

ANNEX II

of the Commission Implementing Decision on the Annual Action Programme 2014 in favour of Georgia

Action Document for Support to EU-Georgia DCFTA and SMEs

1. IDENTIFICATION

| | | | |
|---------------------------------------|--|---------|--|
| Title/Number | Support to EU-Georgia DCFTA and SMEs <i>ENI/2014/037-381</i> | | |
| Total cost | Total estimated cost: EUR 52.1 million Total amount of EU budget contribution: EUR 51 million, of which - EUR 30.0 million for budget support - EUR 21.0 million for complementary support This action is co-financed in joint co-financing by EBRD for an amount of EUR 0.6 million Estimated co-financing by potential grant beneficiaries: EUR 0.5 million | | |
| Budget support | | | |
| Aid method / Method of implementation | Direct management | | |
| Type of aid code | A02 – Sector Budget Support | Markers | BSAR |
| DAC-code | 33110 32130 | Sector | Trade policy and administrative management Small and medium-sized enterprises (SME) development |
| Complementary support | | | |
| Aid method / Method of implementation | Direct management (grants – calls for proposal; procurement of services) Indirect management with: - Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH - European Bank for Reconstruction and Development (EBRD) - Food and Agriculture Organization of the United Nations (FAO) | | |
| DAC-code | 33110 32130 | Sector | Trade policy and administrative management Small and medium-sized enterprises (SME) development |

2. RATIONALE AND COUNTRY CONTEXT

2.1. Summary of the action and its objectives

The **overall objective** of the proposed Sector Reform Contract is to assist the Georgian Government in the implementation process of the Deep and Comprehensive Free Trade Area (DCFTA), facilitating Georgia's economic integration into the EU market. In order to reap the benefits of the agreement, institutional and regulatory reforms in **trade and private sector development** are instrumental, with a particular focus on strengthening the capacities of Georgian small and medium-sized enterprises (SME) to adjust to a new regulatory environment.

The **specific objectives** are: (1) to further strengthen the DCFTA policy framework for trade and SME development; (2) to improve the overall functioning of priority trade and private-sector related institutions; (3) to strengthen economic actors and SMEs along the DCFTA process; (4) to ensure economic integration of targeted groups, such as internally displaced persons (IDPs), returned migrants, women in business and young entrepreneurs.

The programme is based on the complementary measures in support of EU-Georgia agreements under the Single Support Framework 2014-2017, foreseen to enlarge the scope of the support to the DCFTA. The programme is in line with relevant chapters of the EU-Georgia Association Agreement (AA) and related *Association Agenda* for the next years. The programme supports the national socio-economic development strategy “*Georgia 2020*”, which outlines the overall strategic vision for Georgia.

The programme, to be implemented through a budget support component and complementary measures, will ensure continuation of trade reforms and reinforce the Government of Georgia's engagement versus a genuine SME policy and strategy, while facilitating economic opportunities for all and a more decent life to IDPs.

2.2. Country context

Georgia's relevant policy framework remains oriented strictly towards closer EU links, political association and economic integration, confirmed by the recently initialled Association Agreement/Deep and Comprehensive Free Trade Area (AA/DCFTA) and the Government's commitment to sign the agreement in June 2014. The DCFTA shall become a reference framework for reforms, encouraging the modernisation of Georgia, through the approximation process, across many areas: economic, political, social, legal, scientific, cultural, good governance, and the role of civil society organisations (CSO).

2.2.1. *Main challenges towards poverty reduction/inclusive and sustainable growth*

Georgia is a small developing economy with a gross domestic product (GDP) per capita of USD 3,605 in 2013. Over the past 10 years, Georgia undertook significant economic, social and governance reforms resulting in sound fiscal and monetary policies. Despite shocks caused by the 2008 conflict with Russia and the financial crisis, Georgia was capable to recuperate macroeconomic stability and recover progressively. The GDP growth according to Geostat was 3.2% in 2013, against originally projected 6%. Although significantly decreasing from the year before, current account deficit remained high at 6.1% in 2013, and the medium-term outlook may represent a challenge to fiscal stability. Poverty and unemployment (at about 22% and 15%, respectively) remain high, and there is an evident urban-rural gap. While agriculture is the primary source of employment in rural areas, it accounts for only 8% of the GDP. The average level of expenditures of one-fourth of the Georgian population - about 1 million people - is estimated to be equivalent to less than 60% of the (median) subsistence level. These conditions do not fully empower the Government of

Georgia to accelerate poverty reduction efforts. Measures boosting social support and employment were mentioned during a recent International Monetary Fund (IMF) visit¹⁷.

