

SUMMARY

Annual Action Programme 2017 in favour of Georgia to be financed from the general budget of the Union

1. Identification

Budget heading	22 04 02 01 22 04 02 02 22 04 03 03
EU contribution	EUR 96.5 million
Legal basis	Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument

2. Country Background

Georgia signed an Association Agreement (AA) including a Deep and Comprehensive Free Trade Area (DCFTA) with the EU on 27 June 2014, which came into force in July 2016. The EU-Georgia AA/DCFTA illustrates a deep mutual commitment based on shared values and interests in the areas of democracy and the rule of law, human rights and fundamental freedoms, good governance, a market economy and sustainable development. The Agreement and the derived Association Agendas covering 2014-2016 and 2017-2020 commit Georgia to an ambitious reform agenda in key areas such as security policy, economic recovery and growth, trade, transport and energy, environment and social development, with the aim to reach political association and economic integration with the EU. In 2016, Georgia continued the democratic transition of the country including with regard to human rights and fundamental freedoms. Visa liberalisation for Georgia entered into force on 28 March 2017. In addition, economic development and market access is high on the EU-Georgia agenda. The immediate priority is supporting Georgia's national reforms and modernisation efforts, so that citizens and businesses, both in Georgia and in the EU, can seize the full benefits and opportunities offered by the Association Agreement.

3. SUMMARY OF THE ACTION PROGRAMME

The present Annual Action Programme (AAP) 2017 intends to contribute to Georgian reform efforts within the framework of association with the EU. The AAP consists of two actions as outlined below which are fully in line with the Single Support Framework for the period 2017-2020 and the "Eastern Partnership (EaP) 20 Deliverables by 2020" covering the following three priority sectors: economic development and market opportunities (sector 1), strengthening institutions and good governance (sector 2) and mobility and people-to-people contacts (sector 4). This assistance package is partly funded from the ENI umbrella programme, the

incentive-based mechanism that rewards progress in building deep and sustainable democracy.

The actions proposed within this AAP are coherent with both the political and developmental priorities of Georgia as well as priorities resulting from EU-Georgia agreements. The sectors of intervention reflect the priorities set out in the Government's national development strategy "Georgia 2020" which underlines the need to foster economic reforms to stimulate growth of small and medium sized enterprises, enhance trade and revitalise the agriculture sector as a means to address poverty and unemployment. Georgia 2020 is further developed into the government's Programme 2016-2020 "Liberty - Rapid Development – Welfare" and is supplemented by a variety of sector strategies.

The AAP is comprised of the following actions:

Action 1: Economic and Business Development in Georgia

The action will contribute to foster smart, sustainable and inclusive growth and resilience in Georgia and its regions and to strengthen institutions and good governance, which are two of the four pillars under the new Single Support Framework 2017-2020. Notably the programme will contribute to promote socio-economic development through a better legal system for business, a modernised financial system to enhance the financing of the economy, and increased business integration and sophistication models. The specific objectives of the programme are 1) to make litigations in commercial matters faster and fairer, 2) to modernise the financial infrastructure and 3) to promote market-oriented and innovative business models for job creation.

The programme is structured around three inter-related components, with the following expected results by component:

Component 1: Fairer and faster litigations in commercial matters

Result 1.1: Fairer and faster litigations in commercial disputes

Component 2: Modernised financial infrastructure

Result 2.1: Capital market development

Result 2.2: Responsible financial inclusion and alternative financing

Result 2.3: Better financial information

Result 2.4: Enhanced insurance system

Component 3: Greater business sophistication

Result 3.1: Strengthened policy framework to facilitate the development of SME, clusters and incubators

Result 3.2: Development and functioning of the clustering approach in at least 5 pilot sectors in Georgian regions (such as construction materials, packaging, apparel, creative industry, tourism, organic farming, seeds/seedlings)

Result 3.3: Development and functioning of business accelerators/incubator, serving target regions and sectors

Result 3.4: Improved delivery and quality of public services to businesses

This programme has been designed taking into account lessons learned from current EU implemented programmes in the justice and economic/trade areas, as well as other relevant EU programmes (such as ENPARD (European Neighbourhood

Programme for Agriculture and Rural Development) and PAR (Public Administration Reform)) and programmes under implementation by other donors (GIZ (Gesellschaft für Internationale Zusammenarbeit), World Bank).

Action 2: Skills Development and Matching for Labour Market Needs

The action will contribute to the implementation of two specific objectives of the Single Support Framework 2017-2020: Sector 1 on economic development and market opportunities and sector 4 on mobility and people-to-people contacts. Notably it will contribute to sustainable and inclusive growth and resilience by developing human capital and skills sets and strengthening coordination between the education system and the labour market. The specific objective of the programme is to improve the employability of women and men in the selected regions.

The action will pursue the following expected results:

Result 1: Relevant skills-matching services accessible in the selected regions

R 1.1: Operational skills anticipation system based on regular national/sectoral and regional skills needs analyses

R 1.2: Increased availability of career guidance and counselling, job intermediation and labour market integration services

Result 2: Relevant lifelong learning skills provision accessible in the selected regions with a focus on youth

R 2.1: Flexible skills development system including both private and public provision based on the needs of learners and employers

R 2.2: VET participation in increase, in particular for the youth age-group of 15-24

Result 3: Entrepreneurial learning and entrepreneurship training opportunities accessible in the selected regions

R 3.1: Entrepreneurship key competence is an integral part of curricula and teacher training, including practical entrepreneurial experience, in upper secondary general education and VET

R 3.2: Entrepreneurship training modules available for students and adult learners in higher education and VET institutions

This programme has been designed taking into account the lessons learned from the current EU implemented programmes in the Employment and VET (vocational education and training) sectors, as well as the other relevant ongoing programmes (such as ENPARD and PAR).

Communication and Visibility

As part of each action under this programme, funds are set aside for communication and visibility actions which will be based on specific communication plans. Other bilateral and regional programmes provide further support for communication of EU actions and assistance within the overall framework of the Eastern Partnership visibility strategy. The Delegation will monitor the use of the "Communication and visibility manual for EU external action" by beneficiaries and implementing partners. The actions will use the "European Union for Georgia" brand and possible sector brandings as appropriate.

4. COST AND FINANCING¹

Action 1: Economic and Business Development in Georgia	EUR 47.65 million
Action 2: Skills Development and Matching for Labour Market Needs	EUR 48.85 million
Total EU contribution to the programme	EUR 96.5 million

The Committee is invited to give its opinion on the attached Annual Action Programme 2017 in favour of the Republic of Georgia.

¹ Note that additional EUR 18.5 million are channelled via NIF in a separate financing decision. The funds are allocated for waste management, in particular hazardous waste (EUR 8.5 million), and lending through micro-finance institutions, particularly in local currency (EUR 10 million).



ANNEX I

of the Commission Implementing Decision on the Annual Action Programme 2017 in favour
of Georgia

Action Document for Economic and Business Development in Georgia

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in section 5.4.1 concerning calls for proposals

1. Title/basic act/ CRIS number	Economic and Business Development in Georgia CRIS number: ENI/2017/040-318 financed under European Neighbourhood Instrument
2. Zone benefiting from the action/location	Georgia The action shall be carried out at the following location: country wide
3. Programming document	Single Support Framework for EU support to Georgia 2017-2020
4. Sector of concentration/ thematic area	Economic development and market opportunities , <i>including</i> smart, sustainable and inclusive growth Strengthening institutions and good governance , <i>including</i> consolidating the Rule of Law and addressing security
5. Amounts concerned	Total estimated cost: EUR 48 650 000 Total amount of EU budget contribution EUR 47 650 000 of which <ul style="list-style-type: none"> - EUR 21 250 000 for budget support; - EUR 19 900 000 for complementary support to budget support; - EUR 6 500 000 for support outside the scope of the sector reform contract This action is co-financed in joint co-financing by ADA for an amount of EUR 1 000 000

6. Aid modality(ies) and implementation modality(ies)	<p>Budget Support</p> <p>Direct management:</p> <ul style="list-style-type: none"> - budget support: sector reform contract - grants – call for proposals - procurement of services <p>Indirect management with:</p> <ul style="list-style-type: none"> - Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) - United Nations Development Programme (UNDP) - European Bank for Reconstruction and Development (EBRD) - Austrian Development Agency (ADA) - The World Bank Group 			
7. DAC code(s)	<p>15130 – Legal and judicial development</p> <p>24010 – Financial policy and administrative management</p> <p>24030 – Formal sector financial intermediaries</p> <p>25010 – Business support services and institutions</p> <p>32110 – Industrial policy and administrative management</p> <p>32120 – Industrial development</p> <p>32130 – Small and medium-sized enterprises (SME) development</p> <p>33120 – Trade facilitation</p>			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	X	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	X	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	X
	Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	X	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	X	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships				

SUMMARY

Support for economic growth has emerged as a crucial issue in Georgia. Structural constraints and incomplete economic reforms continue to make it difficult for Georgian businesses, especially SMEs, to efficiently operate and scale up. Persistent weaknesses in the financial system continue to limit not only access to finance for business but also the build-up of savings in the economy, a precondition for building a solid safety net and a domestic investment base. The slow and flawed delivery of justice is often described as the major obstacle for investing and developing business operations in the country.

The demand for economic growth is also reinforced by the DCFTA, which notably aims at facilitating Georgia's economic integration, domestically and internationally. Supporting efficient market-oriented entrepreneurship models integrated with innovation, technology, educational skills and EU standards would certainly help to increase productivity, efficiency, competitiveness and create stronger business linkages in Georgia and its regions. The action proposes to concretely support value chains/clusters and business incubators to boost the real economy.

The **overall objective** of the programme is to foster socio-economic development in Georgia and its regions, with the **specific objectives** to make litigations faster and fairer for businesses, to modernise the financial infrastructure and to promote market-oriented and innovative business models for job creation.

The programme is structured in three inter-related thematic components:

- (1) Fairer and faster litigations in commercial matters**
- (2) Modernised financial infrastructure**
- (3) Greater business sophistication**

In line with the 2015 review of the European Neighbourhood Policy (ENP), the action will contribute to foster smart, sustainable and inclusive growth and resilience in Georgia and its regions and to strengthen institutions and good governance, which are two of the 4 pillars under the new Single Support Framework for EU Support to Georgia (SSF 2017-2020).

The EU contribution includes EUR 21 250 000 in budget support. Other support (indirect management, procurement of twinning and services) represents EUR 26 400 000, of which EUR 19 900 000 is connected to and complementary to the scope covered with budget support and EUR 6 500 000 is not connected to the budget support as highlighted in section 5.4.

This action is co-financed by the Austrian Development Agency (ADA) for an amount of EUR 1 000 000 (for Component 3). This action might be complemented with an intervention by the Danish International Development Agency (DANIDA) for an estimated amount of EUR 5 500 000 (for Component 3).

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Georgia is a small country with a population of 3.7 million in 2016, 1.1 million of which live in the capital Tbilisi. Georgia has made substantial strides towards the establishment of a market economy, but still it remains a small market with low productivity, low added value production, high dependency on imports and untapped export potential. Unemployment has been on a downward trend since 2009 (16.9%) and stood at 11.8% at end-2016. However, more than half of the working population continues to be self-employed in agriculture and subsistence farming. Small and medium-sized enterprises (SMEs¹), including co-operatives, represent 94% of the active business population, but their contribution to GDP remains low at about 15% and their performance weak due to their concentration in low value-added activities, e.g. sectors that do not require upfront investment and skilled labour. Just under 40% of small businesses operate in the trade sector, including repair of vehicles, followed by 12% in real estate. Only 10% are active in manufacturing, a significant decrease from 15% in 2010². Geographically, half of Georgian SMEs are located in Tbilisi, with the rest being concentrated in two major regions, Ajara and Imereti, confirming an uneven regional development but also a potential for regional growth. According to the latest statistics 3 666 small and medium-sized units are exporting, with a contribution of 11% to the total exports.

Over the past decade Georgia has strongly focused on improving the general business enabling environment, implementing radical structural reforms that helped reducing government intervention, cutting red tape and simplifying business regulations. Notable progress was registered in anti-corruption, business registration and tax administration. Best practices in e-government services were introduced. This helped Georgia's ranking among the top 20 economies in the *Doing Business Index 2017*, yet bottlenecks and structural constraints continue to persist in the business operational and financial environment, making it difficult for businesses to scale up, expand or transform from "necessity" into "opportunity" entrepreneurship. Second-generation reforms were introduced such as preferential tax regimes also for micro enterprises or the more recent accounting and auditing regulation to facilitate financial transparency, however there is ample room for completing structural and institutional reforms in business-related and legislative areas, including the financial sector, relevant for boosting business confidence, business creation and business operation.

The court system has undergone important developments as a result of three major packages of legislative changes (aka three waves of judiciary reforms), as well as policy and capacity building over the last five years. However, businesses raise increasingly their concerns about the transparency, legality and promptness of procedures before courts, which affect their trust in the otherwise overall well depicted and rated business environment in Georgia. Similarly, once the decisions have been rendered by courts, they also need to be efficiently applied in practice by the state enforcement bureau. Finally, there are some 617 000 businesses and entrepreneurs registered in Georgia, but only 160 000 of them are active; this major

¹ In Georgia there are two conflicting SME definitions, one of which does not identify micro-enterprises. Micro businesses are defined only for tax purposes. As from 2017 the Georgian National Statistics Office (Geostat) changed the methodology, by applying the definition proposed by EUROSTAT (number of employees and turnover).

² SME Policy Index 2016

discrepancy is importantly due to the ineffective insolvency and liquidation systems that have also been rated very low in the Doing Business Indexes.

Continued financial sector reforms will be essential to address structural economic imbalances and financial sector gaps. Despite a well-capitalised and sound banking sector and the availability of basic financial services, limited access to finance continues to constrain business development, technology adoption and export diversification. This is especially constraining for micro and SMEs, whose share of lending remains low at 20% of the total bank loans. Limited access to credit is largely due to high cost of funds, strict collateral requirements, weak credit history and underdeveloped products for SMEs. Banks continue to rely upon real estate collateral instead of other forms of guarantees. Moreover, the existing credit market infrastructure is not used properly to reduce lending risks to SMEs, while cumbersome business closure and insolvency procedures create significant problems for business exit and re-entry appetite. The capital market and non-bank financial sector is small, undiversified and illiquid. Dollarisation is high (65.4% of loans and 71.3% of deposits were denominated in US dollars at end-2016) and translates into major foreign exchange and credit risks. Weak regulation of the non-bank financial sector and the growing financial distress of banks' borrowers translated into a boom of on-line lenders and deposit takers. Lack of financial capability of clients and weak business practices in the absence of a modern consumer protection framework increased instances of consumer abuse and consumers' losses and violations in the area of responsible lending.

The demand for economic and business growth is reinforced by the DCFTA, which notably aims at promoting prosperity and new jobs. The DCFTA, which entered into force in July 2016, is expected to catalyse institutional and regulatory reforms aligned to EU norms. It will help creating the conditions for upgrading quality standards, transferring technology and knowledge and exploiting the untapped potential of certain sectors (such as tourism, agriculture). The 3rd Association Council in Trade Configuration agreed to focus future EU assistance for 2017-2020 on economic growth, private sector support and developing efficient value chains. The Georgian government has embraced the cluster system as the right step forward at this point in time for Georgia's economy to raise the competitiveness of suitable economic sectors, while supporting Georgia's economic integration. The clustering approach is suitable for the integration of business incubators, if they stimulate innovation or are able to absorb technology transfers. The adoption of an innovation strategy would be an opportunity to boost innovative start-ups while strengthening the link between the private sector, academia and research centres. Participation in EU programmes and exchange of experiences with EU Member States would certainly contribute to accelerate innovation, technology transfers and growth. This would well align with the 'EU4Innovation' framework, launched by the EU in November 2016 in order to consolidate all the Union's innovation activities in the Eastern Partnership under a single umbrella.

Georgia's commitment to accelerate economic growth by further improving the business and investment environment has been confirmed in the revised 4-Point Government Plan 2016-2020. The Plan is based on a clear vision of the country's needs and priorities and has been positively assessed by the IMF. On the 1 March 2017 the IMF reached a Staff-level Agreement with Georgia on a three year USD 285 million Extended Fund Facility (EFF), which was approved by the IMF Executive Board on 12 April 2017. The programme will notably seek to address the country's macroeconomic imbalances and structural weaknesses –

low production and productivity base and excessive dollarisation of the financial sector – which limit economic growth.

Following the agreement of the new IMF programme, Georgia also requested a new Macro-Financial Assistance operation from the EU, which would cover part of Georgia's financing gap that is not already covered by the IMF and the World Bank.

Going forward, and implementing the ambitious economic agenda, Georgia's productivity, competitiveness and long-term sustainable growth will largely depend on how the future economic, business and financial legal frameworks will be able to address existing weaknesses and translate the potential for change offered by closer economic integration with the EU into tangible benefits for the entire Georgian population.

The EU action proposes a support package to promote economic development through a better legal system notably for alternative dispute resolution mechanisms for commercial disputes and contract enforcement, a modernised financial infrastructure to enhance the financing of the economy, and increased business integration and sophistication, while ensuring the delivery of better public services to business.

1.1.1 Public Policy Assessment and EU Policy Framework

The series of reforms carried out in the last decade in the business enabling environment significantly contributed to support the private sector and to expand the economy, confirming Georgia's pro-active policy towards creating favourable conditions for enterprise development. Georgia remains committed to further improve the business and investment climate in order to become a full-fledged economy integrated with regional and global markets, where the role played by SMEs as the engine of sustainable growth and added value generation is fully recognised. The government's socio-economic strategy Georgia 2020, the SME Development Strategy 2016-2020 and the most recent 4-Point Government Plan 2016-2020 are the **overarching strategic documents** of reference, complemented by sector-specific strategies.

The strategy **Georgia 2020** foresees the need to improve private sector competitiveness, increase access to finance and strengthen the investment climate. The strategy bases its vision around three elements: 1) the stimulation of a fast and efficient economic growth based on a competitive business environment, 2) the implementation of economic policies that facilitate inclusive growth, prosperity and social equality, 3) the rational use of natural resources. Regional development is also viewed as an important factor for achieving success on a national level.

The **SME Development Strategy for 2016-2020** is the main strategic document adopted in 2016 for continued reforms and support to SMEs. Its elaboration, which started in 2014 in collaboration with the EU, the European Training Foundation (ETF) and the OECD, has been an opportunity for the Georgian government to address existing short, medium and long term weaknesses of the business sector in general, as well as to create a coherent framework for regular public-private sector consultations. The Strategy was elaborated under an inclusive governance structure composed by a High Level Steering Group (at Ministers and Deputy

Ministers level) and technical Working Groups. The SME Strategy sets policy targets on SMEs output, productivity and employment growth to be reached by 2020.

The **4-Point Government Plan 2016-2020** confirms the government's commitment to strengthen the business legal framework and to put forward economic and financial reforms. The Plan includes measures to improve fiscal and tax litigation systems, start-up financing, capital market development, land reform and public-private partnerships (PPPs) to promote foreign investments and ensure a more efficient cooperation between businesses and the state in the implementation of major infrastructure projects.

The government's economic policies and strategies support Georgia along the implementation of the **Association Agreement (AA)** including a **Deep and Comprehensive Free Trade Area (DCFTA)** with the EU. Chapter 5 of the AA on '*Industrial and Enterprise Policy and Mining*' stipulates cooperation on industrial and enterprise policy, thereby improving the business environment for all economic operators, but with particular emphasis on SMEs. The chapters in Georgia 2020 on "improvement of the business and investment climate", "innovation and technology", "facilitating the growth of export", "developing infrastructure to support Georgia's transit potential" and "development of financial intermediation" make clear references to DCFTA-related obligations.

One of the key priorities for action under the revised **EU-Georgia Association Agenda** is to improve Georgia's business and investment environment. The Association Agenda confirms the need to develop alternative means of dispute settlement (mediation, arbitration), to ensure simple rules and procedures on registration of companies and entrepreneurs, as well as liquidation of businesses. Particular attention is given to the implementation of the SME Strategy and Action Plans; the regulatory framework and business operational environment; and the role played by public private dialogue in the identification of needs and priorities of the private sector. The Association Agenda highlights the medium term priority to link SME development to the opportunities created by the DCFTA, including through business networks and clusters. Furthermore, the Association Agenda stresses the importance to reform the financial sector infrastructure.

There is no specific governmental strategy in the area of commercial legislation. However, the government formed a specifically dedicated Inter-Agency Council with four thematic working groups and assigned them with specific priorities in 2016, such as establishing commercial chambers, enhancing mediation and arbitration, decreasing courts' backlogs and regulating mortgage issues. The first ever comprehensive **Judiciary Strategy** and Action Plans were adopted in May 2017 with specific actions foreseen under specific chapters, such as independence, accountability, quality and efficiency, and access to justice.

1. Fairer and faster litigations in commercial matters

After years of focusing primarily on criminal law areas, the Ministry of Justice declared civil, commercial and administrative legislative reforms as a priority in 2016. This was reflected in August 2016 in the transformation and promotion of a Consultative Council on Private Law Reform attached to the Ministry of Justice into an **Inter-Agency Coordination Council on Implementation of Private Law Reforms** established directly under the Government of Georgia. While no specific strategies were drafted yet, the four newly formed working groups reflect clearly the priorities set by the Ministry of Justice: 1) Establishment of commercial

collegiums/chambers within the common court system; 2) Development of means of alternative dispute resolution (arbitration and mediation); 3) Reduction of the court workload related to minor disputes (litigations with microfinance organisations and other litigations), and 4) Mortgage issues and models for preventing disturbance of the right of ownership on immovable property. In addition, informal working groups continue to work on other aspects of civil, commercial and administrative laws.

The Ministry of Justice presented their first project of establishing specialised **commercial chambers** in mid-2016. Although most questions remain unsolved and important concerns exist about the nature and impact of the chambers, the general idea is to hire high-qualified legal experts to preside over medium and high value disputes in business-to-business cases, with possible involvement of international judges. While the concepts shall be further scrutinised with reference to EU and international best practices and experience, the initiative underlines the urgency to solve the issue of protracted judicial proceedings in commercial disputes.

In-court **mediation** was first introduced in December 2013, but it is still rarely used in reality. In order to further exploit its potential, a new law has been drafted with a wide involvement of various stakeholders, and is now being finalised by the Ministry of Justice. It will further regulate the in-court as well as introduce general rules for an out-of-court mediation. The in-court mediation is mandatory for several specific types of disputes, while the out-of-court one should be used on a fully voluntary basis. Concerning the EU policy framework, in 2011 a Mediation Directive entered into force to regulate cross-border disputes in civil and commercial matters. Yet, national regulations and extent of the mediation continue to largely vary in the EU Member States.

Arbitration was introduced in Georgia back in 1997. Several arbitration tribunals have been formed but they almost exclusively deal with banking and micro-credit disputes. The Ministry of Justice (MoJ) supports the extended use of arbitration, including the idea of creating a regional hub for arbitration in Georgia. Although this idea is now premature given the so far very limited number of business-to-business cases dealt with by the arbitration tribunals. As regards the EU, there is no uniform regime on arbitration (and it is excluded from Brussels 1 Regulation on enforcement of judicial decisions). In fact, arbitration continues to be regulated through the 1958 New York Convention and varying regimes established within EU Member States. The practice of arbitration in the EU also remains strongly national or regional, including references to arbitration tribunals; only the ones seated in London, Paris and Stockholm (and Geneva) achieve Europe-wide recognition.

The other immediate priority of the governmental Inter-Agency Council is to consider fast-track procedures in resolving minor disputes ("micro-credits") that constitute a large bulk of cases overloading the courts' civil chambers. Indeed, it is no longer sustainable to accumulate large numbers of cases, and a solution is urgently needed. As a starting point idea, the Ministry of Justice considers awarding judicial competence to judicial clerks with higher qualifications, but this needs to be further scrutinised with regard to the Constitution. In this context, **the civil code, civil procedure code** and the related legislation need to be further reviewed. Informal working groups were formed earlier and continue to draft amendments in that respect.

Similarly, a first draft of a new **company law** ("law on entrepreneurs") was submitted for finalisation to the Ministry of Justice in 2016. The law is a robust package of provisions (258 articles) regulating the legal forms and activities of individual entrepreneurs and entrepreneurial entities: open partnerships, limited partnerships, limited liability companies, joint stock companies and cooperatives. It provides for detailed default regulations in case companies would not set different rules in their statutory documents. Furthermore, the new law shall incorporate a number of relevant EU directives, including the ones referred to in the Association Agreement, and approximate the regulation to practices in the EU. A regulatory impact assessment of the law is to be finalised in mid-2017 and further point to its possible gaps and final effects.

Resolving insolvency remains the weakest area in the World Bank's *Doing Business 2017* due to deficiencies in the overall framework, costs, durations and recovery rates. To improve them is also one of the priorities set in the SME Strategy. Also, the Ministry of Justice and its subordinated Enforcement Bureau recognise the need to substantially revise the legislation and enhance the numbers and skills of administrators. In February 2016 a special working group was formed in cooperation with the Ministry of Justice and elaborated papers on commencement of insolvency proceedings, legal consequences of commencement, strengthening of creditors' rights and rehabilitation possibilities for enterprises. A new law is foreseen to be submitted to the Parliament in 2017-2018 after a regulatory impact assessment. Still, different opinions exist about the need to introduce an institute of private administrators next to the public ones entrusted by the Enforcement Bureau. In the EU, different models of insolvency frameworks co-exist. The European Commission recommended in 2014 to put in place a framework that enables the efficient restructuring of viable enterprises in financial difficulty and gives honest entrepreneurs a second chance, thereby promoting entrepreneurship, investment and employment and contributing to reducing the obstacles to the smooth functioning of the internal market. A Council Regulation on (cross-border) insolvency proceedings was adopted in May 2000.

Currently, the **enforcement of judicial decisions** is ensured by agents of the Enforcement Bureau as well as private bailiffs. The latest revision of the law on enforcement is now with the Ministry of Justice, but a fundamental question remains to be decided: how the proceedings should be administered by both private and public bailiffs. A comparative study with EU Member States systems was already produced for that purpose, and it showed different approaches applied across EU Member States.

2. Modernised financial infrastructure

Improving access to finance is one of the strategic directions of the SME Development Strategy 2016-2020, with actions on financial literacy, accounting and reporting standards, innovative funding sources and grants. Structural reforms of the financial sector are envisaged in the Georgia 2020 Strategy and in the 4-Point Reform Plan. Following the time-table agreed in the AA, the approximation to the EU *acquis* in the financial sector is foreseen during 2 - 8 years from the entry into force of the AA. In order to enhance the financing of the economy, boost financial stability and stabilize the local currency, the Georgian government recently embarked on major reforms of the financial sector.

In April 2016 the government approved a **Capital Market Development Strategy**, deemed essential to support the diversification of the financial system and increase the availability of investment resources. The Strategy envisions reforms of the legal and regulatory framework

to approximate it with relevant EU Directives³ and IOSCO (International Organization of Securities Commissions) principles. An Action Plan accompanies the strategy with specific measures on money, derivatives, government, corporate bonds, insurance and stock markets. The NBG is actively engaged in this process and, recognising the importance of the reform, has created a Capital Market Department in February 2017.

An insurance strategy *per se* does not exist, however the insurance market is mentioned under the Capital Market Development Strategy. The introduction of a Motor Third Party Liability Insurance (MTPL) is at the top of the reform agenda. The plan is to initially proceed with the introduction of the compulsory Border MTPL Insurance Law⁴ (to submit to Parliament in October 2017) to be then followed by the overall MTPL Insurance Law (to submit to Parliament in February 2018), which will integrate the provisions of both Border and Domestic MTPL Insurance. The introduction of a Civil Liability Insurance for motor vehicles is also envisioned under the EU-Georgia AA (Directive 2009/103/EC). In 2013 the **Insurance State Supervision Service of Georgia (ISSSG)** was created, as an independent entity from the NBG. It proved to be an important step towards fostering the insurance market and improving its supervision, in line with the EU Solvency I principles of minimum capital and solvency margin requirements for insurance companies. ISSSG is currently tasked with the development of a roadmap for new compulsory insurance classes.

