



EN

THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX I

of the Commission Implementing Decision on the Annual Action Programme in favour of Georgia 2022
Action Document for Support to the Implementation of the Deep and Comprehensive Free Trade Area and Small and Medium Enterprise development in Georgia (DCFTA-SMEs)

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plan/measure in the sense of Article 23(2) of NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title CRIS/OPSYS Basic Act	Support to the Implementation of the Deep and Comprehensive Free Trade Area and Small and Medium Enterprise development in Georgia (DCFTA-SMEs) Annual action plan in favour of Georgia for 2022 OPSYS business reference: NDICI-GEO-NEAR/2022/ACT-61198 ABAC Commitment level 1 number: JAD.1007017 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).
2. Team Europe Initiative	No
3. Zone benefiting from the action	The action shall be carried out in Georgia
4. Programming document	Multiannual Indicative Programming Document (MIP) 2021-2027 ¹
5. Link with relevant MIP(s) objectives/expected results	Resilient, sustainable and integrated economy
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	250 – Business and other services 321 –Industry
7. Sustainable Development Goals (SDGs)	Main SDG (1 only): SDG 8: Decent Work and Economic Growth

¹ Commission Implementing Decision C(2022)5658 of 09/08/2022 on adopting a multiannual indicative programme for Georgia for the period 2021-2027.

	Other significant SDGs (up to 9) and where appropriate, targets: SDG 4 Education SDG 5 Gender equality SDG 12 Responsible Consumption and Production			
8 a) DAC code(s)	DAC-code – 25030 Business development services 50% DAC-code – 32130 – Small and Medium Enterprise Development – 50%			
8 b) Main Delivery Channel	Official Development Assistance -10			
9. Targets	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	11. Internal markers	Policy objectives	Not targeted	Significant objective
	Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Tags:	YES	NO	/
	digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	digital governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	digital entrepreneurship	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

	digital skills/literacy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	digital services	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	<u>Connectivity</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Tags:	YES	NO	/
	digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	health	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	Education and research	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	COVID-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

BUDGET INFORMATION

12. Amounts concerned	Budget line(s) (article, item): 14.020111 Eastern Neighbourhood Total estimated cost: EUR 30 000 000 Total amount of EU budget contribution EUR 30 000 000
------------------------------	---

MANAGEMENT AND IMPLEMENTATION

13. Implementation modalities (type of financing and management mode)	Project Modality Direct management through: - Grants - Twinning grants - Procurement Indirect management with the entity(ies) to be selected in accordance with the criteria set out in section 4.3.3
--	--

1.2. Summary of the Action

Georgia and the European Union (EU) maintain a close relationship with a far-reaching Association Agreement (AA), including a Deep and Comprehensive Free Trade Area (DCFTA). The EU is the main trade partner of Georgia (20.6 % of its total trade in 2021). Following the year 2020 of pandemic-related contraction, the economy started to rebound strongly thanks to an increase in tourism and remittances inflows. This rebound is, however, impacted by the economic effects of Russia's war of aggression against Ukraine. The International Monetary Fund (IMF) has revised its previously estimated 5.8% Gross domestic product (GDP) growth to 3%, as at June 2022².

The goal of this Action is the **promotion of inclusive and sustainable growth in Georgia**. This will lead to a thriving business sector, improved livelihoods and decent employment for the population. This is even more important now in view of the current geopolitical developments in the region. The action is in line with the **Joint Communication: "Eastern Partnership policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all"**³ and contributes directly to the **Economic and Investment**

² <https://www.imf.org/en/Countries/GEO>

³ SWD(2020) 56 final/2 18.03.2020

Plan⁴, in particular the **Flagship 3 for Georgia on economic recovery** (“80.000 small and medium enterprises (SME) reap the full benefits of the DCFTA”) but also **Flagship 6 on energy efficiency**.

The Action will support the following priorities:

- 1) Better Goods and Services:** conformity assessments body development programme, promoting quality labels, support to Georgia’s quality infrastructure, consumer protection;
- 2) Export, Small and Medium-Sized Enterprises (SME) internationalisation, innovation:** facilitation of exports and trade, value chain and cluster support to selected industries with strong growth potential, support to logistics to lower shipping costs, financial incentives for innovation, start-ups and technology transfer;
- 3) Green transition:** promote eco-innovation and green finance, implementation of the Green Growth strategy, support to greening governmental programmes, awareness raising of SMEs; ensuring a just transition.
- 4) Skills and Training;** support to the new Skills Agency, sectoral partnerships by the private sector, strengthening employment support services;
- 5) Coordination and institutional capacity:** technical assistance to DCFTA implementation, policy advice, gender mainstreaming, women economic empowerment, awareness- raising and trainings to SME, monitoring.

Georgia is a key partner of the EU in the region and has the ambition to further develop its relations with the EU, as proven by Georgia’s March 2022 EU membership application. On 23 June 2022, the European Council endorsed the European Commission Opinion⁵ and grant European Perspective to Georgia. The European Council also stressed that Georgia will be granted candidate status once a set of policy priorities will have been addressed. Georgian society continues to aspire to political and economic integration with the European Union.

Overall, progress in the implementation of commitments under the AA including the DCFTA is evident, based on the results of external evaluations, on association committee (in trade configuration) and sub-committee meetings. The **Association Agenda** for the next implementation period (2021-2027) has been agreed and has been publically available from May 2022, ahead of its formal adoption later in the year⁶. This programme is furthermore rooted in the **Multiannual Indicative Programming** Document (MIP) 2021-2027, indicating priorities for EU financial support to the implementation of the AA for a resilient, sustainable and integrated economy.

2. RATIONALE

2.1. Context

Georgia is a small developing country with a population of about 3.7 million people and a gross national income (GNI) per capita of USD 4,255⁷. Over the last decade, Georgia undertook significant social and economic reforms resulting, inter alia, in progress in reforming the role of the state vis-à-vis the private sector, in reducing corruption, and in developing a more favourable environment for business. However, Georgia needs to transition from “reformer to performer”⁸ and achieve further progress in implementation and enforcement of these legislative and regulatory reforms by the government. While Georgia is ahead of its

⁴ SWD(2021) 186 final on 02.07.2021

⁵ COM(2022) 405 final on 17.06.2022

⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0103>

⁷ Source: National statistics office of Georgia (GEOSTAT), value for 2020.