Despite the growth of the Georgian economy, only 13% of the total employed population is employed in the SME sector, with 52% of the Georgian working force self-employed in the agriculture sector. SMEs still shows weak performance in terms of business turnover and value added. The major problems faced by SMEs are the lack of adequate entrepreneurial and institutional preconditions for developing foreign trade-oriented sectors for inclusive growth. Thus, there remains considerable potential to foster further employment through SME development. Georgia recognized the need to promote SME development (SME competitiveness, entrepreneurship skills, ease of access to finance) as a way to overcome poverty and reach sustainable and inclusive economic growth. As the DCFTA is expected to bring in the medium-long term substantial benefits for SMEs, supporting a coherent and correct implementation of DCFTA requirements for SMEs is crucial.

There are currently 254,000 IDPs in Georgia, with an average unemployment rate exceeding the overall country's unemployment rate. More targeted measures are needed to ensure a more dynamic participation of this and other vulnerable segments of the population (like returning migrants and the young generations) to the local economic development. Promotion of SMEs can play a significant role in order to increase the employment rate and income of these vulnerable groups.

Georgia is also a country prone to natural disaster. Appropriate Disaster Risk Management is crucial to increase the resilience of the most vulnerable and poorest segments of the population.

2.2.2. Fundamental values

The Government of Georgia is committed to the effective protection and promotion of the fundamental values of human rights, democracy and rule of law. Fundamental values of democracy and human rights are protected by the Georgian Constitution, in line with main 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.

According to the most recent *Human Rights Watch* report of 2014¹⁸, the EU closely engaged with the Georgian Government to monitor the rights record and urge much-needed reforms. It recommends the Government to address religious intolerance, independence of the judiciary, prison conditions, ill-treatment and torture, illegal surveillance, minority rights, and other human rights issues. The EU noted that Georgia highlighted the need to ensure the independence of the judiciary, avoid selective justice, and increase accountability and democratic oversight of law enforcement agencies. As *Freedom House* estimates, Georgia is a partly free freedom country¹⁹.

2.3. Eligibility for budget support

Georgia meets the four eligibility criteria of public policy, macroeconomic stability, public financial management (PFM) eligibility and transparency and oversight. A credible public policy exists, a sound macroeconomic policy is in place, a satisfactory

¹⁷ Available at: <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40886.0>

¹⁸ <http://www.hrw.org/world-report/2014>

¹⁹ <http://www.freedomhouse.org/report/freedom-world/2013/georgia#.UzAe06iSbw>

trend in PFM is noted and basic requirements on budget transparency and oversight are in place.

2.3.1. *Public policy*

Georgia committed to further approximate its trade-related policy framework according to EU standards. In order to achieve the above objective, significant policy/legal norms should be implemented in the DCFTA area, in line with an agreed timetable for implementation over the period 2015-2018. Priority areas of policy support are sanitary and phyto-sanitary (SPS), technical barriers to trade (TBT), intellectual property rights (IPR), market surveillance, competition, and public procurement. The well-functioning of related core trade institutions is critical for the correct implementation of DCFTA requirements over the next years.

Georgia has recognized the need to promote SMEs development as a way to overcome poverty and reach sustainable and inclusive economic growth. However there is still a lack of understanding of the impact of DCFTA on SMEs. This EU programme will contribute to facilitate DCFTA understanding for business, to address SMEs needs and to enable them to reap the positive effects of the DCFTA.

a) National/sector development strategy

1) A national **trade policy and strategy** is embedded in the DCFTA part of the Association Agreement which in itself already provides a general strategic framework for EU-Georgian trade relations. However, Georgia does not yet have an overarching Action Plan for DCFTA implementation, outlining priorities and sequencing of reforms.

As to specific trade domains, such as SPS, TBT, IPR, market surveillance, and competition, respective strategies were prepared for the DCFTA negotiations and Georgia already started to gradually improve trade regulatory systems and infrastructure. However, in order to reach the equivalent of the EU in the long-run, much still needs to be done to update these strategies and improve their quality. Likewise, other trade domains such as services and public procurement need to be further developed and strengthened.

1.1) On food safety, sanitary and phyto-sanitary measures, on October 2010 Georgia produced the ***Comprehensive Strategy in Food Safety, Veterinary and Phyto-sanitary*** as well as the ***Legislative Approximation Programme***, consisting of the approximation tables/matrixes. Georgia will have six months from the signing of the AA/DCFTA to produce and submit an updated SPS Legislative Approximation Programme. Before moving further with the secondary legislation, amendments to the Food Safety Code are necessary.