Non-loan products such as factoring and leasing are referenced in the Law of Georgia on Microfinance Organisations. The law approves activities for Micro Finance Institutions, which include micro leasing and factoring. The demand for such services however remain scarce for reasons such as small market size, the unavailability of these instruments to attract capital and a more general lack of understanding or awareness of the products.

In June 2016 a new law on **accounting and audit** has been approved by the Parliament. The law will align the legislation on financial reporting and auditing more closely with EU laws. The legislation will also introduce a **public audit oversight body** for the regulation of the audit sector, which will enhance transparency in audit and financial reporting.

Financial Education and Consumer Protection is one of the top priority reforms of the NBG, as evidenced by the recent establishment of a new department on Consumer Protection that will directly report to the NBG Governor. In July 2016 the NBG has also approved a Financial Literacy Strategy that aims to increase consumer's financial awareness about financial products.

3. Greater business sophistication

³ Financial services are referred to in sub-section 6, Title 4 of the AA (Trade and Trade Related Matters). Article 122 states that "With a view to considering further liberalisation in trade in services, the Parties recognise the importance of the gradual approximation of Georgia's existing and future legislation to the international best practice standards listed under Article 116(3) of this Agreement as well as to the list of the Union *acquis* included in Annex XV-A to AA".

⁴ The Border Motor Liability Insurance is a type of insurance required by law for all motor vehicles registered abroad (foreign plates) that circulate in the territory of Georgia. The adoption of this law will facilitate Georgia's membership in the Green Card system.

The Ministry of Economy and Sustainable Development (MoESD) is responsible for business-related and SME policy making in Georgia and also coordinates the DCFTA part of the AA. In 2014 the MoESD strengthened the institutional environment for private sector and SME development with the establishment of two agencies: Enterprise Georgia (EDA) - since April 2017 renamed "Produce in Georgia" – and the Georgian Innovation and Technology Agency (GITA).

EDA in Georgia is responsible for the implementation and coordination of SME support measures, and for the implementation of the programme "*Produce in Georgia*" which supports local agri-processing, industrial production and tourism through concessional loans, infrastructure support and the provision of consulting services. With the expansion of the programme, the staff of the agency increased, thus creating favourable preconditions for a bottom-up approach. In 2015, EDA launched the programme "*Micro and Small Enterprise Development*" with the priority to support female entrepreneurs (current rate of female beneficiaries is 40 %). One of EDA's most important activities is SMEs needs assessment. Thematic meetings have been held with representatives of different economic sectors to help identifying challenges and opportunities for Georgian SMEs. EDA is involved in export promotion activities, assisting Georgian companies through export education programmes, an export catalogue, a web portal www.tradewithgeorgia.com and a multifunctional business service centre which allows SMEs to receive DFCTA-related advisory services. According to the EDA Annual Report 2016 (published in February 2017) more than 220 Georgian SMEs were provided with training, advisory/consultation services and long-term guidance during 2016.

Recognising the importance to develop an innovation-driven and knowledge-based economy, in 2015 the government created a platform for public-private dialogue on innovation (Research and Innovation Council) and subsequently started to develop a National Innovation Strategy 2020. In 2014 GITA was established to support and coordinate the innovative ecosystem. GITA elaborated the draft law on innovation, adopted in June 2016. The agency launched a small grant programme for technology innovation open to individuals, NGOs, research organisations and universities. The competition was well received but it also revealed some weaknesses in the capacity of many applicants to prepare and present grant proposals. On the infrastructure front, GITA launched several projects which include the establishment of tech parks, incubators, accelerators, innovation laboratories and pilot university-based fabrication laboratories (FabLab). The two tech parks operating in Tbilisi and Zugdidi anchor a proposed national network of innovation centres aimed at stimulating innovative activities and promoting awareness of the benefits of innovation. In collaboration with the Georgian National Communication Commission GITA launched the "OpenNet" initiative, to provide broadband internet connectivity to about 2 000 villages. The Ministry of Education and Science (MoES) and MoESD have committed to cooperate on better alignment of education policy to market needs. GITA is in the process of partnering with the Georgian National Academy of Sciences to establish a bio-technology centre that will help Georgia realise its market potential in innovative applications of indigenous bacteria, enzymes and phages.

In 2015, EDA and GITA officially became members of the Enterprise Europe Network (EEN). The performance of EEN in Georgia should be however improved given that only few companies benefitted from the network.

The MoESD is drafting the ***Export Development Initiative 2030***, a long-term roadmap for the development of the export potential, the ***E-Commerce Strategy*** and a ***Communication Strategy*** with a deep analysis of the products attractive for investment. In cooperation with the EU-funded project "SME Development and DCFTA in Georgia" the MoESD is assessing the value chain and clustering potential in Georgia. Despite that a cluster and industrial policy *per se* does not exist, the MoESD and the Georgian Industrial Development Group (previously under EDA) considered that four priority industrial sectors provided economic opportunities for the establishment of value chains: agro industry, agro forestry, mining/mineral resources and light manufacturing. The study assessed the competitiveness of local inputs, the import substitution effect, the spill-over opportunities and the role played by the state and the private sector.

Positive steps from the MoESD have been the set-up in 2016 of the **Private Sector Development Advisory Council** and the **DCFTA Advisory Group** as part of the Advisory Council on Georgia's Trade Related Issues. Both contributed to institutionalise the public-private dialogue, thanks also to the involvement of the civil society and the business community in the process. However, more efforts are needed, especially to more systematically organise the discussions around challenges and solutions faced by the private sector, to more properly represent small businesses and sectoral organisations and to take concrete follow-up actions.

The MoESD has a working group on SME Strategy implementation and publishes Annual Progress Reports. The first such report is the Annual Progress Report of 2016, but it remains an activity-based more than a results-oriented document.

The ***Business House (BH)*** was launched by the government in 2016 as part of its agenda to improve relations between the state and the business community. At the cross point between E-governance and Public Administration Reform, the one-stop-shop concept supports the GTB ("Government To Business") approach from the e-governance angle. Once operational, more than 600 state services will be available under a unified portal, with services available on-line via a new electronic platform. This idea is expected to stimulate Georgia's investment and business climate. The concept fits with the "E-Georgia Strategy", under revision by an on-going twinning, and with the principle of modernisation of services of Georgian agencies (led by the Ministry of Justice). By the end of 2017 the full package of the *Service Delivery Policy* will be ready and the BH project will be included under the *Service Delivery Strategy*. The portal will be owned by the Data Exchange Agency (DEA), whereas the MoESD will lead the process.

Within the **EU Policy Framework**, the proposed action is in line with the recommendations of the European Neighbourhood Policy's review, where economic governance and structural reforms for improving competitiveness, inclusive growth and social development are key for economic resilience. The EU intervention matches with Priority 1 on economic development and market opportunities and Priority 2 on strengthening institutions and good governance of the Deliverables for 2020 as well as with the EU's Global Strategy of June 2016, recalling the importance of the resilience aspect. In the context of the EU Single Support Framework (SSF) 2017-2020, the action falls under the specific objectives to support economic development and good governance.

1.1.2 Stakeholder analysis

The main stakeholders are the Georgian authorities, including implementing and regulatory agencies, and the private sector. Given the inter-related policy areas covered by this action, the main institutional stakeholders will be the Ministry of Economy and Sustainable Development (all components), the Ministry of Justice (component 1), the Ministry of Finance (all components), the Ministry of Agriculture (component 3) and the National Bank of Georgia (component 2). These are well established institutions with clearly outlined and stable responsibilities. These institutions do not necessarily work together, and in this respect the action will contribute to a better institutional cooperation and coordination.

The governance structure set up by the MoESD in order to elaborate and oversee the SME implementation process - composed by a High Level Steering Group at Ministers and Deputy Ministers level and technical Working Groups – might constitute the institutional framework for economic policy coordination and monitoring, including financial and technical monitoring.

The government's Inter-Agency Council on Private Law Reform and its four working groups started operating in mid-2016; their capacity and outreach needs to be further established. The Ministry of Justice coordinates the reforms in the private law areas through its Legal Drafting Department; the department relies much on advice and practical output of different working groups, external consulting companies and donors' projects. The capacities of the Enforcement Bureau, an agency established under the Ministry of Justice, has been strengthened over the past years with a large involvement of EU and other donors, but it will have to cope with new challenges once the laws on insolvency and enforcement of judicial decisions have been adopted. Concurrently, these laws may establish (new) professional associations of private administrators and private bailiffs that would need support with operationalisation. The arbitration and mediation associations failed to attract other than microcredit disputes, and so they need to be further transformed and activated in order to increase significantly their caseloads. The Bar Association focused on successfully defending the lawyers from intrusions by law enforcement agencies in the past, but now it needs to pay furthermore attention to increasing the lawyers' skills in commercial matters.

In 2016 the MoESD created the departments of Economic Growth Analysis, Economic Growth Policy and Planning, Service of Macroeconomic Analysis and Division of Regulatory Impact and Competitiveness Survey. An internal assessment of their gaps and needs revealed the need to strengthen their capacities to more effectively design economic policies and initiatives in consultation with relevant stakeholders and to monitor the progress in the implementation of the policies.

Well established work relations exist, notably with EDA, which is already receiving support from the EU and other donors. EDA's internal assessment highlighted the need to refine the agency's products, align its strategic framework and improve the efficiency of the internal processes. Work relationships exist also with GITA, which is receiving a considerable support from the World Bank. GITA's biggest challenge is to improve its strategic management capacities and link its products to the real needs of the industry.

The NBG and the Insurance State Supervision Service of Georgia (ISSSG) are receiving some support from the World Bank, but continuous capacity building activities are further requested to improve their institutional and regulatory mandate.

To ensure demand-driven measures, it is also essential that relevant private sector representatives, including universities and research centres, will be engaged in the action.

The final beneficiaries of the action will be the private sector at large and the Georgian citizens. Other final beneficiaries are academia, technical universities, business supporting organisations and financial service providers that will benefit from an enhanced policy focus on access to finance.

1.1.3 Priority areas for support/problem analysis

Fairer and faster litigations in commercial matters, a modernised financial system and higher business sophistication have been identified as key ingredients for boosting economic development. The Georgian government has initiated reforms in several economic policies, and a number of donors is covering them. The EU has already focused on supporting the private sector, the financial system for SMEs and the broad justice sector for business via bilateral and multi-country programmes. This new EU programme will push for the completion of business and finance-related reforms and for strengthening the policy implementation process. Particular focus will be given to improving the dispute resolution process, stimulate business linkages within the economy and to improve the productivity and competitiveness of selected value/supply chains, clusters and business incubators/accelerators. The EU action will address regional imbalances, proposing to support such models in pilot regions, while ensuring synergies and coordination at central and local level. Building on the results achieved so far, the EU programme proposes three thematic components. The EU intervention is aligned with the overarching government's strategies mentioned in paragraph 1.1.1 and with the SME Development Strategy 2016-2020, which remains the major strategic document for continued reforms and support to Georgian SMEs.

(1) Fairer and faster litigations in commercial matters

The entrepreneurs point to protracted and unfair resolutions of commercial legal disputes as one of the major problems for developing business activities in Georgia. Together with monitoring organisations, they refer to illegal practices and schemes that persist before courts, and the prolonged duration of disputes due in particular to the huge backlog and increasing caseload of the major courts.

Currently, the judges of the civil chamber of the Tbilisi City Court (that deals with most cases in 1st instance) face more than 900 pending cases each, consisting importantly of petty payment recoveries by micro-credit institutions and banks from their clients. While the Enforcement Bureau may issue fast-track decisions in such cases, most of them are eventually appealed and then undergo standard proceedings before courts.

The EU supports judiciary reforms in various areas of both criminal and civil proceedings through a technical assistance project (October 2016 – May 2019), but further attention shall be paid to streamlining the procedures specifically in commercial disputes. Once the concept of the **commercial chambers** has been defined in more details, their establishment may require further technical expertise with the aim to ensure its alignment with EU standards.

Besides that the **civil procedural code** and related legislation, such as the civil or administrative codes, need to be further revised in order to allow for more streamlined and prompt proceedings before courts in both low and high value commercial disputes respectively.

Simultaneously, the proceedings have sometimes been marked with insufficient **skills** of judges or lawyers in complex business and economic cases, including recent high value competition (monopoly/cartel) disputes. The qualification of the legal professionals will be further enhanced in order to reduce procedural flaws and unfair decisions.

A certain number of potential court cases could be redirected to alternative dispute mechanisms, such as mediation and arbitration.

Since its introduction in December 2013, the use of **mediation** is very limited and increased very slowly, despite a number of trainings provided to judges, lawyers and mediators, introduction of curricula at universities, establishment of the National Centre for Alternative Dispute Resolution, and holding a series of workshops and campaigns. Also, two mediation associations have been operating in Georgia with only limited engagement and results. Altogether only 98 cases were referred to two existing mediation centres at Tbilisi and Gori courts since 2014, and only 23 mediators have been active with different levels of certifications. The use of both in-court and out-of-court mediation will be further supported, but attention will be paid to ensuring a balance between investments and numbers of mediation cases commenced, efficiently handled, effectively recognised and enforced in reality, comparatively to the number of cases before courts.

Compared to mediation, **arbitration** was introduced in Georgia much earlier, back in 1997. However, very soon it lost the trust of the public as well as judges after being oftentimes misused by banking or micro-credit institutions and seen to follow illegal schemes. Confidence is yet to be restored: almost all arbitration decisions (2 684 applications in 2015 and 3 295 applications in 2016 were submitted to courts for endorsement) are still related to microcredit disputes and judges continue to be reluctant to recognise the arbitral awards without further scrutiny, which eventually strips the arbitration of one of its principal goals – reducing the courts' caseload. Two major business-to-business arbitration courts operate in Georgia: The Georgian International Arbitration Centre founded by the Georgian Chamber of Commerce and Industry and the Dispute Resolution Centre partnering with the Business Association of Georgia. Arbitrators are members of the profession's Georgian Arbitrators Association. The commercial arbitration will be further supported proportionally to the number of business-to-business cases, number of contractual clauses referring to Georgian arbitration tribunals, and the effective recognition by courts and enforcement of arbitral awards. The idea to create a regional hub for arbitration will be supported accordingly.

While Georgia is overall rated high in the World Bank's *Doing Business*, it has been considerably lagging behind in the resolving **insolvency** index (combining the recovery rate, time, costs, outcome and insolvency framework): place 101 in 2016 and 106 in 2017 out of 190 economies monitored. Currently, the number of insolvency proceedings is insignificant as compared to the size of the country and the number of enterprises and there are almost no insolvency proceedings which would lead to rescuing an enterprise. Effectively, most cases

end with liquidation after around 2 years' time due to procedural delays and only after a piecemeal sale of assets for lower than first envisaged values.

One of the reasons for the lack of transparency and prolonged duration of the judicial cases is the conciseness of the current **company law**. When gradually reformed several years ago, the idea was to let enterprises define most details in their statutory documents. However, many of them having failed to regulate all subtleties, the courts had to establish sometimes contradictory ways of interpretation of the law including in high profile business cases in Georgia. The draft of the new company law extends significantly the scope and level of detail of the legal provisions, and its finalization after the regulatory impact assessment and application in practice will be supported.

Finally, the judicial decisions, including on arbitral awards, must be enforced in reality for the disputes to be effectively solved. Also thanks to a strong support from EU and its Member States, the **enforcement of judicial decisions** in commercial matters has improved over the last years. However, further adjustments and clarifications are needed to make it more efficient, predictable and reliable. A fair balance shall be further established between the needs of the creditor and the rights of the debtor; this problem is most apparent in the wide availability and use of micro-loans with extremely high rates and hard conditions for debtors that have caused large social problems in Georgia. The legislation, as well as practices and competence of private and public bailiffs shall be further revised for this purpose.

(2) Modernised financial infrastructure

The EU action will primarily complement the on-going efforts of the government to enhance the financing of the economy, by supporting reforms of the financial sector and by promoting the use of best market practices. While the Georgian financial system is widely dominated by commercial banks (accounting for about 93% of the total financial sector assets)⁵ access to finance for SMEs remains severely constrained. This is mostly due to high costs of credit, lack of credit history and stringent collateral requirements. As a result, a vast majority of Georgian businesses rely on internal sources of funding (mainly retained earnings) or apply to non-bank lenders with higher rates, risks and no regulated procedures. The absence of a proper legal infrastructure, including a sound consumer protection framework, contributes to spread informal and irresponsible lending practices.

In view of providing a comprehensive package encompassing all the different dimensions of access to affordable finance for Georgian businesses of all sizes, the EU action will work on different axes.

In the area of **capital market development**: Following the Strategy on Capital Market Development and its Action Plan⁶, the EU action will be intended to broaden the sources of funding for businesses with high perspective of growth and employment generation. Capital markets help mobilise price capital, but also provide opportunities to hedge risks. The development of the Strategy highlighted the problems that remain to be solved to boost economic development. These are the obsolete capital market infrastructure which complicates trade and settlement processes, insufficient knowledge and experience of the

⁵ Neighbourhood SME financing - Georgia, the EIB, February 2016

⁶ Final Report April 2016; prepared by the working group composed by the Ministry of Economy and sustainable Development of Georgia, the Ministry of Finance of Georgia and the National Bank of Georgia

market participants, insufficient liquidity which limits investors' interest, weak corporate governance and ineffective system of assessing creditworthiness, lack of institutional investors, and a taxation system not conducive to market development. Finally, Georgia is lagging behind in terms of capital market vehicles and instruments. The Strategy and Action Plan aim to remove these impediments through systemic and market methods. Strengthening the institutional capacity of the regulator (NBG) and the respective legal and regulatory framework are considered priorities for enhancing investor protection and increasing market transparency and attractiveness. Supporting the development of the capital market shall also enhance the expansion of insurance resources. The EU action therefore proposes to assist the NBG to develop a roadmap for implementing the relevant EU legislation, develop and implement a new legal framework for investment funds and mutual collective schemes, strengthen the capital market infrastructure and support the development of selective capital market instruments.

Responsible financial inclusion and alternative sources of financing: Under this area the proposed action will primarily work to promote responsible lending practices, enhance financial literacy to increase consumers' awareness about financial products, including financial literacy of microfinance clients in Georgia, and improve the framework for movable collaterals. The EU action will assist the government to streamline the "secured transaction framework" and implement a modern "transactions registry" in order to increase lenders' appetite for using movable collaterals as a form of guarantee. The lending market, especially for lower value loans, can also be enhanced through **further reforms of the credit market infrastructure, including credit reporting and oversight**. The first (and only one) private credit bureau established in 2004 in Georgia is operating without any regulatory framework and the NBG does not have any oversight responsibilities to ensure a sound market conduct and consumer protection in line with international best practices. The EU action will contribute to fill this gap, supporting the finalisation and implementation of a Credit Bureau law and regulatory practices. Additionally the EU action will support the development of financial instruments which can complement and increase the variety of financial products currently offered by commercial banks. This may include **factoring and leasing practices** as well as **other banking services** that could fit the needs of local SMEs. Areas of improvement in factoring are for instance a revised legislation defining different types of products (international factoring, reverse factoring, factoring on future receivables) to increase legal certainty. Areas of improvement in leasing are the introduction of provisions that would clarify the interpretation of rights and obligations of the parties to the leasing agreement.

Insurance market development: Insurances play an important role for financial stability. However currently sector performance is weak; major deficiencies exist in the regulatory framework and insurance products options are missing. Georgia does not comply with EU requirements regarding insurance classes and products classification. Life insurance is not developed. Property insurance exists but its level of penetration is very low due to lack of compulsory requirements and social background. Mandatory insurance classes such as Motor Third Party Liability (MTPL) are nearly absent. However, the introduction of a MTPL insurance is at the top of the reform agenda. The government also engaged on reforming the regulatory framework for the insurance market stability and solvency, under the responsibility of the ISSSG. In order for ISSSG to be able to effectively fulfil its supervision mandate (as foreseen under EU Directive 2009/138/EC, Solvency II) and to advance in the preparation of major insurance laws, the EU action proposes to assist this regulatory body with the overhaul

of the legal framework, through capacity building activities and trainings of its young but dynamic staff. Also, ISSSG needs to improve the fit and proper criteria of a unified system for the management of insurance companies (e.g. testing, interviewing, including the electronic delivery of this process and identifying all necessary procedures which are used in the EU in this regard).

Better Financial Information: To manage their finances successfully and make sound business decisions, enterprises need solid financial information, analysis and a seasoned perspective. As professional accountants are a major source of external business advice for enterprises, there is an opportunity for the accounting profession to play an increased role in the development of the private sector, by providing financial information, analysis and advice required for a better financial management and decision-making to businesses. The latest report of the EU supported STAREP initiative (2017) highlighted the need to further strengthen the capacities of banking and insurance regulators and supervisors on International Financial and Reporting Standards, and to enhance the ability to monitor the **quality of financial statements**. This translates into the need not only to increase cooperation between auditors, supervisors and other actors, but also to raise awareness for business on the importance of providing reliable and accurate financial reporting. The EU action proposes activities to support the implementation of the recently adopted Accounting and Audit Law, building capacity of business service providers that would in turn provide business support and advice to all businesses and in particular to SMEs. The action also aims to strengthen the regulatory and operational capacities of the newly established **Service for Accounting, Reporting and Audit Supervision (SARAS)** under the Ministry of Finance (MoF), responsible for the enforcement of company reporting requirements, application of accounting standards and for quality control of audit. Establishing such enforcement will allow the government to close the existing gaps in supervision, enforcement and monitoring of entities important to the Georgian economy. These changes will help to simplify access to credit for business and improve the transparency of business and investment climate in Georgia.

(3) Greater business sophistication

Besides access to finance, major bottlenecks for business are the low levels of entrepreneurship spirit, insufficient manufacturing and transformation capacities, business skills, underdeveloped clustering, poor export diversification and trade opportunities. In addition, the poor innovation and technology base (including green technologies) is hindering the potential for wider opportunities. In the *Global Competitiveness Report 2016-2017*, business sophistication and innovation continue to rank very low, witnessing the need to improve the current state of play.

Clusters, business integration and business sophistication: The state of cluster development, the local supply quantity and quality, the value chain breadth and the sophistication of the production process are among the indicators used to measure the degree of business sophistication. They all rank low in the *Global Competitiveness Report 2016-2017*.

An on-going EU-funded project is bringing the clustering approach to Georgia on a wider scale. The project highlighted that crucial factors for ensuring a well-functioning cluster model are the presence of adequate conditions in the business environment to encourage its development (institutional framework) and the existence of a structure where coordination and management activities are carried out in a transparent and systematic manner (a so-called

"cluster governance and management organisation"). Helping Georgian entrepreneurs organize themselves in clusters initiates teamwork among them and enables them to form the critical mass needed to face new challenges, strengthen competitiveness and become attractive business partners for European clients. Work is underway in apparel, furniture, honey and film/post-production, while similar activities commenced in Information and Communication Technology. Other potential sectors are under discussion.

In view of enhancing business integration and creating the incentive for companies to link, the EU action aims to develop at least five pilot clusters in Georgian regions in manufacturing, agriculture and services. Clustering is a suitable approach to organise value chains, particularly when participating companies are SMEs eager to create synergies. In manufacturing, developing a cluster around construction materials will benefit from on-going reforms in energy efficiency and will contribute to reduce Georgia's import dependency. Packaging bears a high growth potential and enables the development of related sectors (such as food and beverage, transport). A cluster on packaging will contribute to improve the quantity and quality of materials used and promotes better regulation on raw materials, recycling and waste management. Apparel has an export potential and in combination with fashion/design (creative industry) a comprehensive integrated approach could be developed. Given the contribution of tourism to GDP and job creation, the EU action will also support a cluster built around mountain and non-mountain sustainable tourism, in combination with agri-tourism. In agriculture, a cluster on seeds/seedlings will benefit of Georgia's numerous climatic zones and will contribute to higher productivity and diversification of farming, notably to develop demonstration plots for testing new varieties. Such a cluster also requires good cooperation between scientific institutions and the private sector on R&D. Cluster development on organic/bio agriculture will benefit rural, smaller enterprises and might strengthen Georgian cooperatives. Existing cooperatives could integrate into a cluster and/or become a cluster themselves.

The EU action aims also to create the incentives for Georgian companies to cluster not only among each other but also with similar clusters in Europe. In line with AA/DCFTA provisions, regulatory (food safety, quality standards) and business standards (social compliance, workplace conditions), including best practices on gender equality standards, will be supported through the action, also thanks to synergies with other EU-funded programmes. The expected economic benefits of the cluster are, among others, increase in efficiency through information exchange and cooperation, improved manufacturing/transformation capacities, accelerated innovation, easier and cheaper access to market (providers and buyers), enhanced relationships between producers, suppliers, contractors and consumers, better advocacy and as a result business growth. Besides, major benefits are felt by workers (occupational safety and health), farmers (more income), the labour market (more skilled jobs), the environment and the Georgian economy as a whole.

Business incubators, innovative start-ups and innovation ecosystem: Despite the initial efforts of the Georgian Government to further develop the nascent innovation ecosystem, many challenges remain. The innovation pillar of the *Global Competitiveness Index Report 2016–2017* continues to lag behind, showing weaknesses on capacity for innovation, quality of scientific research institutions, company spending on R&D, university-industry collaboration and government's procurement of advanced technology products. Low innovation-readiness, undeveloped innovation infrastructure and limited access to finance for innovation hinder the capacity of Georgian enterprises to innovate and scale up. Coaching,

mentoring and specialised training opportunities for innovative entrepreneurs are insufficient. The existing incubators, accelerators and technology transfers lack practical application and links with the industry. Innovation infrastructure is not developed outside Tbilisi. If GITA's grant programme was a strong initial start, the grant regulatory framework and their modest amount limit their effectiveness. The overall use of ICT in the industry is not optimised and its competitive benefits not properly understood, especially by SMEs. Given the complex and interactive innovation ecosystem, a closer co-ordination with all the stakeholders including technical Vocational Educational Colleges and other entities under the Ministry of Education and Science, is much needed. Furthermore, despite the progress registered since its establishment, GITA remains a small and young institution, with the biggest challenge to improve its strategic management capacities and attract participation from the industry. Its ability to meet growing demand for its services could benefit greatly from additional support.

The priority for EU intervention rests on the need to complement the government's efforts to boost the national innovation ecosystem, support the functioning of existing and/or planned business incubators/accelerators for sustaining new firm's creation and promoting innovation across Georgia.

The EU action will support GITA's capacities to develop and implement (in-house) innovation and entrepreneurship policies and programmes with medium-and long-term results and to act as a one-stop shop for innovation activities. Sharing of expertise with agencies in newer Member States such as PARP and/or NCBIR in Poland and Hamag Bicro in Croatia would support the transition of GITA from a "start-up" mode to a "fully-fledged" innovation agency. Demonstration effects of innovation through collaborative grant schemes led either by public universities or research centres or private entities will be promoted through the EU action, with the ultimate goal to translate research results into innovative economic activities and expand the opportunity for innovative start-ups and incubators to bring services to the market. Co-investment schemes will be stimulated thanks to grant financing for innovative firms (where grants are disbursed along with investment readiness programming for companies and potential investors). Tourism is an area receptive to innovation activities. The EU action will likely target Zugdidi as an excellent location for traveling and tourism and where new potential services from innovative start-ups can be further stimulated (such as financial technology for travel, free wi-fi in non-served areas, etc.).

One-stop-shop model for better quality and more efficient public services to businesses: At this stage the concept is still under development and an on-going twinning with the Data Exchange Agency is helping with the concept and the platform structure. Legislative changes are needed in order to develop the approach, the 'ecosystem' and the governance mechanism, which should also integrate the Georgian local communities and other business service providers. A subsequent twinning with the Data Exchange Agency or Enterprise Georgia/Produce in Georgia or a relevant agency, mandated with policy implementation, might be envisaged.