⁸ World Bank, Georgia, From Reformer to Performer, A systematic country diagnostic, 2018

regional peers in its economic governance and regional connectivity⁹, it lags behind in terms of its competitiveness and economic inclusion. Across sectors, it will be important to ensure that complex forms of corruption, and vested interests among the government, parliament and private sector do not curtail recent progress. A mismatch between skills available and those needed by the private sector, a weak vocational education system and innovation constraints also impact on Georgian firms' competitiveness and limit productivity growth.¹⁰

Georgia and the EU maintain a close relationship with a far-reaching Association Agreement, including a Deep and Comprehensive Free Trade Area. The EU is the main trade partner of Georgia (20.6 % of its total trade in 2021). As an effect of the COVID-19 pandemic and related containment measures, unemployment in 2020 rose significantly from previous years (2019: 11.57 to 18.5 in 2020), the poverty rate at the international upper-middle-income poverty line (USD 5.50 per capita per day) rose from 42 percent in 2019 to an estimated 46.6 percent in 2020. Substantial anti-crisis measures have been put in place by the government, supported by the EU Budget Support programme “COVID-19 Resilience Contract for Georgia”, directly contributing to the governmental Anti-Crisis Economic Plan. This Plan included a number of economic and social measures including support to companies that have retained jobs, an extension of targeted social assistance as well as property and income tax deferrals.

Following the year 2020 of pandemic-related contraction, the economy started to rebound strongly thanks to an increase in tourism and remittances inflows. This rebound is, however, impacted by the economic effects of Russia's war of aggression against Ukraine. The expected economic impact is projected to be significant on Georgia as Russia and Ukraine rank respectively 3rd and 4th in trading partners. The economic growth that the IMF projected at 5.8 % 2022 is expected to be 50% lower. Impact on commodity prices, export of goods and services, tourism inflows and remittances is probable. This will result in widening the current account deficit, higher inflation and reduced investment.

The government updated its political programme in the aftermath of the 2020 Parliamentary elections, called *Towards Building a European State*¹¹ and sets priorities for the years 2021-2024. The main objectives are to overcome the crisis caused by the pandemic, thereby ensuring a rapid recovery and development of the economy to create a stable and secure environment for every citizen. At the same time, the country “will continue to take steps towards the consolidation of democracy” and the pursuit of European and Euro-Atlantic integration, as well as efforts to resolve the Russia-Georgia conflict peacefully.

On 3 March 2022, Georgia submitted its application for EU membership, ahead of its government previously stated schedule (initially planned for 2024), following Russia's war of aggression against Ukraine. The European Council subsequently invited the European Commission to issue an Opinion on the application. On 23 June 2022, the European Council endorsed the European Commission Opinion and granted a European perspective to Georgia. The European Council also stressed that Georgia will be granted candidate status once a set of policy priorities will have been addressed. In the new context, it is expected that the pace of reforms will be accelerated, to bring Georgia closer to the EU *acquis* in terms of approximation with EU *acquis* and implementation of the DCFTA.

DCFTA implementation remains among the top cooperation priorities for the Georgian government and the EU. The legal approximation in the context of the DCFTA is in general on good track. According to an assessment of an EU technical assistance project, 43% of Georgian laws are fully approximated, 18% in progress or partly approximated and 39% of laws are not approximated.¹² All core institutions in charge of the implementation of the DCFTA in Georgia are in place and operational.

⁹ E.g. regarding transport and logistics

¹⁰ EU EBRD Country-specific Investment Climate Reviews and Action Plans for Eastern Partnership Countries, Investment Climate Action Plan – Georgia, November 2018

¹¹ https://www.gov.ge/files/41_79014_435561_govprogram.PDF

¹² Facility for the Implementation of the EU-Georgia Association Agreement: Law Approximation Inventory as of April 2022.

The action is based on Georgia's SME strategy 2021-2025. The strategy is relevant and widely in line with EU priorities for SME development. The predecessor strategy has been supported by the EU action "Economic and Business Development in Georgia" and has a credible track record of implementation. The design of the successor strategy and its action plan was supported by an EU funded project implemented by the Organisation for Economic Co-operation and Development (OECD). The strategic priorities of the SME Development Strategy 2021-2025 are as follows:

1. Refining Legislation, institutional strengthening and improvement of the operational environment for SMEs;
2. Promoting the development of entrepreneurial skills and raising the entrepreneurial culture of SMEs;
3. Improving access to finance for SMEs;
4. Promoting the export growth, access to market and internationalisation of SMEs;
5. Promoting electronic communications, information technologies, innovation and R&D for SMEs;
6. Promoting the development of women entrepreneurship;
7. Promoting the development of Green Economy for SMEs.

This action contributes directly to the Economic and Investment Plan, in particular the Flagship 3 for Georgia on economic recovery ("80.000 SMEs reap the full benefits of the DCFTA") but also to Flagship 6 on energy efficiency. The action support achieving sustainable development goals (SDGs), in particular SDG 8 Decent Work and Economic Growth, as well as SDG 4 Education, SDG 5 Gender equality and SDG 12 Responsible Consumption and Production.

Russia's war of aggression against Ukraine and its consequences have already affected Georgia, notably on the economy, tourism, remittances, trade. It is important to strengthen the resilience of Georgia against such external shocks, as well as the follow up waves of the pandemic.

Projects under this Action will be part of the EU4Business¹³ initiative. EU4Business is an umbrella initiative of the European Union that includes all EU support to small and medium enterprises in Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine. In 2020, the EU4Business umbrella included 111 active projects implemented by 62 partners.

The EU Delegation to Georgia and EU Member States closely coordinate their programmes, including the ones supporting sustainable and inclusive growth in Georgia. The objectives of this action is fully in line with key priorities and objectives as elaborated during the most recent joint programming exercise in 2019/2020¹⁴: EU donors with sizable cooperation programmes in the area of SME support include Austria, Germany and Sweden. Austria has declared agriculture and forestry as priority sectors for their economic development programmes. Germany's economic cooperation focuses on sustainable economic development; environmental policy and the protection and sustainable use of natural resources. Germany also supports a sizable programme in the area of Technical and Vocational Education. Sweden's priorities in the economic field are promoting the adoption of EU regulation, access to international markets and strengthening Georgian farmers. Active coordination is also conducted with other international donors and international financial institutions. The Action is complementary to the initiatives of other donors.

¹³ <https://eu4business.eu/>

¹⁴ Objectives defined in the "Joint European Messages on Sustainable and Inclusive Economic Growth: DCFTA, SME-development and inclusiveness" refer to "Diversification and competitiveness of Georgia's economy through the implementation of the DCFTA and by fostering innovation, SME development and integration into global value chains, thereby enhancing employment and living conditions in the urban and rural areas for women and men" as well as "Ensure inclusion through improved tripartite dialogue, better delivery of public services, support for the development of entrepreneurial and innovative business culture, foster growth of SMEs, and support skills development. Addressing underserved small operators and/or operators in rural and remote areas."