1.2) On technical barriers to trade, in August 2010 the Government adopted the ***Governmental Strategy in Standardization, Accreditation, Conformity Assessment, Technical Regulation and Metrology*** and related ***Programme on Legislative Reform and Adoption of Technical Regulations***". These are the reference legal documents for Georgia to undertake institutional and legislative reforms. The Programme lists the directives to be approximated with the EU ones (EU New Approach Directives). The process of adoption of technical regulations started and is on-going. A ***Market Surveillance Strategy for Industrial Products*** was adopted in December 2011 and the responsible body for market surveillance (Technical and Construction Supervision Agency) established in September 2012 under the Ministry of Economy and Sustainable Development (MoESD). This body will be responsible for the compliance of the industrial products entering into the market with requirements of technical regulation. However, an Action Plan for the implementation of the market

surveillance strategy and an institutional reform plan guiding the responsible body in the medium term are not available yet. A technical assistance EU project will support the MoESD along this way and first results are expected in early 2015.

1.3) On other policy areas (services, customs, public procurement, IPRs and competition), many laws exist but no clear strategies are in place. References to them are made in the "Georgia 2020" strategy. The Competition Law has been approved in March 2014 and the related enforcing authority (Competition Agency) will be established shortly. Effective competition, public procurement and IPRs systems are key elements for boosting the business environment, including SMEs development.

2) **As to private sector/SME development**, Georgia has not yet developed a comprehensive support strategy and related legal framework, including priority economic sectors strategies. However, for some specific economic sectors strategies are in place (e.g. agriculture) or under preparation (e.g. tourism). Such comprehensive strategy will enhance the business enabling policy and legal environment, conducive to SMEs development. The policy framework for SME development shall be consistent with the DCFTA policy orientations. In line with the long-term socio-economic strategy and acknowledging the medium and long-term impact of DCFTA on the private sector, the MoESD has committed, to prepare a SME strategy and action plan, to develop further sector strategies, and to enhance the institutional capacities and mechanisms to support Georgian businesses, mostly SMEs. In this context, the MoESD is in the process of establishing two new agencies: "*Enterprise Development Agency (EDA)*" and "*Georgian Innovation and Technology Agency (GITA)*". These institutions will play a crucial role in assisting SMEs, among others, to most effectively assimilate the DCFTA provisions. Georgia has also undergone a Small Business Act (SBA) assessment carried out by the European Commission in cooperation with partner organisations²⁰ which was published in October 2012. The key recommendations of this assessment shall be taken into account while drafting the SME strategy and related regulatory measures.

The main document serving as policy framework for private sector/SMEs development is Georgia's *national socio-economic development strategy "Georgia 2020"*. The document outlines the overall strategic vision for Georgia, targets and policy measures to overcome the main obstacles to sustainable/inclusive economic growth. The chapters 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" are the ones with clear references to DCFTA-related obligations and private sector development. However, specific reference to SMEs appears only under the chapter devoted to access to finance.

3) On **internally displaced persons**, the current *IDP Action Plan 2012-2014*, based on the IDP Strategy 2007, is being updated in order to (i) reflect the results of the recent assessment of IDP basic socio-economic conditions, (ii) reflect the recent changes in the IDP law, (iii) reflect an increased focus on vulnerability-based selection of IDP beneficiaries, and (iv) update needs, planned actions and financial forecasts. The Ministry of Refugees and Accommodation (MRA) is drafting an IDP Livelihood Action Plan, based on the recently adopted Livelihood Strategy, which advocates economic livelihood and income-generating activities for IDPs. The proposed programme intends to support relevant aspects of this

²⁰ Organisation for Economic Cooperation and Development (OECD), European Training Foundation (ETF), and European Bank for Reconstruction and Development (EBRD)

Action Plan, as part of *Confidence Building Measures*, thus promoting an inclusive approach to economic growth.

b) Policy relevance

The Association Agreement, including a DCFTA, between Georgia and the EU, has been initialled in November 2013 and is expected to be signed imminently. This agreement will significantly enhance EU-Georgia relations, bringing the institutional framework of the two parties much closer to each other. Obligations and measures foreseen in the AA are, although in a fragmented way, reflected in the long-term socio-economic development strategy "Georgia 2020". Their gradual implementation and systems to be developed in accordance with international and European norms are expected to increase the potential and competitiveness of the country. In addition, the strategy considers private sector/SMEs competitiveness, improvement of human capital and access to finance significant ingredients for a sustainable and inclusive economic growth in the medium-long run.

Against this background, the proposed programme supports parts of the Title IV of the AA ("*Trade and trade-related matters*") and Title VI, Chapter 5 ("*Other Cooperation Policies: Industrial and Enterprise Policy and Mining*") and is aligned with the national development strategy.

The proposed programme is thus highly relevant to EU-Georgian relations as well as to important Georgian priorities.

c) Policy credibility

Since the DCFTA preparatory works the Government has smoothly implemented regulatory and institutional reforms in priority trade areas. In March 2014²¹ the Government of Georgia reiterated its highest level of commitment towards the implementation of the DCFTA and respective regulatory reforms. The Government committed to elaborate a multi-annual DCFTA implementation plan, which will be based on the *Association Agenda*. Also, the Government intends to prepare a multi-annual SME development strategy and action plan. The DCFTA implementation process will be carried out by all relevant state institutions under the coordination of the MoESD. Such coordination mechanism has been already decided.