1.2 Other areas of assessment

1.2.1 Fundamental values

Fundamental values of democracy and human rights are protected by the Georgian Constitution, in line with international standards. Georgia is considered to be a country adhering to the rule of law, although improvement is still expected namely in the areas of enforcement of judicial decisions and the independence of the judiciary.

1.2.2 Macroeconomic policy

The economic slowdown in the region and sharp currency depreciations in major trade partners of Georgia since end-2014 have led to reduced exports and inflows of remittances. This has contributed to a slowdown of economic growth to 2.7% in 2016, from 2.9% in 2015 and 4.6% in 2014. GDP growth is projected to increase gradually to 3.5% in 2017, supported by consumption and investment. Regional and global growth is also expected to pick up in 2017, but will remain subject to downside risks.

External vulnerability contributed to the depreciation of the national currency (GEL) that lost 22% of its value against the US dollar between 2014 and 2016. The effects of this volatility are amplified by the still high dollarisation of the Georgian economy, where 70% of deposits and 65% of loans were denominated in US dollars in 2016.

The current account deficit has widened to 12.4% of GDP in 2016 (from 12.0% of GDP in 2015 and 10.6% in 2014) and remains a major source of vulnerability. The current account deficit, which is expected to worsen further to 12.9% in 2017, is mainly driven by the trade in goods deficit which is only partly offset by the trade in services surplus and income and transfers from abroad, including remittances. Although the current account deficit has mainly been financed by inflows of foreign direct investment (FDI), FDI is expected to decrease slightly from 11% of GDP in 2016 to 10.3% of GDP in 2017. Moreover, debt-creating financial inflows have also contributed to the financing of the current account deficit. Hence, Georgia's external debt, which hovered around 80% of GDP in 2008-2014, has increased significantly in the following years, to 111.8% of GDP at end-2016. As most foreign debt is denominated in US dollar, the lari depreciation has played an important role in this increase.

The period-average inflation (consumer price index, CPI) decelerated to 2.1% in 2016, compared to 4.0% in 2015. CPI is projected to increase to 5.7% in 2017, in line with the increase of excise duties which entered into force in January 2017. In 2016, in line with the economic slowdown and abating inflationary pressures (and even a brief period of falling prices), the central bank gradually reduced the key policy rate from 8% to 6.5%. However, in 2017, with an increase in inflationary pressures (mainly due to increases in excise duties and a pick-up in global commodity prices), the NBG raised the refinancing rate two times: from 6.5% to 6.75% (in January 2017) and to 7% (in May 2017).

Following a long period of fiscal consolidation since 2009, the fiscal situation started to deteriorate in 2015, partly resulting from an increase in social spending (35% of the State budget) aimed at addressing the country's persistently high levels of poverty and inequality. Thus, the budget deficit has widened from 3.1% of GDP in 2014 to 3.8% in 2015. The budgetary position further deteriorated in 2016, with the government's deficit estimated by the IMF at 4.1% of GDP, as a result of both weaker-than-expected revenues and spending increases ahead of the October parliamentary elections (mainly in defence, public transport, infrastructure and healthcare). The fiscal deficit (which was projected to increase further, to around 6% of GDP this year) is now forecast to remain at the same level (4.1%) in 2017 and to decrease gradually afterwards. Meanwhile, the public debt ratio also increased from 41.4% of GDP at end-2015 to 44.6 of GDP at end-2016.

On 1 March 2017, the IMF reached a Staff-level Agreement with Georgia on a three year USD 285 million Extended Fund Facility (EFF), which was approved by the IMF Executive Board on 12 April 2017.⁷

According to the IMF, the Georgian economy has remained resilient despite the external shock starting end-2014. The continued implementation of structural reforms is expected to create favourable conditions for private investment, productivity growth and improved export competitiveness. The IMF notes that the authorities' agreed economic program aims at preserving macroeconomic and financial stability and addressing structural weaknesses in the economy to support higher and inclusive growth. The 2017 Budget includes strong fiscal measures to ensure that budget discipline is maintained, debt sustainability is preserved and fiscal space is created for public investment and social spending. Fiscal reforms will contribute to budget discipline while national authorities agreed with the IMF on the importance of strengthening public financial management, control and disclosure of fiscal risks and continuing to strengthen tax administration⁸.

Following the IMF Board decision, the World Bank's Board of Executive Directors was able to approve in April 2017 a EUR 47.2 million development policy operation (DPO) for Georgia. In May, the European Commission was able to approve the disbursement of the second tranche of EUR 23 million under the EU's Macro-Financial Assistance (MFA) to Georgia.

1.2.3 Public Financial Management (PFM)

There is no overarching Public Finance Management strategy in Georgia. However, key government institutions – Ministry of Finance, State Audit Office and the Budget and Finance Committee of the Parliament have medium term policy documents and action plans for 2014-2017 years. Strategic documents take the 2012 PEFA findings as a baseline while reform milestones were being developed through inclusive policy dialogue processes via the EU Public Finance Policy Reform (PFPR) programme.

The MoF PFM Strategy highlights its reform activities in the following areas: (i) budgeting; (ii) tax and custom policies; (iii) State debt management; (iv) macro-economic forecasting; (v) accounting and reporting; (vi) Public Internal Financial Control; (vii) PFM-related IT development; (viii) resource management. In 2015 – 2016 new components were added to the Action Plan reflecting the commitments taken under the EU Georgia Association Agenda as well as incorporating the World Bank's Public Expenditure Review (PER) recommendations. Actions are envisaged for harmonising VAT and excise legislation with the EU acquis, as well as for creating mechanism for investment projects selection and implementation. In 2016 the Cabinet of Ministers approved the guidelines for identification, evaluation, prioritisation, and funding of Public Investment projects to make sure that investment planning is aligned with medium to long term national economic and social priorities. Proposed projects with the value above GEL 5 million should undergo a feasibility study and cost-benefit analysis.

The Georgian State Audit Office fulfils the role of SAI in Georgia. The SAO has a Strategic Plan, covering the period from 2014 to 2017, and with reference to the EU PFPR aims to

⁷ IMF Press Release No. 17/130, April 12, 2017

⁸ IMF Press Release No. 17/68, March 1, 2017

continue the work of establishing the SAO as a credible and independent SAI. The SAI plan sets out four strategic goals: (i) support Parliamentary oversight of the government through audit work, (ii) support government reforms aimed at improving government accountability, (iii) promote transparency and accountability in political party financing, (iv) enhance the institutional capacity of the SAO to foster quality of work. The State Audit Office submits its opinion to the Parliament on the draft budget (November) and the annual execution report (June). SAO also conducts financial and compliance audits of budgetary organisations. Audit opinions and reports are available online and accessible to the public. During recent years use of SAO reports by members of Parliament and media has increased (one of the benchmarks of the PFPR programme).

Overall monitoring of the PFM Reform Strategy is undertaken by the Coordination Council for the Implementation of the PFM Reform Strategies for 2014-17, chaired by the MoF. The implementation of the PFM strategies is done through annual action plans that are developed by the State Audit Office, MoF and Budget and Finance Committee of the Parliament. Regular meetings are held to receive reports on progress, and recorded minutes of outcomes and decisions are produced.

A new PEFA is under the preparation which is based on the updated methodology and will take stock of already implemented reforms. The MoF anticipates publishing the assessment in late 2017 after it is quality checked and validated by the PEFA Secretariat.

1.2.4 Transparency and oversight of the budget

Georgia's ranking in the 2015 Open Budget Survey was 16 among the 102 countries included in the survey – a significant improvement from its position of 33 in the 2012 survey. Its score places it among a grouping of high-scoring countries classified as substantially transparent. In December 2016 the International Budget Partnership (IBP) published an update stating that Georgia makes "eight of eight key budget documents publicly available online in a timeframe consistent with international standards".

As part of the Public Finance Policy Reform programme, MoF prepares and makes a "Citizen's Guide to the annual Budget" in Georgian and English publicly available which also invites citizens to take part in budget planning and defining budget priorities. The Parliament also holds hearings on the SAO's annual report as well as the report on the execution of the State budget at its spring plenary sessions.

In order to strengthen the accountability mechanism the PFPR programme has helped the Government to establish a mechanism for follow-up of State Audit Office (SAO) recommendations. A report on progress of implementing recommendations is annexed to the annual budget execution report submitted to the Parliament in May.

Important milestones for the EU-Georgia policy dialogue are enhancing the legal independence of the SAO by upgrading the status of the SAI law and granting the right to appeal to the Constitutional Court, thus removing the responsibility for the monitoring of political party expenditures, which is incompatible with INTOSAI rules.

With the support of the EU, the Budget Office of the Parliament was re-established as an Independent Institution providing expert advice to the members of Parliament on the fiscal and macroeconomic environment and contributing to oversight of the budget process.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Reform fatigue/lack of commitment from the Government in carrying out the targeted reforms /weaknesses in the legislative process	M	A strong policy dialogue will be established with the different beneficiaries in supporting national strategies, law drafting and legislative processes and implementation mechanisms.
Lack of commitment or delay in the implementation of policy reforms most complementary to this action (VET policy; for specific clusters: waste management reform for packaging, energy policy for energy efficient construction materials, agriculture policy for food standards, bio products and seeds, IPR for innovation).	M	Continuous and regular policy dialogue with the authorities and key stakeholders on relevant policies for the action, making use of existing coordination mechanism and EU project platforms (for instance the VET Council).
Deterioration on the domestic market and/or in regional trading partner that might reduce economic opportunities	M	Continuous support to economic governance reforms and stability-oriented macroeconomic policies, through a regular dialogue, including IMF.
Insufficient capacities/lack of skills of the beneficiary institutions in charge of financial infrastructure	H	The action will provide targeted assistance.
Weak inter-ministerial co-ordination in the adoption and/or implementation of laws and regulations	M	The action will strengthen co-ordination in legislative and policy reforms.
Rotation of civil servants and absorption capacities of key beneficiaries	M	The action will provide targeted assistance to maintain trained personnel.
Insufficient ownership, including the involvement of the private sector (academia, small business) to ensure that the expected results will be achieved	L/M	Continuous policy dialogue with the stakeholders and measures to promote greater participation of the private sector, (for instance participation of the private sector to steering committees and other platforms for coordination).
Policy measures and supporting	M	Inclusive policy dialogue and assistance to

actions do not achieve a tangible impact on the economy		set up targets, take corrective actions and monitor the effects of policies
Duplication with other EU and donors' initiatives	L	The action will enhance coordination mechanisms between the development partners for the implementation of complementary initiatives.
Assumptions		
The Government of Georgia (a) continues actions for political and economic integration with the EU; (b) pursues economic/financial reforms in line with best international and EU practices; (c) maintains the dialogue with the private sector through official institutional mechanisms; (d) has sufficient institutional capacity/maintenance of key leadership and technical staff as well as strong planning, implementation and coordination capacity in beneficiary institutions.		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Lessons learnt come from the implementation of EU technical assistance and twinning projects in trade, SME and agriculture-related fields, from the implementation of EU regional programmes in support of SME policies and access to finance as well as from the use of budget support in trade, SME and other policy areas (justice, agriculture, public administration reform, regional development, public financial management).

The EU previously worked or is working with most of the beneficiary entities and strong operational relations exist with some of them. Experience shows that the MoESD and agencies under its responsibility are in considerable need of external technical and financial support. Support to provide financial tools to help SME adapting to EU norms has been continuously requested. The development of the 'DCFTA Facility' was indeed thought to fill this financing gap. Furthermore, experience shows that some beneficiaries would like to be fully responsible over the choice of aid modality, without accounting for the degree of institutional maturity or management capacities.

The EU engaged more significantly in the civil, administrative and commercial law areas since 2015 through policy dialogue led with and technical support provided to the Ministry of Justice and its agencies, as well as to associations of lawyers, arbitrators and mediators. The justice budget support programme appeared to be a useful tool for keeping an in-depth and constant dialogue on timely reforms. Furthermore, the Ministry of Justice and its agencies, the judiciary and professional associations benefitted from robust technical support, translated into new strategies, draft laws, internal reorganisations, but there is still a need to improve the speediness and fairness of judicial litigations, enforcements and insolvency proceedings, and the quality and proper caseload of arbitration and mediation. Experience also shows that the wording and timelines of the targets or indicators must be very carefully designed in order to achieve a balance between ambition and feasibility; for that purpose it is advisable to engage beforehand in an in-depth baseline study and transpose the findings into an explanatory note to the policy matrix, or relevant project descriptions.

Main lessons learnt/challenges:

- 1) Sector policy dialogue and coordination between line ministries over inter-related economic areas (education, agriculture, justice, etc.) must be strengthened; monitoring the implementation and the impact of activities carried out.
- 2) Coordination between EU interventions and timeframe of EU interventions is necessary. Decisions taken prior to impact assessment or evaluations of on-going EU projects can lead to mistakes in the formulation of the action. Timelines and targets/indicators must be carefully designed and based on in-depth situational analyses.
- 3) It is important to set up an official Private Sector Development or Business Development donor coordination platform with identification of a donor's leadership and a clear calendar of meetings.
- 4) Political will to continue support after EU interventions must be ensured.
- 5) Budget support challenges demonstrate the need to improve inter-governmental coordination, increase the efficiency of public spending and improve the strategic analytical capacities of the targeted institutions.
- 6) More flexibility of EU actions and possibility to rapidly adapt EU interventions to policy changes and/or needs is needed, including budget support matrixes or projects' logical frameworks, though without compromising much on the initially defined ambitions.
- 7) In order to prevent duplications, close coordination between bilateral and regional activities in support of business reforms, access to finance, agriculture value chains, justice and public administration reforms is required.

The action also draws on EU experience on providing support to business organisations through grant schemes. Experience shows that most of the beneficiary entities still lack appropriate capacities to propose valuable initiatives and manage EU grants. However, given the relevance of business and sectoral organisations along the value chain, capacity building activities to strengthen their capacities to more efficiently interact with the business community, especially at regional level, will be part of the action.

The support to a business incubator in Abkhazia through the ENPARD just started therefore it is premature to assess its impact and to draw lessons learnt.

3.2 Complementarity, synergy and donor coordination

On Component 1, the ongoing *EU4 Justice* budget support programme is primarily focused on criminal justice, but also contains significant technical support in the civil, administrative and commercial law areas, as well as one set of indicators related to introducing systemic land registration in the country.

An EU project with UNDP supports the development of state-funded free legal aid, legal services, arbitration, and mediation. An EU project with GIZ assists with revisions of the civil code, civil procedural code, administrative code, insolvency law, law on enforcement of judicial decisions, land registration, and international judicial cooperation. The project is a part of the GIZ programme on Legal approximation towards European standards in the South Caucasus. EBRD and the United Kingdom Government envisage supporting the establishment and operationalisation of the commercial chambers. USAID's and Council of Europe's initiatives support significantly judiciary reforms, but without focus in the commercial law areas specifically. Since there are only few donors in the commercial law

area, and financed mostly through EU projects, donor coordination is ensured through bilateral or small multilateral meetings. Besides that, the Government's Private Law Reform Inter-Agency Council and its working groups form a discussion and coordination platform for the relevant institutions, donors, civil society organisations and other actors.

On part of Component 2 and on Component 3 the action complements on-going and upcoming EU interventions at bilateral and regional level in the area of support to SME development, trade and enterprise policy, business support organisations and access to finance, including women in business, all framed under "*EU4Business*". The ongoing sector budget support "Support to SME development and DCFTA in Georgia" focuses on trade and SME reforms and contains two major actions currently implemented by GIZ and EBRD in support of core SME-related institutions, SMEs, business organisations and value chains. The new programme on "Supporting firm competitiveness and business environment reforms in the Eastern Partnership: an EU4Business initiative" implemented by the OECD will be highly complementary to this action. It will assist the government in preparing and operationalising the SME Strategy Action Plan 2018-2020, strengthen the policy making process by introducing a public-private SME strategy stakeholder process and strengthen the institutional capacity of the government (MoESD, EDA) to monitor the implementation of the SME Development Strategy 2016-2020. Furthermore, the ongoing ITC project on "Eastern Partnership Ready to Trade – an EU4Business initiative" will help SMEs from EaP countries integrate into international value chains and access new markets with a focus on the European Union.

The action complements a set of future projects under the Technical Cooperation Facility, targeting trade policies and the financial sector. The action will be in synergy with the upcoming EU programme "Skills Development and Matching for Labour Market Needs".

The EU action is in line with the joint programming Fiche on Economic Growth elaborated with representatives of the EU Member States Embassies in Georgia and coordinated with other non-EU donors such as UNDP, other UN agencies, USAID and International Financial Institutions (EBRD, World Bank).

The donor community supporting business reforms and private sector development is mostly represented by GIZ, UNDP, USAID, the Czech Development Agency, the Austrian Development Agency, OECD, the World Bank, EBRD, EIB and other development banks. Donors' programmes target the more general business enabling environment as well as specific projects, mostly in agriculture and tourism. The Qvevri wine cluster implemented by GIZ is an example of a pioneer agricultural cluster. Other donors' initiatives are implementing the value chain approach to several agricultural commodities. Complementarities exist with the World Bank Financial Sector reform and Strengthening Initiative (FIRST), the World Bank's Georgian National Innovation Ecosystem Project (GENIE) and GIZ' South-Caucasus Private Sector Development Programme 2017-2020.

Some practice of coordination on thematic areas (SMEs, economic development, financial system) exists, such as the Investors Council, the Private Sector Development Advisory Council, the DCFTA Advisory Body, inter-ministerial working groups. However development partners are not always and systematically consulted. Thematic Coordination Groups have been set up by the Donor Coordination Unit under the Administration of Georgia

(working group on Economic Growth) and a similar structure exists under the State Ministry for European and Euro-Atlantic Integration.

A list of EU-funded bilateral, EU multi-country programmes and other donors' most relevant actions supporting the private sector development can be found annexed to this Action Fiche.

3.3 Cross-cutting issues

All activities under this programme will be designed and implemented in accordance with principles of good governance, gender equality and environmental sustainability and the inclusion of socially or economically deprived groups wherever these issues are of particular relevance to the institutions to be assisted. This is particularly prominent in the area of access to finance, where the action has the ambition to broaden and ease access to finance for women, youth and disadvantaged groups. The project will mainstream gender considerations and youth inclusion in the implementation of activities with impact on the real economy, notably gender imbalances related to business ownership, employability and remuneration. As significant economic opportunities are provided through the deeper involvement of women and youth in economic activities, the EU action will pay specific attention to facilitate their integration in the development of business sophistication models, where digital economy, innovation, and research/industry partnerships will be promoted. The application of EU standards, including environmental and labour standards, will be promoted. The action will also support the Government's efforts to develop a green and sustainable economy, encouraging the use of renewable energy resources, reduce solid and liquid waste, and reduce carbon emissions, therefore helping developing capacities in the field of eco-innovation and circular economy.

In particular, economy-environment linkages will be considered in the development of clusters on packaging and bio/organic farming, while promoting raw materials and waste management best practices. Opportunities for improving building material efficiency will be promoted in the construction materials' cluster. Climate change considerations impacting biodiversity and eco-systems will be streamlined in the support of a sustainable tourism.

The use of energy-efficient technologies, the optimisation in the use of resource inputs to minimise the generation of waste, and environment protection are promoted along the development of the value chains.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The **overall objective** of the action is to foster socio-economic development in Georgia and its regions. The **specific objectives** are to:

1. Make faster and fairer the litigations in commercial matters
2. Modernise the financial infrastructure
3. Promote market-oriented and innovative business models for job creation

The specific objectives will be addressed through three thematic components. The expected results, by component, are:

Component 1: Fairer and faster litigations in commercial matters

Result 1.1: Fairer and faster litigations in commercial disputes

Component 2: Modernised financial infrastructure

Result 2.1: Capital market development

Result 2.2: Responsible financial inclusion and alternative financing

Result 2.3: Better financial information

Result 2.4: Enhanced insurance system

Component 3: Greater business sophistication

Result 3.1: Strengthened policy framework to facilitate the development of SME, clusters and incubators

Result 3.2: Development and functioning of the clustering approach in at least 5 pilot sectors in Georgian regions (such as construction materials, packaging, apparel, creative industry, tourism, organic farming, seeds/seedlings)

Result 3.3: Development and functioning of business accelerators/incubator, serving target regions and sectors

Result 3.4: Improved delivery and quality of public services to businesses

4.2 Main activities

The main activities of the proposed Sector Reform Contract are policy dialogue, capacity building, performance assessment and financial transfers.

The activities shall be channelled through both a budget support policy matrix as well as complementary support to budget support and other support contributing to the specific objectives of the action consisting primarily of projects with international organisations and development agencies as well as twinnings.

4.2.1 Budget support

Budget support is proposed for areas where a sound level of policy framework, coordination and ownership of the reforms has been shown. The main activities are geared towards policy targets that the Government will commit to achieve in relation to the following policy areas: legal reforms in the commercial sphere (insolvency and enforcement proceedings); modernised financial infrastructure in insurance; and enterprise development focused on business integration through clusters and innovation. Further details on these inputs are provided under section 5.3.2.

The budget support in commercial litigation responds to the commitments of the government set out in Direction 1 of the SME Strategy (Improvement of legislative, institutional framework and operational environment for SMEs) and in particular Priority Action 1.1: "Improvement of business closure and insolvency procedures". As regards modernised financial infrastructure in insurance, insurance is part of a broader commitment of the government to reform the financial sector. Targets on business integration and innovation fall under Direction 4 (Export promotion and SME Internationalization) and Direction 5 (Facilitation of innovation and R&D in SMEs) of the SME Strategy.

As regards **Component 1**, the following activities will be supported through budget support to achieve Result 1.1: Fairer and faster litigations in commercial disputes:

- R.1.1.4 Strengthened and rehabilitation-oriented insolvency proceedings
- R.1.1.5 More efficient enforcement of judicial decisions

As regards **Component 2**, the following activities will be supported through budget support to achieve Result 2.4: Enhanced insurance system:

- R.2.4.1 A functional insurance supervision system is in place
- R.2.4.2 Insurance market is expanded through compulsory insurance products

As regards **Component 3**, the following activities will be supported through budget support:

To achieve Result 3.1: Strengthened policy framework to facilitate the development of SME, clusters and incubators

- R.3.1.1 The institutional framework for business integration is developed and tailored for target regions and sectors
- R.3.1.2 Economic opportunities are identified in pilot regions and are elaborated in consultation with local authorities and the private sector

To achieve Result 3.2: Development and functioning of the clustering approach in at least 5 pilot sectors in Georgian regions (such as construction materials, packaging, apparel, creative industry, tourism, organic farming, seeds/seedlings)

- R.3.2.1/R.3.3.1 Diversified and increased number of services delivered by incubators to businesses, start-ups and social enterprises
- R.3.2.2 Cluster governance and management structure(s) are leading to better private-public coordination
- R.3.2.3 Synergies among economic actors, including BSOs, in the cluster are intensified
- R.3.2.4 EU standards are promoted in the cluster

To achieve Result 3.3: Development and functioning of business accelerators/incubator, serving target regions and sectors

- R.3.3.1/R.3.2.1 Diversified and increased number of services delivered by incubators to businesses, start-ups and social enterprises
- R.3.3.2 Increased synergies among business incubator(s), private sector and academia/research centres are created

At this stage, it is foreseen that EUR 21.25 million will be disbursed through this Sector Reform Contract, in 4 annual tranches (disbursed indicatively in 2019 to 2022). The amount defined for budget support is expected to have an effective impact on the fulfilment of the conditionality and providing substantial leverage for the policy dialogue.

4.2.2 Complementary support to budget support

Complementary measures to budget support, as well as other measures outside the scope of the budget support, amount to EUR 26 400 000, of which EUR 19 900 000 are connected to

the scope covered with budget support and EUR 6 500 000 not connected to the budget support as highlighted in section 5.4. This support will focus on strengthening the capacities of the national stakeholders to address the above result areas and to target the real economy through pilot initiatives on value chains, clusters and innovative start-ups with a specific attention to pilot regions. Support to core institutions and government agencies will be primarily delivered via twinning projects and technical assistance through the services of EU Member States agencies and specialised international organisations. The main activities by component and results are the following:

As regards **Component 1**, complementary support will be provided to the activities mentioned above through indirect management to achieve Result 1.1: Fairer and faster litigations in commercial disputes.

- R.1.1.4. Strengthened and rehabilitation-oriented insolvency proceedings: Assist with the finalisation (approximation), adoption and implementation of the new insolvency law (or amendments to it) based on a regulatory impact assessment, including possibly the establishment and operationalisation of a chamber of private administrators; enhance skills of lawyers, judges and administrators, raise awareness of business operators about the law and its potentials.
- R.1.1.5. More efficient enforcement of judicial decisions: Assist with improving the legislation and implementation in practice, enhance capacities of public and private bailiffs and lawyers.

As regards **Component 2**, complementary support will be provided to the activities mentioned above through indirect and direct management to achieve Result 2.4: Enhanced insurance system.

- R.2.4.1 A functional insurance supervision system is in place: Capacity building and regulatory reforms, regulatory strengthening, development of procedures, skills and knowledge, market trainings on introduction of new ISSSG regulations; trainings and capacity buildings related to the EU approximation process, which have to be defined on the basis of mutual agreement between the parties.
- R.2.4.2. Insurance market is expanded through compulsory insurance products: Assist to identify compulsory insurance types and put MTPL law into practice; training of insurance companies and communication campaigns for clients; assist with the introduction of other relevant insurance products.

As regards **Component 3**, complementary support will be provided to the activities mentioned above through indirect management, to reach the following results.

To achieve Result 3.1: Strengthened framework of policy makers to facilitate the development of SME, clusters and incubators

- R.3.1.1 The institutional framework for business integration is developed and tailored for target regions and sectors: Assistance on role and responsibilities of public and private sector in business models; assistance with setting up the legal and institutional framework for business integration and business partnerships.

- R.3.1.2 Economic opportunities are identified in pilot regions and are elaborated in consultation with local authorities and the private sector: Assist with the development of economic initiative's master plans (cost-benefits analysis, fiscal stance, planning, etc.); policy dialogue with local communities, including BSOs and the private sector; communication and awareness raising activities.

To achieve Result 3.2: Development and functioning of the clustering approach in at least 5 pilot sectors in Georgian regions (such as construction materials, packaging, apparel, creative industry, tourism, organic farming, seeds/seedlings)

- R.3.2.1/R.3.3.1 Diversified and increased number of services delivered by incubators to businesses, start-ups and social enterprises: Provision of support for assessing market needs; advice on the type of services meeting the industry demand (VET colleges could be seen as incubators for service providers);
- R.3.2.2 Cluster governance and management structure(s) are leading to better private-public coordination: Support the selection of sectors for clusters; support in the identification of leader companies and potential partners linked to international markets; tailored mentoring and coaching for clusters and incubators' participants; advice on enforcing public-private dialogue and on communication strategies to brand Georgia.
- R.3.2.3 Synergies among economic actors, including BSOs, in the cluster are intensified: Promotion of relationships between producers, suppliers, contractors and consumers; guidance on making sector associations more operational (for instance through match-making support, services delivery, etc.); public awareness of the benefits of the clusters.
- R.3.2.4 EU standards are promoted in the cluster: Support in the introduction of best practices on quality, food safety standards, environmental, energy efficiency and Responsible Business Conduct; advice on amendment of domestic legislation, where relevant.

To achieve Result 3.3: Development and functioning of business accelerators/incubator, serving target regions and sectors

- R.3.3.1/R.3.2.1 Diversified and increased number of services delivered by incubators to businesses, start-ups and social enterprises: Provision of support for assessing market needs; advice on the type of services meeting the industry demand (VET colleges could be seen as incubators for service providers);
- R.3.3.2 Increased synergies among business incubator(s), private sector and academia/research centres are created: Assist in reviewing the framework for research/industry collaboration; advise on best use of grant schemes; capacity building to improve GITA's capacity to create productive alliances; partnerships are created between GITA and relevant industries.

