



EU4Business

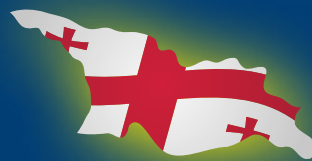
COUNTRY REPORT

GEORGIA

May 2017

 Armenia  Azerbaijan  Belarus  Georgia  Moldova  Ukraine

INVESTING IN SMEs IN THE EASTERN PARTNERSHIP



Georgia



EU4Business

STRATEGIC PRIORITIES



1

Improving
access to
finance



2

Strengthening policy
and regulatory
frameworks



3

Improving
knowledge base
and business skills



4

Improving
access to
markets





EU4BUSINESS ON THE WAY TO ECONOMIC GROWTH

Reinforcing economic resilience and promoting stabilisation at the EU's borders are key goals of both our new Neighbourhood Policy and of our Eastern Partnership initiative. Citizens across the Eastern Partnership countries aspire to economic development and greater prosperity. They are awaiting concrete and tangible results, such as getting a good job or growing their businesses.

It is in this spirit that the European Union launched the EU4Business initiative. The objective is to support our partner countries' commitment towards improved business climates and to support their SMEs and entrepreneurs in investing in their skills, in their ideas and reach-out to new market opportunities.

Our Eastern neighbours have all made considerable progress in promoting SMEs. Most have also made substantial progress in the design and implementation of business and investment climate reforms. This includes the simplification of business-related legislation, streamlining technical barriers to trade and upgrading quality infrastructure, and the improvement of the legal and regulatory environment in the financial sector. Partner countries are also increasingly aware of the need to support SMEs not only financially, but also by creating dedicated SME agencies and assistance programmes, and specific instruments to encourage SME access to finance and stimulate exports.

Under EU4Business, the EU and its partners have also achieved a lot, supporting countries in the design and implementation of SME policies, encouraging public private dialogue, reinforcing the role of business support organisations, as well as providing access to finance to SMEs. Through our DCFTA facility for example, the EU provided €200 million of grants which will unlock at least €2 billion of new investments. As a result of our joint efforts, more than 90 000 enterprises received already increased access to finance while about 93 000 jobs have been supported! You will read even more of our achievements in this report.

However, there are still important challenges ahead. Access to finance is often limited to foreign currencies exposing SMEs to currency risks. Many SMEs in the region remain tied in low valued-added sectors. Enhancing SME capacities to become more innovative, and to connect to new markets is especially pertinent today as some SMEs have been cut off from traditional markets. We should therefore consider additional support to realise quick commercial wins while fully benefiting from the opportunities offered by closer economic cooperation with the EU. I know that the three DCFTA signatories face a particular challenge in that respect. We have already achieved a lot. Let us now keep the momentum to further improve EaP countries' economic resilience, to support SME trade with the EU and to deliver concrete and positive impact for the life of all people.

Johannes Hahn

Commissioner for European Neighbourhood Policy and Enlargement Negotiations

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CHAPTER 1:

COUNTRY OVERVIEW

1.1 Country overview – overall update on the economic situation

Socio-economic situation

Georgia is a lower-middle income country, located at the crossroads of Europe and Asia. According to national censuses, Georgia's population was about 3.72 million (as at 1 January 2017), of which 57.2% are urban dwellers and 42.8% live in rural areas. Due to successful government anti-poverty programmes and campaigns, the poverty level has decreased over eight years, but still remains high at 20.1%. This high rate is also reflected in the unemployment rate, which is estimated at 12% countrywide (highest in the 15-25 age group), with an evident urban-rural gap where the incidence of extreme poverty in rural areas is almost twice that of urban areas. The economically active labour force in the country comprises of 66.1% of the population. Among the employed population, 60% classify themselves as self-employed and are mainly employed in agriculture (family-based subsistence farming), which contributes only 8% of the GDP. Unemployment is dominant in urban areas (26%), and, in terms of gender, dominated by men.

Female participation in the labour market is 55%. The average nominal monthly salary in 2015 was USD 355. Recently (2016), the average life expectancy increased to 72.7 years, which is evidence of health status improvement, due to financial and physical access to health care services. For the last few years, the country's minimum subsistence amount was USD 65, which represents a social safety net, including for old-age pensioners, in the absence of a comprehensive system of social insurance.

Gross Domestic Product

According to the National Statistics Office of Georgia's preliminary information, the real Gross Domestic Product (GDP) growth amounted to 2.7% in 2016 while the real GDP at current prices totalled USD 14 332.8 million, which is 6.8% up year-on-year. The GDP deflator increased by 4%. GDP per capita was USD 3 852.5. Real growth was registered as follows: Hotels and Restaurants (9.9%); Financial intermediation (9.3%); Construction (8.1%); Mining and Quarrying (7.6%); Real estate, renting and business activities (6.7%); and Manufacturing (4.8%).

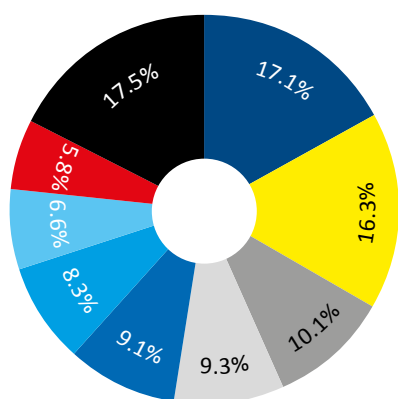
Table 1: Key macroeconomic indicators for Georgia ⁽¹⁾

INDICATOR	2013	2014	2015	2016
Real GDP (Growth rate)	3.3	4.6	2.8	2.7
Nominal GDP (million USD)	16 140.5	16 509.6	13 993.2	14 332.8
GDP per capita (USD)	3 600	3 676	3 743	3 852.5
Consumer Price Index (%)	-0.5	3.1	4	2
Current Account (% of GDP)	-5.8	-10.6	-12	-12.1
Investments (million GEL)	8 044	10 132	11 957	11 842
Foreign Direct Investments (million USD)	942	1 758	1 564	1 645
Total International Reserves (million USD)	2 823	2 699	2 520	2 520
Export (% of GDP)	19.2	-1.6	11.8	3.7
Import (% of GDP)	1.5	8.4	-9.7	2.1
Poverty rate (%)	21.4	21.4	20.1	20.1
Unemployment rate (%)	14.6	12.4	12	12.1

Source:

⁽¹⁾ National Statistics Office of Georgia (<http://www.geostat.ge/>)

Figure 1: Georgian shares of GDP by activity, 2016 ⁽²⁾



- Industry
- Trade
- Transport and communication
- Agriculture, hunting and forestry
- Public administration
- Construction
- Real estate and business services
- Health care and social work
- Other

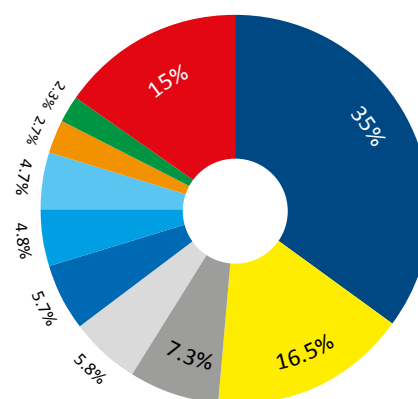
A decrease in the real value-added was recorded as follows: Transport sector (-0.9%) and Communication sector (-0.2%).

Foreign Direct Investments

Foreign Direct Investment in 2016 amounted to USD 1.645 billion (preliminary), and included USD 519 million of reinvestment, which is a 255% increase compared to the previous year and contributed 32% of GDP. FDI increased this year by 5% compared to 2016 figures – USD 1.564.5 billion. Due to increases in investments in the Energy, Construction and Manufacturing sectors, they were bigger contributors to the FDI growth.

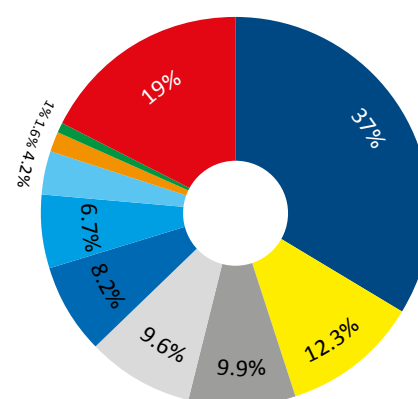
Total Investment from EU countries increased compared to last year and amounted to 41.4%, while there was a dramatic decrease from CIS countries (38.1%). The priority sector for the investment was Transportation & Communication due to BP's new gas pipeline construction activities from Azerbaijan (see sectors in Figure 3).