Based on the assessment above, it can be confirmed that there is a credible and relevant policy that supports the objectives of poverty reduction and sustainable and inclusive growth. The Government recognizes a strong political commitment towards the EU. Credible SPS and TBT strategies are in place. An acceptable strategy on market surveillance of industrial products exists, but it needs to be better assessed. A national economic development vision/strategy is under finalization.

Budgetary-wise, the country has shown good budgetary performance over the last three years. Georgian authorities managed to maintain acceptable levels of inflation and managed to maintain public debt at relatively low levels. Financial policy is also credible and Georgia has been consistently on track with IMF programmes. Most of the quantitative targets and relevant structural benchmarks have been met.

IMF's missions of August 2013 concluded that over the last ten years, Georgia's economy has grown rapidly and most of the 2011 Article IV consultation recommendations have been implemented²².

²¹ Note of 20 March 2014 from the Ministry of Economy Mr Kvirikashvili to the EU Ambassador P. Dimitrov (ref. 07/1692)

²² <http://www.imf.org/external/pubs/ft/scr/2013/cr13264.pdf>

The authorities pursue a credible and relevant stability oriented macroeconomic policy aiming at maintaining fiscal and external stability and sustainability.

2.3.2. *Macroeconomic policy*

Georgia undertook significant economic, social and governance reforms in the past decade, following the 2003 Rose Revolution. The country saw especially strong growth between 2003 and the war with Russia in August 2008 (average growth of 10%), mainly fuelled by large levels of foreign direct investments (FDIs). Following the war, and coupled with the global financial crisis, growth turned negative in 2009, but immediately afterwards Georgia was capable to progressively recover, reaching a growth of 6.3% in 2010 and 7.2% in 2011. The growth was mainly driven by manufacturing, financial intermediation and trade/retail. Growth remained steady in 2012 (6.1%), with most of the expansion during the first three quarters, before October's elections. Growth in 2012 was driven by trade and services, manufacturing and construction sector, bolstered by large public investment projects. The current estimate of GDP growth for 2013 is 3.2% (versus initial projection of 6%) and is expected to expand by 5% in 2014. After a deflationary period, inflation started to rise from October 2013 and is foreseen to reach the 5% target by 2014. Monetary policies of the National Bank of Georgia correctly reacted to inflation expectations, ensuring price stability. Despite improvements of the trade deficit, the current account deficit remains high (11.7% of GDP in 2012; 9.1% estimation for 2013) and its medium-term outlook may represent a challenge to fiscal stability. The Government plans to implement economic policies to ensure a sustainable and inclusive economic development, based upon the firm respect for economic freedom and property rights ("Georgia 2020" strategy). The strategy affirms stability-oriented macroeconomic policy and good governance (effective public administration) as necessary preconditions for inclusive economic growth.

2.3.3. *Public financial management*

In the recent World Bank's public accountability and expenditure (PEFA) assessment from September 2013, Georgia has been noted for significant advancement in its budgetary and financial managements systems. The budget classification system captures all administrative, economic and functional elements. There are no unreported Government operations, and all programmes funded by major donors are part of budget appropriations and fiscal reports. Georgia scores among the highest PEFA marks on inter-governmental fiscal discipline.

The basic set of systems is now in place for strategic budget planning, budget formulation and execution. The integrated public financial management system is being implemented and according to the Ministry of Finance (MOF), several key modules are already in place. These include treasury operations, spending institutions, budget preparation, payroll and external/internal debt management modules introduced by the MOF Financial Analytical Service in January 2012. The system was fully launched at the end of 2013. The introduction of international good practice in the budget cycle of the Government is well advanced, including robust systems for budget preparation, adequate chart of accounts, reliable execution (including accounting and reporting,) and sufficient controls. Important progress has been achieved on the front of program-based budgeting, furthering the Government's objective of greater results-focus in fiscal planning. The concept of program-based budgeting was adopted in the 2009 Budget Code, and significant advances have been made since then - reaching all the way to the full presentation of the 2012 draft budget in program forms to Parliament. Legal framework governing public procurement was further amended, electronic government procurement introduced in 2011, and linked to the Treasury's information system thus providing for full information sharing. All the above reform initiatives were implemented to address the weaknesses identified by the 2008 PEFA assessment in such areas as external control system, personnel and payroll, public procurement, and reporting of high quality consolidated financial statements.

Against the above background, Georgia has established a credible and relevant programme of improvement of PFM confirmed by the PEFA assessments, showing that trends in PFM justify the allocation of budget support with respect to the legal requirements concerning this eligibility criterion.