2.2. Problem Analysis

The government has made significant policy efforts to build an environment conducive to their development, as captured by Georgia's performance in the EU funded SME Policy Index 2020: Eastern Partner countries¹⁵. SMEs play an important role in Georgia's economy, accounting for 65% of total employment¹⁶ and 59.3% of value added in 2019, up from 58.1% in 2015. Also, SME remain mostly concentrated in low-value-added sectors, and their productivity is still well below EU levels. Moreover, Georgian SMEs have been particularly affected by the COVID-19 crisis, notably because of their over-representation in hardly hit sectors such as services and tourism, and higher risk of liquidity shortages. By end 2020, some 5.4% of small and 2% of medium firms were reportedly permanently closed (against 0.4% of large ones), while 82% and 86% of small and medium firms, respectively, had experienced decreased liquidity or cash flow availability since the pandemic outbreak (against 68% of large firms). Dedicated and comprehensive policies for the SME sector are therefore needed, both to sustain a strong, inclusive, green and resilient recovery, as well as to further foster the development of the SME sector in the long run.¹⁷

Better goods

A functioning and internationally recognised system for conformity assessments is important for the competitiveness and sustainable development of Georgia's economy. For the realisation of the DCFTA with the EU, Georgia needs comprehensive policies geared to ensuring that only safe, socially and environmentally sustainable and otherwise compliant products find their way on to the market. The market needs to function in such a way that honest economic operators can benefit from a level playing field, consumers enjoy an effective protection of their interests and competition is ensured.

The availability of conformity assessments is essential for exporting goods to the EU and other international markets. A manufacturer can only place a product on the EU market when it meets all the applicable requirements. The conformity assessment procedure is carried out before the product can be sold. This is to help ensure that unsafe, non-sustainable or otherwise non-compliant products do not find their way to the EU market.

However, so far the adoption of EU production and product standards by Georgian companies has been slow. The reason for this is that the government and companies both face a chicken-and-egg dilemma. Companies generally do not choose to adopt standards unless they are being enforced, as Georgia is a price-sensitive market¹⁸ and standards adoption brings cost increases that place them at a price disadvantage vis-à-vis their competitors. The government is not eager to enforce standards if few companies have adopted them, as this would result in many companies closing. Standards adoption also requires the development of an ecosystem of privately operated 'Conformity Assessment Bodies'(CAB) to provide the testing and certification -but development has been slow because of low demand.¹⁹

The absence of the relevant laboratory testing facilities in Georgia is a financial burden for the private sector and the state when undertaking market surveillance activities. The government has repeatedly stressed the need for EU support in the area of conformity assessments and laboratory capacity. In order to overcome the

¹⁵ [OECD \(2020\): SME Policy Index 2020: Eastern Partner countries](#)

¹⁶ Overall labour force participation rate in Georgia in 2021 was 50.9%. However, 59.5% of all women were economically inactive (neither employed nor looking for a job) compared to 37.1% of all men being economically inactive. Source: GEOSTAT.

¹⁷ OECD (2022): Fostering business development and digitalisation in Georgia. Peer review note: Georgia.

¹⁸ Due to lower salaries and purchase power. The average nominal earnings of employees amounted to GEL 1357.4 = EUR 355.9 in 2021 (GEOSTAT preliminary data)

¹⁹ GeoWel (2021): Why Doesn't Georgia Export More to Europe: An Assessment of the Challenges of Enhancing Georgian Trade with the EU.

described problems, a needs assessment for conformity assessments for industrial products was carried out by EU funded experts. This study's²⁰ main recommendations include:

- Creation of local CAB development programme
- Encouraging Foreign Direct Investments (FDI) and knowledge transfer from European CABs
- Increase institutional capacities of key agencies

In addition to formal standards, quality labels (e.g. sustainability) represent an opportunity for Georgian producers to increase the added value of their products and access new markets. Quality labels can also make important contributions to increase income at producer level; support decent income and decent work. Standard such as “fair trade” support the sustainable development of small producer organizations and apply sustainability standards in their value chains and operations.

A new consumer protection law was adopted in Georgia on March 2022. The new law will closely align Georgia's consumer protection system to that of the EU and ensure compatibility in several key areas. The law combines 6 EU directives and 1 regulation and envisaged the transposition of the European standards for consumer protection into Georgian legislation that is essential for the EU integration process. As this new law introduces higher standard of protection and new rules, consumers and businesses need guidance and advice on implementation.

Export, SME internationalisation, innovation

The value of SME exports has been increasing (+38% between 2015 and 2020) in Georgia²¹. However, exports remain mostly directed to neighbouring markets (Russia, Türkiye and Azerbaijan), little diversified and with low value-added. Exports to the EU are increasing, but slower than exports towards neighbouring countries. The action will therefore tackle persistent information barriers and improve knowledge of market opportunities and requirements (e.g., through hiring of consultants abroad to find and conclude deals for Georgian SMEs/Exporters, certified export managers, value chain support, attendance of international exhibitions), reduce high shipping costs and delivery times to EU countries (e.g. warehousing options). Trade financing options could also be considered to overcome specific financial barriers experienced by exporting companies.

The Ministry of Economy and Sustainable Development (MoESD) and Enterprise Georgia²² are currently elaborating a cluster development framework of Georgia. This framework document will provide guidance for a national cluster development programme, to engage and coordinate private and public stakeholders to increase the competitiveness of Georgian SMEs. This action will build on existing clusters²³, help to establish new ones and facilitate cooperation between SMEs and other stakeholders along selected value chains. In particular, economic growth in the area of services looks promising: Compared to 2014, bilateral trade in services increased by 91%. Since 2014, Georgia's service exports to the EU have grown more than imports, as imports have increased by 60% and exports by an impressive 154%. While an Information and Communication Technology (ICT) cluster already exists and has been supported by the EU, a cluster mapping study specifically for services could identify further growth opportunities.

²⁰ Facility for the Implementation of the EU-Georgia Association Agreement (2021): Supporting Ministry of Economy and Sustainable Development in conducting the capacity and needs assessment of Georgian laboratories performing the Conformity Assessment in the industrial products.

²¹ Source: National Statistics Office of Georgia

²² This is supported within project Cluster4Development funded by the European Union and the German government. The cluster initiatives have been supported in various EU funded project.