Figure 2: Countries contributing to Foreign Direct Investments in Georgia, 2016 ⁽³⁾



- Azerbaijan
- Turkey
- UK
- Netherlands
- Czech Republic
- Luxembourg
- Panama
- USA
- Cyprus
- Other

Figure 3: Priority sector for investment in Georgia 2016 ⁽⁴⁾



- Transport and communication
- Energy
- Construction
- Manufacturing
- Financial intermediation
- Hospitality sector
- Real Estate
- Health Care
- Agriculture
- Other

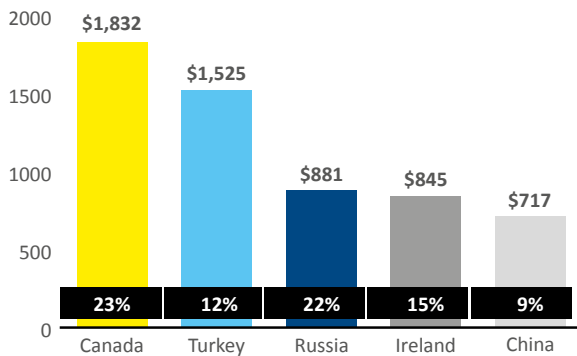
Source:

(2, 3, 4, 5) National Statistics Office of Georgia (www.geostat.ge)

Foreign trade

External merchandise trade turnover in Georgia increased by 20% in 2016, compared to the previous year and amounted to USD 11,966 billion (68% of GDP). According to IMF, value of export goods (FOB) were USD 2,114 million, which is 4% lower than the previous year's figure while value of import goods amounted to USD 9,865 million, which is 27% higher than the previous year's figure. The negative trade balance was USD 7,738 billion in 2016, which is 65% of trade. In 2016, Georgia improved external trade with EU countries, while trade with CIS countries worsened. In 2016, Georgia's top trading partners by turnover were Canada, Turkey, Russia, Ireland and China and the share of the top 10 trading partners in total external trade turnover of Georgia amounted to 68%.

Figure 4: The top trading partners of Georgia in 2016, billion USD ⁽⁵⁾



Georgia's exports have increased by 3.6% in EU countries and amounted to USD 646 million, while in CIS countries exports decreased by 43% and amounted to USD 840 million. The top four export countries were: Russia 9.8%; Turkey 8.2%; China 8%; and Armenia 7.1%. The top export items were: copper ores 14.7%; nuts 8.5%; ferroalloys 8%; motor cars 7.9%; wine 5.4%; and pharmaceuticals 5.1%. Georgia's imports have increased in EU countries by 6% and amounted to USD 2.518 billion, while imports in CIS countries decreased by 7.3%, equivalent to USD 1.968 billion. Canada has a leading position in imports at 18.2%, followed by: Turkey 13.7%; Ireland 8.6%; Russia 6.9%; and China 5.6%. The top import items were: pharmaceuticals 29.4%; petroleum oils 6.3%; motor cars 4.8%; petroleum gases 3.2%; and copper ores 2.5%.

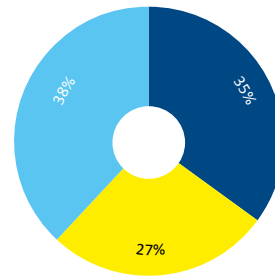
Source:

⁽⁵⁾ National Statistics office of Georgia (<http://www.geostat.ge/>)

⁽⁶⁾ National Statistics office of Georgia (<http://www.geostat.ge/>)

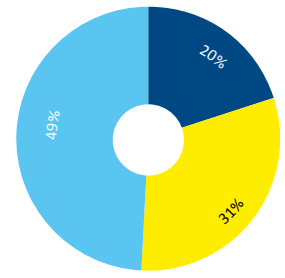
⁽⁷⁾ National Statistics office of Georgia (<http://www.geostat.ge/>)

Figure 5: Geographical structure Georgian exports, 2016 ⁽⁶⁾



● CIS countries ● EU countries ● Other countries

Figure 6: Geographical structure Georgian import, 2016 ⁽⁷⁾



Inflation

In April 2017, the monthly inflation rate amounted to 0.1% in Georgia. Compared to the same month of the previous year, the Consumer Price Index change (annual inflation rate) posted a 6.1% increase. The monthly inflation rate was mainly influenced by price changes for the following groups: food and non-alcoholic beverages (7.6% increase); alcoholic beverages and tobacco (14.5% increase); and transportation (17.6% increase).

In March 2017, the Producer Price Index (PPI) for Industrial Products increased 1.4% over February 2017. The index rose 9.1%, compared to March 2016. The annual PPI rate was mainly affected by price changes for: manufacturing products – 8.6% increased price; Electrical energy, gas, steam and hot water – 10.6% price increase; and Products from mining and quarrying – prices surged 12.6%.

International ratings

In the past decade, Georgia has made huge progress in terms of economic advancement and development of a more favourable environment for business. Georgia has implemented significant reforms in the areas of reducing government intervention in the market and simplifying business regulations and procedures, fighting corruption and crime, structural reforms in trade liberalisation, privatisation, implementation of competitive flat tax rates, modernisation of the regulatory environment, supporting sound fiscal and monetary policies, and helping foster economic growth. The Government of Georgia has implemented reforms in the tariff policy as well as in the technical regulations sphere. As a result, Georgia has one of the most liberal foreign trade policies in the world, which is reflected in the facilitated foreign trade regimes and customs procedures, low import tariffs and minimal non-tariff regulations. This progress has been reflected in international ratings as well. The World Bank ranked Georgia in 16th place, in its 'Doing Business 2017' annual report. The '2017 index of economic freedom report' of the Heritage Foundation placed Georgia 13th in the 'most free group'. The Fraser Institute ranked Georgia in 5th place in its index of economic freedom in the world 2017 report.

Transparency International ranked Georgia in 44th place worldwide and in 1st place in Eastern Europe and Asia in its Corruption Perception Index 2016.

Conclusions

Georgia has been exposed to strong external economic shocks, resulting in an economic growth (2.8%) slowdown in 2015 and inflation of 4%. A dramatic decrease was observed in trade, especially in agriculture, which grew by only 2.9%. External exports decreased due to decreases in external demand, while decreases in imports were mainly due to the national currency devaluation and inflation. A complicated regional and geopolitical situation was a major factor in the economic slowdown (war in Ukraine, economic sanctions in Russia, global oil price drop) resulting in the shrinking of neighbouring countries' economies and its dependent countries. The Syria conflict also negatively affected Turkey's economy. The bailout and financial crisis in Greece affected financial transfers from the country.

Key trade partners have been facing challenges, which was reflected in Georgia's economy, but it remains resilient in comparison to other countries in the neighbourhood. This all caused a devaluation in national currencies, including the euro, thus competitiveness suffered. The first quarter of 2017 started with positive changes and a recovery, with economic growth reaching 5%, the inflation rate decreasing to 0.1% in April and a gradual strengthening of the national currency.

External merchandise trade also increased in the first quarter of 2017 by 18% year-on-year, including export increase by 30%, while import stood at 15% higher. External trade turnover with EU countries grew by 26% y-o-y, while grow with CIS Countries amounted 35%. Top Trading partners for the first quarter were Turkey, Russia and Azerbaijan.

In July 2014, Georgia signed an EU-Georgia Association Agreement (AA) and a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. In addition, Georgia welcomed a visa liberalisation regime with the EU in March 2017.

The AA/DCFTA offer the potential for increasing opportunities and FDI, and boost technology and knowledge transfer from foreign companies as Georgian business integrates into the global value chain (EU, 2014). Implementation of the AA will require certain institution and regulatory reforms to align product and safety standards with EU requirements and to meet technical and quality requirements.

Table 3: Main macroeconomic forecasts (%) ⁽⁹⁾

ITEM	2016	2017	2018	2019	2020
<i>Real GDP growth</i>	2.7	4.0	5.5	6.0	6.0
<i>Nominal GDP growth</i>	4.8	8.2	8.7	9.2	9.2
<i>CPI</i>	2.0	4.0	3.0	3.0	3.0
<i>Export</i>	3.7	10.9	14	14.4	14.4
<i>Import</i>	2.1	7.1	8.6	9.5	9.5

Source:

⁽⁹⁾ National Bank of Georgia; Basic Data and Directions document of Georgia 2017-2020



1.2 Country overview – overall update on the political situation

In June 2014, the Government of Georgia approved the first long-term socio-economic development strategy 'Georgia 2020', which stipulates private sector competitiveness, the development of human capital and financial accessibility as priority directions.

A four-point medium-term (four-year) Governmental reform plan was presented in April 2016 by the Prime Minister of Georgia to set out priority focuses for the next four years, namely: Economic reform, Education reform, Spatial planning and open governance. Later, in autumn, an additional point was added to the plan – Judicial system reform, which will focus on institutional reforms in the democratisation direction. The country's basic data and directions for 2017-20 'Freedom, Rapid Development and Welfare' – the Government of Georgia's medium-term document – is also based on a four-point reform agenda and reflects its priority areas.