4.2.3 Other support

As regards **Component 1**, other support will be provided through indirect management to achieve Result 1.1: Fairer and faster litigations in commercial disputes.

R.1.1.1. Streamlined judicial proceedings: Revise procedural legislation, regulations and practice, provide expert advice on specialisation of judges or chambers, and enhance capacities of lawyers and judges; connect local and international business law firms.

R.1.1.2. Increased use of mediation and arbitration: Increase awareness and confidence in alternative dispute resolution mechanisms; review implementation of the new mediation law, including establishment and operationalisation of the new mediation association(s) and development of out-of-court mediation.

R.1.1.3. New company law put well into practice: Provide expert advice to the finalisation (approximation), adoption and application of the new company law and all related legislation and secondary regulations; raise awareness and knowledge of business operators, lawyers and judges of the new law and its effects.

As regards **Component 2**, other support will be provided through indirect management and direct management via twinning projects.

To achieve Result 2.1: Capital market development

- R.2.1.1 Strengthened NBG in approximating EU legislation on capital markets: Review of the capital market action plan; advice and capacity building for approximation with EU legislation; promotion of best practices between Georgia and other EU countries which faced similar challenges;
- R.2.1.2 Improved capital market infrastructure: Review of trading/post trading, clearance and settlement system and development of recommendations for reform.
- R.2.1.3 Improved legal framework for selective capital market instruments: Assist on the development of asset backed securities/covered or mortgage bonds, derivatives, convertible bonds.
- R.2.1.4 Improved legal framework for investment funds and mutual collective schemes: Expert advice to recommend and develop the new legal framework, including respective legislation and regulations reporting and governance requirements.

To achieve Result 2.2: Responsible financial inclusion and alternative financing

- R.2.2.1. Improved collateralisation framework: Revise the secured transactions framework and develop a modern on-line based security registry (movable collateral registry); advise on legal and regulatory revisions; building market awareness on assets based financial products to improve collateralisation requirements;
- R.2.2.2 Improved legal framework and regulation of private credit bureau and microfinance institutions: Assist on revision of legislative framework on credit reporting by enacting the Credit Bureau law; establish NBG capacities to oversee the credit reporting system and to better supervise Micro Financial Institutions (MFIs); increase awareness of the public and consumers on private credit bureau;
- R.2.2.3 Enhanced consumer protection and financial literacy: Assist on consumer protection reform including amendment to legislation; develop new regulations; establish NBG capacities to ensure a sound consumer and information protection in line with EU best practices; design and implement selected financial literacy activities for different groups including financial literacy of microfinance clients in Georgia and financial literacy in insurance;

- R.2.2.4 Improved factoring and leasing practices: expert advice to improve the legislation on the definition of different types of factoring; advice for increasing legal certainty of factoring; revise tax legislation on leasing; expert advice in designing rights and obligations of leasing parties; market awareness activities on factoring and leasing products, services providers and promotion of use of products.

To achieve Result 2.3: Better financial information

- R.2.3.1 Improved Accounting and Auditing Quality Control: Capacity building for the Service for Accounting, Reporting and Audit Supervision (SARAS) to effectively and efficiently develop the right processes, procedures and methodologies for enforcement of financial reporting and auditing requirements.
- R.2.3.2 Enhanced accounting framework for SMEs: Expert advice on the implementation of the new Law on Accounting and Audit and on reporting requirements for small entities in accordance with EU Accounting Directive; dissemination of the benefits of the law to SMEs.
- R.2.3.3 Strengthened capacity of business service providers: Support the development of professional accountants and other business support organisations to provide advice to businesses/SMEs on sound financial management's best practices (business life-cycle, strategies and business plans, cash flows management, seeking funds for business, risk management, etc.).

As regards **Component 3**, the below activities cannot be achieved through budget support; they will be implemented through indirect management and direct management via a twinning project.

To achieve Result 3.1: Strengthened policy framework to facilitate the development of SME, clusters and incubators

- R.3.1.3 Business network with Europe is accelerated (performance of Enterprise Europe Network Georgia, led by EDA and GITA consortium): Capacity building for improving EDA and GITA's capacities to extend business linkages with EU counterparts; facilitation of business 'alliances'.

To achieve Result 3.3: Development and functioning of business accelerators/incubator, serving target regions and sectors

- R.3.3.3 Higher number of businesses participating in the EU programme Horizon 2020: Create conditions and incentives for businesses to use EU grants; communication and information campaigns for wider outreach of opportunities from EU innovation programmes.

To achieve Result 3.4: Improved delivery and quality of public services to businesses

- R.3.4.1 The digitalisation of public services to business in Tbilisi and Georgian regions is prepared: Advice and capacity building activities on digitalisation for simplifying business procedures.

4.3 Intervention logic

The action has been formulated having in mind that a favourable business climate at all levels and an improved policy framework for financial inclusion and business dispute resolutions are

necessary to unleash the potential of the private sector and stimulate investment. The EU programme aims to achieve its objectives through the provision of budget support to reach the national policy targets. Complementary measures will strengthen key institutions in policy design and implementation and will stimulate economic opportunities thanks to the development of selected value chains, clusters and business incubators. The proposed action will include policy and regulatory reforms and improve business integration and sophistication.

As for Component 1, in the first stage, the action will streamline legislative and regulatory frameworks for business disputes before courts, arbitration tribunals and mediators, as well as improve recovery rates in insolvency and enforcement procedures; it will also further enhance skills and awareness of relevant professionals and businesses. In a medium term, this will lead to fairer and faster proceedings and eventually to higher trust of businesses towards courts and competent authorities. In a long term perspective, this will contribute to increasing the volume of commercial transactions, foreign investments, and eventually to enhancing economic growth, employment and household incomes.

As for Component 2, the action will support both the institutional and legislative framework for developing an efficient capital market system and infrastructure, currently lagging behind, and in view of approximation with relevant EU legislation. The action will further enhance financial literacy, promote alternative sources of financing, trying to reduce the risk of lending and the risk associated to high collaterals. In addition, the legal system for insurance, including supervision, will be streamlined. In the long run the financial system and the financial stability will be enhanced thanks to increased credit to the private sector and to SME, improved financial literacy and supervision, better regulated practices in lending and the introduction of compulsory insurance products to mitigate the risks for the users and reduce social costs for the government.

As for Component 3, the action will support the institutional set-up for cluster and innovation development. The action will support the establishment of integrated models of entrepreneurship that will better promote business linkages as well as better access to services, skills/technologies/investment (also through the use of business incubators and accelerators) for the actors of the value chains and for the services/technology/skills/capital providers. The role and importance of services such as business services, transport, capital access and trade will be supported to enable production, process and marketing of higher quality products and services. This will result in the long run in better clusters governance systems, more economic opportunities, higher productivity goods, increased access to the national and international investors' community, and more skilled jobs created.

Support to government agencies will be delivered primarily in the form of twinning projects and technical assistance through the services of EU Member States agencies and specialised international implementing agencies.

Two twinning projects are foreseen under component 2: one twinning to support the National Bank of Georgia on capital market reform as regards harmonisation with the EU *acquis* and one twinning with the Insurance State Supervision Service of Georgia to enhance insurance supervision and new legislation on insurance. Under Component 3, a twinning with the Data Exchange Agency or Enterprise Georgia or any other relevant agency (the beneficiary will be

confirmed further to on-going policy discussions) will contribute to the digitalisation of the system of public service delivery for businesses.

The programme will focus on initiatives that will have a high impact at local level and great visibility of the EU, demonstrating the added-value of the EU action.

The intervention logic is based on Georgia's commitment to improve the business and investment environment (Georgia 2020 Strategy, 4-Point Programme 2017-2020, specific sector strategies and action plans) as well as Georgia's commitment through international agreements such as the Association Agreement with the EU and the UN Sustainable Development Goals adopted by the Georgian Government.

The monitoring framework of the programme will aim to capture lessons learnt and facilitate good practice examples to inform future policy making processes. The approach aims for the actions to be complementary and enhance impact both at the national and local level, by feeding successful practices, approaches, projects and stories into the policy-making processes.

The effectiveness of the EU intervention will be assessed through indicators that measure policy implementation and outcomes for the final beneficiaries in pilot regions.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a Financing Agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation of the budget support component

5.3.1 *Rationale for the amounts allocated to budget support*

The amount allocated for budget support component is EUR 21 250 000 and for complementary support EUR 19 900 000. This amount is based on the commitment of the partner country to allocate national budget resources (including EU budget support) for supporting enterprise and business development, including start-up financing. The amount proposed for the budget support will provide substantial leverage for the policy dialogue. The line ministries concerned with the performance targets have demonstrated sufficient absorption capacity and a sufficiently good track record in fulfilling the conditions under existing EU funded budget support programmes. Overall four instalments are planned. The

first instalment of EUR 4.25 million will be released upon signature of the Financing Agreement and subject to compliance with the General Conditions for tranche release.

5.3.2 *Criteria for disbursement of budget support*

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the policies covered by the present action and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation the Government's PFM reform programme;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for disbursement that may be used for variable tranches will be set on the basis of government's policy targets. The list of performance indicators used and the targets for disbursement of the variable tranches have been selected from relevant commitments and are results or impact oriented.

Component 1 - More efficient insolvency and enforcement proceedings.

The indicators will measure the increase of efficiency of the insolvency and enforcement proceedings. This will be measured through different impact-oriented indicators, such as the World Bank ranking of resolving insolvency, number of rehabilitation cases per year, recovery rates in insolvency and enforcement, average duration of enforcement and/or success rate in mediation cases before the Enforcement Bureau and court user satisfaction. The exact wording and benchmarks of the indicators are subject to results of specific baseline studies carried out in May – August 2017 and negotiations with the competent authorities. As a result, the insolvency proceedings will be more efficient in terms of recovery rates, costs and duration with more focus on rehabilitation on insolvent businesses. Similarly, the faster and fairer enforcement of judicial decisions will increase the chances for businesses to recover (at least partially) their assets and thus continue their activities without too much impact on their cash-flows and liquidity.

Component 2 - Efficiency in implementing the compulsory MTPL insurance law.

The indicators will measure the government's efficiency in progressively introducing the compulsory domestic MTPL insurance law and its positive effects over the period 2019-2021 such as increased number of vehicles insured and increased volume of turnover for insurance companies, which in the long term will help the financing of the economy, reducing the road accident rate and the costs for the government for the treatment of victims of road accidents caused by uninsured vehicles. The exact wording and benchmarks of the indicators are subject to results of specific baseline studies and negotiations with the competent authorities.

Component 3 - More efficient production systems in selected clusters.

The indicators will measure more economic opportunities and benefits received by the clusters as a result of government actions, improved access for businesses in the cluster to a wide range of factors related to the business enabling environment and production inputs, and

the creation of partnerships with the industry. This may include the setting-up of a structure within each cluster able to address coordination, market failures and bureaucracy bottlenecks and able to identify economic opportunities; improved access to a series of inputs (finance, labour, markets, technology know-how, etc.) thanks to actions by the government; a proper governance structure for GITA able to connect businesses and create partnerships with industry and improved industry access to capital, access to skilled labour, technical knowhow, availability of local and international technology partners. The exact wording and benchmarks of the indicators are subject to results of specific baseline studies and negotiations with the competent authorities.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the State Minister on European and Euro-Atlantic Integration may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

Both fixed and variable tranches are to be used in an approximate ratio of 20/80.

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the Euro transfers disbursed into Georgian Lari will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support to budget support and other support

5.4.1 Grants: calls for proposals for twinning project for the implementation of part of Component 2 and part of Component 3 (direct management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The twinning calls for proposals modality will be used to conclude up to three grants for actions supporting the following priority areas, in line with the objectives, results and activities described in sections 4.1 and 4.2.

- Connected to budget support:

Under Component 2, Result 2.4 – A twinning on insurance supervision will strengthen the institutional capacity of ISSSG to implement laws and regulations related to insurance supervision in view of approximation with the EU *acquis*.

- Not connected to budget support:

Under Component 2, Result 2.2 – capital market reform. A twinning will strengthen the institutional capacity of the NBG to implement laws and regulations in view of approximation with the EU *acquis* under the capital market development policy area.

Under Component 3, Result 3.4 – digitalisation of public services with increased access to e-services for businesses under the one-stop shop principle. Discussions are on-going on a possible twinning project with the Data Exchange Agency or with Enterprise Georgia/Produce in Georgia or with responsible agencies in the development of the e-services system.

(b) Eligibility conditions

In line with Article 4(10)(b) of Regulation (EU) No 236/2014, participation in twinning calls for proposals is limited to public administrations of the EU Member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant.

The essential award criteria are the technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

The rate of co-financing for Twinning grant contracts is 100%⁹.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the call

3rd quarter 2018.

(f) Use of lump sums/flat rates/unit costs

Twinning contracts include a system of unit costs and flat rate financing, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member State(s) administration(s). The use of this system of unit costs and flat rate financing, which exceeds the amount of EUR 60 000 per beneficiary of a twinning contract, is authorised through Commission Decision C(2017)1122.

5.4.2 *Procurement (direct management)*

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
Consultancy services	services	1	3rd trimester 2019
Communication and visibility	services	1	2 nd trimester 2018

⁹ As provided for in the Twinning Manual.

Evaluation and audit	services	4	3 rd quarter 2018 4 th quarter 2020 2 nd quarter 2023
----------------------	----------	---	--

5.4.3 Indirect management with Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), for the implementation of part of Component 1 (connected to Budget Support)

A part of this action may be implemented in indirect management with Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012.

This implementation entails support in achieving major objectives of Component 1, i.e. ensuring fairer and faster litigations for businesses through streamlining judicial proceedings (Result R.1.1.1), implementation of the new company law (Result R.1.1.3), strengthening rehabilitation-oriented insolvency proceedings (Result R.1.1.4), and enhancing enforcement of judicial decisions (Result R.1.1.5). The action will accompany the achievement of the two sets of the budget support indicators set for insolvency and enforcement proceedings.

This implementation is justified because GIZ possesses high and specialized technical and managerial capacity, extensive experience in developing civil, administrative and commercial legal frameworks in Georgia and high reputation and engagement with the beneficiary institutions, gained significantly through its long term programme entitled "Legal approximation towards European standards in the South Caucasus", a part of which has been supported by the European Union under a project entitled "Support to the Development of Private and Administrative Law System in Georgia".

The entrusted entity would carry out the following budget-implementation tasks: grants, procurement and/or hiring external experts.

If negotiations with GIZ fail, that part of this action may be implemented in indirect management with UNDP (or, as the case may be, in direct management in accordance with the implementation modalities foreseen in section 5.4.10 for the procurement of services).

The implementation by this alternative entrusted entity is justified by the reasons mentioned under section 5.4.4 and because UNDP further possess sufficient experience and engagement with the authorities to implement successfully the results referred to under the present section.

5.4.4 Indirect management with United Nations Development Programme (UNDP) for the implementation of part of Component 1 (not connected to Budget Support)

A part of this action may be implemented in indirect management with UNDP in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012.

This implementation entails support in achieving the major objectives of Component 1, i.e. ensuring fairer and faster litigations for businesses through streamlining judicial proceedings, and specifically through training of lawyers for commercial disputes and monitoring of court proceedings in business cases (Result R.1.1.1.) and enhancing the use and quality of arbitration and mediation (Result R.1.1.2.).

This implementation is justified because UNDP possesses high and specialized technical and managerial capacity, extensive experience in developing the quality and availability of legal services, arbitration and mediation in Georgia and high reputation and engagement with the beneficiary institutions, gained also through the EU supported project with UNDP on access to justice implemented in 2016-2018.

The entrusted entity would carry out the following budget-implementation tasks: grants, procurement and/or hiring external experts.

If negotiations with UNDP fail, that part of this action may be implemented in indirect management with GIZ (or, as the case may be, in direct management in accordance with the implementation modalities foreseen in section 5.4.10 for the procurement of services).

The implementation by this alternative entrusted entity is justified by the reasons mentioned under section 5.4.3 and because GIZ further possess sufficient experience and engagement with the authorities to implement successfully the results referred to under the present section.

5.4.5 Indirect management with the European Bank for Reconstruction and Development (EBRD) for the implementation of part of Component 2 (not connected to Budget Support)

A part of this action may be implemented in indirect management with the European Bank for Reconstruction and Development (EBRD) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012.

This implementation entails improving the factoring and leasing framework under Component 2.

This implementation is justified because the entrusted entity has the required capacities and expertise to implement part of the action. The EBRD is a reliable partner with a long standing experience in Georgia and the Eastern Partnership region, helping the EaP countries in the transition process towards market-oriented economies and promoting private and entrepreneurial initiatives.

The choice of EBRD for implementing part of this action is further justified by EBRD's proven experience in supporting Georgia's financial sector, backed also by the MoU signed in October 2016 with the Ministry of Finance and the National Bank of Georgia. The EBRD is well placed to deploy its expertise in the specific areas of factoring and leasing products, as part of the reforms of the financial sector. Access to finance, SME financing and trade facilitation programmes are the main pillars of EBRD's mandate in Georgia.

The EBRD is currently implementing several EU-funded projects in Georgia aimed at facilitating access to finance and SME financing, including trade financing, through a combination of policy dialogue, technical assistance and investments, and in co-operation with local partner banks. The EBRD is also leading the Investors Council, a unique platform for high level policy dialogue, where also financial sector issues are covered. In the implementation of the action EBRD would liaise with the Ministry of Economy and other relevant stakeholders in the financial sector environment.

The entrusted entity would carry out the following budget-implementation tasks: grants, procurement and/or hiring external experts.

If negotiations with EBRD fail, that part of this action may be implemented in direct management in accordance with the modalities foreseen in section 5.4.10 for the procurement of services.

5.4.6 Indirect management with the World Bank Group for the implementation of part of Components 2 and 3

A part of this action may be implemented in indirect management with the World Bank Group in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012.

This action falls under the umbrella of the Programmatic Trust Fund "EC-World Bank Partnership on Europe and Central Asia (EEPP)". The World Bank will implement actions to accompany the budget support operation as well as actions not directly connected to budget support.

Connected to budget support:

Under Component 2 this implementation entails improving the insurance sector, namely supporting reforms aimed at introducing a mandatory MTPL insurance law and on strengthening the legal and supervision capacities of ISSSG. As a result, the insurance market will be expanded, compulsory insurance products will be put into practice and the insurance regulatory and supervision frameworks will be more robust.

Under Component 3 this implementation entails enhancing the use of innovation and technology transfers for gradually supporting business incubation and increasing investment readiness of start-ups. The expected results are strengthened capacities of GITA, enhanced access to innovation and technologies for start-ups, stronger relationships between EU and Georgian business incubators, further acceleration in the dissemination and use of innovation in regions, stronger links with the private sector, more efficient use of matching/collaborative grants for start-ups.

Not connected to budget support:

Under Component 2 this implementation entails enhancing capital market development, improving responsible financial inclusion and financial information in order to ease access to finance. As a result, the support would bring strengthened capacities of the NBS and SARAS and other key stakeholders of the financial sector, improved access to finance for business and especially SMEs, improved financial inclusion and financial education, improved knowledge and use of alternative financial products, improved protection of the consumers of financial products, improved quality and standards of corporate financial reports, and enhancement of professions in the financial area.

The implementation is justified because the World Bank has the necessary organisational, human and management capacities as well as a solid experience of financial sector reform in Georgia as well as in the development and implementation of innovative eco-systems. The World Bank has a well-established policy dialogue (including a DPO - Development Policy Operation) with the Georgian authorities and key national stakeholders in the financial system such as the MoESD, the MoF and newly established agencies under the MoF, the NBS, and the ISSSG.

In the financial area the World Bank is successfully implementing the EU-funded multi-country project STAREP. The EU action will complement this on-going project as well as the FIRST World Bank project. Through the on-going GENIE project strong relationships were

built with GITA and other relevant stakeholders, including municipalities and academia. The EU action will add extra activities to this running project, by further supporting the growth of existing incubators, facilitating the creation of new ones in Georgian regions and by boosting real exchanges between similar models in the EU and Georgia.

The entrusted entity would carry out the following budget-implementation tasks: grants, procurement and/or hiring external experts.

If negotiations with the World Bank fail:

- that part of this action related to Component 2 may be implemented in direct management in accordance with the modalities foreseen in section 5.4.10 for the procurement of services.
- that part of this action related to Component 3 may be implemented in direct management in accordance with the implementation modalities identified in section 5.4.10 through (i) a direct grant to GITA as the Legal Entity of Public Law mandated with innovation policy; (ii) combined with a call for proposal.

5.4.7 Indirect management with Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) for the implementation of part of the Component 3 (connected to Budget Support)

A part of this action may be implemented in indirect management with Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012.

This implementation entails improving the business and economic environment; stimulating business development in selected value chains and regions; improving the competitiveness of the private sector at large (mainly R3.1 and R3.2 under Component 3).

The specific fields of intervention are SMEs and clustering development in construction materials and tourism area. This latter one will complement the support to mountain tourism to be provided under the implementation modality specified in section 5.4.8. Apparel might be another eligible cluster to be developed in connection with creative industries. Green economy, energy efficiency, environmental safeguard and gender equality are horizontal aspects that will be considered during the implementation.

The expected results are strengthened capacities and coordination efforts in SME development and clustering policy at all levels; development of regional sector associations; increased efficiency and productivity of economic sectors; business integration; improved quality and labour standards; and new jobs created.

This implementation is justified because GIZ possesses in-house resources and capabilities to perform cluster development. GIZ has the necessary organisational, human capacity and a long standing experience in the implementation of projects for the sustainable economic development in Georgia and in the Eastern Partnership region, primarily focused on private sector development. The current GIZ Programme Private Sector Development and Technical Vocational Education and Training South Caucasus (PSDTVT) builds on a track record of successful activities, such as the establishment of a Qveri Wine Cluster. In addition, the on-going EU funded project "SME Development and DCFTA" promotes enterprise development via clusters and business networks, while supporting Georgian institutions at policy level. GIZ is very familiar with the country context; closely cooperates with the authorities and efficiently interacts with the Delegation of the EU to Georgia.

Key interlocutors of this implementation would be the MoESD and other line ministries involved in economic and sector policy development and implementation.

The entrusted entity would carry out the following budget-implementation tasks: grants, procurement and hiring of external experts.

If negotiations with GIZ fail, that part of the action may be implemented (i) in indirect management with UNDP (or, as the case may be, in direct management in accordance with the implementation modalities foreseen in section 5.4.10 for the procurement of services); (ii) combined with a call for proposal grants in accordance with the implementation modalities identified in section 5.4.10.

The implementation by this alternative entrusted entity is justified by the reasons mentioned under section 5.4.9 and because UNDP further possesses sufficient experience and engagement with the authorities to implement successfully the results referred to under the present section.

5.4.8 Indirect management with the Austrian Development Agency (ADA) for the implementation of part of the Component 3 (connected to Budget Support)

A part of this action may be implemented in indirect management with the Austrian Development Agency (ADA) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012.

This implementation entails improving the business and economic environment; stimulating economic development in selected value chains and regions; improving the competitiveness of the private sector in agriculture and tourism (mainly R3.1 and R3.2 under Component 3). The specific fields of intervention are clustering development in organic/bio agri-food processing, in combination with tourism (mountain and agro-tourism). Green economy, climate change considerations, environmental safeguard and gender equality are cross-cutting issues that will be considered during the implementation.

The expected results are strengthened capacities and coordination efforts in the clustering policy at all levels; clustering development in the selected clusters, including social integration for the poor and contribution to income generation.

This implementation is justified because ADA has experience in agriculture and regional development. It has well-established relationships with key national and regional stakeholders such as the MoESD, the Ministry of Agriculture (MoA), municipalities and the National Tourism Administration. Also, Austrian expertise supported the development of the Regional Development Strategy and Action Plans in six regions of Georgia for the period 2014-2021 and the preparation of the Strategy for the development of High Mountain Areas of Georgia. Supporting a sustainable tourism sector, combined with organic farming in selected Georgian regions would be an asset given this background and ADA's existing portfolio.

The MoESD, the MoA and other line ministries involved in agriculture and tourism economic would be the key interlocutors of this implementation.

The entrusted entities would carry out the following budget-implementation tasks: grants, procurement and hiring of external experts.

If negotiations with ADA fail, that part of the action may be implemented (i) in indirect management by GIZ and/or with UNDP (or, as the case may be, in direct management in

accordance with the implementation modalities foreseen in section 5.4.10 for the procurement of services); (ii) combined with a call for proposal in accordance with the implementation modalities identified in section 5.4.10.

The implementation by these alternative entrusted entities is justified by the reasons mentioned under section 5.4.7 and/or 5.4.9 and because GIZ and UNDP further possess sufficient experience and engagement with the authorities to implement successfully the results referred to under the present section.

5.4.9 Indirect management with United Nations Development Programme (UNDP) for the implementation of part of Component 3 (connected to Budget Support)

A part of this action may be implemented in indirect management with United Nations Development Programme (UNDP) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012.

This implementation entails supporting the private sector development through cluster mapping, capacity building of key institutions, cluster policy formulation, business support through selected value chains and business scaling-up, technology and innovation-related aspects (mainly R3.1, R3.2 and part of R3.3 of Component 3).

The priority fields of intervention are clustering development in packaging and seeds/seedlings. The action will contribute to facilitate access to markets, advance in productivity and diversity of Georgian farming, as well as to support quality infrastructure in packaging (labelling, green packaging, supply and recycling chain) and develop an appropriate certification scheme which is currently lacking in seeds. Seeds was identified as one of the bottlenecks for the development of Georgian agriculture and seeds certification is one of the priorities of the Strategy for Agriculture Development for 2015-2020

This implementation is justified because UNDP possesses the resources and capabilities to deliver the expected results in a systemic manner. UNDP has a significant experience in supporting private sector development and employment in Georgia for over a decade. This has included work on policy development and technical assistance, business support and support to cooperatives and women in business. UNDP has been implementing the first phase of the EU-funded ENPARD project in Ajara, where experience in encouraging the idea of cooperation was gained. UNDP is currently working with the Ministry of Agriculture on the implementation of the Rural Development Policy. Well-established relations exist with key institutional interlocutors. The MoESD, the MoA and other key institutions involved in economic and sector policy development and implementation will be the direct beneficiaries of the project.

UNDP will carry out the action together with United Nations Industrial Development Organisation (UNIDO), Food and Agriculture Organisation (FAO) and International Organisation for Migration (IOM):

- UNIDO, a specialised agency of the United Nations will primarily focus on the development of selected value chains.

- FAO has extensive competence in Georgia in agriculture and rural development, and its technical knowledge is particularly relevant for the development of the cluster and business acceleration on seeds.
- IOM will foster the link between migration and economic, social and cultural development, promoting diaspora engagement through relevant institutions support to facilitate investments and networking.

This partnership among UN agencies will ensure an integrated approach based on UNDP competences in Georgia tied with the technical expertise of UNIDO and FAO, and of IOM experience on diaspora inclusion.

The entrusted entity(ies) entity would carry out the following budget-implementation tasks: grants, procurement and hiring of external experts.

If negotiations with UNDP fail, that part of this action may be implemented (i) in indirect management by GIZ and/or ADA for respective actions (or as the case may be in direct management in accordance with the implementation modalities foreseen in section 5.4.10 for the procurement of services); (ii) combined with a call for proposal in accordance with the implementation modalities identified in section 5.4.1.10.

The implementation by these alternative entrusted entities is justified by the reasons mentioned under section 5.4.7 and 5.4.8 and because GIZ and ADA further possess sufficient experience and engagement with the authorities to implement successfully the results referred to under the present section.

5.4.10 Changes from indirect to direct management mode due to exceptional circumstances

The change of management mode from indirect to direct management, whether partially or entirely is not considered a substantial change.

The indirect management can be replaced by the direct management in the following cases: failure of negotiations with the entrusted entity(ies) followed by failure of negotiations with the alternative entrusted entity(ies).