2.3.4. *Budget transparency and oversight of the budget*

The basic requirements for budgetary transparency are in place in Georgia. The Government publishes budget forecasts as well as execution reports on a regular basis. In order to strengthen the performance orientation of the budget, the Government is in the process of introducing programme-based budgeting. Basic budget scrutiny and oversight of financial statements are in place but needs further strengthening. In Georgia, traditionally the Parliament and its structures are institutionally weaker than the executive branch. The Budget and Finance Committee acknowledge the need to further improve the quality and the timeliness of analysis related to its public finance oversight functions as well as internal capacity for providing more user-friendly information. The State Audit Office of Georgia, accountable to the Parliament, has improved its services by applying a more advanced financial and performance audits.

2.4. *Lessons learnt*

Lessons learnt come from the implementation of EU technical assistance and twinning projects in trade-related areas, from the implementation of EU regional programmes in support of SMEs, as well as from the use of budget support in other areas (justice, public sector reforms, agriculture, regional development, IDPs). The main lessons are:

Twinning in the quality infrastructure area revealed the need to further support core trade-related institutions in the preparation of effective and strategic planning, strengthen their capacity in legal areas having an impact on consumer protection, intensify the education of the staff of relevant agencies, improve the role of and cooperation with the Government market surveillance, increase the participation of public and private stakeholders to the policy dialogue and to increase general awareness on DCFTA for the public at large.

Trade-related institutions are advancing at different paces and some need more substantial support than others: the institutions' capacities to adopt and implement reforms, the degree of preparation of their staff, coordination, ownership and sustainability differ across the institutions and within institutions involved in the same policy area. The National Food Agency (NFA) seems to be more developed than quality infrastructure agencies; NFA is also receiving a substantial support from the state budget due to the priority attributed by the Government to agriculture and food safety.

EU regional programmes in support of SMEs (under the SME Flagship Initiative) highlighted the need for a more constructive dialogue with the private sector and civil society, as well as the need to regularly conduct impact assessments to assess regulatory changes on SMEs. The promotion of lifelong entrepreneurship learning and actions to improve SMEs skills require also special attention.

In order to prevent duplication, close coordination between bilateral and regional activities in support of SMEs is required.

EU budget support operations helped laying the basis of consistent policy frameworks, supported a more efficient budgetary planning and expenditures, therefore contributing to deliver better services. Timely and well-targeted complementary technical assistance played also crucial roles in ensuring the success of budget support programmes. Challenges consist in improving inter-governmental coordination, in further increasing the efficiency of public spending, and in improving the strategic analytical capacities of the institutions.

Lessons learnt from EU past interventions are also in line with other donors' recommendations on future actions in support of the private sector, namely : to jointly define cooperation programmes; to help Georgian authorities effectively implement the national economic strategy; to support a "private sector impact assessment" in order for the authorities to better understand how previous assistance was channelled into the economy; to prepare and adopt action plans inclusive of budget, timeframe of implementation and assignment of responsibilities in the implementation of the national economic strategy; and to establish interdisciplinary and inter-ministerial working groups for sectoral policy development.

2.5. Complementary actions

1) On trade related areas

The EU is currently supporting SPS and TBT trade areas through the on-going programme of Comprehensive Institution Building (CIB).

The support to *SPS/food safety* totalizes **EUR 12.7 million** in the form of grants awarded to the NFA. The overall aim of this assistance is to establish an effective food safety surveillance system in Georgia, approximated with the EU system. The support aims at four main results: (1) to increase the level of knowledge and practical skills of the NFA staff and also the laboratory of the Ministry of Agriculture and of the SPS border control units of the customs department of the Revenue Service of Georgia; (2) to increase public awareness on food safety; (3) to provide the necessary capacity for NFA to enable the institutional tasks and responsibilities in an efficient, time-effective and well provided manner, including provision of EU-driven IT systems and equipment and (4) to provide capacity-building and technical assistance regarding the legal approximation process in the SPS field.

The support to *TBT* totalizes **EUR 6.2 million**. The overall aim of this assistance is to enhance Georgian quality infrastructure system (metrology, standardization, accreditation and market surveillance) and to approximate it to EU standards, therefore providing high quality goods and services for Georgian consumers and boosting Georgian competitiveness. The CIB assistance is distributed between the Georgian National Agency for Standards and Metrology (GEOSTM - EUR 5.2 million – supplies of equipment for reference measurement laboratories and technical assistance), the Georgian Accreditation Centre (GAC - EUR 720,000 – technical assistance) and the Technical and Construction Supervision Agency (TCSA - EUR 250,000 – technical assistance), and complements two twinnings (GEOSTM and GAC) that ended in the beginning of 2014.