The business environment is favourable in Georgia as indicated in 'Doing Business' report indicators, Georgia being named as a top performer in the region. The Government of Georgia plans to continue its actions towards making Georgia a more attractive place in which to do business and further improving the business environment. A strong commitment to economic and structural reform has been mentioned as a strength in Fitch Ratings as well.

Structural reforms include:

- a) **Tax reform:** Corporate income tax reform and enhancing the ease of tax compliance
- b) **Capital Market reform:** Boosting stock exchange activities and Development of a local bond market
- c) **Pension reform:** Introduction of a private pension system
- d) **PPP reform:** Introduction of a transparent and efficient PPP framework – **Public Investment Management Framework:** Improved efficiency of state projects
- e) **Deposit insurance:** Boosting private savings and enhancing trust in the financial system
- f) **Accounting reform:** Increasing transparency and financial accountability and enhancing protection of stakeholders' rights

The economic reform aims at strengthening and further enhancing and promoting the private sector. Recent reforms have been focused on liberalisation expressed in the reduction of taxes and diminished permission and license requirements. These reforms continue and from 2017 there will be new profit tax reforms and relevant amendments in law, which will stimulate investment, increase economic growth and create new jobs. New reforms cover the abolishment of profit tax while reinvesting. The Government of Georgia will plan further support and increase support for SMEs, start-ups and innovation programmes.

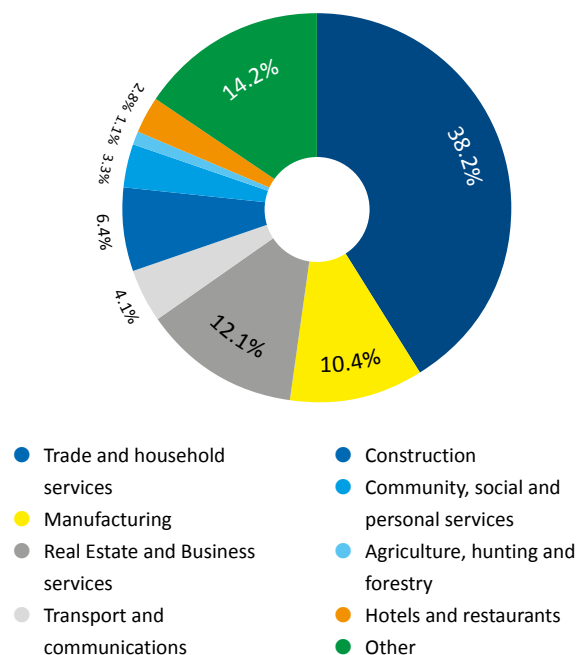
1.3 Country overview – overall presentation of the SME sector

SME sector in Georgia

There are two different SME definitions in Georgia provided on the one hand by the Georgian Tax Code and on the other hand by the Law on National Investment Agency. In addition, the National Statistics Office of Georgia accounts for business using a different approach. In March, the National Statistics Office approved a new methodology for the SME registry, which will be effective from next year.

According to the National Statistics Office of Georgia, the number of active enterprises in 2014 was 70 760, including 6 170 (9%) medium and 60 640 small (85%). Geographically, half of all SMEs were located in the capital while the rest of them were distributed mainly in two big regions of Georgia, Imereti and Adjara.

Figure 7: SME distribution by industry (by number of entities) 2015 ⁽¹⁰⁾



Source:

⁽¹⁰⁾ National Statistics office of Georgia

SMEs play a significant role in Georgia's economy, accounting for 94.1% of active enterprises, 42.7% of employment and 20.6% of value added in 2013. Compared to the OECD averages of 99.8%, 70.7% and 66.7% respectively, these figures show that Georgia is lagging behind and there is room for improvement. There has been a slight decrease observed in the share in the total number of enterprises and employment since 2010. Moreover, the relative weight of medium-sized entrepreneurs within the SME sector has fallen, suggesting that small businesses are struggling to scale up their operations (Geostat, 2013; OECD, 2014). In OECD countries, SMEs are creating 2/3 of the GDP, and for every three jobs, two come from SMEs (OECD, 2014).

The biggest contributor to employment is still large enterprises with 57%, followed by small enterprises with 27% and medium enterprises with 16% (Geostat, 2015). Average monthly remuneration of employed personnel was USD 355 in 2015, and in total 626 739 people were employed (Geostat 2015). Regarding value added contribution, large enterprises are still the biggest contributors with 79.4%; the rest of the share is distributed equally among SMEs (Geostat 2014). In Georgia, SMEs are concentrated in low value-added activities, which in turn explains their limited contribution to the total value added. Namely, 40.8% of SMEs operate in the trade sector, followed by real estate (13.1%). In 2013, only 10.6% of SMEs were active in the manufacturing sector, which was a considerable decrease compared to 2010 (14.7%).

Total turnover of SMEs increased from 2006-14 by 269%. The share of SMEs in GDP in 2014 was 18%, which clearly reflects the importance of SMEs and their role in economic development. Employment increased from 2006-14 by 53%. In 2014, a big share of GDP came from trade, manufacturing, transportation and

communication, and the top five fastest growing sectors were construction (13.1%), financial intermediation (9.9%), real estate (18.1%), hospitality (7.3%), trade (5.8%) and transport (5.8%). Exports have expanded considerably from 30% of GDP in 2009 to 43% in 2014. Key areas of activity include base metals, re-export of used cars and agricultural processing (World Bank, 2015; UN Comtrade 2014).

The average bank interest rate for loans in 2015 was 15.5% – average in national currency was 17.7%; while in international currency it was 11.17%. Most of the loans in 2015 were granted for the trade and manufacturing sector, which once again is evidence of the SME growth trend.

Table 6: Average market interest rates for loans in Georgia, 2015 ⁽¹³⁾

LOAN TYPE	AVERAGE INTEREST RATE
<i>Loans in local currency (GEL)</i>	17.8%
<i>Loans for legal entities</i>	12.5%
<i>Loans for individuals</i>	23.1%
<i>Loans in foreign currency (USD, EUR)</i>	11.2%
<i>Loans for legal entities</i>	10.5%
<i>Loans for individuals</i>	11.8%

Source:

⁽¹¹⁾ Law on National Investment Agency and tax code of Georgia

⁽¹²⁾ <http://ec.europa.eu/>

⁽¹³⁾ National Bank of Georgia

Table 4: SME definition and classification in Georgia ⁽¹¹⁾

CATEGORY	LAW ON NATIONAL INVESTMENT AGENCY		TAX CODE	
	#EMPLOYEES	TURNOVER (GEL)	#EMPLOYEES	TURNOVER (GEL)
<i>Micro</i>			Self-employed	<30 000
<i>Small</i>	<20 000	<500 000	Self-employed	<100 000
<i>Medium</i>	<100	<1 500 000		

Table 5: EU's MSME definition ⁽¹²⁾

CATEGORY	AVERAGE NUMBER OF EMPLOYEES	ANNUAL REVENUE	TOTAL ASSETS
<i>Single entrepreneur and Micro enterprises</i>	0-10	<2 m EUR	<2 m EUR
<i>Small enterprises</i>	11-50	<10 m EUR	<10 m EUR
<i>Medium enterprises</i>	51-250	<50 m EUR	<43 m EUR
<i>Large enterprises</i>	>250	>50 m EUR	>43 m EUR



Commercial banks are the main source of funding for SMEs in Georgia. The high interest rate, especially in the local currency, and collateral requirements generate burdens and barriers for access to finance for most SMEs in Georgia. Only beneficiaries of a State programme in Georgia can get loans with favourable interest rates, as the State co-finances 10% of the interest rate in the first two years; however collateral requirements from banks still make it impossible for SMEs to get all the benefits that the State programme offers. Hard currency loans create significant risks for businesses in the volatile

economy of the region, especially for local market revenue-oriented SMEs. The main State agencies involved in financing SME development in Georgia are the Ministry of Economy and Sustainable Development (Georgian Enterprise Development Agency and Georgian National Investment Agency) and the Ministry of Agriculture (Agricultural Project Management Agency). In 2016, the EBRD also started providing favourable credit lines in the local currency for SMEs through big banks in Georgia (Bank of Georgia and TBC Bank) in the framework of the EU4Business initiative.