²³ Clusters have been supported within previous EU programmes. The following clusters exist in Georgia: packaging, furniture, apparel, film, information technology.

Russia's war of aggression against Ukraine has consequences for Georgia's trade and migration flows. In order to respond to the changed geopolitical realities, Georgian authorities are working towards increasing Georgia's transit capacities and the diversification of trade routes. Georgia is a transit country for seven neighbouring landlocked developing countries. In this respect, the so called "Middle Corridor²⁴" is gaining importance. The Revenue Service of the Ministry of Finance of Georgia is aiming to increase Georgia's transit capacity and facilitate regional trade and migration flows along the south Caucasian transit corridor, reviving the ancient Silk Road. To realise this, the opening of a new joint Border Crossing Point (BCP) between Georgia-Azerbaijan is necessary. The new crossing point will be an effective instrument of trade facilitation while avoiding the duplication of customs control process, simplifying the procedures and streamlining the cross-border trade flow.

Georgia has taken considerable steps to enhance its policy and legal framework for innovation, which has been acknowledged in the latest SME Policy Index. Georgia's Innovation and Technology Agency (GITA) has introduced a wide range of financing tools to support innovation. These include a co-financing grant programme which attracts thousands of applications each year and benefitting 95 start-ups with grants up to GEL 100,000 as of July 2021. Another initiative offers to co-finance up to 50% of a project, up to GEL 650,000. Start-ups can also be supported in the development of a prototype with micro-grants.²⁵

Despite the initiatives described above, Georgia still has room for improvement to strengthen its innovation ecosystem and innovation support to SMEs, as reflected in international rankings such as the Global Competitiveness Index and INSEAD's Global Innovation Index 2020. A Guide for the Eastern partner countries" issued in 2021 by the EU4Digital regional programme provides recommendation and a maturity analysis for building the ICT entrepreneurial ecosystems. GITA currently develops an action plan based on this analysis.

A main challenge in Georgia is the financing of innovative businesses. While GITA implements successfully matching grants programmes for start-ups and Georgia possesses a well-developed banking system, non-banking finance from private investors is scarce. Georgia's capital market is underdeveloped. Building on these initiatives, this Action will support GITA's strategy and action plan implementation with a focus on investor attraction/cultivation and raising the investment readiness of start-ups.

With the help of the EU, Georgia has supported the commercialisation of scientific innovation research results and turned them into projects that respond to global market needs and challenges. A central technology office is currently being established but needs further support on capacity building and implementation.

Green Transition

The government is making increasing efforts to promote the green and blue economy²⁶ development through various policy documents, as well as green measures implemented in response to the pandemic. However, Georgia has so far not adopted an overarching vision for green growth and there are no systematic measures tailored to SMEs, e.g. in terms of efficiency and awareness-raising.

In line with the SME strategy of Georgia, the Action will support the government in the implementation of a Green Growth concept, promote eco-innovation and work on green finance with the support of the international financial institutions. Under the action, support to the "greening" of existing environmental

²⁴ The Middle Corridor is the Trans-Caspian International Transport Route that starts from Southeast Asia and China, runs through Kazakhstan, the Caspian sea, Azerbaijan, Georgia and further to European countries.

²⁵ Information on these programmes is easily accessible online on a dedicated website, grants.gov.ge.

²⁶ 2019 Bucharest Ministerial Declaration on the Common Maritime Agenda for the Black Sea - https://oceans-and-fisheries.ec.europa.eu/ocean/sea-basins/black-sea_en

support programmes for businesses will also be provided. Further, an important challenge is to raise the awareness of SMEs on environmental issues.

Georgia adopted in 2020 Laws on Energy Efficiency and on Energy Efficiency of Buildings. Both laws require several adjustments in entire sectors as well as buildings and construction, and companies are expected to draw environmental action plans which will contribute to decarbonise their operations and shift towards more sustainable economic activities. According to analyses of the European Training Foundation, SMEs struggle to fully benefit from the green transition in EU's partner countries, including Georgia. The shift towards green practices will not be solely market driven but to a significant extent policy driven. Therefore, access to sustainable finance, technology transfer, coaching through all aspects of sustainable business development and adequate training opportunities for their staff are key elements for companies to be part of the transition. In this context, the mobilisation of intermediaries (e.g. sector skills councils, business associations, industry associations, chambers) as well as business networks at national and international level needs to be prioritised in all relevant policies in order to improve the coordination and articulation of very complex policy objectives. As such, the output directly contributes to the implementation of Flagship 6 on Energy Efficiency as upgrading buildings to higher environmental standards will require a strong and skilled private sector.

Skills and training

Despite strong economic growth during the past decade, the Georgian labour market features several structural problems: limited creation of (higher-skilled) jobs, a high share of non-productive self-employment in subsistence agriculture in rural areas, and a high level of urban unemployment, especially for youth. The COVID-19 crisis and resulting economic shock have significantly played up these challenges, with the unemployment rate rising from 11.57% in 2019 to 18.5% in 2020. Furthermore, women tend to be concentrated in economic activities with lower salaries (such as the humanities, education and health care), and they are excluded from higher-salaried industries (such as science, technology, engineering and mathematics). The COVID-19 pandemic and related crisis further exacerbated this gap and put women in an even more unfavourable position in terms of participation in the labour market and the economy²⁷.

Notwithstanding relatively high educational attainment levels in Georgia, quality of education remains a significant issue and an effective skills development system that matches skills and training with private sector needs requires further improvement. Moreover, overall participation in Vocational Education and Training (VET) remains very low and key issues include the relevance of VET's relevance to labour market needs, a limited private sector involvement, and low attractiveness due to the stigma surrounding the VET system.²⁸ In 2019 the enrolment in VET was 11,767 people, in 2020 -9,526 and in 2021 11,248 people. According to the ETF Skills Mismatch Survey (ETF 2019), there is both an excessive and a low qualification problem in Georgia. High qualifications are most common among university graduates (almost 43%), followed by vocational education graduates (almost 38%).

A recent evaluation carried out by the European Training Foundation ²⁹recommended for instance to activate and incentivise a sector based cooperation between private sector actors and training providers. Focus should also be on investing in upskilling current and future workforce and raising their skills and competences in strategic areas important for economic growth and resilience.

The State Employment Support Agency (SESA) puts significant resources in upskilling the job seekers registered in their database. However, SESA is still in its building process and further requires more staff, improvement of their qualifications to provide quality services and better access to them, in particular in the regions. During 2021 a total of 8994 job seekers registered at SESA out of which 5154 (57%) were women.