The EU remains one of the main donors in quality infrastructure. Over the past years the German cooperation provided intensive support to metrology, helping upgrading some important GEOSTM reference laboratories and supported GEOSTM integration into

economic value chains, through the development of more efficient calibration services offered to the business. USAID contributed to the accreditation of two food testing laboratories according to US rules.

International Finance Corporation (IFC – part of the World Bank Group) is currently supporting food safety standards for businesses. The Georgian Competition and State Procurement Agency received substantial support by SIDA (Sweden). Saakpatenti (IPRs) benefitted of USAID support as well as targeted EU assistance.

2) On private sector development/SMEs

Many donors are assisting Georgia in the private sector development area. The donor community is composed by the World Bank, IFC, EBRD, GIZ, UNDP, USAID, ADB (Asian Development Bank), the EU and its Member States, Millennium Challenge Corporation (MCC). Donors' programmes target both the more general business enabling environment and more specific in-the-field projects (agriculture, hazelnuts value chain, etc).

The EU continues to support Georgian SMEs through the multilateral policy dialogue (Trade and SME Panel, including the Small Business Act assessment) as well as EU regional programmes. The most relevant regional programme "*SME Flagship Initiative*" is structured around three components: *East-Invest*, a trade facilitation initiative whose beneficiaries are Georgian SMEs and business support organizations (BSOs); *Small Business Support* implemented by the EBRD and providing direct tailored technical assistance to individual SMEs, helping them adapting to the demands of a market economy; *SME Finance Facility*, a funding instrument through European Finance Institutions designed to support long-term funding to SME sector. In Georgia this programme has mainly supported the agriculture sector.

The EU-funded European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) includes a EUR 18 million grants' programme, implemented via 16 non state actors, in support to the establishment of at least 160 small farmers' cooperatives (which are a specific form of SMEs).

GIZ implemented over the past years a comprehensive private sector development program, contributing to Vocational Education and Training (VET), local and regional development and economic policy reforms (including public procurement and competition). GIZ is currently running a regional private sector program aimed at supporting SMEs taking advantage of the market opportunities provided by the EU, with special attention to the wine and tourism sectors. Based on the results of an on-going study on the impact of DCFTA, further sectors might be considered.

USAID has been actively involved through the "Business Enabling Environment" component of a wider Economic Prosperity Initiative project, assisting the Government to broaden and deepen those reforms that will enhance the business environment. USAID is starting supporting the transfer of know-how to SMEs in the South-Caucasus, assisting SMEs and stakeholders along the approximation path to EU standards.

The **World Bank** Country Partnership Strategy for FY2014-17 is anchored to the Government's Strategy 2020. Private sector competitiveness will be supported in three fronts: through improvement of business enabling environment, provision of infrastructure and services, and improving the framework for matching labour code and demand. The World Bank will assist Georgia through i) technical assistance to EDA and GITA under the MoESD, ii) technical assistance to MoESD on a

manufacturing study/assessment of competitive industries, cluster policies, R&D and innovation, and iii) technical assistance to the Government on institutional and policy development (pension reforms, creation of insurance deposit funds, business environment reforms).

The **EBRD** country's strategy is built around three pillars: private sector/SMEs development, energy and logistics infrastructure. EBRD supports Georgian SMEs through the *Small Business Support* regional programme (EU funded), which provides direct tailored technical assistance to individual SMEs, helping them adapting to the demands of a market economy.

ADB's strategy 2014-2016 for Georgia supports the Government's medium-term development strategy and its core sector strategies in transport, power, and urban services. Private sector loans are allocated mainly for promoting the financial sector growth and service diversity. The program loan focuses on institutional framework supporting entrepreneurship and regulatory framework for the improvement of the investment climate.

UNDP is present in Georgia in many fields, among which regional development, agriculture development, VET and gender equalities.

International financial institutions (IFIs) and few private equity funds (Caucasus Growth Fund managed by SEAF) assist growth-oriented SMEs. The Partnership Fund and the newly established Co-Investment Fund mainly target large scale infrastructure projects.

2.6. Risk management framework

Major risks can be summarized as follows:

| Risks | Level ²³ | Risk Mitigation Measures |
|--|---------------------|--|
| External/geopolitical tensions in the region and in trade partner countries | M-H | Continuous policy dialogue and a close monitoring of the political decisions taken by the Government |
| Macro-economic shocks in the region, economic slowdown in EU and in the region, changes of trade relationship dynamics | L-M | Stability-oriented macroeconomic policies (fiscal discipline, price and financial stability, current account deficit reduction, external public debt sustainability, exchange rate) and good governance. |
| Delays in preparing a DCFTA multi-annual plan | L | Continuous policy dialogue with the Government within the framework of the AA. |
| Delays in setting up a DCFTA coordination mechanism and weaknesses in the coordination mechanism | L | Continuous policy dialogue and enhanced cooperation with the Georgian authorities. |
| Lack of commitment from the Government towards the AA/DCFTA reform process and/or delays in the implementation of AA related reforms | L-M | Continuous policy dialogue and enhanced cooperation with Georgian authorities. Enhanced cooperation with stakeholders and CSOs. Budget support as a political leverage tool to ensure targeted reforms. |
| Possible business lobbies influencing parts of the AA and economic strategy related business reforms | M | Continuous policy dialogue with the Government, line ministries and business associations to prevent deviations from planned legislative reforms. |