5.4.10.1 Procurement (direct management)

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
Alternative to 5.4.3 - indirect management with GIZ 5.4.4 - indirect management with UNDP 5.4.5 - indirect management with EBRD 5.4.7 – (part of) indirect management with GIZ 5.4.8 – (part of) indirect management with ADA 5.4.9 – (part of) indirect management with UNDP	services	Up to 10	In the course of 2019 and 2020

5.4.10.2 Grants: calls for proposals (direct management)

The calls for proposals modality may be used as an alternative to:

- part of the activities to be implemented by the World Bank Group as provided for in section 5.4.6
- part of the activities to be implemented by GIZ, ADA and UNDP as provided for in sections 5.4.7, 5.4.8 and 5.4.9 respectively

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

- Objectives: improved socio-economic development in Georgia and its regions.
- Fields of intervention: SME development, cluster support in selected economic sectors, innovation policy.
- Expected results and eligible actions: strengthened capacities of policy makers in business and clusters development; business integration; enhanced use of innovation and technology transfers for gradually supporting business incubation/acceleration.

(b) Eligibility conditions

The essential eligibility criteria for applicants include, among others, to be established in a Member State of the European Union or in Georgia.

Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is EUR 2 000 000 to 4 000 000, and the grants may be awarded to entities acting alone or in partnership. The indicative duration of the grant is up to 48 months.

(c) Essential selection and award criteria

The essential selection criteria are the financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 95%.

In accordance with Article 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the call

4th trimester of 2018.

5.4.10.3 Grants: direct award (direct management)

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results

The direct award modality may be used as an alternative to part of the activities to be implemented by GIZ, ADA and UNDP as provided for in sections 5.4.7, 5.4.8 and 5.4.9 respectively.

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the Georgian Innovation and Technology Agency (GITA), Georgian legal entity of public law.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because in accordance with Article 190 (1) (f) of Commission Delegated Regulation (EU) No. 1268/2012, the action has specific characteristics requiring a specific type of beneficiary for its technical competence, specialisation or administrative power. GITA was established in 2014 by the Georgian government to support and coordinate the innovative ecosystem. GITA elaborated inter alia the draft law on innovation adopted in June 2016. Since its set-up GITA also gained specialised experience through several grants and projects for technology innovation, including for the launched establishment of tech parks, incubators, accelerators, innovation laboratories and pilot university-based fabrication laboratories (FabLab), but also in relation to broadband internet connectivity. GITA is also planned to partner with the Georgian National Academy of Sciences to establish a bio-technology centre that will help Georgia realise its market potential in innovative applications of indigenous bacteria, enzymes and phages. GITA is also member of the Enterprise Europe Network (EEN).

(c) Essential selection and award criteria

The essential selection criteria are the financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 95%.

In accordance with Article 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the conclusion of the direct grant

During the course of 2019.

5.5 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.

The Commission's Authorising Officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (in EUR)	Indicative third party contribution (in EUR)
Budget Support - Sector Reform Contract	21 250 000	
5.4.1 - Grants: call for proposals for up to 3 twinning grants	3 200 000	
5.4.2 - Procurement (direct management)	100 000	
5.4.3 - Indirect management with GIZ for the implementation of part of Component 1	1 300 000	
5.4.4 - Indirect management with UNDP for the implementation of part of Component 1	800 000	
5.4.5 - Indirect management with EBRD for the implementation of part of Component 2	200 000	
5.4.6 – Indirect management with the World Bank Group for the implementation of part of Components 2 and 3	7 000 000	
5.4.7 - Indirect management with GIZ for the implementation of part of Component 3	5 300 000	
5.4.8 Indirect management with ADA for the implementation of part of Component 3	3 000 000	1 000 000
5.4.9 - Indirect management with UNDP for the implementation of part of Component 3	5 000 000	
5.9 – Evaluation 5.10 - Audit	300 000	N.A.
5.11– Communication and visibility	200 000	N.A.
Totals	47 650 000	1 000 000

5.7 Organisational set-up and responsibilities

This action will be managed by the European Commission through the EU Delegation to Georgia. Effective leadership and ownership of the government over the programme are key to efficiency, efficacy and sustainability of the results. In this sense, all initiatives will be conducted with the support and engagement of the authorities, the civil society and the private sector and ensuring that Georgian strategies and policies will be well-coordinated.

The programme will be governed by a steering committee, 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 meet indicatively twice a year and can be convened whenever the project implementation requires strategic decisions.

Separate sessions may be organised for different components. The project steering committee shall be chaired by the Ministry of Economy and Sustainable Development or the Ministry of Justice, as the case may be, and made up indicatively of representatives of the following entities:

- Ministry of Economy and Sustainable Development (MoESD)
- Ministry of Finance (MoF)
- Ministry of Agriculture (MoA)
- Ministry of Justice (MoJ)
- National Bank of Georgia (NBG)
- Insurance State Supervision Service of Georgia (ISSSG)
- Service for Accounting, reporting and Auditing Supervision (SARAS)
- Enterprise Georgia (Produce in Georgia)
- Georgian Innovation and Technology Agency (GITA)
- EU Delegation

Indicatively other agencies may participate such as the Enforcement Bureau, the Data Exchange Agency, the National Tourism Administration (NTA) and the Georgian Statistics Office (Geostat).

The steering committee will invite further members of any of the stakeholders whenever deemed appropriate.

5.8 Performance 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 results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

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).

5.9 Evaluation

Having regard to the nature of the action, a mid-term, final and/or ex-post evaluation may be carried out for this action or its components via independent consultants contracted by the Commission.

A mid-term evaluation would be carried out for problem solving, learning purposes, in particular with respect to the gathering of information, review of the indicative log-frame and assessing the project's implementation progress towards the objectives.

A final or ex-post evaluation may be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the impact and sustainability of the programme.

The Commission shall inform the implementing partner at least 15 days in advance of the dates foreseen for the evaluation 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. 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.

Where relevant, the provisions of the Financial and Administrative Framework Agreement concluded between the European Union and the selected international organisations shall apply.

Indicatively, two contracts for evaluation services shall be concluded under a framework contract during the second year (mid-term evaluation – 4th quarter of 2020) and the fifth year (final evaluation – 2nd quarter of 2023) of the implementation of the action. Additionally one contract for budget support external review missions shall be concluded under a framework contract during the implementation of the Programme (3rd quarter of 2018).

5.10 Audit

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 audits or expenditure verification assignments for one or several contracts or agreements.

Where relevant, the provisions of the Financial and Administrative Framework Agreement concluded between the European Union and the selected international organisations shall apply.

Indicatively, one contract for audit services shall be concluded under a framework contract during the fifth year of implementation of the Programme (2nd quarter of 2023).

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.4.2 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations shall be included in the financing agreements or delegation agreements.

With regards to the Neighbourhood East, all EU-supported actions shall be aimed at increasing the awareness level of the target audiences on the connections, the outcome, and the final practical benefits for citizens of EU assistance provided in the framework of this action. Visibility actions should also promote transparency and accountability on the use of funds.

Outreaching/awareness raising activities will play a crucial part in the implementation of the action, in the case of budget support the national government shall ensure that the visibility of the EU contribution is given appropriate media coverage. The implementation of the communication activities shall be the responsibility of the implementing organisations, and shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the Commission (European Neighbourhood Policy and Enlargement Negotiations) will be strictly adhered to.

Where relevant, the provisions of the Financial and Administrative Framework Agreement concluded between the European Union and the selected international organisations shall apply.

It is the responsibility of the implementing organisation to keep the EU Delegations and, where relevant, DG NEAR, fully informed of the planning and implementation of the appropriate milestones specific visibility and communication activities.

The implementing organisation shall report on its visibility and communication actions, as well as the results of the overall action to the relevant monitoring committees.

This action will be communicated externally as part of a wider context of EU support to the country, and where relevant to the Eastern Partnership region in order to enhance the effectiveness of communication activities and to reduce fragmentation in the area of EU communication.

The implementing organisation shall coordinate all communication activities with EU Delegations as well as regional communication initiatives funded by the European Commission to the extent possible. All communication strategies developed as part of this

action shall ensure they are in line with the priorities and objectives of regional communication initiatives supported by the European Commission and in line with the relevant EU Delegation's communication strategy under the "EU4Georgia" umbrella initiative.

ANNEX:

Results	Budget Support	GIZ	UNDP	WB	EBRD	UNDP+ UNIDO +FAO+ IOM	ADA	twinnings
Component 1: Fairer and faster litigations in commercial matters								
R 1.1: Faster and faire litigations in commercial disputes								
R.1.1.1. Streamlined judicial proceedings		v	v					
R.1.1.2. Increased use of mediation and arbitration			v					
R.1.1.3. New company law put well into practice		v						
R.1.1.4. Streamlined and rehabilitation-oriented insolvency proceedings	v	v						
R.1.1.5. More efficient enforcement of judicial decisions	v	v						
Component 2: Modernised financial infrastructure								
R 2.1: Capital market development								
R.2.1.1 Strengthened NBG in approximating EU legislation on capital markets								V (with NBG)
R.2.1.2 Improved capital market infrastructure				v				
R.2.1.3 Improved legal framework for selective capital market instruments				v				

R.2.1.4 Improved legal framework for investment funds and mutual collective schemes				v				
R 2.2: Responsible financial inclusion and alternative financing								
R.2.2.1 Improved collateralisation framework				v				
R.2.2.2 Improved legal framework and regulation of private credit bureau and microfinance institutions				v				
R.2.2.3 Enhanced consumer protection and financial literacy				v				
R.2.2.4 Improved factoring and leasing practices					v			
R 2.3: Better financial information								
R.2.3.1 Improved Accounting and Auditing Quality Control				v				
R.2.3.2 Enhanced accounting framework for SMEs				v				
R.2.3.3 Strengthened capacity of business service providers				v				
R 2.4: Enhanced insurance system								
R.2.4.1 A functional insurance supervision system is in place	v			v				V (with ISSSG)
R.2.4.2 Insurance market is expanded through compulsory insurance products	v			v				v

Component 3: Greater business sophistication								
R 3.1: Strengthened policy framework to facilitate the development of SME, clusters and incubators								
R.3.1.1 The institutional framework for business integration is developed and tailored for target regions and sectors	v	v				v	v	
R.3.1.2 Economic opportunities are identified in pilot regions and are elaborated in consultation with local authorities and the private sector	v	v				v	v	
R.3.1.3 Business network with Europe is accelerated (performance of Enterprise Europe Network Georgia, led by Enterprise Georgia and GITA consortium)		v				v	v	
Result 3.2: Development and functioning of the clustering approach in at least 5 pilot sectors in Georgian regions (such as construction materials, packaging, apparel, creative industry, tourism, organic farming, seeds/seedlings)								
R.3.2.1 Diversified and increased number of services delivered by incubators to businesses, start-ups and social enterprises	v	v						
R.3.2.2 Cluster governance and management structure(s) are leading to better private-public coordination	v	v				v	v	
R.3.2.3 Synergies among economic actors, including BSOs, in the cluster are intensified	v	v				v	v	
R.3.2.4 EU standards are promoted in the cluster	v	v				v	v	
CONSTRUCTION PRODUCTS		v						
PACKAGING						v		

AGRI-TOURISM and MOUNTAIN TOURISM							v	
TOURISM (other than AGRI-TOURISM and MOUNTAIN TOURISM)		v						
ORGANIC/BIO AGRICULTURE							v	
SEEDS/SEEDLINGS						v		
APPAREL + FASHION (TBD)		v						
R 3.3: Development and functioning of business accelerators/incubator, serving target regions and sectors								
R.3.3.1 Diversified and increased number of services delivered by incubators to businesses, start-ups and social enterprises	v			v		v		
R.3.3.2 Increased synergies among business incubator(s), private sector and academia/ research centres are created	v	v		v		v		
R.3.3.3 Higher number of businesses participating to the EU programme Horizon 2020				v				
likely including INNOVATION IN TOURISM		v		v				
R 3.4: Improved delivery and quality of public services to businesses								
R.3.4.1 The digitalisation of public services in Tbilisi and Georgian regions is prepared								V (TBD)

6 APPENDIX - INDICATIVE LIST OF RESULT INDICATORS

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective: Impact	Promotion of inclusive and sustainable growth	Rate of economic growth	Baseline 2016 (estimated): 2.7%	<i>Targets to be determined through policy dialogue</i>	GEOSTAT, GEOSTAT Business Statistics, NBG, WB, IMF reports,
		Unemployment rate	Baseline 2016: 11.8%		
		Wages	Baseline Q4 2016 average monthly remuneration of employed persons in enterprises: 1 130 GEL		
		Trade	Baseline 2016: 2 112 890 415 GEL		

Specific objective(s): Outcome(s)	1. Trust of public (incl. business people) in courts	Increased level of trust of public (incl. business people) in courts	In 2017, 18% people trust, and another 45% people rather trust the courts country-wide (EU-funded survey with UNDP). 36% persons think that situation at courts improved (and 2% strongly improved) between 2012-2017.	In 2022, 25% people trust and another 50% rather trust the courts. 45% people think that the situation at courts improved between 2017-2022.	Surveys of public opinion and perception
	2. Increased confidence and trust in the financial sector	<p>More effective operation and use of financial services</p> <p>Increased savings into the economy</p> <p>Increased credit to the private sector</p>	<p>Global Competitiveness Index (8th pillar on Financial market development). Baseline: 58/138 (2016).</p> <p>Gross national savings in % of GDP. Baseline 2013: 18.9%</p> <p>Credit to private sector/GDP. Baseline 2015: 48%.</p>	<p>In 2022 to reach 52/138.</p> <p>In 2022 at least 22% of savings</p> <p>In 2022 60%.</p>	<p>WEF Global Competitiveness Report, Financial System Stability Assessment (savings indicators), IMF and NBG reports</p> <p>EBRD Transition Report, NBG reports</p>
	3. Business environment meeting market demands	Adjustment of economic policies in favour of competitiveness and business reforms	<p>WEF Global Competitiveness Indicator. Baseline: 59/138 (2016)</p> <p>Improvement in at least 6 sub-indicators of the Ease of Doing Business indicator. Baseline 2016:</p> <ol style="list-style-type: none"> 1. Starting a business 8 2. Construction permits 8 3. Getting electricity 39 4. Registering property 3 5. Getting credit 7 6. Protection minority investors 7 7. Paying taxes 22 8. Trading across border 54 9. Enforcement contracts 16 10. Resolving insolvency 106 	In 2022 to reach 54/138.	WB Ease of Doing Business, WEF Global Competitiveness Report, WEF publications, MoESD reports, etc.

Induced outputs	COMPONENT 1				
	Faster and fairer litigations in commercial matters	Decreased average total duration of court proceedings (concluded by issuance of a final/enforceable decision) in disputes involving businesses/entrepreneurs with a total value of more than EUR 10 000 (in equivalent amount in GEL determined in the final decision), as possibly cleared by a 5% margin respectively in extreme cases in both directions (extremely short/extremely lengthy proceedings).	<i>TBD based on judiciary statistics</i>	<i>TBD based on judiciary statistics</i>	Analytical studies commissioned by EU
		Decreased average duration and increased recovery rate/rehabilitation in insolvency cases	<i>TBD based on upcoming baseline study commissioned by EU</i>	<i>TBD based on upcoming baseline study commissioned by EU</i>	
		Decreased average duration of enforcement of judicial decisions in disputes involving businesses/entrepreneurs with a value of more than EUR 5 000 (in equivalent amount in GEL determined in the final decision), as possibly cleared by a 5% margin respectively in extreme cases in both directions (extremely short/extremely lengthy proceedings).	<i>TBD based on ongoing baseline study commissioned by EU</i>	<i>TBD based on ongoing baseline study commissioned by EU</i>	
		Increased use of mediation	<100 in-court mediations between 2014 – 2016	400 in-court mediations between 2017 – 2021	
		Increased use of arbitration	On average 3 000 applications submitted for court endorsement in 2015-2016 in mostly micro-credit disputes; <10 business-to-business arbitrations until 2016	20 business-to-business or other than microcredit arbitrations between 2017- 2021	

Direct outputs	Streamlined judicial proceedings	Revised procedural legislation, regulations and practice, expert advice provided to specialisation of judges or chambers, capacities of lawyers and judges enhanced.	Situation described in the current institutional, project and other reports	Situation described in the institutional, project and other reports in 2018-2022	Reports, minutes and other statistics and information
	Increased use of mediation, arbitration and business ombudsman	Increased awareness and confidence in alternative dispute resolution mechanisms, implementation of the new mediation law ensured.			
	New company law put well into practice	The new company law and all related legislation adopted, awareness and knowledge raised.			
	Strengthened and rehabilitation-oriented insolvency proceedings	Expert advice provided to the new insolvency law, including possibly establishment and operationalisation of a chamber of private administrators, enhanced skills of professionals and business operators.			
	More efficient enforcement of judicial decisions	Legislation and practice improved, capacities of public and private bailiffs improved, Expert advice provided to revise the legislation			

Induced outputs	COMPONENT 2				
	Modernised financial infrastructure	Increased financial services meeting business needs	Global Competitiveness Index (Sub-indicator 8.01 <i>Financial services meeting business needs</i>). Baseline: 79/138 (2016).	At least 75 in 2022.	WEF Global Competitiveness Report, EBRD reports, banks reports
		Increased affordability of financial services	Global Competitiveness Index (Sub-indicator 8.01 <i>Affordability of financial services</i>). Baseline: 82/138 (2016).	At least 79 in 2022.	
		Eased access to loans	Global Competitiveness Index (Sub-indicator 8.04 <i>Ease of access to loans</i>). Baseline: 52/138 (2016).	At least 48 in 2022.	

Direct outputs	Capital market development	Lowered transaction costs	<i>TBD</i>	<i>TBD</i>	<i>TBD</i>
		Increased portfolio of government securities/GDP	Baseline 2016: 5.1%	In 2022: 9%	
		Share of non-resident investors in the portfolio of government securities	Baseline 2016: 3%	In 2022: 15%	
	Responsible financial inclusion and alternative financing	Increased financial literacy	Number of NPLs. Baseline: 3.7% in 2016.	<i>In 2022: TBD</i>	
		Increased value of movable collaterals used as credit guarantee by commercial banks	<i>TBD</i>	<i>TBD</i>	
		Diversification of financial instruments	<i>TBD</i>	<i>TBD</i>	
	Better financial information	Improved quality of financial statements	<i>TBD</i>	<i>TBD</i>	
		Increased number of loans to SMEs due to improved quality	<i>TBD</i>	<i>TBD</i>	
	Enhanced insurance system	Increased number of insured domestic vehicles	<i>TBD</i>	> 35% of domestic vehicles is insured by the end of 2022	
		Increased turnover of insurance companies	<i>TBD</i>	<i>TBD</i>	

Induced outputs	Component 3				
	Greater business sophistication	<p>Business sophistication has increased.</p> <p>R&D and innovation has increased</p>	<p>Baseline 2016: Local supplier quantity: 132 Local supplier quality: 116 State of cluster development: 122 Nature of competitive advantage: 60 Value chain breadth: 75 Control of international distribution: 86 Production process sophistication: 95 Extent of marketing: 77 Willingness to delegate authority: 117</p> <p>Baseline 2016: Capacity for innovation: 105 Quality of scientific research institution: 118, Company spending on R&D: 123 University-industry collaboration in R&D: 119 Government procurement of advanced technology products: 84 Availability of scientists and engineers: 115 PCT patent applications: 59</p>	<p>By 2022 at least 6 out of the 9 sub-indicators of the Global Competitiveness Index 11th pillar on business sophistication have increased.</p> <p>By 2022 at least 4 out of the 7 sub-indicators of the Global Competitiveness Index 12th pillar on R&D and innovation have increased</p>	<p>WEF Global Competitiveness Report, WEF publications, Business surveys</p>
		Increased number of businesses making use of services provided by Business House (on-line and/or on-site)	<i>TBD</i>	<i>TBD</i>	

Direct Outputs	Strengthened policy framework to facilitate the development of SME, clusters and incubators	Institutional framework: Increased quality of (i) government services and regulations, (ii) tax administration procedures, (iii) assistance with the implementation of EU standards	<i>TBD</i>	<i>TBD</i>	Business surveys
	Development and functioning of the clustering approach in at least 5 pilot sectors in Georgian regions (such as construction materials, packaging, apparel, creative industry, tourism, organic farming, seeds/seedlings)	Increased productivity (% turnover per employee) in agriculture	GEOSTAT data on turnover by sector and number of employees (<i>baseline TBD</i>)	<i>TBD</i>	GEOSTAT
		Increased productivity (% turnover per employee) in industry (including manufacturing and constructions)			
		Increased productivity (% turnover per employee) in services			
		Increased cluster performance	Cluster performance as measured by the Business Enabling Environment (BEE) index – to be introduced through the budget support (<i>baseline TBD</i>)	<i>TBD</i>	Business surveys, Reports from the Chamber of Commerce and other business associations
		Increased number of companies connected into a cluster	<i>TBD</i>	<i>TBD</i>	
		Spill-over effects in the economy	<i>TBD</i>	<i>TBD</i>	
	Development and functioning of pilot (EU-labelled) business accelerators/incubator, serving target regions and sectors	Increased number of services and products brought by innovative Georgian start-ups to the market	<i>TBD</i>	<i>TBD</i>	
		Facilitation of introduction of new technologies (technology transfers)	<i>TBD</i>	<i>TBD</i>	
	Improved delivery and quality of public services to businesses	Reduced time-cost for at least 5 services for businesses, due to the use of the one-stop shop	<i>TBD</i>	<i>TBD</i>	
		[65]			

Annex 1: List of Projects

List of EU-funded projects under the **bilateral envelope**

<i>EU Programme</i>	<i>EUR million</i>	<i>Duration</i>	<i>Complementarity with this programme</i>
Budget support under the "Support to EU-Georgia DCFTA and SMEs"	25	2015-2020	Targets the development of SMEs and business organisations, supports economic integration, trade and enterprise reforms and institutions. Includes CSOs and business organisations in the monitoring of enterprise and trade policies.
SME Development and DCFTA-GEORGIA (implemented by GIZ)	5	Nov 2015/Nov 2019	Assists the Georgian government in the implementation process of the DCFTA, facilitating Georgia's integration into the EU market.
DCFTA Adaptation Programme (DAP) Support for SME competitiveness in Georgia (implemented by EBRD)	4.5	Dec 2015/Dec 2019	Aims at improving the competitiveness of Georgian SMEs, enabling them to respond to the challenge brought by the DCFTA.
Support to Competition Agency (implemented by B&S Europe)	2	Jan 2016/Jan 2018	Support competition law enforcement, cooperation with sector regulators and competition culture.
Employment and VET (EVET) Sector Reform Contract	27	2013-2018	Ongoing support to employment reform process.
Justice Reform	30	2015-2018	Ongoing support to the justice system.
Public Administration Reform (PAR) Phase I and II	30	2015-2018	Five pilot Ministries (MoESD, MoES, MoLHSA (Ministry of Labour, Health and Social Affairs), MoSYA (Ministry of Sports and Youth Affairs), and MoRDI (Ministry of Regional Development and Infrastructure)) will benefit in terms of improved strategic planning and policy development capacity
Regional Development Phase II	30	2015-2018	Support to planning and management of public funds for the regions; including rural development measures for the benefit of agriculture and agribusiness.
ENP for Agriculture and Rural Development (ENPARD) Phase II and III	79	2016-2020	Promotes inclusive and sustainable growth, creating employment and livelihoods for the poor and excluded. Special measures target vulnerable people in remote regions and empowerment of rural women; pilot action in Abkhazia.
Skills Development and Matching for Labour Market Needs	48.85	2018-2020	Support to human capital development and skills matching, VET and employability.
Justice Budget Support Programme	4.5	2015-2017	3 consecutive indicators related to land registration
EU+UNDP project component on access to justice	1.5	2016-2018	Free Legal Aid, Legal Services, Arbitration, and Mediation.
EU + GIZ project on private and administrative law reform	2	2015-2017	Civil code, civil procedural code, administrative code, insolvency law, law on enforcement of judicial decisions, land registration, and international judicial cooperation.

List of EU-funded **multi-country EU4Business** programmes that will be complementary to this action includes:

<i>Partner</i>	<i>Project and EU contribution</i>	<i>Duration until</i>
EU 4 Business SME policies/business climate		
World Bank	<i>STAREP - Strengthening Auditing and Reporting in the Countries of the Eastern Partnership</i> Supports the framework for corporate financial reporting, support to qualified accountants and auditors to implement international standards such as IFRS and International Standards on Auditing (ISA). EU contribution: EUR 1 million	June 2018
OECD	<i>"Supporting firm competitiveness and business environment reforms in the Eastern Partnership: a EU4Business initiative"</i> It will assist the government in preparing and operationalising the SME Strategy Action Plan 2018-2020, strengthen the policy making process by introducing a public-private SME strategy stakeholder process and strengthen the institutional capacity of the government (MoESD, EDA) to monitor the implementation of the SME Development Strategy 2016-2020. EU contribution: EUR 4 million	2020
EU 4 Business SMEs (skills and capacity building)		
International Trade Center (ITC)	<i>Improving export competitiveness</i> It helps SMEs from EaP countries integrate into domestic and global value chains and access new markets with a focus on the European Union. EU contribution: EUR 6 million	2020
EBRD	<i>Implementing EBRD Small Business Support (SBS) Programme EGP and BAS phase II</i> Continuation of the Small Business Support activities in the EaP region. It assists SMEs in improving competitiveness, attract external financing by improving financial literacy, etc. EU contribution: EUR 8 million	Dec 2018
EU 4 Business SMEs access to finance		
EBRD/KfW	<i>SME Finance Facility I</i> It offers a wide range of financial services and products to SMEs and financial intermediaries throughout the region EU contribution: EUR 10.2 million	Dec 2019
EIB	<i>SME Finance Facility I - EIB window</i> Emphasis is given to stimulating local currency lending, particularly for micro, small and medium-sized enterprises EU contribution: EUR 5.1 million	Dec 2020
EBRD	<i>Women in Business</i> Access to finance for women-led SMEs and business development know-how. EU contribution: EUR 5.035 million	Dec 2022
KfW	<i>Neighbourhood Window of the European Fund for South East Europe (EFSE)</i> Aims to foster economic development in Southeast Europe & Caucasus region through sustainable provision of additional development finance, notably to micro businesses and private households, via qualified local financial institutions. EU contribution: EUR 5.1 million	Dec 2019

KfW	<i>Neighbourhood Window of the European Fund for South East Europe (EFSE)</i> Programme focuses on lending through micro-finance institutions particularly in local currency (with a combination of L-Shares and C-Shares). EU contribution: EUR 10 million	2018 – 2038
EBRD	<i>Framework for Capacity Building to support Financial Intermediaries in AZ and GE</i> Improving efficiency, effectiveness and transparency of the financial sector, resulting in the provision of better access to financing for enterprises. EU contribution: EUR 3.03 million	Dec 2016
EBRD NIF TF	<i>Financial Sector Institution Building and Crisis Response</i> Three financial institutions (EIB, EBRD and KfW) will pursue the following objectives through the regional SME Finance Facility: rebuild financial intermediaries' confidence to extend financing to SMEs, including micro-enterprises, following the financial crisis; enhance financial intermediaries' capacity to assess and monitor risks and manage SME financing; deepen SME credit markets; etc. EU contribution: EUR 12 million	Dec 2018
EU 4 Business DCFTA Facilities		
EBRD	<i>DCFTA SME Direct Finance Facility EBRD</i> Intended to blend EU and EBRD funds to provide financing and technical assistance to the SME sector to improve conditions for SMEs lending. EU contribution: EUR 10.22 million	Feb 2026
EIB	<i>EIB DCFTA Programme</i> Provides support to the private sector, SMEs in particular, so that they can cope with the implied requirements and seize the new opportunities from the DCFTA. EU contribution: EUR 62 million	2026
EBRD	<i>EBRD DCFTA programme</i> Programme supports DCFTA-related priority improvements in SMEs operating in Georgia, Moldova and Ukraine	April 2026
EIB/EBRD/KfW	<i>SME Finance Facility</i> Even if multi-country, it is mostly targeting Ukraine. Aims to foster local currency lending to SMEs, particularly for micro, small and medium-sized enterprises that are not earning (enough) foreign currency and could not afford the associated high FX risk. EU contribution: EUR 15 million	2027
EU 4 Business BSOs		
EuroChambres	<i>East Invest 1</i> It facilitates the internationalisation process for SMEs networking through BSOs participation and support. It i's a trade facilitation instrument. EU contribution: EUR 7 million	Aug 2017
EuroChambres	<i>East Invest 2</i> Continuation of East Invest 2. EU contribution: EUR 6.5 million	Sept 2017
EBRD and United Kingdom	Capacity building (EBRD) and Institutionalisation (UK GGF through Georgian Investors Council) of specialised Commercial Chambers	As of mid-2017

Other non-EU funded projects

GIZ	<i>Private Sector Development in the South Caucasus</i> (funded by the Ministry of Economy of Germany and implemented by GIZ). Beneficiaries: GE/AZ/AR. This project (budget EUR 11 million) supports the development of competitive enterprises and value chains with export potential, helping businesses to achieve broad-based inclusive growth.	2013-2020 (programme extension is under discussion)
GIZ/BMZ	<i>Legal Approximation towards European Standards in the South Caucasus.</i> Budget: EUR 7 million, Components: 1) legal approximation of selected laws, 2) fair trial, law enforcement and legal security, 3) legal education, 4) legal awareness raising.	2015-2017 (likely to be extended)
USAID	<i>Governing for Growth (G4G)</i> (funded by USAID and implemented by Deloitte Consulting). This project has a budget of USD 19.3 million). It contributes to enhance governance in selected business areas: tax and customs administration, trade facilitation, land registration.	2015-2019
USAI	<i>Restoring Efficiency to Agriculture Production (REAP) Activity in Georgia.</i> It aims at increasing employment and income in rural areas, by providing in-kind grants and technical assistance to agriculture-based SMEs to support improved agricultural productivity, marketing and processing. It facilitates the entry of new agribusinesses and expands the operation of existing SMEs.	2013-2018
USAID	<i>Promoting Rule of Law in Georgia (PROLOG)</i> Total budget: EUR 15 million, however mostly focused on criminal justice, human rights and legal aid. Components: 1) human rights and due process; 2) management of justice institutions, 3) legal education, and 4) access to justice.	2015-2020
WB	<i>The World Bank Private Sector Competitiveness Development Policy Operation (DPO, World Bank)</i> program (USD 60 million loans to the government) which aims to increase the private sector competitiveness through a second generation business environment reforms, financial sector deepening and diversification, and increasing firms' capacity to innovate (innovative ecosystems) and to export. In the area of financial inclusion, the World Bank is supporting the Georgian government on pension reform, deposit insurance scheme, capital market, insurance market, oversight of accounting & auditing.	
World Bank	<i>Actions on Inclusive growth through better public services, job creation and competitiveness within WB-Georgia Country Partnership Strategy</i> Georgia National Innovation Ecosystem (GENIE) Project, USD 42 million – project includes a component supporting education for knowledge economy and innovation hubs (fablab incubators)	2014-2017 2016-2021
World Bank	<i>Agricultural Programme – Component on registration of land titles</i>	2017-2018



ANNEX 2

of the Commission Implementing Decision on the Annual Action Programme 2017 in favour of Georgia

Action Document for Skills Development and Matching for Labour Market Needs

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in sections 5.4.1 and 5.4.2 concerning calls for proposals and in section 5.4.3 concerning grants awarded directly without a call for proposals.