Figure 8: SME loan portfolio volume structure by SME size, April 2015 ⁽¹⁴⁾

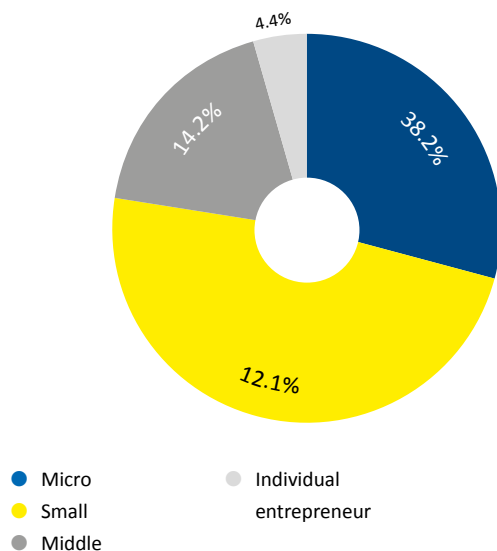
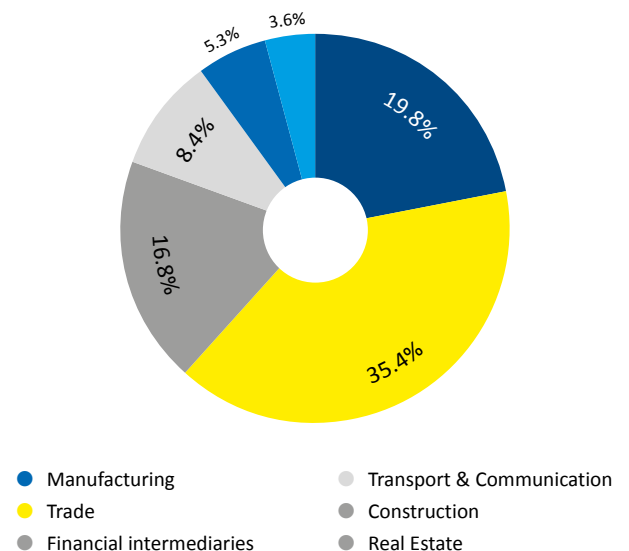


Figure 9: SME loan agreement distribution by sector, 2015



Source:

⁽¹⁴⁾ National Bank of Georgia

CHAPTER 2:

EU4BUSINESS PROJECTS UNDER IMPLEMENTATION

As of the date of the Report, there are 20 EU4Business initiatives under implementation in Georgia. They include two bilateral projects with a total EU contribution of EUR 9.5 million and 14 regional programmes with total financing of EUR 187.46 million. Three more project are planned to start in the near future.

In the tables below we present some details on active and planned EU4Business initiatives implemented in Georgia

EU4Business initiatives in the sphere of improving access to finance (Ongoing Projects)

SME FINANCE FACILITY – EBRD WINDOW PHASE I	
IMPLEMENTING AGENCY	EBRD
DURATION (YEARS)	2010, 2019
COUNTRIES COVERED	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	SME
PURPOSE AND DESCRIPTION	<p>The project supports SME lending in the Eastern Partnership region. The Commission's contribution is channelled through participating financial intermediaries (PFIs) and used to enhance their lending to micro, small and medium-sized enterprises (MSMEs). Part of the funding is used to finance technical assistance in support of the SME lending and capacity building for PFIs.</p> <p>The Eastern Partnership SME Finance Facility aims to rebuild the confidence of financial intermediaries to extend financing to SMEs, including micro-enterprises, following the financial crisis. It seeks to enhance their capacity to assess and monitor the related risks and manage their SME financing, to strengthen and deepen SME credit markets, to expand financing options available to the real economy, to promote the continued development of market-based financial institutions and contribute to institution building, and to support the expansion of private and entrepreneurial initiatives, working with local and international financial intermediaries.</p> <ul style="list-style-type: none">• The project provides credit enhancement support for SME lending in EaP countries/regions where lending to SMEs has decreased considerably or even stopped due to a heightened risk aversion of the PFIs resulting from the crisis.• Under the EBRD window, the Credit Enhancement support takes the form of a loss risk sharing cushion for PFIs, provided for the portfolio of sub-loans funded under the EBRD credit lines. Partner Financing Institutions can obtain up to a 50% recovery, capped at the limit of 10% of the disbursed amount of their respective credit lines.• In addition, the project provides technical assistance to participating Partner Financing Institutions, on a case-by-case basis in order to maximise the ability of the PFI to service the needs of the SME sector as well as to expand their SME financing to new areas and to develop new products for the target group, particularly in key, under-banked regions of the eligible countries.

SME FINANCE FACILITY – EIB WINDOW PHASE I

<i>IMPLEMENTING AGENCY</i>	EIB
<i>DURATION (YEARS)</i>	2010, 2020
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	The project provides loans and credit enhancement support in the form of interest-free loan co-financing of up to 10% of a traditional EIB loan to the PFIs, which passes this interest-free co-financing on to the SMEs. The EC grant is also used as a risk-sharing cushion for the loans granted by PFIs to SMEs for up to 10% of the sub-loan amount.

WOMEN IN BUSINESS

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>DURATION (YEARS)</i>	2015, 2020
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Women-led SMEs
<i>PURPOSE AND DESCRIPTION</i>	<p>The programme aims to promote women's entrepreneurship and women's participation in business by supporting women-led enterprises with access to funding. The project's components are:</p> <ul style="list-style-type: none">• supporting women's SMEs in accessing finance for their sustainable growth and job creation;• developing sustainable financial products suitable specifically for women-led SMEs;• assisting women's SMEs to access advice and know-how.

DCFTA SME DIRECT SUPPORT FACILITY

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>DURATION (YEARS)</i>	2014, 2026
<i>COUNTRIES COVERED</i>	Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	<p>The project supports the private sector in the DCFTA countries, particularly through lending to SMEs and aims to blend funds from the EU and the European Bank for Reconstruction and Development in order to provide financing and technical assistance to the SME sector and to improve conditions for SME lending. The project's main objectives are:</p> <ul style="list-style-type: none">• to improve access to finance for local SMEs in the region;• to mitigate the shortage of long-term financing;• to provide quasi-equity financing that is not available at all in most target countries;• to provide long-term local currency financing;• to help SMEs identify quality capital investment projects, and assist in successful implementation;• to improve the governance structure of SMEs and introduce SMEs to best practices;• to help strengthen the ability of financial intermediaries to finance SMEs through co-financing;• to help develop local financial markets in view of sustainable and market-based principles.

EIB DCFTA INITIATIVE EAST (PART OF THE EU DCFTA FACILITY)

<i>IMPLEMENTING AGENCY</i>	EIB
<i>DURATION (YEARS)</i>	2016, 2021
<i>COUNTRIES COVERED</i>	Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	<p>The project supports the private sector, in particular SMEs, to help them seize new opportunities and cope with the requirements implied by the approximation to EU standards. The duration of the project is 2016-19. The project has two components: a) Access to finance, micro-finance, local currency lending; and b) Technical assistance (capacity building). The project's main objectives are:</p> <ul style="list-style-type: none"> • to provide wider access to finance in the form of first loss SME loan portfolio guarantees; • to support local currency lending; • to support micro-finance institutions to provide financing for local micro-enterprises; • to support agriculture and rural development, and agroindustry sectors.

THE EUROPEAN NEIGHBOURHOOD FUND (ENBF) WINDOW OF THE EUROPEAN FUND FOR SOUTH EAST EUROPE (EFSE)

<i>IMPLEMENTING AGENCY</i>	KFW
<i>DURATION (YEARS)</i>	2009, 2019
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	<p>The EFSE is structured as an investment company with variable shared capital. The main objectives of the project are to:</p> <ul style="list-style-type: none"> • attract private sector capital to the Fund and thereby leverage investments in the region for the development of the private sector, in particular, micro and small enterprises, and housing; • support the beneficiary countries in their progress towards a market economy, in particular, through the creation of a competitive sector.

FINANCIAL SECTOR INSTITUTION BUILDING AND CRISIS RESPONSE

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>DURATION (YEARS)</i>	2009, 2018
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	<p>This TA aims at restoring access to credit for MSMEs in the Eastern Neighbourhood region by providing assistance to financial institutions which have been particularly affected by the financial crisis. The project is an immediate response to the exceptional situation created by the economic and financial crisis and aims to prevent the risks of contagion of bank failures across the region and a sudden shrinking of the real economy.</p>

DCFTA PROGRAMME - EBRD	
<i>IMPLEMENTING AGENCY</i>	EBRD
<i>DURATION (YEARS)</i>	2016, 2026
<i>COUNTRIES COVERED</i>	Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	The primary objective of the Programme is to support DCFTA-related priority improvements in SMEs following the signing of AA/DCFTAs in 2014. The EBRD DCFTA Programme will assist the development of the SME sector through a variety of investments supported by grant funding from the EU for risk mitigation, investment incentives to SMEs and technical assistance.

SME FINANCE FACILITY PHASE II - EBRD - FIGURES ADDED TO PHASE I	
<i>IMPLEMENTING AGENCY</i>	EBRD
<i>DURATION (YEARS)</i>	2016, 2022
<i>COUNTRIES COVERED</i>	EaP
<i>TARGET BENEFICIARIES</i>	
<i>PURPOSE AND DESCRIPTION</i>	Under Phase II of the facility, the emphasis is given to stimulating local currency lending through PFIs in Ukraine, especially for MSMEs that are not earning foreign currency and cannot afford the high costs of borrowing. The ultimate objective is to improve access to finance for SMEs.