²³ Risks are divided in low (L), medium (M) and high (H)

| | | |
|---|---|---|
| Delays in approving the Economic Development Strategy "Georgia 2020" | L | Continuous policy dialogue and enhanced cooperation with Georgian authorities. |
| Delays in preparing SME Strategy and multi-annual action plan | M | Continuous policy dialogue and enhanced cooperation with Georgian authorities and involved stakeholders. |
| Unsuccessful implementation of promised economic and social reforms (" <i>Georgia 2020</i> ") | M | Continuous dialogue with the Government to support priority economic and social policies/measures. Cooperation with donors and stakeholders. |
| Delays in disbursement of budget support tranches | M | Flexibility with result-based conditionality in direct budget support. |
| High turnover of civil servant staff of ministries and agencies, low absorption capacities and inadequate professional competences of civil servants in undertaking the reforms | H | Support Georgian authorities through targeted trainings and capacity-building programmes. |
| Duplication with EU regional programmes and other donors initiatives on DCFTA and SMEs | M | Complementarity with EU regional programmes and regular coordination with the donors' community. |

3. DETAILED DESCRIPTION OF THE BUDGET SUPPORT CONTRACT

3.1. Objectives

The **overall objective** of the proposed programme is to assist the Georgian Government in the implementation process of the DCFTA, facilitating Georgia's economic integration into the EU market. In order to reap the benefits of the agreement, institutional and regulatory reforms in **trade and private sector development** are instrumental, with a particular focus on strengthening the capacities of Georgian SMEs to adjust to a new regulatory environment.

The **specific objectives** are: (1) to further strengthen the DCFTA policy framework for trade and SME development; (2) to improve the overall functioning of priority trade and private-sector related institutions (3) to strengthen economic actors and SMEs along the DCFTA process; (4) to ensure economic integration of targeted groups, such as IDPs, returned migrants, women in business and young entrepreneurs.

Cross-cutting issues: The programme will be implemented with a view to contribute to alleviating gender and minorities-related imbalances through the promotion of equal opportunities for women, young generations and vulnerable groups like the IDPs and returning migrants, to take an active part in economic development. Disaster Risk Management will be streamlined where possible in order to increase the resilience of the most vulnerable segments of the population.

3.2. Expected results

The programme is expected to reach the following results in relation to each specific objective.

R1: Strengthened DCFTA and SME policy frameworks

- Trade-related policy areas implemented following an agreed timeframe and sequencing (such as SPS Legislative Approximation Programme, Market Surveillance Action Plan, competition, public procurement);

- Regulatory and institutional framework for SMEs developed, aligned with DCFTA policy orientations and SBA policy recommendations;
- Cooperation mechanisms between state institutions and stakeholders involved in trade and SME policy-making ensured.

R2: Strengthened capacities of DCFTA-related priority institutions

- Improved institutional capacities of line ministries and core trade institutions to design and implement specific measures related to DCFTA;
- Trade institutions capable to master legal, technical and administrative duties;
- Enhanced cooperation between line ministries, trade institutions and stakeholders (including consumers associations and businesses) involved in DCFTA-related aspects;
- Strengthened public-private policy dialogue: improved cooperation between relevant Georgian-EU bodies, leading to their future integration within the corresponding EU network, where possible;
- Improved awareness and communication of DCFTA long-term benefits.

R3: Strengthened capacities of SMEs-related institutions

- Improved institutional capacities of central administrations to design and implement specific measures within the SMEs context;
- Strengthened capacities of SMEs bodies/agencies (EDA/GITA) to meet DCFTA requirements and to channel business support to SMEs;
- Strengthened public-private policy dialogue: improved cooperation between line ministries, SMEs bodies/agencies and stakeholders (including business and sectoral associations) involved in SMEs/DCFTA related areas;
- Facilitating the integration of Georgian SMEs bodies/agencies into EU, regional and/or international platforms;
- Awareness raising activities to promote DCFTA/business in accordance to market needs are improved.

R4: Strengthened economic actors and SMEs

- SMEs understand DCFTA provisions and are able to adapt to new norms;
- Strengthened SMEs competitiveness (in terms of business activity, export, employment);
- Improved capacity of business and sector association, business services providers, CSOs to provide effective services to SMEs and the population at large;
- Awareness raising activities, involving CSOs, businesses and citizens, are improved.

