persons with a salary of up to GEL 1,500 will be exempt from income tax on GEL 750 payment. GEL 250 mln was allocated to this program. The total amount of tax exemptions reached GEL 221 mln in May-September 2021.

As part of the modified plan program on August 6, 2020, GEL 185 mln was spent on compensation for children under 18. 925,000 children have received GEL 200 one-time compensations. The program exceeded the originally allocated budget of GEL 160 mln, where the number of beneficiaries was set at 800,000. However, it is unclear why the number of children was set at 800,000. The program ended on December 1 and a total of 943,000 children have been registered for it.

According to the same plan, students (under social rating score of 150,000) would receive social assistance for 1 semester's tuition at universities (GEL 1,125) for students subject to social assistance. According to the government's report, GEL 17 mln was spent on this program and 17,000 students benefited from the funding (full or partial).

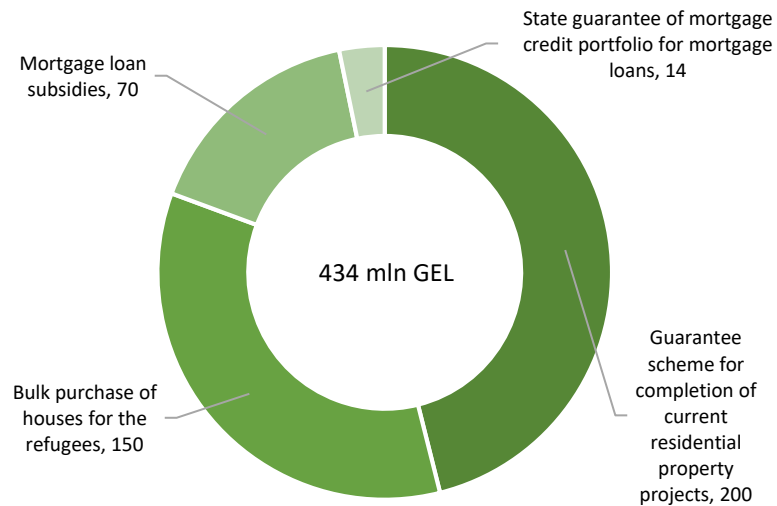
Development Sector

In 2019, the development sector constituted 9% of the GDP and employed 120,000+ people. The government has allocated GEL 434 mln to support developers. The plan included direct assistance to citizens and sectoral anti-crisis packages. The largest share of the funds – GEL 200 mln – has been allocated to the State guarantee scheme for completion of residential property projects. The real estate purchased within the scope of the project will be used for housing of IDP (internally displaced persons') families.

GEL 150 mln was allocated for purchases of apartments for 1,800 IDP families (6,000 people). This encompasses the average assistance of GEL 83,000 per family and represents the largest assistance for a single beneficiary compared to all other programs. According to the program, the state should buy apartments from the construction sector in 2020, which will directly increase the demand for real estate in the primary market and create a precondition for price recovery.

Under the mortgage loan subsidy program, the state subsidizes 4 p.p. of the mortgage interest rate, for which GEL 70 mln is allocated. The program is expected to increase demand for relatively "low-cost" GEL credit resources. However, some arguments emphasize that real estate is a "luxury good", hence it would be better to finance the purchase of necessities for the socially vulnerable population with the available resources.

Figure 11: Development Sector Support Plan (GEL mln)



Source: Government of Georgia, IDFI

Agriculture: "Taking Care of the Village and Farmers"