²⁷ <https://georgia.unwomen.org/sites/default/files/2022-04/Country%20Gender%20Equality%20ENG%20%20UPDATED.pdf>

²⁸ EU EBRD Country-specific Investment Climate Reviews and Action Plans for Eastern Partnership Countries, Investment Climate Action Plan – Georgia, November 2018

²⁹ ETF. Evaluation of Georgia's VET Strategy 2013-2020. Final Report 2021

Women have actively participated in the training measures offered by this agency, namely 65% of the participants in short-term vocational training courses and a whopping 79% of the participants of Key Competency training were female. It is therefore not surprising that women also constitute the bulk (66%) of the employed job seekers during 2021. Employment of women in particular in rural areas, disabled persons and other persons in vulnerable situations remain challenging.

At the sectoral level, Georgia needs to continue its efforts to make the VET system more demand-led and responsive to the needs of industry. A “Vocational Skills Agency” was established in 2021 for this purpose. Developments so far have focused mainly on correcting the mismatch between the skill needs expressed by industry professionals and the skills provided by existing VET programmes. As regards investments and cooperation in skills development, according to a survey conducted by the construction sector association Infrastructure Construction Companies Association (ICCA), the majority of their workforce would need upskilling particularly in new technologies, materials and use of equipment. The survey also found out that, while cooperation between training providers and companies is very limited and not organised on a systematic basis, the majority of surveyed companies would be willing to establish partnerships with training providers.

VET plays a major role in the availability of green competences ensuring young people and adults acquire both technical/occupational skills and, more generally, transversal competences to live and work in more resource efficient and less polluting societies. This is linked to the fact that greening of occupations incorporates more technical knowledge, especially of higher level. The direct implication is that new training programmes and new qualifications need to be introduced for emerging green jobs (e.g. energy auditor, solar panel technician), but also that especially existing training programmes for traditional qualifications need to be reviewed, with a specific integration of green skills among their learning outcomes. New skills should include environmental awareness and competencies, innovation and entrepreneurship. Innovation and technological development is crucial in the process of developing competitive human capital. Promoting gender equality in vocational education, encouraging girls and women to receive vocational education is important especially in gender-sensitive professions. More efforts need to be put towards engaging women in non-traditional female vocational trainings programmes.

All four outputs are linked to the implementation of Flagship 3- Supporting 80,000 SMEs in Georgia- as the main objectives are to ensure SMEs in Georgia increase their export potential, develop new highly demanded products, enhance skills of managers and employees. This should overall strengthen SME competitiveness and integrate them with EU value chains.

Coordination and institutional capacity

While coordination of the sector has improved in the recent year, the institutional capacity of reform management and coordination needs to be strengthened in public institutions and advisory bodies. High staff turnover, the lack of finance to improve staffing levels, working conditions and technical equipment have hampered capacity developed. While significant progress has been achieved, the coordination, monitoring and evaluation of the complex DCFTA reforms remain a challenge in Georgia. The further development of Georgia’s institutional capacity takes on extra importance with Georgia’s recent application for EU membership. The support will also include awareness raising activities on DCFTA, support efficient public private dialogue and provide technical advice to business association and SMEs. In addition, activities will tackle women economic empowerment and gender mainstreaming of governmental SME support programmes.

Stakeholders

Main stakeholders in charge of SME policy implementation in Georgia are the Ministry of Economy and Sustainable Development (MoESD), and the two SME support agencies, Enterprise Georgia and Georgia’s Innovation and Technology Agency (GITA), both created in 2014. Enterprise Georgia is responsible for the implementation of SME support programmes. It aims at improving private sector competitiveness by working on three main directions, i.e. business development, export promotion, and attraction of foreign direct

investments. Its flagship programme, Produce in Georgia, includes financing tools such as co-financing of interest rate on commercial loans and matching grants. GITA complements this approach by focusing on support to start-ups, innovation and Research and Development (R&D), especially in the ICT field, through financing and non-financial instruments further detailed in this report.

Other ministries listed in below figure are also closely involved, as well as the Business Ombudsman of Georgia and several legal entities under public law (LEPL), e.g., the national statistical agency Geostat, the National Competition Agency, Georgian National Agency for Standards and Metrology (GEOSTM), the Rural Development Agency, the National Tourism Administration, the Agency of Protected Areas, the Service for Accounting, Reporting and Auditing Supervision (SARAS) and SESA under the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs (MoIDPOTLHSA). The private sector is increasingly participating in policymaking and implementation via a number of business associations³⁰

As regards gender equality, the main institutions outside relevant sectoral institutions and gender focal persons within them, the key stakeholders will be the Gender Equality Council of the Parliament of Georgia and at the Government level, the Adviser to the Prime Minister on Human Rights as well as Inter-Agency Commission on Gender Equality.

In 2021, the Ministry of Education and Science of Georgia and the Chamber of Commerce and Industry established the Vocational Skills Agency to facilitate the introduction of new labour market relevant training programmes, support innovative training initiatives as well as promote employability. The aim of the Agency is to engage private-sector partners and coordinate a joint effort to develop and rebrand the VET sector and to build trust and confidence in cooperation between Georgian businesses, the government and education providers. The State Employment Support Agency (SESA) is in charge of employment support programs and services.

2.3 Lessons Learned

A recent evaluation³¹ on EU-Georgia cooperation recommends that the EU should continue to support the relevant stakeholders, and strongly recommends to put stronger emphasis on increasing the sophistication of SMEs. Since few SMEs have succeeded from moving up the value chain under the possibilities offered by DCFTA, the EU should consider a SME development initiative targeting services and the IT sector, areas where Georgia could develop comparative advantage due to its relatively good higher education system while simultaneously reducing brain drain.

The evaluation further acknowledges the EU contribution to strengthening SME and VET. However, the report found that interventions followed parallel tracks and lacked cross-fertilisation and synergies. Therefore, the EU and its implementing partners should establish stronger linkages between SME and VET support and embed them in a comprehensive approach with the dual objective of: i) achieving a better match between qualifications/skills and the human resources needs of SMEs and availability of working conditions including those meeting the Occupational Safety and Health (OSH) requirements in the private sector (especially by SMEs) for the VET graduates and ii) the employability of graduates as well as re-trained workers and those returning from abroad.

³⁰ OECD (2022): Fostering business development and digitalisation in Georgia. Peer review note: Georgia.

³¹ Particip GmbH (2022): Evaluation of the EU's cooperation with Georgia. Final report.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective of this Action is the promotion of inclusive and sustainable growth in Georgia. The Action supports Georgia in the implementation of the DCFTA and its EU related commitments, with a particular focus on business, trade, environment and better skills matching.