SME FINANCE FACILITY PHASE II - KfW	
<i>IMPLEMENTING AGENCY</i>	KfW
<i>DURATION (YEARS)</i>	
<i>COUNTRIES COVERED</i>	EaP
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	This project helps step up the capacity of financial intermediaries to assess and monitor the related risks and manage their SME financing.

Planned Projects

SME FINANCE FACILITY PHASE II - EIB	
<i>IMPLEMENTING AGENCY</i>	EIB
<i>DURATION (YEARS)</i>	2017, 2020
<i>COUNTRIES COVERED</i>	EaP
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	The Eastern Partnership SME Finance Facility brings together loans or guarantees from the European Financial Institutions (EBRD, EIB and KfW) with EU grant resources to support SMEs.

EU4Business initiatives in the sphere of access to Finance in combination with Agriculture, Energy or Green for Growth (Ongoing Projects)

GREEN FOR GROWTH FUND (GGF) – EXTENSION TO NEIGHBOURHOOD INVESTMENT FACILITY (NIF) EAST REGION

<i>IMPLEMENTING AGENCY</i>	EIB
<i>DURATION (YEARS)</i>	2013, 2018
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	This supports the development of energy efficiency and renewable energy technologies and investments, by providing long-term financial instruments. By providing long-term financial instruments, the GGF contributes to overcoming the lack of sufficient legal, policy and other framework conditions needed for the widespread implementation of energy efficiency (EE) and renewable energy (RE) technologies in the five EaP countries. Additionally, the Technical Assistance (TA) Facility supports local financial institutions in developing EE and RE financing as a sustainable field of business. The financing pilot projects and marketing campaigns help create awareness and understanding among businesses of the profitability of EE and RE investments.

SOUTH CAUCASUS SUSTAINABLE ENERGY FINANCE FACILITY (CEEP II)

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>DURATION (YEARS)</i>	2013, 2020
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Georgia
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	The Facility assists sustainable energy policy dialogue activities, by financing technical assistance, providing capacity building and financing the scale-up of energy efficient technologies in the South Caucasus. Finance for sustainable energy projects is provided in two key areas: energy efficiency and small-scale renewable energy. Local financial institutions lend funds, which they have received from the EBRD, to their clients: small and medium-sized businesses, corporate and residential borrowers, as well as renewable energy project developers. Credit lines are extended to local financial institutions that seek to develop sustainable energy financing as a permanent area of business.

FRAMEWORK FOR CAPACITY BUILDING TO SUPPORT FINANCIAL INTERMEDIARIES IN AZERBAIJAN AND GEORGIA

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>DURATION (YEARS)</i>	2009, 2018
<i>COUNTRIES COVERED</i>	Georgia, Azerbaijan
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	The project aims at creating sustainable financial intermediaries, as well as improving the local financial sector's efficiency, effectiveness and transparency needed to facilitate better access to financing for enterprises. The project's components are: <ul style="list-style-type: none"> • supporting institution building programmes; • provision of credit advisory services; • facilitating trade finance advisory services; • developing management skills; • assisting with the launch of new financial products; • conducting an IT assessment, development and implementation.

SUPPORTING SME COMPETITIVENESS REFORMS IN THE EASTERN PARTNERSHIP COUNTRIES	
IMPLEMENTING AGENCY	OECD
DURATION (YEARS)	2013, 2017
COUNTRIES COVERED	Eastern Neighbourhood countries (Priority countries: Armenia, Georgia, Belarus)
TARGET BENEFICIARIES	Public authorities, the private sector and civil society
PURPOSE AND DESCRIPTION	<p>The project's main objectives are to:</p> <ul style="list-style-type: none"> assist the EaP countries with the implementation of policy reforms based on policy recommendations resulting from the study; increase government responsiveness to SMEs' needs and improve private-public dialogue (PPD) at national level; strengthen policy dialogue and peer review at regional level with regards to SME competitiveness in the EaP region; increase cooperation between SME stakeholders from the region and facilitate exchange of the best practices. <p>The project's main results:</p> <p>An SME policy index study has been conducted to evaluate the SBA implementation status of Georgia. Relevant policy recommendations have been prepared; based on these, the Georgia SME strategy 2016-20 and action plan 2016-17 were prepared and were approved by the Ministry of Economy and Sustainable Development in February.</p>

STRENGTHENING AUDITING AND REPORTING IN THE COUNTRIES OF THE EASTERN PARTNERSHIP (STAREP)	
IMPLEMENTING AGENCY	WB CFRR
DURATION (YEARS)	2014, 2018
COUNTRIES COVERED	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	Public authorities, the private sector and civil society
PURPOSE AND DESCRIPTION	<p>STAREP is designed to assist them in adopting and implementing international standards and fostering the alignment of their financial reporting frameworks with international best practices and EU standards. The project has three main components:</p> <ul style="list-style-type: none"> Accounting Education Reform: Promoting the development of accounting education aligned with international and EU standards at university level; for professional qualification; and for continuing professional development of those already qualified. Activities include a Community of Practice and implementation of a CFRR developed curriculum benchmarking tool. Accounting and Auditing Standards: Supporting the implementation of accounting and auditing frameworks. This includes: addressing the reporting needs of smaller enterprises; the application of international standards; the enforcement of financial reporting requirements; and the introduction of public oversight and quality assurance arrangements for statutory audit. Activities include a Community of Practice and regular learning events. <p>Financial Regulators Practice Forum: Building capacity and knowledge of IFRS among financial regulators, ensuring proper implementation and reinforcing a clear and well defined relationship between IFRS reporting and prudential reporting. Activities include workshops and seminars and involvement in research to improve the relationship between auditors and regulators.</p>

EU4Business projects in the sphere of supporting market access (Ongoing Projects)

SMALL BUSINESS SUPPORT PROGRAMMES (SBS) – ENTERPRISE GROWTH PROGRAMME (EGP) AND BUSINESS ADVISORY SERVICES (BAS) IN EASTERN PARTNERSHIP (EAP) COUNTRIES

IMPLEMENTING AGENCY	EBRD
DURATION (YEARS)	2015, 2018
COUNTRIES COVERED	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
TARGET BENEFICIARIES	SMEs
PURPOSE AND DESCRIPTION	<p>The overall objective of the Action is to support economic transition and help enterprises adapt to the demands of a market economy, building MSME capacity for innovation and growth and striving to develop local businesses across a broad range of sectors. Specific Objectives of the project are:</p> <ul style="list-style-type: none"> • Improve access to finance for MSMEs and attract public and private investments in viable SMEs; • Enhance competitiveness of assisted MSMEs (as seen by increased exports, productivity and sales, new foreign contacts, new production line/technology, changes in product ranges and production processes); • Consolidate sectors with high growth potential (through disseminated best practices, shared successful models); • Strengthen and ensure sustainable infrastructures of local business advisory services serving the SMEs (as seen by increased supply of services, broadened range of services, improved quality, increased consolidation of the industry).

SME DEVELOPMENT AND DCFTA IN GEORGIA

IMPLEMENTING AGENCY	GIZ
DURATION (YEARS)	2015, 2019
COUNTRIES COVERED	Georgia
TARGET BENEFICIARIES	SMEs
PURPOSE AND DESCRIPTION	<p>The purpose of the project is to support the implementation of the DCFTA-related institutional and regulatory reforms in the country, with a strong focus on strengthening the capacities of Georgian SMEs, both to increase their competitiveness and to ensure their adaptation to the new regulatory environment. The project will lay the ground for strengthening the SME sector to ensure a broad-based growth.</p> <p>The project will be implemented in four components:</p> <ol style="list-style-type: none"> 1) improvement of the enterprise development framework and SME participation in the political dialogue; 2) comprehensive capacity development for SME support institutions; 3) promotion of enterprise development via clustering and support to business networks on national, sector and local levels; 4) integration of business clusters and networks in relevant existing EU networks for enterprise development, investment and trade promotion. <p>Expected results:</p> <ul style="list-style-type: none"> • improved institutional capacities of central administrations to design and implement specific measures within the SME context; • strengthened public-private policy dialogue (PPD) for improved cooperation among concerned stakeholders; • strengthened capacities of SME bodies/agencies to channel business support to SMEs in meeting DCFTA requirements; • improved capacity of business and sector associations, business service providers and BMOs to provide effective services to SMEs; • enhanced integration of Georgian SME bodies/agencies with the EU, regional and/or international platforms.