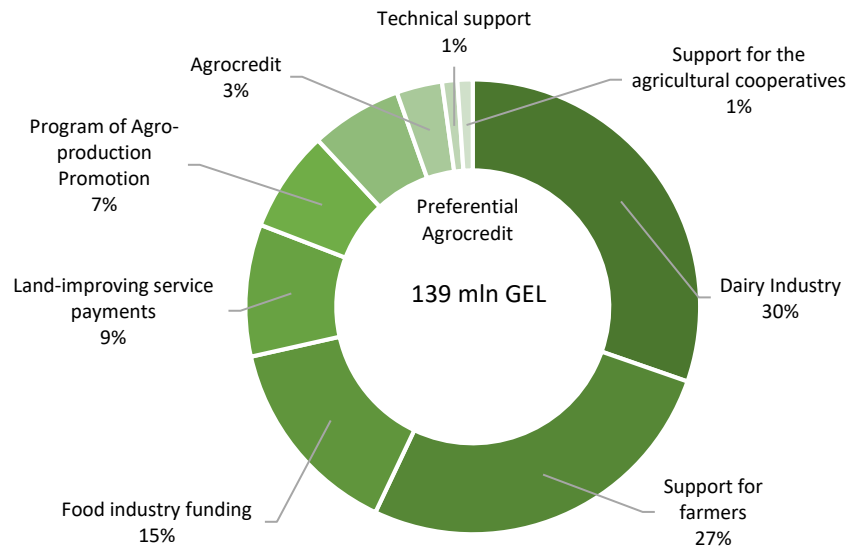
As of 2019, the share of agriculture in total employment was 39% (78% of self-employed). For the support of this sector, a total of GEL 139 mln was allocated under the anti-crisis plan.

According to the Rural Development Agency, as of September 30, 16.5 thousand farmers have received subsidies of GEL 28.5 mln within the framework of the state program for the support of the owners of agricultural land plots. By September 30, 110,000 farmers have been subsidized with GEL 21.3 mln worth of agricultural products.

In addition, the state has allocated a small amount of resources to support agricultural production and agro-insurance, and it financed the sector's land improvement service payments. As of October, the savings of the beneficiaries exempted from the 2020 reclamation tax are GEL 3.7 mln; a total of GEL 13 mln was allocated for this program.

It is also noteworthy that under the Agricultural Anti-Crisis Plan, from May 20 to September, 121,000 farmers have purchased 8,458,680 liters of diesel fuel on preferential terms, with the state's subsidies of about GEL 4 mln. Three months before the end of the program, the benefit received by farmers was about 10 times lower than its intended goal (up to 40,000 million benefits for farmers), which raises questions about the effectiveness of the program.

Figure 12: Agricultural Sector Support Plan (million GEL)



Source: Government of Georgia Report, IDFI

Under the agro-insurance program, for which GEL 9 mln was allocated, as of September 30, GEL 8.3 mln has been issued to 8,634 beneficiaries with the co-financing of the Rural Development Agency. For the Dairy Sector Development Program, the budget of which is GEL 42 mln, GEL 13.2 mln has already been spent and the program was set to be completed in 2026. However, should the funds be exhausted, it may be completed earlier. Initially, the program’s 2020 budget was set at GEL 3 mln.

According to the Rural Development Agency, as of September 30, GEL 9.7 mln was issued to 386 beneficiaries involved in the state’s program to support agricultural production; the budget of this program is GEL 10 mln.

Agricultural subsidies and grants are mainly limited to one-time transfers to the sector. Some are long-term programs, such as, for example, the Dairy Sector Development Program, which is scheduled for 4+ years and the issuance of the allocated resources will continue after the pandemic and post-pandemic periods. Consequently, a small portion allocated to this program is assistance for the current period.

Support for the Tourism Sector

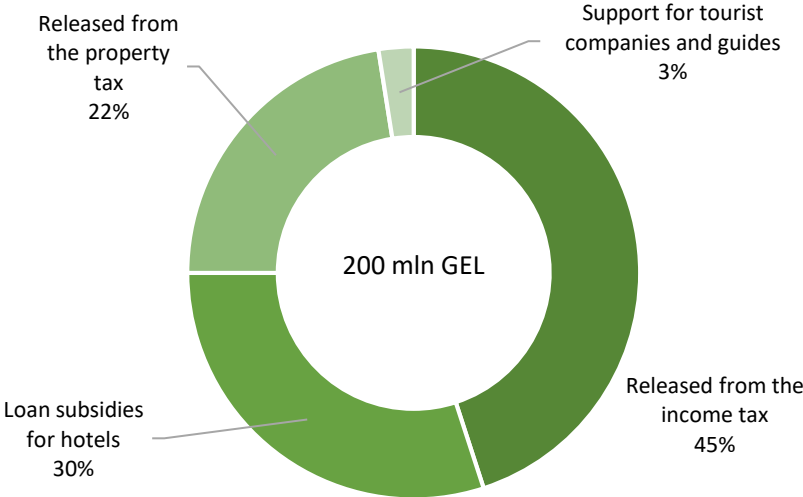
According to government reports, tourism accounted for 11.5% of GDP in 2019 (direct and indirect). The sector has suffered the most as a direct result of the pandemic, as the number of tourist visits decreased by 80% YoY in 10m 2020. This means a drastically reduced income for the 150,000+ people employed in this sector.