The Specific Objective of this Action is to improve competitiveness and sustainability of the local private sector in Georgia.

The Outputs to be delivered by this action contributing to the Specific Objective (Outcome) are:

1. Improved **compliance with** European and international **standards** of conformity assessment bodies (laboratories) / firms.
2. Improved and inclusive **access to markets** and/or value chains
3. Improved **sustainable productive capacities** of Micro, Small and Medium-Sized Enterprises (M&SME)'s
4. Improved policies and regulations relating to technical, vocational education and training, including identifying labour market needs for VET focused on promoting **skills and employability**

3.2. Indicative Activities

Activities related to Output 1

- Conformity assessment body (CAB) development programme which combines equipment and training components;
- Elaboration of financial instruments to support CABs;
- Strengthening of cooperation and knowledge transfer to Georgian CABs from European CABs;
- Support access of Georgian companies to notified bodies;
- Support to Georgian SMEs to achieve standards and quality labels, including financial incentives;
- Awareness raising campaigns on consumer protection.

Activities related to Output 2:

- Scaling up Enterprise Georgia efforts on export promotion, support for SME in identifying market opportunities, raise their business sophistication, stimulate exports to the European Union and Eastern Partnership countries e.g. through hiring of consultants abroad to find and conclude deals for Georgian SMEs/Exporters, certified export managers, value chain support, attendance of international exhibitions)
- Increase advisory and training capacities to improve knowledge of market requirements, using gender sensitive approaches
- Value chain and/or cluster support to industries and services with strong growth and/or export potential;
- Support measures to access to finance for SMEs -including women-led enterprises- and tackling barriers to female participation;
- Support to logistics and potentially to logistic hubs abroad in order to lower the cost of shipment from Georgia to EU;
- Advise on financial incentives for innovation;
- Assistance to start-ups and technology transfer.

- Support the establishment of a new Georgian-Azerbaijan new Border Crossing Point to facilitate trade and avoid bottlenecks for the movement of the goods;

Activities related to Output 3

- Implementation of Georgia’s Green Growth strategy;
- Promote eco-innovation;
- Support to green finance;
- Support to the “greening” of existing environmental support programmes for businesses;
- Awareness raising of SMEs on environmental issues and their carbon footprint;

Activities related to output 4

- Capacity building support to the new Skills Agency ³²;
- Support to the formation of sustainable and financially stable sectoral partnerships developed by private sector, sectoral associations and training providers to develop and implement upskilling programs for SMEs to facilitate greening of their business and/or increase energy efficiency of their operations ³³;
- Strengthening employment support services in terms of their quality and accessibility.
- Awareness raising actions for employers to promote the hiring of more women in professions where they are under-represented;
- Stimulate employment of people living in vulnerable and marginalized situations; as well as young people.

Activities related to 1, 2, 3, and 4

- Assistance on overall DCFTA implementation;
- Monitoring/evaluation of reform progress;
- Awareness- raising and trainings to SME;
- Women economic empowerment and gender mainstreaming of governmental SME employment, education support programmes.

Additional measures could be envisaged to increase the resilience of the country’s economy against external shocks. Such shocks appear more likely, given Russia’s war of aggression against Ukraine or the possibility of a pandemic which could derail DCFTA implementation/ SME development.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

Outcomes of the Strategic Environmental Assessment (SEA) screening (relevant for budget support and strategic-level interventions)

The SEA screening concluded that key environmental and climate-related aspects need be addressed during design.

Outcomes of the Environmental Impact Assessment (EIA) screening (relevant for projects and/or specific interventions within a project).

³² Skills Agency could become a knowledge hub (clearing house) which collects, analyses and mainstream the lessons learnt in the VET system with a particular focus on sector skills organisations. This activity could be implemented through twinning with a relevant EU MS institution experienced in skills for green transition.

³³ These initiatives could include concrete guidance and coaching of SMEs in developing their skill needs for greening their business, design and implementation of specific training programmes together with training providers, partnering with successful companies (national or international) to exchange good practices on skills for green transition. Activities could be implemented through a call for proposals. Such a grant scheme may target specific sectors affected most by greening such as construction, energy, agriculture, tourism, transport & logistics.

The EIA screening classified the action as Category C (no need for further assessment).

Outcome of the Climate Risk Assessment (CRA) screening (relevant for projects and/or specific interventions within a project).

The CRA screening concluded that this action is no or low risk (no need for further assessment).

Gender equality and empowerment of women and girls

According to the World Economic Forum “Gender Gap” reporting, Georgia has achieved great progress and in 2021 ranked 49 out of 156 countries, compared to 2017, where Georgia was ranked 95 out of 144 countries.

Along with the EU’s Gender Action Plan III³⁴ for gender equality and women’s empowerment in EU external action and the Country Level Implementation Plan (CLIP) for Georgia, this Action Document shall take into consideration the conclusions and recommendations provided in the Country Gender Equality Profile of Georgia elaborated by United Nations (UN) WOMEN and published in June 2020. It shall also draw from the findings of the UN Women Country Gender Equality Profile Report for Georgia, published in 2021.

For the new SME strategy, a Gender impact assessments (GIA) has been conducted by relevant international organisations. Women’s entrepreneurship is now a standalone priority in the strategy. VET and Labour Market Strategies have gender equality as a cross-cutting theme. Currently the Parliament of Georgia is renewing its Gender Equality Concept making particular emphasize on Women’s Economic Empowerment. At the Government level this aspect is part of the Human Rights Strategy, which approval is still pending since expiration of the previous one back in 2020.

In line with EU cross-cutting priorities, this Action will ensure that a gender sensitive results-based approach is systematically applied and built into the design of all actions. These shall address issues that support implementation of the EU *acquis* in the field of gender equality and non-discrimination as agreed in the framework of the EU-Georgia Association Agreement and beyond it. In addition, efforts will be made to support Georgian authorities in improvement and use of sex-disaggregated data for policy-making as currently in many fields also of the EU intervention such data is missing or is relatively outdated.

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1³⁵ (significant objective). This implies that gender is a significant objective and gender equality will be mainstreamed across this programme. Furthermore, specific activities aimed at gender equality and women’s empowerment will be implemented in the framework of outputs under priorities (2), (4) and (5).

Under output 2 the main focus of this programme will be promotion of women’s greater participation in employment and entrepreneurship, including women’s start-ups, innovative businesses through not only awareness raising and stereotype changing activities, but also contributing to women’s better access to financing following the recommendations of the (currently ongoing) thematic enquiry into women’s access to finance³⁶ and direct support measures targeting women entrepreneurs.