DCFTA ADAPTATION PROGRAMME (DAP)

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>DURATION (YEARS)</i>	2016, 2020
<i>COUNTRIES COVERED</i>	Georgia
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	<p>The objectives of the project are: strengthen SME competitiveness; export facilitation; adoption of new standards; raised awareness of the DCFTA; improved access to finance; and increased use and improved quality of local business advisory services.</p> <p>Expected results:</p> <ul style="list-style-type: none"> • 150 Projects with local consultants; • 20 Projects with International Industry Advisers; • 35 Market Development Activities (Export facilitation training for SMEs; Seminars in agribusiness; Food safety forums; Training courses for consultants); • 36 SMEs receive advisory assistance in export promotion; • 60 SMEs to meet one or more DCFTA standards or certification; • 225 Georgian SME representatives trained in DCFTA requirements; • 10% of assisted enterprises raise external financing; • 8 Consultants trained in export promotion.

Planned project**INTEGRATING SMES FROM EAP COUNTRIES INTO DOMESTIC AND GLOBAL VALUE CHAINS**

<i>IMPLEMENTING AGENCY</i>	ITC
<i>DURATION (YEARS)</i>	2017
<i>COUNTRIES COVERED</i>	EaP
<i>TARGET BENEFICIARIES</i>	BSOs/ SMEs
<i>PURPOSE AND DESCRIPTION</i>	The project will help SMEs from EaP countries integrate into domestic and global value chains and access new markets with a focus on the European Union.

EU4Business projects in the sphere of improving the knowledge base and business skills (Ongoing Projects)**EAST INVEST I - SME FACILITATION**

<i>IMPLEMENTING AGENCY</i>	EUROCHAMBRES AND ITS PARTNERS
<i>DURATION (YEARS)</i>	2010, 2017
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Georgia, Moldova, Ukraine, Belarus
<i>TARGET BENEFICIARIES</i>	BSOs and SMEs
<i>PURPOSE AND DESCRIPTION</i>	<ul style="list-style-type: none"> • Strengthening public-private dialogue, notably by integrating small and medium sized enterprises, business facilitators and selected public-sector small and medium sized enterprises facilitators into the networking mechanisms; • Facilitating exchange of best-practices and interconnections between EU and Eastern Partnership companies in order to favour business co-operation agreements, mutual trade, transfer of technology, customs procedures, product standards , and investment; • Developing the capacity of Eastern Partnership small and medium sized enterprises support organisations to facilitate improved networking and trade development.

EAST INVEST II

IMPLEMENTING AGENCY	EUROCHAMBRES
DURATION (YEARS)	2010, 2017
COUNTRIES COVERED	Armenia, Azerbaijan, Georgia, Moldova, Ukraine, Belarus
TARGET BENEFICIARIES	Business Support Organisations and SME associations
PURPOSE AND DESCRIPTION	<p>East Invest is a regional investment and trade facilitation project for the economic development of the Eastern Neighbourhood region, launched in the framework of the European Eastern Partnership initiative. It targets Business Support Organisations and SMEs from the six Eastern Partnership countries who have potential for developing mutual cooperation and investment relations with the European Union.</p> <p>Its main objectives are:</p> <ul style="list-style-type: none">• to promote and facilitate investment and economic cooperation at large between the EU and Eastern Partnership countries, and also between the six target countries;• to create the 'East Alliance', mobilising business organisations from both sides to engage in a sustainable partnership and dialogue both within the private sector and towards the public authorities;• to develop concrete activities that will generate immediate results for SMEs in the region.

Planned projects

SUPPORT TO BSOS AND CSOS ON SME AND DCFTA IMPLEMENTATION

IMPLEMENTING AGENCY	N/A
DURATION (YEARS)	2017
COUNTRIES COVERED	Georgia
TARGET BENEFICIARIES	CSOs/BSOs
PURPOSE AND DESCRIPTION	Purpose is to strengthen Civil Society Organizations (CSOs) and Business Service Organizations (BSOs) role in DCFTA and SME policy implementation in Georgia.

Closed projects

SMALL BUSINESS SUPPORT PROGRAMMES –IMPLEMENTATION OF TAM AND BUSINESS ADVISORY SERVICES (BAS) – PHASE I

IMPLEMENTING AGENCY	EBRD
DURATION (YEARS)	2011, 2013
COUNTRIES COVERED	Armenia, Azerbaijan, Georgia, Moldova, Ukraine, Belarus
TARGET BENEFICIARIES	SME
PURPOSE AND DESCRIPTION	<ul style="list-style-type: none">• The specific objective of the BAS Programme is to promote the development, deepening and sustainability of SME sectors by building a sustainable infrastructure of local advisory services and providing advisory support to SMEs.• TAM/BAS assistance include restructuring of businesses, improving products, reducing operating costs, advising on local and export markets and helping to develop business planning skills of at the management level. Hence, TAM/BAS promotes economic transition by combining direct, targeted assistance to the private sector with systemic market development interventions.• The TAM Programme supports economic transition by achieving enterprise change in potentially viable small and medium-sized enterprises.• The BAS Programme supports economic transition, by both achieving enterprise change in potentially viable micro, small and medium enterprises and developing sustainable infrastructures of business advisory services in the EBRD countries of operation.

SMALL BUSINESS SUPPORT PROGRAMMES –TAM AND BUSINESS ADVISORY SERVICES (BAS) – PHASE II

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>DURATION (YEARS)</i>	2013, 2016
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Georgia, Moldova, Ukraine, Belarus
<i>TARGET BENEFICIARIES</i>	SME
<i>PURPOSE AND DESCRIPTION</i>	The programme aims to support economic transition and help enterprises adapt to the demands of a market economy, building the capacity of micro, small and medium-sized enterprises (MSMEs) for innovation and growth, and striving to develop local businesses across a broad range of sectors. The objective of the project is to: improve access to finance for MSMEs; attract public and private investments in viable SMEs; enhance the competitiveness of assisted MSMEs; consolidate sectors with high growth potential; and strengthen sustainable infrastructures of local business advisory services serving the SMEs.



CHAPTER 3:

EXISTING NATIONAL POLICIES AND FUTURE MEASURES PLANNED IN THE NATIONAL STRATEGY FOR SMES

3.1 SME policy environment

The country's economic development strategy 'Georgia 2020' is a road map document of the country for economic development in the medium to long term, setting out the strategy, priorities and action plan by sector. The strategy identifies three main priorities areas:

- private sector competitiveness (Improving the investment and business environment; Innovation and technology; Facilitating the growth of exports; Developing infrastructure and fully realising the country's transit potential);
- developing human resources (Developing the country's workforce with a view to meeting labour market requirements; Tightening the social security net; Increasing the accessibility and quality of the country's healthcare system);
- access to finance (Mobilization of investments; Development of financial intermediation).

According to the document, major macroeconomic indicators are projected to reach the following figures in 2020: GDP per capita (GEL, Nominal) will rise from GEL 5 811.7 to GEL 13 000. The GINI coefficient will decrease from 0.41 to 0.35; exports (goods, services % of GDP) will rise from 45% to 65%.

The Basic Data and Directions (BDD) for 2017-20 – governmental programme 'Freedom, Rapid Development and Welfare' that reflects the government programme – states that economic development (including SMEs), agriculture, regional development, education, healthcare and social security are to be priorities in the mid-term.

3.2 National SME strategy

The SME development strategy 2017-20 and its action plan was approved by the Ministry of Economy and Sustainable Development of Georgia a year ago, and aims to increase SME output by 10%, increase employment by 15% and increase production by 7% by 2020.

The Strategic Directions are:

- access to finance;
- improvement of the institutional, legal and entrepreneurial environment;
- SME skills and entrepreneurial culture development;
- export support and SME internationalisation;
- innovation and research development support.

The Georgia SME strategy implementation action plan 2016-2017 then gives a detailed road map of the strategy implementation in 2016 and 2017, which is totally based on recommendations from the SME policy index study.

Supporting the development of SMEs and the creation of new jobs is also reflected as a main regional priority in the Regional Development Programme of Georgia 2015-17, along with: Improvement of physical infrastructure and Environment protection; Rural Development; Tourism development; and Improvement of human capital and development of Vocational education institutional capacity at national and subnational levels.

There are also the Strategy for Agricultural Development in Georgia 2015-20 and the Professional Education Reform Strategy 2013-20 supporting the SME development agenda.

The DCFTA implementation action plan 2014-17 considers SME support in the framework of DCFTA. Activities, such as legal harmonisation, increase access to finance, VET, export support, product development and other types of consultations.

The Rural Development Strategy 2017-20 with its action plan was approved by the Government of Georgia in March.

For consolidation of all the SME development efforts and for successful implementation of the entrepreneurship support reforms, the Ministry of Economy created two new entities – the Georgian Enterprise Development Agency (EDA) and Georgian National Investment Agency (GITA).

Enterprise Georgia is responsible for coordinating the implementation of SME supportive policies and programmes. The main objectives of EDA are to: improve private sector competitiveness; support start-ups;



facilitate the establishment of modern entrepreneurial culture; and support the diversification of exports of goods and services, etc.