With a total budget of GEL 200 mln, which does not account for additional resources allocated to covid-hotels, the main component of the assistance program for the tourism sector was the establishment of tax incentives and interest rate subsidies.

The tourism sector was fully exempt from the property and income taxes in 2020. According to the government's estimates, through these exemptions, about GEL 45 mln and GEL 90 mln will be saved by the sector, respectively.

GEL 60 mln was allocated to hotel loan subsidies (3,000 hotels), while GEL 5 mln was aimed at supporting travel companies and guides. In addition, through the "Produce in Georgia" program, GEL 11 mln was spent on subsidizing loans for family hotels (907 hotels) as of September 1, 2020.

Figure 13: Tourism Sector Support Plan (million GEL)



Source: Government of Georgia Report, IDFI

As of September, more than GEL 105 mln had been spent on mitigating and preventing the spread of Covid-19 and arranging the quarantine zones. During the same period, the National Tourism Administration spent GEL 64 mln to accommodate 84,000 citizens under the mandatory quarantine-related measures.

Overall, Georgia's anti-crisis plan was timely, although some programs exceeded the budget or failed to fully utilize their budget. In some cases, it became necessary to extend the announced programs due to insufficient utilization of the allocated funds. According to an August survey,⁴ where 2,045 citizens were surveyed, 29% of respondents think that unemployment benefits have helped their families the most, while 26% name the program utility subsidies as the most beneficial program. It is noteworthy that the mortgage subsidy program has one of the lowest

⁴ NDI

ratings, which was only distinguished by 2% of the respondents. Additionally, 10% of respondents believe that they do not need the help of the government during the crisis.

The Anti-crisis Budget 2021

On November 27 the government announced an updated 2021 Anti-Crisis Plan that includes GEL 1.1⁵ Bln assistance to the citizens and businesses in almost equal amounts, GEL 545 mln and GEL 515 mln, respectively.

Citizens' Assistance Programs:

- Utility subsidies program continues (GEL 270 mln). One mln families are expected to benefit from GEL 270 mln utility subsidies for 4 months (November-February);
- GEL 150 mln for persons employed in the formal sector. This includes GEL 1,200 assistance to the unemployed. The program will be renewed from January 2021 for six months and GEL 200 assistance is expected to be transferred to 125,000 beneficiaries;
- Employees and individual entrepreneurs affected by the Lockdown will receive one-time assistance of GEL 300. The estimated number of beneficiaries is 100,000 and the program budget is GEL 30 mln. Additionally, as the government explains, they will be allowed to defer the loan obligations.
- GEL 100 per month will be given to 72,000 socially vulnerable families. The program will last 6 months; its budget is GEL 55 mln;
- GEL 600 assistance - for socially vulnerable families with 0 to 100 thousand social ranking scores, who have three or more children under 16. Families will receive GEL 100 per month for six months (from January to June) - 24 thousand families benefitting from the program. Budget - GEL 15 mln;
- GEL 600 assistance is allocated to assistance for the severely disabled and persons under 18 with disabilities – 100-GEL per month for 6 months. The number of beneficiaries - 43 thousand people. Budget – GEL 27 mln;

Business Assistance Package:

- Income tax concession of GEL 260 mln is expected to cover 33,000 companies and 425,000 employees. Under the program, individuals with a salary of up to GEL 1,500 will be exempt from income tax of up to GEL 750 between December and May 2021;
- The tourism sector will be exempt from property taxes in 2021, which will benefit the sector by GEL 45 mln. Also, for four months, deferred income tax will be written off in 2020 – benefits of GEL 20 mln. The interest on bank loans for hotels and restaurants will be subsidized for six months and will cover up to 3,700 beneficiaries;
- GEL 40 mln will be allocated for the Microgrant program;

⁵ Stopcov.ge

- Credit-guarantee fund of GEL 100 mln will assist the private sector in loan restructuring and attracting new loans;
- Companies that have been restricted from continuing their activity in the December-January period will be able to defer their bank loans.

The updated anti-crisis plan of 2021 mainly represents the continuation of the previous anti-crisis plan's programs (2020) with adjusted budgets. The budget of the utility subsidies program has been increased by GEL 100 mln, to GEL 270 mln. The budget of the program for assistance to socially vulnerable families has been adjusted (GEL +5 mln) to GEL 70 mln. The budget for assistance to persons with disabilities under 18 and the severely disabled has been increased by GEL 2 mln, now amounting to GEL 27 mln.

It is important that the state will help employees and individual entrepreneurs affected by the lockdown with a one-time transfer of GEL 300. However, the number of affected has been estimated at 100,000, and there are expectations that the real number is much higher. Therefore, it is expected that the program will exceed the predetermined budget.

Challenges of the Anti-Crisis Plan

The anti-crisis plan has alleviated the economic problems caused by the pandemic for the population and businesses. However, some assistance programs were presented in small volumes, with it being entirely possible to increase the volume and target segment of these assistances, considering that the budgets of certain programs could not be utilized.

Additionally, inaccuracies were observed in the initial version of the anti-crisis plan, and even after the intermediary changes in the plan, certain programs have still exceeded their budget.

- **The budget allocated for the assistance of self-employed is insufficient and prerequisites of the program have led to delayed assistance.**
The program covered 29% of the self-employed, and due to the problems created with the proof of income documents, the budget allocated for the program could not be utilized on the initial stage.
- **Assistance for children under 18 requires a more specific approach.**
The assistance provided was identical to the amount for socially vulnerable families as well as for the high-income part of the population. It is also important to clarify why 800,000 children were originally earmarked for assistance.
- **A monthly allowance of GEL 200 for employees who lost their jobs was insufficient and it was possible to increase the amount of assistance.**
The amount of assistance slightly exceeds the already low subsistence level, which averages at GEL 192 in 10m 2020. Considering that even a third of the allocated budget could not be utilized, it was possible to increase the amount of the one-time transfer. Also, the criteria for differentiation of the self-employed for whom the one-time assistance is GEL 300 are unclear.
- **The utility subsidies program was conducted on an unfair basis.**

This program should have benefited the socially vulnerable and the low-income populations that have been affected by the pandemic the most. Utility vouchers are based on the volume of consumption and in many cases may not accomplish the purpose of the assistance. Vouchers can only be declined voluntarily by middle and high-income people through the opt-out system.S

- **Increasing the assistance to the poor and the disabled is plausible.**

The amount spent on assistance programs for socially vulnerable families and people with disabilities exceeded the allocated budget, indicating a higher demand for assistance. Given that the pandemic has increased the number of vulnerable people, an increase in the budget for such programs is recommended. It is also desirable to increase the number of beneficiaries and include more people with disabilities.

- **The elimination of the income tax on the GEL 750 transfer is a significant benefit for the low-income population.**

This program is especially important for small businesses and its continuation would reduce pressure on the low-income population and small businesses during the post-pandemic period.

- **The 2021 Anti-Crisis Plan envisages deferral of credit commitments for those whose economic activity was restricted in the period of December-January. However, it is unknown how credit deferrals will be carried out, and whether these credit obligations include only bank loans or other non-bank liabilities as well.**

The government has not clarified the issue of interest expense; it will likely be redistributed to the borrower's payments in subsequent periods. Also, it is unclear whether this deferral policy only applies to bank loans or if it includes other types of liabilities.