1. Title/basic act/ CRIS number	Skills Development and Matching for Labour Market Needs CRIS number: ENI/2017/040-319 financed under European Neighbourhood Instrument
2. Zone benefiting from the action/location	Georgia The action shall be carried out at the following location: country wide
3. Programming document	Single Support Framework for EU support to Georgia 2017-2020
4. Sector of concentration/ thematic area	Economic development and market opportunities; Mobility and people-to-people contacts
5. Amounts concerned	Total estimated cost: EUR 50 850 000 Total amount of EU budget contribution EUR 48 850 000 of which <ul style="list-style-type: none"> - EUR 30 000 000 for budget support - EUR 15 100 000 for complementary support; - EUR 3 750 000 for specific actions in Abkhazia This action is co-financed by potential grant beneficiaries for an indicative amount of EUR 2 000 000
6. Aid modality(ies) and implementation	Budget Support Direct management:

modality(ies)	<ul style="list-style-type: none"> - budget support: sector reform contract - grants: calls for proposals and direct award - procurement of services <p>Indirect management with the United Nations Development Programme (UNDP)</p>			
7. DAC code(s)	<p>Main DAC code – 11110 - Education policy and administrative management</p> <p>Sub-code 1- 11330 - Vocational Education and Training</p> <p>Sub-code 2- 16020 - Employment Policy and Administrative Management</p>			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
	Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	X	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input type="checkbox"/>	X	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			

SUMMARY

The need for better matching of skills with labour market demands, as well as for a coherent and better quality skills development system, are identified as key bottlenecks hindering Georgia's competitiveness and economic development. There is evidence on limited opportunities for lifelong learning (LLL), vocational education and training (VET) and employment support services in Georgia, especially in the regions. Both a holistic vision of education linking all levels and types of education as well as active intermediation and matching between labour supply (education/training and LLL) and labour demand (economic/private sector development) are missing, also aggravated by the lack of well-functioning skills anticipation and matching mechanisms.

In line with the 2015 review of the European Neighbourhood Policy (ENP) and the "Eastern Partnership (EaP) 20 Deliverables for 2020", the programme will contribute to the

implementation of the two specific objectives of the new Single Support Framework for EU Support to Georgia (SSF 2017-2020): Sectors 1 (economic development and market opportunities) and 4 (mobility and people-to-people contacts). Notably it will contribute to sustainable and inclusive growth and resilience by developing human capital and skills sets and strengthening coordination between the education system and the labour market. The specific objective of the programme is to improve the employability of women and men in the selected regions which are (apart from the city of Tbilisi): Adjara, Imereti, Kakheti, Kvemo-Kartli, Samegrelo and Shida-Kartli. The expected results of the action are: (i) relevant skills-matching services accessible in selected regions; (ii) relevant lifelong learning skills provision accessible in the selected regions with a focus on youth; and (iii) entrepreneurial learning and entrepreneurship training opportunities accessible in the selected regions.

This programme has been designed taking into account the lessons learned from the current EU implemented programme in the Employment and VET sectors, as well as other relevant ongoing programmes (e.g. ENPARD and PAR). It will be in synergy with the Annual Action Programme 2017 action on Economic and Business Development in Georgia.

CONTEXT

1.1. Sector/Country/Regional context/Thematic area

Georgia is a small country with a population of 3.7 million, 1.1 million living in the capital Tbilisi. Overall 57% of the population live in urban areas. Despite the economic growth during the past decade, the Georgian labour market features several structural problems: (i) limited (high-skilled) job creation; (ii) high share of non-productive self-employment in subsistence agriculture in rural areas; (iii) high level of urban unemployment, especially for youth. Roughly speaking, half of the total employment is in agricultural sector, 40% in services and 10% in manufacturing (Geostat). The majority of jobs created in the country are in the traditional, low-productivity sectors, which limits the demand for a highly educated workforce. Several studies and statistics reveal discrepancy between traditional employment structure and the current education system in Georgia. The results of the first ever labour market demand survey done in 2015 by the Ministry of Health, Labour and Social Affairs (MoLHSA) showed that the overall demand for labour remains very low due to a limited number of vacancies and job openings. The interviewed companies identified skills shortages in some occupations while the lack of applicants and higher salary expectation are the biggest obstacles for hiring. In one year, 18% of firms hired new workers while 13% of firms fired workers; the net increase in total employment was 1%. The following occupations were growing in demand: doctors, nurses, teachers, sales workers, customer service clerks; while construction workers, personal services, metal and machinery workers were declining occupations. The qualitative component of the survey revealed a number of positions such as marketing manager, sales manager, food technologist, project manager, financial specialist and risks analyst as ‘hard-to-fill’ vacancies.

There are also other analyses confirming the lack of relevant skills and qualifications of the locally available workforce for vacant jobs¹. As employers demand both technical as well as

¹ See for example MoLHSA (2015), Labour Market Development in Georgia; and World Bank (2015), Skills Gaps and the Path to Successful Skills Development – Emerging Findings from Skills Measurement Surveys in Armenia, Georgia, FYR Macedonia, and Ukraine.

generic/transversal skills from potential workers, core employability skills (e.g. creative thinking, communication, ability to work independently, teamwork, problem solving, and analytical skills), foreign languages and digital skills are widely sought after. The lack of entrepreneurship key competences and absence of a relevant coherent policy vision in the education system hinders stimulation of an entrepreneurial culture for youth and adults as well as SME development in the country. Although higher education institutions (HEIs) have observed improvement in their students' confidence and adaptability as evidenced by the Erasmus+ evaluations, according to the World Bank, general and higher education largely fail to develop cognitive and social skills in their students². Moreover, there is a growing demand for middle-skilled workers, which the education sector is not producing.

1.1.1 Public Policy Assessment and EU Policy Framework

The EU and Georgia signed in 2014 an Association Agreement (including a Deep and Comprehensive Free Trade Area, AA/DCFTA), which includes Chapter 14 on 'Employment, Social Policy and Equal Opportunities' (articles 348-354 and Annex XXX) and Chapter 16 on 'Education, Training and Youth' (articles 358-361 and Annex XXXII). In line with the above-mentioned chapters of the AA/DCFTA, as well as Sector 1 (economic development and market opportunities) and Sector 4 (mobility and people-to-people contacts) of the 20 Deliverables for 2020³ the Government has developed overall policies to address shortcomings with both labour market and education reforms. Those policies are in line with the Sustainable Development Goals (SDGs). Education and economic growth **are prioritised in the Georgia 2020 Strategy** that identifies "enhancing skills" as one of the three overarching goals of the country's socio-economic development. This is further specified in the **4-Point Government Programme 2016-2020**, where education and economic growth are set as priority reform areas.

The respective EU-Georgia Sub-Committees on Science and Technology, Information Society, Audio-Visual Policy, Education, Training and Youth, Culture, Sport and Physical Activity (Cluster 4) and –on Employment, Social Policy, Equal Rights and Public Health (Cluster 6) are regularly meeting to monitor progress towards implementation of the Association Agenda.

Georgia has taken steps towards rehabilitating labour market policies and institutions. It has created a Labour and Employment Policy Department within the MoLHSA and relaunched its public employment services⁴ under the Social Service Agency (SSA/ESS) in 2013. Between 2014 and 2016, the MoLHSA has adopted several crucial policy documents on employment and labour market; namely the **State Strategy for the Formation of the Georgian Labour Market 2015-2018** and its Action Plan. The current strategy is complemented by additional strategies/programmes for creating a Labour Market Information System (LMIS), Professional Orientation and Career Counselling (POCC), Employment Promotion Services, and Active Labour Market Programmes (ALMP). Currently an Employment Services Act is under development to further transform SSA/ESS into a modern and efficient public

² See World Bank (2014), Georgia: Education Sector Policy Review; and World Bank (2014), STEP in Georgia.

³ Eastern Partnership - 20 Deliverables for 2020 Focusing on key priorities and tangible results, June 2017.

⁴ According to the terminology adopted in Georgia, the PES are named as Employment Support Services (ESS).

employment service, while the Labour Market Strategy is under revision to identify targets to be achieved beyond 2018.

The Labour Market Strategy Action Plan 2015-2018 is costed. The annual budget for the labour and employment system is planned to remain the same over the period 2017-2020: GEL 4 500 000, representing only 0.12% of the total budget of MoLHSA. The LMIS function has been transferred to the MoESD in May 2017. The Ministry of Economy and Sustainable Development (MoESD) reported that the resources will be used e.g. to maintain the LMIS website and outsource labour market surveys and research which will include nationwide labour demand surveys, sector specific surveys and others.

As regards monitoring and evaluation of strategies, the MoLHSA has developed a “Labour Market Strategy Implementation Matrix” (LMSIM) for management and monitoring purposes. The MoLHSA publishes the report on the Labour Market Strategy implementation annually.

The MoES leads the development of an overarching National Education and Science Policy aimed to integrate all levels of education in line with the principles of lifelong learning. The **VET Reform Strategy of Georgia 2013-2020** sets seven specific outcomes that aim to form a modern, inclusive, attractive and open system for international cooperation. The MoES has recently reviewed the VET Strategy and revised it for the remaining three years. The draft VET Law is being sent to the Parliament. Once adopted, this law will provide new opportunities for LLL, better linkages between different levels of education and public-private partnerships.

The national budget for VET has increased 178% during 2013-2016 from GEL 13 300 000 to GEL 33 700 000. This indicates a clear commitment of the Government to promote VET. In 2017, the VET budget is GEL 44 909 000 which represents 3.1% of the overall MoES budget. The projections indicate an increase of 22% of the VET budget from 2017 to 2020. The MoES has developed a Strategy Implementation Action Plan (SIAP) to support and improve the coordination and monitoring of the implementation process of the National VET strategy. The MoES chairs the National VET Council (NVETC), a quadripartite body established in 2012 and composed of representatives of the four target sector Ministries (MoES, MoLHSA, MoSYA, MoESD), employers, trade unions and civil society. It also regularly invites members of the donor community to meetings as observers. The MoES publishes a report on VET Strategy implementation annually.

In 2014, a **National Youth Policy** was adopted and it provides opportunities for youth to be involved in social, economic, cultural and political life as well as for appropriate and high quality education, decent employment, and professional growth. The Ministry of Sport and Youth Affairs (MoSYA) leads the implementation of the **Youth Strategy Action Plan** for 2015-2020 and plans to conduct a midterm review by the end of 2017. The MoSYA is responsible for disadvantaged youth and developed a “framework of youth competencies” in 2016 which includes the eight key competences of the EU, plus one on “healthy lifestyle and sports”. The Youth Policy Action Plan 2015-2020 is not costed in detail. The spending by the MoSYA has increased by 36% from 2013 to 2016 from GEL 66 093 000 to GEL 90 000 000 and a substantial increase of about 50% to GEL 136 820 000 was undertaken in 2017. The MoSYA has established the State’s Youth Policy Development Coordination Council, which meets regularly to discuss and monitor the youth strategy implementation. The Council includes representatives of the line ministries, the parliament as well as the main operating donors in Georgia. In addition, the MoSYA provides regular updates for the public on

strategy implementation on their website to monitor ongoing actions, including research and publications on youth.

According to the **SME Policy Index**⁵ 2016, Georgia, as a top reformer among Eastern Partners, has made significant improvements to its institutional framework for SME policy. In the area of human capital development, the SME Policy Index 2016 recommended to improve entrepreneurial learning by adopting the EU's entrepreneurship key competence framework⁶. In 2014, the MoESD created two new institutions, Enterprise Georgia (EDA) and Georgian Innovation and Technology Agency (GITA) to provide financial and technical assistance for entrepreneurship, innovation and SME growth. The **SME Development Strategy for 2016-2020** includes actions to improve entrepreneurial learning in accordance with EU practices to create concrete support measures to encourage innovative entrepreneurship. A pilot initiative has been carried out by EDA in 2016 to analyse skills needs and gaps at sector level, but the work needs to continue to improve skills intelligence to provide information to both companies and training providers. MoESD has established a technical working group to work on the details of the SME Development Strategy Action Plan, including costing. The budget allocations for entrepreneurship development have substantially increased to GEL 41 699 000 in 2017 which is approximately double compared to 2015 and 2016, indicating an increase of its importance in the MoESD portfolio. The MoESD has a Coordination Council for monitoring the SME Strategy. In addition to the Council, there is a working group which convenes regularly to work on technical issues and draft the Action Plans. The MoESD publishes an Annual Progress Report on the SME Development Strategy Action Plan. The first such report was the Annual Progress Report of 2016 which provides a summary of annual activities.

As part of the Public Administration Reform (PAR), the Administration of Government (AoG) has adopted in 2015-2016 a unified Policy Development Framework which sets standards for all policies and their monitoring and evaluation (M&E) mechanism. This framework is applicable to all national strategies and the AoG ensures its proper implementation.

In the breakaway region of Abkhazia there are neither comprehensive sector policies on youth/education/employment development, nor comprehensive substantive interventions by the de facto authorities in support of the sector. Abkhazia has currently no access to EU programmes such as Erasmus+. For this region EU policy continues to be governed by the principles of engagement and non-recognition.

Successful implementation of these strategies and laws requires a close connection and coordination of different policy areas and actors targeting education sub-systems (general education, vocational education and training and higher education), labour market and employment, youth, and small and medium-sized enterprise (SME) development. Within this context, this programme will target the implementation of the entire labour market and VET and their follow-up strategies, as well as specific parts of the Youth (the Youth Policy Action Plan 2.1, 2.2, 2.3 on non-formal education and career guidance) and SME Strategies (3.1, 3.2, 3.3, 3.4 of the SME Action Plan on skills/ training needs identification, lifelong entrepreneurial learning, entrepreneurship key competence training).

⁵ http://www.etf.europa.eu/web.nsf/pages/SME_Policy_Index_Eastern_Partners_2016.

⁶ <https://ec.europa.eu/jrc/en/entrecomp>.

Based on the above mentioned assessment, the targeted policies are sufficiently relevant and credible, and are consistent with the objectives of the sector reform contract.

1.1.2 Stakeholder analysis

At national level, the direct beneficiaries will be the MoLHSA, MoES, MoSYA and MoESD. The line ministries have clearly defined functions and the MoES, MoLHSA and MoESD have experience with previous and ongoing EU budget support programmes and the related policy dialogue. In these line ministries, there are departments and/or units responsible for implementation and coordination of the respective policies addressed by this programme.

As regards labour market and employment policies the MoLHSA and the Social Service Agency (SSA) and particularly its Employment Department lead and coordinate the activities of the **Employment Support Services (ESS)** at national and regional level. The human resource capacity of MoLHSA and ESS remain weak due to the limited number of staff and requires further capacity building.

As regards VET and LLL, the MoES and its agencies have good experience of coordination and monitoring of the VET policy implementation, but relatively limited experience in LLL and will require support in this direction.

As regards non-formal and informal education, the MoSYA has a wide outreach to youth, NEETs (not in employment, education or training), minorities, people with disabilities, IDPs and will require support for increased engagement in non-formal and informal education, career guidance and counselling, as well as entrepreneurship skills development, particularly at local level.

As regards entrepreneurship and SME skills, the MoESD provides a variety of support services to SMEs and entrepreneurs. The MoESD together with its subordinate agencies will require support in implementing entrepreneurship and SME skills related actions. In addition, the MoESD will require support in implementing LMIS related functions transferred from the MoLHSA.

In the course of the ongoing EVET programme, the MoES and MoLHSA have demonstrated a strong commitment and ownership for policy implementation and coordination. The MoSYA lacks some experience and capacity. However, in the course of programme identification the MoSYA has demonstrated a strong commitment and interest to be actively involved.

Besides the staff of public agencies (officials, employment officers, career counsellors, etc.), the **teachers and management of public and private VET providers as well as education institutions** at all levels will be direct beneficiaries of the programme. Other stakeholders include representatives and entities of the business community and **private sector** as well as **social partners**, who can benefit from and be engaged in various actions of the programme. Private sector participation in skills development and matching remains weak and limited in spite of the government's declarations and efforts to engage them more. The programme can make a major contribution in terms of awareness raising, creating incentives and new modus operandi to activate public-private partnerships.

The population of Abkhazia lacks opportunities for non-formal education and training. Entrepreneurship training and SME skills development have so far only been limited to and provided through initiatives of humanitarian organisations on the ground. Therefore, the programme is expected to also make a considerable contribution in terms of awareness

raising, creating incentives and introducing new modus operandi to activate the private sector in Abkhazia and to open channels for knowledge transfer and cooperation across the divide.

The Georgian citizens at large will benefit from the programme in terms of new lifelong learning opportunities, improved employability and public employment services. The final beneficiaries of the programme will be particularly disadvantaged youth, women and other vulnerable groups such as job-seekers, long-term unemployed, people with disabilities (PwD), as well as learners at all levels of education.

1.1.3 Priority areas for support/problem analysis

Overall, as pointed out in the public policy assessment, there is a positive trend in policy reforms and significant progress has been achieved both in labour market and VET actions in recent years. This is also evidenced by the two mid-term evaluations carried out in 2016 on the current EU programme and by strategy reviews. The policy development capacity has improved at national level and they are in line with the standards of policy planning adopted by the AoG.

The Georgian government has initiated reforms as regards labour market/employment, education, youth and SME development policies which will require further support. However, the focus of reforms needs to shift from policy development to policy implementation. This requires for example designing interventions targeting specific regions and/or sectors and their needs, and focusing more on ‘service providers’ rather than ‘policy-makers’. These policies need to strengthen their outreach to the regions and final beneficiaries in order to enhance economic development and resilience in an inclusive and sustainable way. Besides focusing on these policy areas, youth and entrepreneurship will be addressed as transversal issues throughout the programme. The momentum and sustainability of the reforms initiated in employment and VET will be ensured, while at the same time, the programme will boost synergy and coordination of various national efforts for youth employability and entrepreneurship.

Building on the gains of ongoing initiatives, the new programme will go a step further into policy implementation, especially in the regions. Based on the existing policy documents and analyses, the new EU programme proposes three thematic components as follows:

(1) ‘Skills anticipation and matching’⁷: There is a mismatch between labour demand and supply. An effective matching of labour supply and demand would be possible through a well-established anticipation system of current and future skills needs in the labour market. This information then feeds the matching services, as well as skills development and active labour market policies (ALMPs) and entrepreneurial programmes. The 2015 Labour Market Demand Survey done by the MoLHSA is not yet a regular practice as difficulties continue at methodological and regional levels, mainly due to inadequate institutional structure and capacity. In this regard, the business sector should be encouraged to identify their skills needs

⁷ The terms ‘skills anticipation and matching’ are used as generic terms to define all processes, mechanisms and actions in identifying current and future skill needs and matching labour demand with right skills. More specifically, the term ‘skills anticipation’ stands for all attempts to capture current and future relationship of skill supply and demand and identify changing skill requirements of a country, sector or region for now and future. The term ‘skills matching’ covers all mechanisms and actions to improve the coordination of skill supply and demand in the labour market and reduce skill gaps and shortages.

and inform the education and training system accordingly. The role of social partners and their participation in the process should be encouraged. The outreach to clients/beneficiaries of employment support services, career guidance and counselling and active labour market programmes has been limited in regions and rural areas as well as for the disadvantaged groups. The employment support services have only been recently re-established and a new service model is at the piloting stage. The institutional structures and human resources of the employment support services need further strengthening and increased awareness of the public is required on the availability of employment services. Overall career guidance and counselling services are needed to prompt different career options including wage employment, self-employment and entrepreneurship.

(2) ‘Skills development’⁸: There are four main challenges in VET: (i) meeting the demand for a medium-skilled work force; (ii) provision of core employability skills; (iii) improving the attractiveness and image of VET; and (iv) close cooperation with the private sector and its increased engagement in VET. The government's actions in the field of VET have been addressing primarily the public VET provision and therefore there is a lack of a holistic overview of the skills development system – e.g. fully recognising and incorporating the potential of private VET providers into the system and effectively coordinating/liaising with other public and civil society providers of skills development.

Given the importance of private providers in the Georgian context, addressing the public-private division of VET and developing one coherent and coordinated system, with clear and complementary roles of both public and private providers, is a first crucial step in increasing VET provision. Second, coordinating better with other providers of informal/ non-formal skills development is essential, but their quality needs to be substantially improved. As referred to in the recent youth survey, preference for higher education over VET is still predominant. Efforts need to continue to make VET a more attractive choice among learners and to inform the general public and businesses on VET offer. Third, further enhancement of cooperation with the private sector is essential in order to increase skills relevance and adaptability to the labour market. There are some good examples of successful interaction between VET and the private sector in the form of public private partnerships, development of work-based learning, but additional sound steps are required especially at local level. In addition, some cross-cutting themes need to be streamlined in all education levels and types, from secondary education to VET and higher education; e.g. career guidance and counselling, entrepreneurial learning and entrepreneurship key competence development, emphasis on soft/ generic skills, language and digital skills, all of which are needed in a modern labour market.

The Education Management and Information System (EMIS) statistics and VET surveys reveal that the public VET system primarily absorbs the 20-29 age group, which are mostly graduates of upper secondary and higher education, while there is no information on the student profile of private VET provision. The VET teacher profession is not attractive and the majority of teachers are above 50 years old and lack competences in modern teaching methods and experience in the world of work. The programme will support the government's

⁸ The term “skills development” is used here in preference to “vocational education and training (VET)”, given the broader coverage of the former. The term skills development covers all forms of knowledge, experience and ability learned by individuals in formal, non-formal and informal settings.

efforts in the implementation of professional development actions for teachers to make the profession more attractive and improve teachers' skills. Another challenge is the lack of sufficient lifelong learning (LLL) opportunities for adults and mechanisms for the validation of non-formal and informal learning (VNFIL). There is a need to better coordinate LLL activities as mentioned in different government strategies for a more effective use of resources, which the programme will address.

(3) 'Entrepreneurship development': Given the limited job creation in the Georgian economy and wide self-employment in subsistence agriculture, entrepreneurship development is a viable option for individual earnings and future economic development, as recognised in the government strategies. According to the business registers of Geostat, there are 652 046 firms as of 1 March 2017, but only 172 532 of them are economically active. The economy is dominated by micro, small and medium-sized enterprises (SMEs). While they constitute 96% of all active enterprises, they cover only 44% of employment and produce just 21% of GDP value added. Despite many positive steps taken recently to improve the business environment, create new agencies for SME support and introduce entrepreneurship modules in VET and higher education, Georgia needs to continue its efforts for entrepreneurship promotion including the development of entrepreneurship as a key competence and SME skills improvement. A well connected policy vision and a strategy for entrepreneurship key competence development in the education system should be supported by stimulating entrepreneurial culture and mind-sets of the wider population and setting up conditions for ensuring access to lifelong entrepreneurial learning opportunities for youth and adults. Special attention should be paid to improving teaching methods and skills of teachers. It requires integration of the entrepreneurship key competence⁹ as one of the EU key competences into formal education particularly as regards upper secondary general education and VET to ensure the development of an entrepreneurial personality of students including skills, knowledge and attitudes by means of entrepreneurial learning¹⁰.

The programme will support measures to improve SME skills of VET and higher education institutions by offering specific entrepreneurship courses and entrepreneurship experience, thus widening future career opportunities of young people and adults, including disadvantaged groups and job seekers. This will build on and strengthen the existing practice of entrepreneurship training by using institutional networks more effectively to cater for the needs of adult learners as well as students through entrepreneurship friendly career guidance. Particularly higher education institutions would, thus, increase their contribution to the development of the growth and innovation potential of the Georgian economy and creation of high-value jobs.

As for Abkhazia, there is an extremely low capacity of VET providers in the development of new methodologies, standards and training programmes and their facilities are out of date as regards the learning environment. The VET system suffers from a low image and is not focused on the development of life and entrepreneurial skills which has resulted in a low

⁹ There is a growing awareness that entrepreneurial skills, knowledge and attitudes can be learned and in turn lead to the widespread development of entrepreneurial mind-sets and culture, which benefit individuals and society as a whole. See EC (2016), *EntreComp: The Entrepreneurship Competence Framework*.

¹⁰ All forms of education and training, both formal and non-formal, which contribute to an entrepreneurial spirit and entrepreneurial behaviour with or without a commercial objective (ETF, 2009).

engagement of youth in VET and very poor employability opportunities. There is a considerable need to develop cooperation schemes and dialogue with local employers and companies.