GITA is a main coordinator and mediator in the process of building a national innovation ecosystem. The purpose of GITA is to: create an ecosystem and coordinate its development process; stimulate innovation, modern technologies and R&D; facilitate commercialisation and usage of R&D; support innovative start-ups and their competitiveness growth; facilitate cooperation between the representatives of scientists and businesses; cover the whole country with a high-speed internet connection and computerisation process, etc.

3.3 Existing national measures for SMEs

National measures for SMEs in Georgia are presented by three big state programmes consolidating about 15 projects with an annual budget of around USD 100 million.

‘Produce in Georgia’ is a State programme launched by the Ministry of Economy and Sustainable Development and implemented by the Enterprise Development Agency in June 2014. It aims to develop entrepreneurship in Georgia, increase the competitiveness of the private sector and boost the export potential, through providing financial assistance, infrastructure and consulting support.

GITA implements innovation grant programmes and provides the Mini Grants Programme and Micro Grants Programme to support innovation. The aim is to support market-oriented innovative projects as they go through the process of commercialisation.

The Ministry of Agriculture, through the Agricultural Project Management Agency (APMA), is also implementing more than 10 projects under a unified agro project to support SME development in agriculture.

In total, 3 370 projects were implemented (104-industry, 19-agriculture), with a total investment of GEL 385 million, which contributed to the creation of 15 000 new jobs.

The Georgian Chamber of Commerce and Industry (GCCCI), Georgian Employers’ Association (GEA), and Georgian Small and Medium Enterprises Association (GSMEA) are the main organisations assisting Georgian SMEs.

Along with the EU, the following financial institutions are also supporting entrepreneurship and economic development efforts in the country: The World Bank (WB), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Kreditanstalt für Wiederaufbau (KfW), Asian Development Bank (ADB), United States Agency for International Development (USAID), and Millennium Challenge Account (MCA).

3.4 Future measures planned in the draft national strategy for SMEs

The draft new law of Georgia on Entrepreneurs has been prepared and is expected to be implemented after a regulation impact assessment (RIA).

A draft of the Innovation Development Strategy 2020 has been prepared recently and is expected to be approved this summer. Implementation of the forthcoming strategy will be complemented by the World Bank’s new innovation development project.

The National Statistics Office has developed a new methodology for determining the size of the enterprises in compliance with EU standards. According to the changes, turnover and the number of employees as criteria will be set out using PPP and Eurostat recommendations. New changes will be introduced gradually from next year.

National Programmes implemented by Georgian State Agencies

'Produce in Georgia'

1. INDUSTRIAL MANUFACTURING SUPPORT COMPONENT	
IMPLEMENTING AGENCY	Georgian Enterprise Development Agency (EDA)
START DATE	2014
DURATION, YEARS	Annual
BUDGET, GEL	17 605 921.5
TARGET BENEFICIARIES	SMEs working in Industry Sector
PURPOSE AND DESCRIPTION	<ul style="list-style-type: none"> a) Financial assistance considers co-financing of the interest on the beneficiary's loans from commercial banks; Partial collateral support; Co-financing of the interest on the object of lease. b) Infrastructure Support intends to provide infrastructure (land and/or building) in State ownership to the beneficiary for investment obligations. c) Consulting support provides training (marketing, sales, business planning, export markets and linkages) to increase entrepreneurial skills and support in identification and transfer of contemporary technologies, and to foster innovation.
2. AGRICULTURE PROCESSING COMPONENT	
IMPLEMENTING AGENCY	Agricultural Project Management Agency (APMA)
START DATE	2014
DURATION, YEARS	Annual
BUDGET, GEL	30 000 000
TARGET BENEFICIARIES	SMEs working in Agriculture
PURPOSE AND DESCRIPTION	<ul style="list-style-type: none"> • Facilitating the development of the industries focused on production; • Facilitating the establishment of new enterprises and extension / upgrade of existing ones.
3. FILM INDUSTRY DEVELOPMENT COMPONENT	
IMPLEMENTING AGENCY	Georgian Enterprise Development Agency (EDA)
START DATE	2016
DURATION, YEARS	Annual
BUDGET, GEL	147 073.5
TARGET BENEFICIARIES	SMEs in Film making
PURPOSE AND DESCRIPTION	Promotes Georgia as the Eastern European Filming Destination by offering a 20% cash rebate on qualified expenses incurred in Georgia. The programme aims to support the development of Georgia's film industry. An additional rebate of up to 5% is available if a production promotes Georgia as a destination – the programme's 'Cultural Test'.
4. HOTEL DEVELOPMENT COMPONENT	
IMPLEMENTING AGENCY	Georgian Enterprise Development Agency (EDA)
START DATE	2016
DURATION, YEARS	Annual
BUDGET, GEL	147 073.5
TARGET BENEFICIARIES	SMEs working in Hospitality sector
PURPOSE AND DESCRIPTION	<ul style="list-style-type: none"> • To promote the hospitality business across the country, attract increasing numbers of tourists, create jobs and develop each region of Georgia. • The scheme promotes the entrance of international hotel brands via franchise or management contracts by co-financing royalty fees.

5. STARTUPS TO SUPPORT MICRO AND SMALL ENTERPRISES COMPONENT	
<i>IMPLEMENTING AGENCY</i>	Georgian Enterprise Development Agency (EDA)
<i>START DATE</i>	2015
<i>DURATION, YEARS</i>	Annual
<i>BUDGET, GEL</i>	22 957 704.4
<i>TARGET BENEFICIARIES</i>	Micro and small entrepreneurs/ enterprises
<i>PURPOSE AND DESCRIPTION</i>	Supports micro and small enterprises in regions through access to finance and enhancing their education. The programme provides access to finance and technical assistance to beneficiaries. Project grants: GEL 5 000 for one entrepreneur, GEL 10 000 for two and GEL 15 000 for a group of entrepreneurs to carry through on their business ideas. The matching of a minimum of 20% from the beneficiary side is a programme eligibility criterion.

'Innovation grant programmes

1. ACCESS TO FINANCE	
<i>IMPLEMENTING AGENCY</i>	Georgian National Investment Agency (GITA)
<i>START DATE</i>	2014
<i>DURATION, YEARS</i>	Annual
<i>BUDGET, GEL</i>	
<i>TARGET BENEFICIARIES</i>	Innovators, inventors and start-ups
<i>PURPOSE AND DESCRIPTION</i>	<ul style="list-style-type: none"> • The objective of the small grants programme is to create new businesses and start-ups, support R&D commercialisation and provide assistance to the existing SMEs to develop their products by innovative approaches. • The micro grants programme aims to support innovative ideas and their commercialisation by financing the 1. creation of prototypes; 2. organisation of innovation competitions; and 3. study visits. • The goal of the programme Start-up Georgia is to stimulate business innovation and entrepreneurship through access to finance for start-ups with innovative and high-tech ideas and facilitate venture funding for further growth and development. • The objective of the Matching Grants Programme is to stimulate the innovation and creation of innovative enterprises in the Georgian economy through products/services, process and technology development/adoption and commercialisation.

2. DEVELOPMENT OF INNOVATION INFRASTRUCTURE	
<i>IMPLEMENTING AGENCY</i>	Georgian National Investment Agency (GITA)
<i>START DATE</i>	2015
<i>DURATION, YEARS</i>	Annual
<i>BUDGET, GEL</i>	5 720 000
<i>TARGET BENEFICIARIES</i>	Innovators, inventors and start-ups
<i>PURPOSE AND DESCRIPTION</i>	The objective of the development of innovation infrastructure is to increase the innovative activities of firms and individuals in the regions and their participation in the digital economy.

3. TECHNICAL SUPPORT FOR INNOVATION AND ENTREPRENEURSHIP

<i>IMPLEMENTING AGENCY</i>	Georgian National Investment Agency (GITA)
<i>START DATE</i>	2016
<i>DURATION, YEARS</i>	Annual
<i>BUDGET, GEL</i>	161 000
<i>TARGET BENEFICIARIES</i>	Innovators, inventors and start-ups
<i>PURPOSE AND DESCRIPTION</i>	The objective is to support and develop a start-up ecosystem.

'Unified Agro programme'

1. PLANT THE FUTURE

<i>IMPLEMENTING AGENCY</i>	Agricultural Project Management Agency (APMA)
<i>START DATE</i>	2016
<i>DURATION, YEARS</i>	Annual
<i>BUDGET, GEL</i>	7 000 000
<i>TARGET BENEFICIARIES</i>	SMEs in Agricultural sector
<i>PURPOSE AND DESCRIPTION</i>	The programme's aim is to promote the increase of competitiveness in the agricultural sector field, and stable development in the production of high-quality products, and ensure food safety norms and standards. There will be stimulation with financial support for the creation of perennial gardens and arrangement of perennial plant gardens and plantations. The process of improving the quality of the fruit and stabilising the production will be started, and the raw materials base for the processing industry will be increased. Imported products will be replaced and the export potential will increase. The revenues of those engaged in fruit growing will increase and the social and economic conditions of the village population will improve.