Under outputs 4 and 5 the horizontal one the main focus of this programme will be encouraging girls and women enrolling in vocational education and training, especially in gender-sensitive professions and not traditional female training programmes, as well as supporting greater women’s employment in particular in the regions along with other groups of persons in vulnerable situations requiring tailored approach.

³⁴ SWD(2020) 284 final 25.11.2020

³⁵ DAC gender equality scoring system: Significant (G1) means that gender equality is an important objective, but not the principal reason for undertaking the action, while principal (G2) means that gender equality is the main objective

³⁶ Georgian Parliament’s Gender Equality Council (GEC) with the support of the EU’s AA Facility II - report due September 2022.

Human Rights

There is no specific risk of HR violations through the action. The action supports private-public dialogue; promotes gender equality and women's empowerment through this action.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0.

Democracy

The action envisages close cooperation with civil society and private sector actors. It will support CSO function for monitoring the government and holding governmental actor accountable for their actions and support public private dialogue.

Conflict sensitivity, peace and resilience

The action supports and facilitates private-public dialogue.

Disaster Risk Reduction

Not targeted

3.4. Risks and Assumptions

Category ³⁷	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
1	Macroeconomic instability, increased unemployment and inflation that may divert authorities' commitment/attention	H	H	Continuous policy dialogue with the IMF and the government, monitoring of macro-fiscal and political situation, provision of technical and financial assistance
2 and 3	Poor coordination between relevant line ministries and agencies; lack of efficient private public dialogue	M	H	Multi-stakeholder policy dialogue, sharing lessons learned and rationalisation of the broader policy reforms Facilitation of inter-ministerial coordination, including through dialogue with other donors and EU-funded interventions
3 and 5	Lack of alignment of complementary actions financed from sources other than EU	M	L	Enhanced coordination with other donors
3	High turnover of civil servants in beneficiary institutions involved	M	M	Continues capacity building and dialogue with the state institutions Provision of supportive measures and technical assistance

³⁷ 1-to the external environment; 2-to planning, processes and systems; 3-to people and the organisation; 4-to legality and regularity aspects; 5-to communication and information

	in Programme implementation; insufficient technical capacity/experience			
1	Security risks derived from Russia’s war of aggression against Ukraine	H	H	Continuous dialogue with the government, monitoring of the developments
1	COVID-19: resurgence –new waves	H	H	Preparedness measures from previous waves invoking of contingency measures if required

External Assumptions

- Commitment and focus of the authorities is sustained;
- The Russian aggression against Ukraine does not extend to neighbouring countries;
- No economic recession affects the country over the medium term;
- Commodity prices on international markets are stabilised;

3.5. Intervention Logic

This Action supports increased sustainable inclusive economic growth, which will result in improved livelihoods and decent employments (more and better jobs). The action helps government to implement dedicated and comprehensive policies for the SME sector, to sustain a strong, inclusive, green and resilient recovery as well as to further foster the development of the SME sector in the long run. All outputs are targeting SME upgrading/ business sophistication and will contribute to strengthen the competitiveness of the private sector in Georgia.

Output 1 Better goods will facilitate the adoption of EU/international production and product standards as well as quality labels by Georgian companies. This will enable SME to compete on quality, add value to their products and services. Output 2 will raise SMEs competitiveness by promoting exports, SME internationalisation, and innovation. Output 3 Green Transition will help SMEs to apply green practices in their businesses and to ensure that this transition is socially just. The output should strengthen the private sector in order to deliver on Flagship 6 and increase the energy efficiency of buildings in Georgia. Output 4 Skills and Training ensures that skills needed for upgrading SMEs/ for achieving outputs as foreseen in outputs 1-3 will be available in the market. Further, this output supports governmental policies to raise skills levels for objectives as defined in this action. Output 4 will provide cross-cutting support and allow addressing unforeseen and urgent needs. The activities under this output will facilitate meaningful and inclusive participation of stakeholders in the programme, in especially regarding women economic empowerment and gender mainstreaming. Outputs all contribute to bringing Georgian SMEs closer to the EU market in line with Flagship 3 by enhancing their competitiveness, attractiveness, and ensuring SMEs upgrade their standards to EU ones.

3.6. Indicative Logical Framework Matrix

Results	Results chain: Main expected results [maximum 10]	Indicators [it least one indicator per expected result]	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	Promotion of inclusive and sustainable growth in Georgia	<p>1.1 Rate of economic growth (GDP per capita). SDG 8.1.1</p> <p>1.2 Annual growth rate of real GDP per employed person (%) SDG 8.1.2</p> <p>1.3 Export increase to EU (%)</p>	<p>1.1 2.43% (2014-2020 average annual growth)</p> <p>1.2 5.4% (2014-2020 average annual growth)</p> <p>1.3 21.6% in 2019</p>	<p>1.1 3% average (2021-2028)</p> <p>1.2 6% (2021-2028)</p> <p>1.3 3% (2020-2028)</p>	<p>1.1 World Bank</p> <p>1.2 World Bank</p> <p>1.3 World Bank</p>	<i>Not applicable</i>
Outcome 1	Improved competitiveness and sustainability of the local private sector	<p>2.1 Global Competitiveness Index</p> <p>2.2 SMEs value added in nominal terms.</p> <p>2.3 Number of employees in SMEs, Total and disaggregated by sex</p> <p>2.4 SMEs productivity</p>	<p>2.1 Rank 74, Score 60.9 (2019)</p> <p>2.2 GEL 13.8 bn (2019)</p> <p>2.3 491,668 (2019) (no sex disaggregated data available)</p> <p>2.4 GEL 28,077 (2019)</p>	<p>2.1 rank higher than 50 or score higher than 65 (2028)</p> <p>2.2 + 20% in nominal terms by 2025</p> <p>2.3 increase by 10% until 2025</p> <p>2.4 Increase by 20% by 2025</p>	<p>2.1 World Economic Forum</p> <p>2.2 GEOSTAT</p> <p>2.3 GEOSTAT</p> <p>2.4 GEOSTAT</p>	<p>Stable Security situation</p> <p>Macroeconomic stability</p> <p>Commitment of authorities to implement the SME strategy</p> <p>Stable Commodity prices</p>
Output 1	1 Improved compliance with European and international standards of conformity assessment bodies (laboratories) / firms	1.1 Number of new or renewed conformity schemes-related (certifications/ accreditations/approvals/	1.1 0 (2022)	1.1 To be confirmed (TBC) ³⁸	1.1 Monitoring data of the project	

		<p>recognitions) obtained by supported labs/ firms for their products and services (Number)</p> <p>1.2 Number of firms or individuals supported that meet standards and technical requirements (disaggregated by sex, age and firm size) (Number of firms or individuals)</p>	1.2. 0 (2022)	1.2. TBC	1.2 Monitoring data of the project	
Output 2	2 Improved and inclusive access to markets and/or sustainable value chains	<p>2.1 Number of new MSMEs linked to new value chains, disaggregated by sector and sex of MSME owner/head (Number M&SMEs)</p> <p>2.2 New border crossing point at Georgia-Azerbaijan border fully functional</p>	2.1 0 (2020)	2.1 TBC	2.1 Monitoring data of the project	
			2.2 0 (2022)	2.2 Official opening of the crossing point by 2027	2.2 Press reports	

³⁸ Target values will be defined in contracts with implementing partners based on a baseline study.