1.2. Other areas of assessment

Based on the foregoing analysis and track record with EU budget support operations in the country, Georgia meets the eligibility criteria for a sector reform contract (relevant and credible VET, labour market, youth and SME sector policies, public financial management reform programme, stability oriented macroeconomic policy framework and budget transparency and oversight).

1.2.1. Fundamental values

Fundamental values of democracy and human rights are protected by the Georgian Constitution, in line with international standards. Georgia is considered to be a country adhering to the rule of law, although improvement is still expected in the areas of enforcement of judicial decisions and the independence of the judiciary. Freedom House assesses Georgia as “partly free”. Georgia is given a score of 3/7 (1 being the most free) both for political rights and civil liberties.

1.2.2 Macroeconomic policy

In 2015-2016 the macro-fiscal outlook deteriorated due to severe currency devaluations in trading partner countries (including Turkey, Ukraine and Azerbaijan) coupled with a parallel (less severe in comparison but still significant) devaluation of the Lari. This produced a two-fold negative impact on the economy and the Government finances: on one side the reduction of Georgian exports which has become less competitive; on the other side the dollar-denominated debt has become more expensive to service. This contributed to a slowdown of economic growth from 4.6% in 2014 to 2.9% in 2015. Following weaker than expected performance, Georgia's GDP growth was 2.7% for 2016, according to preliminary GEOSTAT data. In 2017, GDP growth is expected to pick up to 3.5% (growth reached 5% in 1st quarter).

Following cycles of appreciation and fall, the Lari started rising again vis-à-vis the US Dollar in February this year after reaching record lows in December 2016. The deterioration in the current account deficit (13.3% in 2016) has been partly compensated by a significant recovery of foreign direct investment (USD 1645.4 million in 2016). Yet, these increases have not been sufficient to cushion the effects on the economy of the currency depreciation and as a result external debt has increased quite markedly to a relatively high level of around 108% of GDP in 2016.

Inflation was low in 2016 (1.8% at end-December), but picked up in the first quarter of 2017 mainly due to excise increases (gasoline, tobacco, cars) reaching 5.4% in March 2017. In response to inflationary pressures, the National Bank increased interest rates up to 7% in 2017 (January +0.25% and May +0.25%).

Following a long period of fiscal consolidation since 2009, the fiscal situation was fragile in 2015-2016, partly resulting from an increase in social spending (35% of the State budget) aimed at addressing the country's persistently high levels of poverty and inequality.

In order to return to fiscal consolidation path and counterbalance the effect of corporate income tax reform estimated at 1.5% of GDP, excise taxes were raised from January 2017, bringing an estimated 2% of GDP of additional revenues to the budget. In addition, administrative costs (salaries, operations and subsidies) are planned to be decreased by 10% across all line ministries. Taking those measures into account and despite a planned parallel increase in public investment (from 7% of GDP in 2016 to 8.2% of GDP in 2017 to finance large infrastructure projects) the government expects the budget deficit to narrow to 4.1% of GDP in 2017 and gradually decrease to 2.0% of GDP by 2020.

The government also plans to introduce financial sector reforms (pension reform, deposit guarantee scheme, capital market development) that should be incorporated in the medium term fiscal framework. Following government fiscal consolidation measures, on 12 April 2017, the Executive Board of the IMF approved a three year USD 285.3 million Extended Fund Facility for Georgia. This enabled the EU to disburse the second tranche of macro financial assistance worth EUR 23 million in May 2017.

Overall, and despite a deceleration in growth and some deterioration in the fiscal and balance of payments positions and in the debt indicators for last two years, Georgia's macroeconomic situation remains stable, showing early signs of a pick-up in the medium-term.

1.2.3 Public Financial Management (PFM)

There is no overarching Public Finance Management Strategy in Georgia. However, key government institutions – Ministry of Finance (MoF), State Audit Office (SAO) and the Budget and Finance Committee of the Parliament – have medium term policy documents and action plans for 2014-2017. Strategic documents take the 2012 PEFA findings as a baseline while reform milestones were being developed through inclusive policy dialogue processes via the EU Public Finance Policy Reform (PFPR) programme and in line with Georgia's commitments of the Association Agreement.

The Public Finance Management Reform Strategy (PFMRS) 2014-2017 of the Ministry of Finance was approved by decree No 142 of the Minister of Finance on 7 May 2014, and replaced the PFM Reform Policy Vision 2009-2013. An updated PFM strategy is being developed on the basis of the updated PEFA which is being undertaken by the Ministry of Finance and should be available in 2018 once the PEFA has been concluded.

The PFM Reform Strategy 2014-2017 defines the following five goals for PFM Reform:

Priority 1- Maintaining fiscal discipline and improving fiscal forecasts; Priority 2- Improvement of state finance planning; Priority 3- State Funds Management, Accounting and Reporting; Priority 4- Reforms in the Sphere of Internal Audit and Control; and Priority 5- Development of State Electronic Services in Public Finances.

In 2015-2016 new components were added to the Action Plan reflecting the commitments taken under the EU-Georgia Association Agenda as well as incorporating the World Bank's Public Expenditure Review (PER) recommendations. Actions are envisaged for harmonising VAT and excise legislation with the EU acquis, as well as for creating mechanism for investment projects selection and implementation. In 2016 the Cabinet of Ministers approved the guidelines for identification, evaluation, prioritisation, and funding of Public Investment Projects to make sure that investment planning is aligned with medium to long term national economic and social priorities. Proposed projects with a value above GEL 5 million should undergo a feasibility study and cost-benefit analysis. Strategies, Action Plans and

complementary actions by the Georgian authorities demonstrate a direct and explicit targeting of identified weaknesses and tangible actions in practice.

The Georgian State Audit Office fulfils the role of Supreme Audit Institution in Georgia. The SAO has a Strategic Plan, covering the period 2014 to 2017, and (with reference to the EU PFPR) aims to continue the work of establishing the SAO as a credible and independent SAI. The State Audit Office submits its opinion to the Parliament on the draft budget (November) and annual execution report (June). The SAO also conducts financial and compliance audits of budgetary organisations. Audit opinions and reports are available online and accessible to the public. During recent years use of SAO reports by member of the Parliament and media has increased (one of the benchmarks of the PFPR programme).

The Parliamentary Budget Office has developed a Strategic Plan (2015–2018) for further development of the Budget Office as an independent and expert entity guided by international standards and practices. The Budget and Finance Committee of the Parliament publishes quarterly work plans that are available on the Parliament website and informs on the participation of Parliament designated staff to the PFM Reform Coordination Council.

Overall monitoring of the PFM Reform Strategy is undertaken by the Coordination Council for the Implementation of the PFM Reform Strategies for 2014-17, chaired by the MoF. The implementation of the PFM strategies is done through annual Action Plans that are developed by the State Audit Office, MoF and the Budget and Finance Committee of the Parliament. Progress on implementation is reviewed and reported by the PFM Coordination Council at quarterly meetings, chaired by a Deputy Minister for Finance, which are open to the public, NGOs and donors.

A PEFA self-assessment is under preparation and it will take stock of already implemented reforms based on the updated methodology. It will be used as the basis to develop future PMF Action Plans. The MoF anticipates publishing the assessment by end 2017 once the quality check has been finalised and the final report validated by the PEFA Secretariat.

1.2.4 Transparency and oversight of the budget

Georgia's PFM Reform Strategy Action Plans for 2015-2017 entail budget transparency objectives. Georgia's ranking in the 2015 Open Budget Survey was 16 among the 102 countries included in the survey – a significant improvement from its position of 33 in the 2012 survey. Its score places it among a grouping of high-scoring countries classified as substantially transparent. Following-up on the International Budget Partnership (IBP) recommendation, Georgia published in 2016 a Mid-Year Budget review. In December 2016 the IBP published an update stating that Georgia makes "eight of eight key budget documents publicly available online in a timeframe consistent with international standards".

As part of the Public Finance Policy Reform programme, MoF prepares and makes a 'Citizen's Guide to the Annual Budget' in Georgian and English publicly available on the MoF website which invites citizens to take part in budget planning and defining budget priorities. Access to information has been improved in the 2017 Citizen Guide.

The strategic goals of the State Audit Office Strategy for 2014-2017 are geared towards ensuring greater transparency and oversight: (1) Support the parliamentary oversight over the government through audit work; (2) Support government reforms aimed at improving government accountability; (3) Promote transparency and accountability in political party financing. In addition, with EU support, the Budget Office of the Parliament was established

as an independent financial institution in 2014 which provides independent advice to the Parliament on the fiscal and macro-economic environment.

In order to strengthen the accountability mechanism, the PFPR programme has helped the Government to establish a follow-up mechanism to the SAO recommendations. The report on progress of implementing recommendations is annexed to the annual budget execution report submitted to the Parliament in May. The Parliament holds hearings on the SAO's annual report as well as the report on the execution of the State budget at its spring plenary sessions.

Important milestone for the EU-Georgia policy dialogue is enhancing the legal independence of the SAO and removing the responsibility for the monitoring of political party expenditures, which is incompatible with INTOSAI rules.

The World Bank's recommendations for strengthening public investment management and external oversight have been accepted and incorporated into the 2016 and 2017 PFM Action Plans.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
(1) Macroeconomic instability, economic/financial crisis and/or poor public finance management disallows the budget support modality	L/M	Continuous contacts with Georgian government; reinforced economic/financial monitoring and other supportive measures
(2) Delays in the start and implementation of complementary measures (technical assistance, twinning, grants)	L	The EU Delegation takes timely actions to launch tenders and calls for proposals to alleviate possible delays
(3) High turnover of civil service staff of the line ministries and agencies involved and low absorption and implementation capacity	L/M	Continuous policy dialogue with Georgian government, including all relevant line ministries, reinforced analyses, surveys and regular monitoring and evaluation of policy implementation; identification of key supportive measures, development of enabling policies and remedial actions
(4) Low (or lack) of employers' engagement in skills anticipation, matching and skills development policies and their implementation	L/M	Continuous involvement of private sector representatives and social partners through the National VET Council, Tripartite Commission and M&E of the programme; awareness raising and engagement of the private sector and social partners in all actions, exposure to international practice, cost-benefit analyses
(5) For Abkhazia: tensions and sensitivities relating to status issues result in possible restrictions or complete	M	Continuous political contacts with the Georgian government; conflict-sensitive implementation of grants based on conflict analysis and identification of remedial actions

cancellation of implementation		
Assumptions		
The government continues supporting and funding all the strategies covered by the programme and will continue monitoring their implementation involving actively key stakeholders, civil society and donor community representatives. The government continues investing and effectively monitors the new employment services model and gradually rolls it out.		
The government includes all relevant line ministries, social partners and civil society in a steering committee, which continues to be the main platform for policy dialogue and inter-agency cooperation and monitoring of the programme.		
The MoES continues to register both public and private VET providers in a comprehensive database (EMIS).		
For Abkhazia: geo-political conditions remain in place for the implementation of grants		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The ongoing Employment and Vocational Education and Training (EVET) sector reform contract (2013-2018) tackles the nexus between VET and employment. The interim evaluation of the EVET conducted in 2016 highlighted the important achievements, but also the key issues to be addressed in the coming years. The EVET enhanced cooperation between VET and various public and private bodies active on the labour market, although those links are very limited at meso- and micro levels especially in the regions. The EVET contribution to increase the attractiveness of the VET system to potential students and employers was significant, although there is still a need to foster awareness about improved VET and employment services to the wider public and to increase access to quality VET and employment service provision.

The main lesson learned from the current programme is to move the focus from policy development to policy implementation targeting more ‘service providers’ rather than ‘policy-makers’. Therefore, the new programme will pay special attention to (i) the comprehensiveness of support to different state and non-state beneficiaries, especially to disadvantaged groups (IDPs, ethnic/religious minorities, persons with disabilities (PwDs), etc.), (ii) shift concentration from the policy/macro level to meso- and micro levels with tailor-made activities in the regions; (iii) strengthening the links between VET, public and private actors active on the labour market in the regions; (iv) targeted support in Abkhazia based on the lessons learned from IcSP/COBERM .

The programme will take into account the successful experience of the US government funded Millennium Challenge Corporation (MCC), notably in the grant scheme fostering public-private partnerships in skills development. The programme will continue engaging other donors and civil society in monitoring and steering as they have been part of the EVET Council.

3.2 Complementarity, synergy and donor coordination

The programme will be complementary to the ongoing and upcoming EU budget support operations, such as (a) support to Public Administration Reform (PAR), in activities related to improved policy planning and coordination capacities in the beneficiary ministries of this programme; (b) support to SMEs in activities linked to entrepreneurship support. It will be in

synergy with the upcoming EU programme on Economic and Business Development in Georgia, especially in activities related to entrepreneurship for job creation (focusing on the same regions) and to enhance the capacities of key institutions to deliver better services to businesses. Complementarity and synergy will be ensured through the EU-Georgia coordination and monitoring mechanisms.

This programme is in line with the joint programming Fiche on Human Capital Development elaborated for the SSF 2017-2020 with representatives of the EU Member States Embassies in Georgia and coordinated with other non-EU donor community such as the Millennium Challenge Corporation (MCC), USAID, International Financial Institutions (European Bank for Reconstruction and Development (ENBRD), World Bank) and UN agencies (see the list on donor coordination and complementarity in Appendix 2). This exercise aimed at mapping the ongoing and planned interventions in the relevant fields covered by the SSF.

In addition to the EU, the main donors supporting education and the training sector in Georgia are the MCC, SDC (Swiss Agency for Development and Cooperation)/UNDP (United Nations Development Programme) and GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit). Their ongoing programmes will phase out by 2019/2020. Donor cooperation is particularly active in VET and regular monitoring and coordination meetings are organised and led by the Ministry of Education and Science. This programme builds on good practice, results and actions of the other donors. The programme is consistent and in line with EU regional programmes such as EU4Youth and Erasmus+ as well as with the regional activities implemented under the Eastern Partnership (EaP) Platforms. The Government's donor coordination is led by the Division within the Department for Political Analysis, Strategic Planning and Coordination (AoG), which has overall responsibility for the coordination of external assistance. The coordination of EU assistance remains with the EU Assistance Coordination Department/Programme Administration Office (PAO) in Georgia, within the Office of the State Minister of Georgia for European and Euro-Atlantic Integration. The Budget Department of the Ministry of Finance has specific responsibility for the oversight of EU-funded budget support programmes. At the level of the line ministries the quality of donor coordination process varies: The MoES is more advanced and experienced in donor coordination compared to the MoLHSA. The MoESD recently has made certain efforts in donor coordination. The EU Delegation ensures co-ordination with EU Member States through regular meetings, inviting Georgian authorities to attend them. The EU Delegation also coordinates and chairs sectoral donor co-ordination groups in a variety of sectors such as governance, human capital development, rule of law and justice. Donor coordination for Abkhazia is mostly done by the UNDP via the Joint Consultative Forum and the Ambassadorial Working Group in Tbilisi, and as *primus inter pares* at the Abkhaz Strategic Partnership in Abkhazia, which brings together UN agencies and international NGOs.

3.3 Cross-cutting issues

There is no quantitative gender inequality in general education while more females enrol in tertiary education. In VET slightly more males enrol than females (GEOSTAT 2016). Due to occupational stereotypes, there is a high degree of gender segregation by fields of studies. There is a big difference (15-20 percentage points) in activity and employment rates between men and women. The share of the inactive population due to domestic responsibilities is very high among women (UNDP 2015). The NEETs rate is higher among females. Women in rural areas, particularly ethnic/religious minorities, are more disadvantaged than urban ethnic

Georgian women. Both youth and women are special target groups for budget support and complementary measures in this programme.

Furthermore, there is a high disparity between the regions as well as urban and rural areas. Job and education opportunities are better in urban areas and Tbilisi. Overall, 12% of the population is below the minimum poverty line and they are recipients of targeted social assistance (TSA). Difficulties faced by people with disabilities (PwD) are addressed by the government offering special quota in access to education, VET and employment support services.

The objective of gender equality, to which Georgia is committed in its national policies as well as through its international commitments, is embedded in this programme at national policy level by disbursement indicators that include sex and region specific targets where important differences exist. Complementary measures, in particular as regards capacity building for data gathering and awareness raising activities, will be designed to include gender aspects. At final beneficiary and local level, the grant schemes and the specific support to Abkhazia will target females and males and the disadvantaged regions in equal manner. This will be reflected in the grant scheme guidelines for proposals both for eligibility and evaluation criteria of the proposals.

Although environment and climate change aspects are not directly addressed by this programme, issues such as increased awareness on environmental protection and the importance of the green economy, in particular green skills and green jobs, will be taken into account in the design and implementation of all programme actions.

All activities under this programme will be designed and implemented in accordance with principles of good governance and human rights, gender equality and the inclusion of socially or economically deprived groups. The programme aims at enhancing equally the employability of Georgian women and men, while specific focus is given to youth and NEETs and the regions. Vulnerable groups such as ethnic/religious minorities, PwDs, the beneficiaries of the TSA, IDPs, and persons with special education needs (SEN) will be targeted according to the objectives of national policies which the programme is supporting.

The Policy Planning Framework adopted by the AoG in 2015-2016 requires a more inclusive approach in policy development and implementation. Civil society representatives are involved in the monitoring and coordination of VET related policies. They are members of the NVETC, which has a quadripartite nature. In addition, NGOs will have an opportunity to monitor and watchdog the implementation of the respective policies via the actions funded by the call for proposals envisaged within this programme.

DESCRIPTION OF THE ACTION

4.1 Objectives and results

Within the overall context of EU bilateral support to Georgia, the action contributes to the economic development of Georgia and is relevant for the Agenda 2030. It supports the progressive achievement of Sustainable Development Goals targets 4.3-4.5¹¹ on Quality

¹¹ 4.3: By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university. 4.4: By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship. 4.5: By 2030, eliminate gender

Education, but also promotes progress towards Goal 5 on Gender Equality and Goal 8 on Decent Work and Economic Growth. The action will contribute directly to challenges related to SME development and will provide skilled human resources for the implementation of the DCFTA. The action is in line with the two overall objectives of Sectors 1 and 4 of the new Single Support Framework (SSF) for Georgia 2017-2020.¹²

Enhanced human capital development in a lifelong learning perspective and skills matching are important elements of economic growth and resilience. The development of a HCD (human capital development) policy at national level to address long-term development needs as well as focused inclusive actions at regional level to address immediate territorial development needs will be promoted in line with the policies and action plans of the Government of Georgia. In line with the SSF, this sector reform contract will target six selected regions out of which two will be systematically covered by all EU sector programmes for a combined effect. Apart from Tbilisi, the capital, Adjara, Imereti, Kakheti, Kvemo-Kartli, Samegrelo and Shida-Kartli are selected. The selection of the regions has been made based on the key indicators on population, poverty and local economic development, availability of institutional capacity (training providers) as well as employment and unemployment rates in the regions.

Sector reform contracts support Government's capacity to implement their own national sector strategies. Therefore, the objectives and expected results of the action reflect the nationally defined medium and long-term goals.

The **general objective** is to enhance Georgia's economic resilience and sustainable growth through human capital development and skills matching.

The **specific objective** is to improve the employability of women and men in the selected regions (Tbilisi – the capital, Adjara, Imereti, Kakheti, Kvemo-Kartli, Samegrelo and Shida-Kartli).

Particular attention will be given to youth, women and other vulnerable groups.

The action will pursue the following **expected results**:

Result 1: Relevant skills-matching services accessible in the selected regions

R 1.1: Operational skills anticipation system based on regular national/sectoral and regional skills needs analyses

R 1.2: Increased availability of career guidance and counselling, job intermediation and labour market integration services

Result 2: Relevant lifelong learning skills provision accessible in the selected regions with a focus on youth

disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations.

¹² Single Support Framework for EU support to Georgia (2017-2020), June 2017.

R 2.1: Flexible skills development system including both private and public provision based on the needs of learners and employers

R 2.2: Increased VET participation, in particular for the youth age group of 15-24

Result 3: Entrepreneurial learning and entrepreneurship training opportunities accessible in the selected regions

R 3.1: Entrepreneurship key competence is an integral part of curricula and teacher training, including practical entrepreneurial experience, in upper secondary general education and VET

R 3.2: Entrepreneurship training modules available for students and adult learners in higher education and VET institutions

All expected results draw from national policies.

The indicative list of results indicators (see Appendix 1) includes the three draft **Single Support Framework** indicators for Sector 4 of the SSF and one indicator from the **EU Results Framework**. This will enable linking the achievements of the programme with the EU contribution to the overall reforms in Georgia and to the global development agenda. These results will be achieved through combination of the budget support and complementary measures.

4.2 Main activities

Main activities of the sector reform contract are policy dialogue, capacity building, performance assessment and financial transfers. The activities will be channelled through both a budget support policy matrix, as well as complementary support consisting of technical assistance, twinning and grants.

4.2.1 Budget support

Budget support is proposed for areas where a sound level of policy framework, coordination and ownership of the reforms have been demonstrated. For budget support, the main activities are geared towards the policy targets which the government has committed to achieve in relation to the following policy areas: (1) Skills anticipation and matching; (2) Skills development, quality and relevance; and (3) Entrepreneurship development¹³.

At this stage, it is foreseen that EUR 30 million will be disbursed through this sector reform contract, in five annual tranches (2018 to 2022) depending on the achievement of targets defined in the policy matrix for each of the three policy areas. The targets trigger the achievement of all the expected results of this programme. The amount defined for budget

¹³ See Appendix 1 for additional information.

support is expected to have an effective impact on the fulfilment of the conditionality and providing a substantial leverage for the policy dialogue.

Indicative disbursement table (in million euros)

Country fiscal year	2018	2019	2020	2021	2022	Total
Type of tranche						
Fixed tranche	4.0	3.0	2.0	1.0	1.0	11.0
Variable tranche		2.0	4.0	6.0	7.0	19.0
Total	4.0	5.0	6.0	7.0	8.0	30.0

A coordinated bilateral **policy dialogue** related to budget support with the Georgian Ministry of Finance and the line Ministries will be led by the EU Delegation and conducted throughout the sector reform contract. Civil society and social partners are included in the policy dialogue through their membership in the programme steering committee.

The policy dialogue will support the general and specific objectives of the programme and the eligibility and performance indicator related milestones. It will pay specific attention to the credible costing and financing of the sector strategies and the overall progress of the sector reforms. It is also built around the Risk Management Framework. The EU Delegation will document important dialogue activities and monitor whether the Government acts upon policy messages.

4.2.2. Complementary support

The size and the scope of the complementary support have been shaped to focus on evidence informed policy implementation and monitoring rather than on policy development with a view to: (1) strengthening the capacity of stakeholders to address the needs of final beneficiaries with a special focus on youth and vulnerable/disadvantaged groups; (2) targeting specific regions, communities and sectors and their needs; and (3) involving actively private sector and non-governmental actors in policy implementation. Complementary support will cover all objectives and results.

(a) Technical assistance and twinning

Technical assistance will focus on capacity building of the relevant ministries and agencies. It will work on developing the skills, knowledge and competencies of these institutions to implement reforms in the policy areas of this programme in a sustainable long-term perspective.

The technical assistance will contribute to all the expected results 1.1-3.2. It will provide tools, methodologies and advisory services to strengthen their capacity and service provision to implement, connect and monitor the reforms. A special focus will be on fostering the provision of the new service model of the Employment Support Services in their district offices, improving access of the population in general and youth and vulnerable groups in particular to quality VET provision and embedding new methods and approaches to provide lifelong entrepreneurial learning in the education system. The technical assistance will also work with local communities (training providers, local actors such as youth centres, private

sector and NGOs) to strengthen their capacity in grant proposal development, project management and monitoring. Beyond the expected results of the programme, the technical assistance will also include a communication component ensuring internal and external visibility and communication on the government led reforms in respective sectors. Communication activities will build upon the communication strategies and capacities of the respective ministries.

Technical assistance targeting beneficiary line ministries (MoLHSA, MoES, MoSY, MoESD) and relevant agencies includes support and advisory services for e.g.: (i) effective implementation and monitoring of the sector strategies; (ii) development and provision of tools and methodologies in education and labour market monitoring, skills anticipation, career guidance and counselling and youth activation measures; (iii) capacity building measures for education staff (like teacher and school management trainings) and the staff of employment support services; (iv) support to VET and HE institutions enabling them to provide relevant entrepreneurship training courses; (v) communication and awareness raising on policies and services available in the regions for the programme target groups; (vi) visibility of the EU intervention. A separate service contract will provide external independent review missions to verify compliance with relevant policy reforms conditions.

A **first twinning** for the MoLHSA and/or MoESD will contribute to expected result 1 on relevant and accessible skills-matching services and to the specific objective of improved employability of the population. This will be done through capacity building of the Ministry(ies) and their partners in harmonising the Georgian labour and employment policy legislation that are specifically required by the provisions of Association Agenda.

A **second twinning** for the NCEQE will contribute to the expected result 2 on accessibility of relevant lifelong learning skills. This will be done by enhancing the institutional capacity of the Centre to implement and monitor new authorisation and accreditation mechanisms, to develop secondary VET legislation and to improve quality assurance and governance of qualifications.

(b) Other Support

A **grant scheme** aiming at enhancing the employability of target groups in the regions will be open for the private sector, non-governmental actors and various service providers in education and training, employment and youth. The grants will improve outreach equally for final female and male beneficiaries and vulnerable groups through the development of partnerships and cooperation activities. The grants will contribute to the achievement of all the expected results 1.1-3.2.

(c) Support to Abkhazia

A **specific support to Abkhazia** will be channelled via UN agencies and NGOs to improve the management and delivery of VET and enhance employment and training opportunities of vulnerable groups in Abkhazia. This action will aim at building the capacity of VET providers in the development of new methodologies, standards and training programmes as well as cooperation schemes and dialogue with local employers and companies. The action will enhance the capacity of local communities and actors to survey skills needs and engage particularly youth in VET, employment and entrepreneurship through apprenticeships and work-based learning schemes in companies, mentoring of employers and providing key

competence training for youth placed in companies. The final beneficiaries are to include men and women in equal numbers. The specific support to Abkhazia will contribute in particular to the expected results 1.2 and 2.1 and expected results 3.1-3.2.

(d) Visibility and communication

The **visibility and communication** actions to promote and raise awareness of the programme will be covered through a specific contract aimed at providing up-to-date and accessible information on the EU and its activities in Georgia, including overseeing and ensuring the visibility of EU-funded projects covered by this programme.

(e) Evaluation and Audit

Evaluations and audit will be carried out via specific contracts as described in sections 5.9 and 5.10.

4.3 Intervention logic

The intervention logic of this programme is driven by the objective of better employability of women and men in Georgia. It is based on the Government's 4-Point Programme 2016-2020 and the specific sector strategies and action plans as well as the commitments of the Government of Georgia through international agreements such as the Association Agreement with the European Union and the UN SDGs as adopted by the Government of Georgia.

For this purpose, it supports all parts of the Georgian national VET and labour market strategies as well as specific parts of the national Youth (career guidance, non-formal education) and SME (lifelong entrepreneurial learning, entrepreneurship key competence training) Strategies.

This policy framework covering the four Georgian line ministries sets up a holistic approach to tackle human capital development and employability in the selected regions. This sector reform contract will, thus, provide impetus for coordinated national efforts via the enlarged mandate of the coordination body and mechanisms to increase access of the population in general, and vulnerable groups and the selected regions in particular to active labour market measures such as career guidance, job search assistance, apprenticeships, as well as to employment support services and work-based learning, increased affordability of formal VET, non-formal education and entrepreneurial learning. The following table summarises the themes covered under the three components of the programme.