2. 'GEORGIAN TEA' – GEORGIAN TEA PLANTATION REHABILITATION PROGRAMME

<i>IMPLEMENTING AGENCY</i>	Agricultural Project Management Agency (APMA)
<i>START DATE</i>	2016
<i>DURATION, YEARS</i>	Annual
<i>BUDGET, GEL</i>	400 000
<i>TARGET BENEFICIARIES</i>	Privately and state-owned feral tea plantation owners; Tea processing enterprises
<i>PURPOSE AND DESCRIPTION</i>	<ul style="list-style-type: none">• The main goal of the state programme 'Georgian Tea' is the maximum use of Georgian tea potential and promotion of high-quality tea production, including the production of bio (organic) tea.• Privately owned as well as state-owned feral tea plantations will be rehabilitated, and modern primary tea processing enterprises will be established under this project.• This programme will facilitate an increase in Georgian tea's potential for export as well as employment of the population and improvement in their socio-economic state.• Within the scope of the State Programme, the Ministry of Agriculture along with the donor organisations will provide technical assistance to programme beneficiaries in learning proper processing technology for tea, certification, marketing, creating sales channels and in other directions.• The programme envisages the introduction of the standards that are essential for exporting Georgian tea to EU countries. The programme provides special privileges for agricultural cooperatives, which will further contribute to the development of cooperation in Georgia.

3. CO-FINANCING OF AGRO PROCESSING AND STORAGE ENTERPRISES

<i>IMPLEMENTING AGENCY</i>	Agricultural Project Management Agency (APMA)
<i>START DATE</i>	2016
<i>DURATION, YEARS</i>	Annual
<i>BUDGET, GEL</i>	5 000 000
<i>TARGET BENEFICIARIES</i>	The target area of agricultural products processing and storage enterprises co-financing covers all municipalities and self-governing cities of Georgia, except for the following self-governing cities: Tbilisi, Rustavi, Kutaisi, Batumi and Poti
<i>PURPOSE AND DESCRIPTION</i>	<p>The project comprises two components:</p> <p>1) Agricultural products processing enterprises co-financing component.</p> <ul style="list-style-type: none"> • Establishment of new processing enterprises in the regions of low economic activity; • Geographical diversification of processing enterprises; • Improvement of the preconditions for the establishment of agricultural cooperatives; • Development of the raw materials base; • Increase in income of rural people. <p>2) Storage enterprises co-financing component.</p> <ul style="list-style-type: none"> • Support for primary agricultural products standardisation; • Raising the self-sufficiency rate with perennial and annual plants; • Support for effective cooperation; • Creation of additional infrastructure to help the farmers to store crops; • Helping storage enterprises in developing as service providers; • Storage infrastructure standardisation support.

4. PREFERENTIAL AGRO CREDIT PROJECT

<i>IMPLEMENTING AGENCY</i>	Agricultural Project Management Agency (APMA)
<i>START DATE</i>	2013
<i>DURATION, YEARS</i>	Annual
<i>BUDGET, GEL</i>	47 000 000
<i>TARGET BENEFICIARIES</i>	Enterprises engaged in agricultural production, processing and storage
<i>PURPOSE AND DESCRIPTION</i>	The purpose of the project is to improve the processes of primary agricultural production, processing, storage and sale by providing the legal and natural entities with cheap, long-term and preferential funds.

5. AGRO INSURANCE

<i>IMPLEMENTING AGENCY</i>	Agricultural Project Management Agency (APMA)
<i>START DATE</i>	2014
<i>DURATION, YEARS</i>	Annual
<i>BUDGET, GEL</i>	7 000 000
<i>TARGET BENEFICIARIES</i>	Farmers
<i>PURPOSE AND DESCRIPTION</i>	To develop the insurance market in the agricultural sector, promote agricultural activities, retain incomes for individuals in occupations of the mentioned activities and reduce risks.

CHAPTER 4:

GENERAL CONCLUSION

Main Challenges for SME development

The SME Policy Index 2016 study evaluates Eastern Partnership countries using 10 component criteria for implementing the Small Business Act (SBA). Georgia received a good result in seven components and was named as the best performing and reforming country among the EaP countries. Areas for improvement are insolvency, the regulation framework, support services for SMEs and start-ups, standards and technical regulations and innovations. Even though the SME Policy Index study ranked Georgia as the best of the Eastern Partnership countries, the main challenges for Georgia remain the following:

- access to finance;
- skills mismatch in the labour market and low job creation.

Access to finance is a key barrier to SME growth

Even though the Georgian Government made huge progress to decrease entry barriers for SMEs, by simplifying business registration, reducing taxes

for small businesses and introducing robust regulatory and legal initiatives, limited access to finance still remains a major obstacle to the SME sector growing.

As a result, lending to SMEs remains low and represents only 16% of all lending.

One reason for this as mentioned already is the **high interest rate for loans**; about 23% for individual entrepreneurs and 15.5% for legal entities. Even though the Government tried to address this issue by introducing targeted programmes for SMEs in order to subsidise the interest rate for beneficiaries, programme participation remains lower than anticipated. One of the factors for this is the **high collateral requirement** from banks (about 220% of the value of the loan), which SMEs cannot provide, in addition to low entrepreneurial literacy and culture.

Dollarization of loans makes it difficult for SMEs to hedge against exchange rate fluctuations, taking into consideration the constant national currency devaluation occurring over the last three years.

Table 6: SME Policy Development Index Dimensions for Georgia, 2016 ⁽¹⁵⁾

POLICY DIMENSION	SME POLICY INDEX GEORGIA			
	2012*	2016*	EaP average, 2016	Georgia rank among EaP countries, 2016
1. Entrepreneurial learning and women's entrepreneurship	2.15	2.70	2.52	1
2. Bankruptcy and second chance for SMEs	2.94	2.94	2.71	2
3. Regulatory framework for SME policy making	3.23	3.48	2.95	2
4. Operational environment for SMEs	4.30	4.33	4.01	1
5a. Support services for SMEs and start-ups	2.92	3.69	3.13	2
5b. Public procurement	4.14	4.04	3.12	1
6. Access to finance for SMEs	3.52	3.76	3.28	1
7. Standards and technical regulations	2.88	4.22	3.76	2
8a. Enterprise skills	2.69	3.00	2.66	1
8b. Innovation policy for SMEs	1.91	2.70	2.57	3
9. SMEs in the green economy	1.97	2.48	1.99	1
10. Internationalisation of SMEs	3.14	3.60	2.79	1

Source:

⁽¹⁵⁾ OECD Policy Index EaP countries, 2016

* Score range 1-5, with 1 being the weakest, 5 being the strongest

As the **non-banking financing system is underdeveloped** in Georgia, competition is not high and rates are high as well. Micro financing institutions are the main alternative source of finance, but they lack a capital market and are mainly dependent on donor funds. Thus, it is crucial to support micro financing institution development in Georgia to drive rates down over the long term. Other sources of financing are underdeveloped as well. As a result, the low level of access to finance makes it difficult to finance SME investment and working capital for development in order to increase competitiveness.

Low entrepreneurial education, skills mismatch in the labour market and low job creation

A low level of entrepreneurial culture, literacy and competency and a skills mismatch are the main factors that impede the development of SMEs and job creation and cause a high level of unemployment. By sector, the highest levels of employment are in industry and trade and by groups in youth (15-19 year age group). Large numbers are involved in occupations without formal employment, with over 50% of the population being involved in agriculture (essentially self- or family-employed). The employment level in SMEs has also decreased in recent years.

One of the reasons for the low participation is the low level of **entrepreneurial culture**. Entrepreneurial culture is new for Georgian society. Historically, vocational education training has not been an attractive educational alternative for many school graduates. Therefore, promotion of entrepreneurship at all level of education, especially at schools and by introducing success stories is very important.

Training for SME skills development for existing SMEs: Both State and International programmes operated to support SME development in Georgia nowadays are offering as a second component training and capacity building as a major part of SME development. Training of existing SMEs in managerial, financial and marketing skills is vital. Programmes are supporting SME advisory services for business plan preparation, which is an essential element in getting financing from banks. Also, there is more targeted training for SME growth and accessing international markets to take full advantage of the DCFTA, along with training to support policy implementation.

The Entrepreneurial Agency is planning to conduct training needs assessments. As a result, they will be able to come up with more relevant training needs for SMEs in order to boost their performance. A Comprehensive Vocational Education Training System has the unique role of providing skilled personnel to meet the competitive demands of both the local and international labour markets.

A network of public and private VET providers, in terms of both geographic spread and coverage of a wide range of well-resourced disciplines/specialisations, is weak at the moment. The Ministry of Education has already approved a VET strategy and is now in the process of relevant system development and relevant human capital training to support SME development in Georgia. Without qualified work skills, policy objectives cannot be fulfilled.







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