Output 3	3 Improved sustainable productive capacities of Micro, Small and Medium-Sized Enterprises (M&SME)'s	3.1. Number of Micro, Small and Medium Enterprises applying Sustainable Consumption and Production practices with EU support	3.1. 0 (2022)	3.1. TBC	3.1. Monitoring data of the project	
Output 4	4 Improved policies and regulations relating to technical and vocational education and training, including identifying labour market needs for VET focused on promoting skills and employability	<p>4.1 Number of people who have benefitted from institution or workplace based VET/skills development programmes with intervention support (EU RF 2.15) (Number of people)' (Number of people) total and disaggregated by sex</p> <p>4.2 Number of employed young people (15-29) with VET qualification disaggregated by sex</p> <p>4.3 Number of people (job seekers) employed with the support of SESA disaggregated by sex</p>	<p>4.1 0 (2022)</p> <p>4.2 TBC³⁹</p> <p>4.3 TBC</p>	<p>4.1 TBC</p> <p>4.2 TBC</p> <p>4.3 TBC</p>	<p>4.1 Monitoring data of the project /VET providers</p> <p>4.2 Monitoring data from skills agency</p> <p>4.3 Monitoring data from the project /SESA</p>	

³⁹ Target values will be defined in contracts with implementing partners based on a baseline study

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with Georgia.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this financing Decision and the relevant contracts and agreements.

4.3. Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures⁴⁰.

4.3.1. Direct Management (Grants)

4.3.1.1. Direct management (Grants)

a) Purpose of the grant(s)

The purpose of the grants are to contribute to output 4 : Improved policies and regulations relating to technical, vocational education and training, including identifying labour needs for VET focused on promote skills and employability

b) Type of applicants targeted

Potential applicants for funding are legal persons, NGOs, education institutions such as providers of vocational education and training, business associations, economic operators such as SMEs.

4.3.1.2. Direct management (Twinning grants)

a) Purpose of the grant(s)

The purpose of the grants is to contribute to output 4.

b) Type of applicants targeted

Applicants must be EU Member State administrations and/or their mandated bodies.

4.3.2. Direct Management (Procurement)

The procurement will contribute to all outputs mentioned under section 3.

⁴⁰ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.3.3. Indirect Management with pillar-assessed entity(ies)⁴¹

A part of this action may be implemented in indirect management with pillar assessed entities, which will be selected by the Commission's services using the following criteria:

- Specific expertise and experience in areas specified at the selection stage.
- Experience and presence in the country.
- Available necessary organisational, human and management capacity also to mobilise specific expertise in short time.

The implementation by these entities entail contributions to achieve outputs 1: Improved compliance with European and international standards of conformity assessment bodies (laboratories) / firms and output 2: Improved and inclusive access to markets and/or value chains.

4.3.4. Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances

If the preferred implementation modality described in sections 4.3.2 (grants in direct management) cannot be implemented due to circumstances outside of the Commission's control, the alternative option for implementing this part of the Action, is Indirect Management with entrusted entity(ies). The following selection criteria shall be applied in this case:

- Specific expertise and experience in areas specified at the selection stage.
- Experience and presence in the country.
- Available necessary organisational, human and management capacity also to mobilise specific expertise in short time.

4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

⁴¹ The signature of a contribution agreement with the chosen entity is subject to the completion of the necessary pillar assessments

4.5. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Implementation modalities – cf. section 4.4	
Output 1 Compliance with standards and Output 2 Access to markets and/or value chains composed of	20 000 000
Indirect management with pillar assessed entity(ies) cf. section 4.3.3	20 000 000
Output 3 – sustainable capacities	1 000 000
Procurement (direct management)-cf section 4.3.2	N/A
Output 4 Skills and Employability	5 000 000
Twinning grants (direct management) – cf. section 4.3.1	N/A
Procurement (direct management) – cf. section 4.3.2	N/A
Output 1,2,3,4 Coordination/Institutional capacity	3 700 000
Procurement	N/A
Procurement – total envelope under section 4.3.2	5 700 000
Grants – total envelope under section 4.3.1	4 000 000
Evaluation – cf. section 5.2	300 000
Audit – cf. section 5.3	
Totals	30 000 000

4.6. Organisational Set-up and Responsibilities

The action will be directly managed by the European Commission through its Delegation in Georgia. All contracts and payments are made by the Commission on behalf of the beneficiary. All initiatives will be conducted with the support and engagement of the authorities, civil society and development partners ensuring that implementation of policies is well coordinated.

The steering of the programme will be entrusted to a Coordination Council under the Ministry of Economy and Sustainable Development, which will oversee and guide the overall direction and policy of the programme. It will assess progress in the implementation of the action and decide if any modifications are needed. It shall devote separate session on the implementation of this Action once a year and can be convened whenever the programme implementation requires strategic decisions. In addition, the EU Delegation is engaged in an active policy dialogue with the Ministry and other relevant stakeholders.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference the logframe matrix.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The Ministry of Economy and Sustainable Development will publish yearly reports on implementation of the SME strategy. Regular reports will also be published on the implementation of the DCFTA action plan. The EU4Business facility will publish yearly country specific reports on impact on SMEs achieved.

5.2. Evaluation

Having regard to the importance of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this action supports new instruments and pilots.

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the implementing partner at least one month in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document [*Communicating and raising EU visibility: Guidance for external actions*](#) (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and delegation agreements.

For the purpose of enhancing the visibility of the EU and its contribution to this action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds. Effectiveness of communication activities on awareness about the action and its objectives as well as on EU funding of the action should be measured.

Implementing partners shall keep the Commission and the EU Delegation/Office fully informed of the planning and implementation of specific visibility and communication activities before the implementation. Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall action to the relevant monitoring committees.