Themes covered under the three components of the proposed programme

Component	(1) Skills Anticipation and Matching	(2) Skills Development	(3) Entrepreneurship Development
Themes	<ul style="list-style-type: none"> • LMIS/anticipation • ALMPs delivery • Career Guidance and Counselling • Public Employment Services • Labour policy, legislation 	<ul style="list-style-type: none"> • VET provision development • Lifelong learning • Quality Assurance • Work-based learning and PPP • Teacher and headmasters training 	<ul style="list-style-type: none"> • Entrepreneurial learning • Entrepreneurship key competence • Entrepreneurship training

Cross-cutting themes	Gender, Youth, NEETs, Vulnerable groups (IDPs, PwD, SEN (special educational needs), ethnic/religious minorities), six regions, green skills and green jobs, etc.
-----------------------------	---

The national policy implementation will be supported by budget support as well as complementary measures: technical assistance for the four line ministries (and agencies) and grants (including two twinnings). Support to Abkhazia via UN agencies and NGOs will be provided taking into consideration the specific constraints of this region.

The effectiveness of the EU intervention will be assessed through indicators that measure policy implementation and concrete outcomes for final beneficiaries in the regions. Disaggregated indicator targets for disbursements by vulnerable groups will ensure that the cross-cutting issues are monitored.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation of the budget support component

5.3.1 *Rationale for the amounts allocated to budget support*

The amount allocated for the budget support component is EUR 30 000 000, for the complementary support is EUR 15 100 000 and for Abkhazia is EUR 3 750 000.

This amount is based on the commitment of the partner country to allocate national budget resources (including EU budget support) for support to (1) Skills anticipation and matching; (2) Skills development, quality and relevance; and (3) Entrepreneurship development. The amount is commensurate with the financing needs related to the supported reforms and will provide substantial leverage for the policy dialogue. All line Ministries concerned with the performance targets have demonstrated sufficient absorption capacity and a good track record in fulfilling the conditions under existing EU funded budget support programmes. Overall five instalments are planned. The first instalment of EUR 4 million will be released upon signature of the Financing Agreement and subject to compliance with the General Conditions for tranche release.

5.3.2 *Criteria for disbursement of budget support*

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the State Strategy for the Formation of the Georgian Labour Market 2015-2018 and its follow-up strategy, the VET Reform Strategy of Georgia 2013-2020 and its follow-up strategy, the specific parts of Youth Policy (2.1, 2.2, 2.3 of the Action Plan on non-formal education and career guidance) and the SME Strategy (3.1, 3.2, 3.3, 3.4 of the Action Plan on skills/ training needs identification lifelong entrepreneurial learning, entrepreneurship key competence training); and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the government's PFM reform programme;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for disbursement that may be used for variable tranches are based on existing government commitments through the relevant strategies and action plans mentioned above. The list of performance indicators used and the targets for disbursement of the variable tranches are detailed in Appendix 1. They have been selected from relevant strategies and are impact oriented:

- Increase in the number of ESS offices providing the new service model
- Increase in the number of annual ALMP beneficiaries
- Increase in the number of annual job placements by ESS
- Increase in the SME Policy Index score
- Regularity in overall skills needs analysis and complete national skills forecast
- Increase in the employment rate of VET graduates
- Increase in the lifelong learning participation rate
- Decrease in the NEETs rate by sex
- Decrease in the drop-out rate from VET

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the State Minister on European and Euro-Atlantic Integration may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the Euro transfers disbursed into Georgian Lari will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities

5.4.1 Grants: call for proposals "Support to skills development and matching with labour market needs in Georgia" (direct management)

- (a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The grants will aim at enhancing the employability of target groups in the regions and improving outreach to equally female and male beneficiaries and vulnerable groups. This is done through the development of partnerships and cooperation activities in the following areas and fields of intervention: (i) International Partnerships between Georgian and EU VET providers; (ii) Local Human Resources Development Partnerships bringing different actors together; (iii) Sectoral Partnerships in order to strengthen and institutionalise sector skills councils, capacity building of sectoral employers and their associations, identifying skills needs and demand of the sectors, development of joint demand-driven training programmes with providers as well as development of work-based learning schemes and apprenticeships.

Expected results and eligible actions are those linked to all three components of the intervention logic for improved employability of target groups, in particular women and NEETs in the regions.

(b) Eligibility conditions

The essential eligibility criteria for applicants include, among others, to be established in a Member State of the European Union or in Georgia and be legal entities, natural persons or groupings without legal personality, local authorities, international organisations, NGOs, economic operators such as SMEs. Indicatively all public, private and non-state actors, international organisations, will be eligible to participate as long as they establish partnerships among different actors and fields.

Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant will be between EUR 300 000 and EUR 1 200 000 and the grants may be awarded to sole beneficiaries and to consortia of beneficiaries (coordinator and co-beneficiaries). The indicative duration of the grants (implementation period) will be between 18 and 36 months.

As the case may be the authorising officer responsible may adapt those conditions.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 80% of the eligible costs of the action.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100%. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the call

2nd trimester 2019.

5.4.2 Grants: calls for proposals for twinning projects for for Results 1 and 2 (direct management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The twinning calls for proposals modality will be used to conclude up to two grants for actions supporting the following priority areas, in line with the objectives, results and activities described in sections 4.1 and 4.2:

- Twinning for Result 1 objectives: to strengthen the institutional capacities of MoLHSA and/or MoESD and their partners in harmonisation of the national legislation on employment and labour policies;
- Twinning for Result 2 objectives: to strengthen the institutional capacity of the NCEQE to implement and monitor new authorisation and accreditation mechanism, develop adequate by-laws and regulations and improve the qualifications system.

(b) Eligibility conditions

In line with Article 4 (10)(b) of Regulations (EU) No 236/2014, participation in twinning calls for proposals is limited to public administrations of the EU Member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant.

The essential award criteria are the technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

The rate of co-financing for twinning grant contracts is 100%¹⁴.

(e) Indicative timing to launch the call

2nd trimester 2018.

(f) Use of lump sums/flat rates/unit costs

Twinning contracts include a system of unit costs and flat rate financing, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member State(s) administration(s). The use of this system of unit costs and flat rate financing, which exceeds the amount of EUR 60 000 per beneficiary of a twinning contract, is authorised through Commission Decision C(2017)1122.

5.4.3 Grant: direct award for "Pilot measures for vocational education training in Abkhazia" (direct management)

¹⁴ As provided for in the Twinning Manual.

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

- Objectives: Improvement of quality, effectiveness and accessibility of VET and LLL, and improvement of employability and self-employment.
- Fields of intervention: VET, LLL and employment
- Expected results and eligible actions: actions linked to the adoption of best practices in VET and LLL approaches and improved access to VET and LLL of conflict-affected and/or vulnerable populations in Abkhazia.

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the Danish Refugee Council (DRC) based upon Article 190(2) of Commission Delegated Regulation (EU) No. 1268/2012¹⁵, which is justified by the fact that the breakaway region of Abkhazia has been declared in a crisis situation by the authorising officer responsible.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because DRC is the largest international NGO operational in Abkhazia. Its Economic Recovery Unit has been supervising and coordinating complex economic initiatives since 2006 for a large variety of donors (ECHO, Danida (Danish International Development Agency), EU, Sida (Swedish International Development Cooperation Agency)). Interventions have ranged from self-reliance grants with a focus on food security to SME interventions with tailor-made on-the-job training provided to local entrepreneurs. Over the period 2012-2016, DRC has delivered grants and training to over 380 local entrepreneurs in South East Abkhazia primarily in the service and production sectors, with the support of SIDA, DANIDA, SDC, EU and UNHCR. DRC has a sound knowledge of the local economic context and dynamics and strong capacity to provide training in the field of business management and administration. DRC's recognised presence in South East Abkhazia since 2013 has translated into strong partnerships with local communities, economic and social actors and local institutions which are essential to run successfully the action and contribute to rural development. DRC has also developed an innovative programme to engage youth in the labour market and offer new educational possibilities based on market needs. Since 2016, DRC supports unemployed youth in the districts of Gali, Ochamchire and Tkvarcheli to work with SMEs by receiving on the job technical trainings and receiving grants at the end of the programme based on their business plans. DRC is currently the only international NGO providing on the job training to unemployed youths in underserved and remote districts of Abkhazia.

DRC will partner with Action against Hunger (ACF), which is the second largest NGO operational in Abkhazia, able to operate on both sides of the divide with Abkhazia. Benefitting from broad international support, it has been implementing projects in close collaboration with local communities, administrations, professionals, scientific institutions, universities and civil society. It has an active presence on both sides of the Administrative

¹⁵ The current crisis declaration is only valid until June 2017; should this declaration of crisis situation not be extended, the basis for awarding the grant without a call for proposals would be Article 190 (1) (f) of Commission Delegated Regulation (EU) No. 1268/2012, considering that the action has specific characteristics that require a particular type of body on account of its technical competence, its high degree of specialisation or its administrative power.

Border Line to Abkhazia and good links with decision makers and responsible (de facto) authorities/institutions in all relevant locations. ACF has continuously implemented VET projects in Eastern Abkhazia from 2007 to 2011 funded by UNHCR. With EU funding it has implemented the project “Vocational and Business Skills in Abkhazia” in a consortium with World Vision, where ACF was leading the VET component of the joint project. ACF has extensive experience in implementing projects focusing on skills development, employment and entrepreneurship funded by the EU and SIDA. ACF's employment methodology, the “Employment Shuttle”, is acknowledged as a best practice by the European Commission in promoting social inclusion and employability of participants and it is already piloted in Georgia. ACF is also able to integrate a confidence building component where ethnic Abkhaz, Georgian, Armenian, Russian and other minorities establish linkages and networking within Abkhazia.

DRC is proposed as grant coordinator and ACF as co-beneficiary. Nevertheless, the organisations could be swapped in case the political situation would require.

A third international NGO is present in Abkhazia, World Vision, which has, in past times, worked on Business Skills in Abkhazia but has since specialised on education issues. Should the situation justify it or should it prove favourable for the implementation of the action, World Vision would be associated to the action as further co-beneficiary for implementing a component of .

(c) Essential selection and award criteria

The essential selection criteria are the financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 80% of the eligible costs of the action.

However, in accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission’s authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(f) Indicative timing to launch the call:

3rd trimester 2018.

5.4.4 Procurement (direct management)

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
Technical assistance	services	1	2 nd trimester 2018
Communication and visibility	services	1	4 th trimester 2018
Evaluation and audit	services	3	2 nd trimester 2020 2 nd trimester 2022

5.4.5 Indirect management with United Nations Development Programme (UNDP)

A part of this action may be implemented in indirect management with the United Nations Development Programme (UNDP) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This part of the action refers to support to Abkhazia, and the implementation entails improving management of the VET sector, supporting elaboration and implementation of best VET practices in selected areas and establishing coordination for dialogue with employers.

This implementation is justified because UNDP possesses the resources and capabilities to deliver results in a systemic manner. It has considerable experience as regards the successful implementation of VET initiatives in Georgia and has already developed necessary tools, such as textbooks, curricula, syllabi, teaching and classroom standards, training kits, etc. UNDP is also experienced in implementing complex projects in this sensitive and intricate political and social context and has established trusted relations with all key stakeholders on the ground – the de facto authorities of Abkhazia, the Georgian government, as well as civil society and experts on both sides of the Inguri river.

UNDP will carry out these tasks together with the United Nations Children's Fund (UNICEF). UNICEF will focus on improving management of VET education in the area of health care, LLL for health care professionals and elaborating and implementing best practices in the field. In the absence of other specialised agencies such as the World Health Organization (WHO), UNICEF remains the leading agency working in the field of health care in Abkhazia. The agency possesses significant knowledge of the political and social context and current developments on the ground and has proven expertise in organising systematic capacity-building trainings for health professionals in Abkhazia. UNICEF has the trust of both Georgian authorities and Abkhaz de facto authorities, who heavily rely on UNICEF's good offices and the expertise that UNICEF can bring in.

The entrusted entities would carry out the following budget-implementation tasks: running related public procurement and grant award procedures; concluding and managing the resulting contracts, including making related payments.

If negotiations with one of these entities, the concerned part of this action would be implemented by the other, considering that both organisations fulfil the requirements for the implementation of this action.

If negotiations with both entrusted entities fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in the section 5.4.6.

5.4.6 Changes from indirect to direct management mode due to exceptional circumstances

Should it reveal not possible due to circumstances outside of the Commission's control to implement the activities under indirect management with UNDP/UNICEF as described in section 5.4.5, these activities would be integrated in the call for proposals described in section 5.4.1, by broadening the scale and funding of the grants.

5.5 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 in accordance with Article 9(2)(a) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (in EUR)	Indicative third party contribution (in EUR)
5.3 - Budget Support - sector reform contract	30 000 000	N.A.
5.4.1 – Grants call for proposals (direct management)	7 000 000	1 750 000
5.4.2 - Grants: up to two twinning calls for proposals (direct management)	3 000 000	N.A.
5.4.3 - Grant: direct award (direct management)	1 000 000	250 000
5.4.4 – Procurement (direct management)	4 500 000	N.A.
5.4.1.4 – Indirect management with UNDP	2 750 000	N.A.
5.9 – Evaluation	300 000	N.A.
5.10 - Audit		
5.11– Communication and visibility	300 000	N.A.
Totals	48 850 000	2 000 000

5.7 Organisational set-up and responsibilities

The MoES will be entrusted by the Government of Georgia to coordinate all activities under this programme. This is justified due to the longstanding experience of the MoES working with EU programmes and its proven capacity of interinstitutional coordination of the current EVET multisector programme. In addition, the Minister of Education and Science has been appointed as Third Vice Prime Minister in charge of youth policies.

The programme will be governed by a steering committee, 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 indicatively meet twice a year and can be convened whenever the project implementation requires strategic decisions. Separate sessions may be organised for different components. The project steering committee will include representatives of the following entities: MoES, MoLHSA, MoSYA, MoESD, social partners, civil society organisations and the donor community as observers. The steering committee will inform the NVETC and the Tripartite Social Partnership Commission (TSPC) on the progress of the programme implementation and complement the ongoing

policy dialogue in the NVETC and TCPC as regards respective policy initiatives and strategies regularly brought for review and feedback to these interagency platforms.

5.8 Performance monitoring and reporting

External review missions will verify compliance with relevant policy reforms conditions, according to the following tentative calendar:

Tranche	Reference year for which data is expected to be available	Timing of the assessment mission
2 nd Tranche	2019	1 st quarter 2020
3 rd Tranche	2020	1 st quarter 2021
4 th Tranche	2021	1 st quarter 2022
5 th Tranche	2022	1 st quarter 2023

As regards monitoring and reporting on strategies implementation, all four line ministries have the tools and mechanisms for monitoring and reporting on strategies in line with the Policy Planning Framework requirements.

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 results (outputs and direct outcomes) as measured by corresponding indicators, the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

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).

5.9 Evaluation

Having regard to the importance of the action, mid-term and final evaluations will be carried out for this action or its components via independent consultants contracted by the Commission.

A mid-term evaluation will be carried out for learning purposes, in particular with respect to assessing progress of implementation and performance of the various components, so that corrective actions can be put in place.

A final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the programme targets two priority areas of cooperation within the SSF.

The Commission shall inform the implementing partner at least three months in advance of the dates foreseen for the evaluation 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. 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.

Where relevant, the provisions of the Financial and Administrative Framework Agreement concluded between the European Union and the selected international organisation(s) shall apply.

Indicatively, two contracts for evaluation services shall be concluded under a framework contract in 2020 and 2022.

5.10 Audit

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 audits or expenditure verification assignments for one or several contracts or agreements.

Where relevant, the provisions of the Financial and Administrative Framework Agreement concluded between the European Union and the selected international organisation(s) shall apply.

Indicatively, one audit contract for audit services shall be concluded under a framework contract in 2022.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations shall be included in the financing agreements or delegation agreements.

With regards to the Neighbourhood East, all EU-supported actions shall be aimed at increasing the awareness level of the target audiences on the connections, the outcome, and the final practical benefits for citizens of EU assistance provided in the framework of this action. Visibility actions should also promote transparency and accountability on the use of funds.

Outreaching/awareness raising activities will play a crucial part in the implementation of the action, in the case of budget support the national government shall ensure that the visibility of the EU contribution is given appropriate media coverage. The implementation of the communication activities shall be the responsibility of the implementing organisations, and shall be funded from the amounts allocated to the action.

All necessary measures will be taken to publicise the fact that the action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the Commission (European Neighbourhood Policy and Enlargement Negotiations) will be strictly adhered to.

Where relevant, the provisions of the Financial and Administrative Framework Agreement concluded between the European Union and the selected international organisations shall apply.

It is the responsibility of the implementing organisation to keep the EU Delegations and, where relevant, DG NEAR, fully informed of the planning and implementation of the appropriate milestones specific visibility and communication activities.

The implementing organisation shall report on its visibility and communication actions, as well as the results of the overall action to the relevant monitoring committees.

This action will be communicated externally as part of a wider context of EU support to the country, and where relevant to the Eastern Partnership region in order to enhance the effectiveness of communication activities and to reduce fragmentation in the area of EU communication.

The implementing organisation shall coordinate all communication activities with EU Delegations as well as regional communication initiatives funded by the European Commission to the extent possible. All communication strategies developed as part of this action shall ensure they are in line with the priorities and objectives of regional communication initiatives supported by the European Commission and in line with the relevant EU Delegation's communication strategy under the "EU4Georgia" umbrella initiative.

APPENDIX 1 - INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)¹⁶

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

THE TARGETS IN BOLD ARE ALSO PROPOSED AS TARGETS FOR THE INDICATORS OF THE POLICY MATRIX (SPECIFIC CONDITIONS)

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective: Impact	To enhance Georgia's economic resilience and sustainable growth through human capital development and skills matching.	Poverty rate (** EU RF Indicator 2): Percentage of population living below international poverty line	9.8% (2014)	<4% (2022), (ref. nationalised SDGs target <1% by 2030)	GEOSTAT
		Employment rate 15+ by sex	59.5%, M 67.1%, F 52.9% (2016)	63% with at least 5 percentage point increase for women (2022)	GEOSTAT LFS
		Employment rate 15+ by sex in the selected regions	59.7%, M 67.6 %, F 52.9% (2015)	63% with at least 5 percentage increase for women (2022)	GEOSTAT LFS
		Employment rate 15+ of VET graduates	66.8%, M 77.4%, F 59.1% (2015)	68% (2020), 70% (2022)	GEOSTAT LFS
		Unemployment rate 15+ by sex	11.8.0%, M 14.2%, F 8.9% (2016)	10% (2022)	GEOSTAT LFS
		NEETs rate by sex (* SSF indicator)	27.92%, M 23.16%, F 33.21.1% (2016)	27% (2020), 25% with at least 2% percentage point decrease for females (2022)	GEOSTAT LFS
		Activity rate by sex	67.5%, M 78.2%, F 58.0% (2016)	70% with at least 5 percentage points increase for women (2022)	GEOSTAT LFS

¹⁶ Indicators aligned with the relevant programming document are marked with '*' and indicators aligned to the EU Results Framework with '***'.

Specific objective(s): Outcome(s)	To improve the employability of women and men in the selected regions.	LLL rate by sex	0.61%, M 0.68%, F 0.55% (2015)	0.8% (2020), 1.5% with at least 0.5 percentage point increase for women (2022)	GEOSTAT LFS EMIS
		Drop-out rate from VET	13.4% (2016)	11.4% (2021)	EMIS
		Drop-out rate from VET for youth	14.0% (2016)	13% (2020), 11% (2022)	EMIS
Induced outputs	1. Relevant skills-matching services accessible in the selected regions				
	1.1 Operational skills anticipation system based on regular national/sectoral and regional skills needs analysis	Local skills needs survey by ESS offices (1.1)	0	By 60% of the offices (2022)	ESS annual report ESS financial and HR information
	1.2 Increased availability of career guidance and counselling, job intermediation and labour market integration services	Percentage of ESS offices providing new service model (1.2)	0.03% (2 offices) (2016)	20% (2019), 60% (2021)	
		Number of annual ALMP beneficiaries (1.2)	5300 (2016) TBC	At least 6360 (2020), At least 6890 (2021)	
		Number of annual job placements by ESS (1.2)	670 (2016)	At least 871 (2019), At least 1072 (2020)	
	2. Relevant lifelong learning skills provision in the selected regions with a focus on youth				
	2.1 Flexible skills development system including both private and public provision based on the needs of youth, adults and employers	Enrolment rate of youth 15-24 in formal VET qualifications (2.1)	2.3% (2015)	3% (2020), 5% (2022)	GEOSTAT EMIS
	2.2 VET participation increase, in particular for the youth age group of 15-24	Number of annual youth 15-24 beneficiaries of (2.2) <ul style="list-style-type: none">non-formal entrepreneurship educationcareer guidance	Baseline 2016	5% increase from the baseline (2020)	MoSYA, MES, SSA, GITA administrative data
			Baseline 2016	5% increase from the baseline (2021)	

		Number of youth 15-24 benefitting of non-formal education in the selected regions (2.2)	Baseline 2016	5% increase from the baseline (2021)	MoSYA, MES administrative data
		Percentage of people aged 25+ enrolled in all type of VET in the selected regions (2.2)	0.25 % (2016)	Increase by 0.25 percentage points from the baseline (2019) Increase by 0.75 percentage points from the baseline (2020)	EMIS, GEOSTAT
	3. Entrepreneurial learning and entrepreneurship training opportunities accessible in the selected regions				
	3.1 Entrepreneurship key competence is an integral part of curricula and teacher training, including practical entrepreneurial experience, in upper secondary general education and VET	Percentage of full-time VET teachers having completed 20 working days of internship in a company within the last two years (3.1)	Baseline 2016	20% (2020), 40% (2021)	TPDC administrative data
		Percentage of general upper secondary and VET teachers and principals trained on entrepreneurship key competence (3.1)	0	5% (2020) 10% (2021)	TPDC administrative data
	3.2 Entrepreneurship training modules available for students and adult learners in higher education and VET institutions	Percentage of higher education and VET institutions providing entrepreneurship training modules (3.2)	0	20% (2021) 40% (2022)	EMIS and MoES

APPENDIX 2 – DONOR COOPERATION AND COMPLEMENTARITY

The list of EU-funded programmes that are complementary to this action includes:

<i>EU Programme</i>	<i>EUR million</i>	<i>Duration</i>	<i>Complementarity with this programme</i>
Employment and VET (EVET) sector reform contract	27	2013-2018	Ongoing support to VET and employment reform process
Public Administration Reform (PAR)	30	2015-2021	Five pilot Ministries (MoESD, MoES, MoLHSA, MoSYA, and MoRDI (Ministry of Regional Development and Infrastructure)) will benefit in terms of improved strategic planning and policy development capacity
Regional Development Phase II	30	2015-2018	Support to planning and management of public funds for the regions; including rural development measures for the benefit of agriculture and agribusiness
ENP for Agriculture and Rural Development (ENPARD) Phase II and III	79	2016-2020	Promotes inclusive and sustainable growth, creating employment and livelihoods for the poor and excluded in rural areas. Special measures target vulnerable people in remote regions and empowerment of rural women; pilot action in Abkhazia
Support to EU-Georgia DCFTA and SMEs	51	2015-2018	Targets the development of SMEs and business organisations, supports economic integration of targeted groups, such as internally displaced persons (IDPs), returned migrants, women in business and young entrepreneurs.
Economic and Business Development in Georgia	47.65	2018-2022	Support services on entrepreneurship and to SMEs, business incubators, etc.
Human Rights for All	4.2	2016-2018	Support effective functioning of labour administration and industrial relations & procedures, grant implemented by ILO
IcSP/COBERM		2016-2018	Multilingual education implemented by UNICEF; VET inventory-; grant to CSO
Promoting Labour Relations and Social Dialogue in Georgia	0.4	2014-2017	Support effective functioning of the Tripartite Social Partnership Commission and capacity building of social partners, grant implemented by ILO

Other EU Member States and international donor-funded programmes in the field of labour market and VET that are complementary to this action include:

Partners	Funded programmes	Timetable
Labour Market		
Austria (ADA)	Education for strengthening and stabilising Labour Rights – Trade Union School of Georgia	07/2016-06/2018
Education and Science		
Germany (VET)	Grant for Component “Vocational Qualification in selected value chains” as part of GIZ' Private Sector Development Programme South Caucasus	10/2013-03/2017
Germany (VET)	GIZ Private Sector Development and TVET Programme South Caucasus, with a grant of EUR 8.6 million from BMZ and a focus on the promotion of dual oriented TVET in selected sectors relevant for employment.	04/2017-3/2020
Germany (VET)	Grant for Component on Qualification in Biodiversity Management and the Forest Sector as part of GIZ' Biodiversity Programme IBiS	12/2015-11/2018
Germany (VET)	Grant for VET activities implemented by IHK (Industrie- und Handelskammer) München (Sequa) + Georgian Chamber of Commerce and Industry	07/2015-06/2018
Germany (VET)	Grant for VET activities implemented by Bildungswerk Mecklenburg-Vorpommern (Sequa) and Georgia Employers' Association	09/2015 – 11/2018
Germany	Support to Adult Education in countries of transition, South-East Europe, Caucasus and Turkey by DVV International (Institute for International Cooperation of the Deutscher Volkshochschul-Verband)	01/2015 – 12/2017
Germany	KfW (Kreditanstalt für Wiederaufbau) – Private sector development with a component on VET	2018-2020
France (Education and science)	Scholarships, training of French language teachers, rehabilitation of French as a foreign language in primary education (ca. EUR 120 000) French-Georgian university including technical education (BTS –Advanced Technician's Diploma) and <i>licence professionnelle</i> in agriculture and tourism	2016 (Annual)

Netherlands Fellowship Programme	Full scholarships for Master and PhD programmes and for short courses. Target group: mid-career professionals. Tailor-made trainings by Dutch institutions to their Georgian counterparts.	Annual
The Netherlands	“Empowering Youth in Pankisi Gorge” with Kakheti Regional Development Centre: vocational training courses for young people in beekeeping, welding, carpentry, tailoring, cooking, repair of mobiles and PCs (EUR 60 474)	2016-2017
Poland (Pre-school education)	Polish Aid – Supporting changes to increase access and quality of preschool education in Georgia (ca. EUR 300 000)	05/2016-12/2017
Estonia (general education)	Technical assistance for the revision and improvement of curriculum and overhaul of pre-service teacher training. Partners: UNICEF, MoES of Georgia, Estonia (EUR 220 000) (new 3 year project under development)	07/2014-12/2016
Estonia (VET)	Transfer of Estonian Best Practices to Support the Competitiveness of Georgian Vocational Education and Training Sector II (EUR 116 000)	11/2015-10/2017
Austria (ADA)	Inclusion in VET and the Labour Market	01/2016 – 12/2017
<u>Main non-EU donors</u>		
Millennium Challenge Corporation (USA)	Compact on Education (USD140 million) – the programme includes a project on Improving General Education Quality (USD 76.5 million and on Industry-Led and Workforce Development (USD16 million)	2014-2019
SDC	Contribution Agreement with UNDP (USD 5.8 million) on “Modernization of the VET System Related to Agriculture in Georgia”	01/06/2013 – 31/12/2018
USAID	Georgia Primary Education Project (G-PriEd, USD 12 million); provides assistance to the primary	2011-2018

	education system to improve reading and math competences and basic business literacy at primary grades	
USAID	Horizons Project to enhance conflict affected communities' resilience and confidence building between Abkhaz and Georgian citizens in the areas of common interest such as health and education	2016-2021
USAID	Programme to support private sector development through value chain analyses (USD 20 million); one component of the programme is VET and skills development in selected economic sectors	2018-2022
USAID	"ZRDA activity in Georgia" covers five regions and 70 communities; project focuses on local economic development and SMEs, with the aim of creating 2000 jobs and increased income for 11 000 families	2016-2019
<u>International Financial Institutions</u>		
EBRD	Pilot component on skills development for agriculture and hospitality with a focus on youth and gender as part of the Inclusion Strategy	2017-2020
World Bank	Actions on inclusive growth through better public services, job creation and competitiveness within WB-Georgia Country Partnership Strategy	2014-2017
	Georgia National Innovation Ecosystem (GENIE) Project (USD42 million) – project includes a component supporting education for knowledge economy and innovation hubs (fablab incubators)	2016-2021