R5: Enhanced economic opportunities for all

- Improved economic capacity of special target groups (IDPs, returned migrants, women and young entrepreneurship) to benefit from DCFTA;
- New income-generating activities, including more and better paid jobs, available to target groups (including women and young entrepreneurs)

3.3. Rationale for the amounts allocated for budget support

The total amount allocated to the action is EUR 51 million, of which 59% (EUR 30 million) is to be delivered as sector budget support. The rationale behind the choice of a sector budget support operation is:

- Financing needs of the partner country, in particular the national efforts required for implementing DCFTA
- Firm political commitment of the Government to allocate national budget resources (including EU budget support) towards EU trade integration and SME development
- Support to the planned policy objectives and results of this Sector Reform Contract
- Alignment with the long-term national development strategy/vision
- Effectiveness, value for money and impact of the specific added value that budget support will bring in achieving the partner country's policy objectives
- Absorption capacity of disbursements, based on experience with other sector reform contracts in Georgia
- Commitment to establish an implementation/reporting/monitoring system

3.4. Main activities

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development.

3.4.1. Budget Support

EUR 30 million will be allocated to sector budget support. This amount will be allotted in 4 individual tranches, dependent on compliance with the general and specific conditions outlined in section 4.

Budget support will be used to achieve results R1 (strengthened DCFTA and SME policy frameworks), R2 (strengthened capacities of trade-related institutions), R3 (strengthened capacities of SME-related institutions) and R5 (enhanced economic opportunities for all), in particular for specific conditions related to IDPs and their economic livelihood.

In view of a coherent approach, the share of the budget support amount related to IDPs (EUR 5 million) will be added to the ongoing 2011 financing agreement in support of IDPs (see section 4.1).

3.4.2. Complementary support

A considerable amount (EUR 21 million) is foreseen for complementary support to cover a comprehensive range of issues relating to trade and private sector development. The programme foresees the following complementary supporting measures:

- Technical assistance to accompany the programme (high level policy advice and expertise in trade-related matters)
- Grants to strengthen the role of CSOs and business associations, building on previous support already provided at regional level.
- Twinning to strengthen the capacities of the market surveillance agency (Technical and Construction Supervision Agency).
- Indirect Management with two international organizations (EBRD and FAO) and with a EU Member State Agency (GIZ)
- External review, evaluation and audit missions, visibility and communication of the Sector Reform Contract

Technical assistance will cover needs in relation with trade policy, trade reform, the DCFTA implementation process and/or other specific trade policy issues (TBT, SPS, IPR etc), addressing results R1 and R2.

Implementing partners, in particular GIZ and EBRD will provide advice and capacity-building activities to core SMEs institutions and direct targeted assistance to private sector/SMEs including support to special target groups. This addresses results R3 and R4.

More specifically, GIZ will implement a project focused mainly on strengthening the policy and institutional framework for SME development, laying the ground for inclusive broad-based growth. The project is built on four components: 1) Improvement of the enterprise development framework and SME participation in the political dialogue; 2) Comprehensive capacity development for SME support institutions with a focus on improved service delivery; 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, and investment and trade promotion, such as the Enterprise Europe Network.

EBRD will implement a project focused mainly on the provision of advisory services to SMEs and the local consultancy market, addressing result R4. Specific advice will be given to strengthen SME competitiveness in the face of increased competition from imports; prepare local SMEs to strengthen their export potential and access EU markets; become aware of the new regulatory environment and DCFTA requirements through tailored market and sector development activities; comply with new procedures, standards and certification as a result of the implementation of the DCFTA and be ready for inspection by the EU and local authorities. At the same time, the programme will lead to strengthened and sustainable infrastructures of local business advisory services.

Finally, FAO with the support of UN Women will implement a project aimed at improving the livelihood of extremely vulnerable IDPs (with a focus on single-headed female households) to create income-generating activities, in line with result R5. In view of a coherent approach, this action (budget of EUR 1 466 060) will be added to the ongoing 2011 financing agreement in support of IDPs (see section 4.1).

3.5. Donor coordination

Coordination mechanisms exist at government level. DCFTA preparatory works and coordination were carried out by an *Interagency Working Group*, established by a Government Resolution of April 2009. As from the Government Decree Nr. 186 of 7 February 2014, the MoESD is tasked with the monitoring of the DCFTA implementation, coordination with line ministries, action plan reviews and reporting activities. In addition, it shall appoint a focal point to coordinate the DCFTA implementation with the Office of the State Minister of Georgia for European and Euro-Atlantic Integration.

The *National Development Council*, under the Prime Minister, will have a strategic role in the coordination of the overall long-term economic strategy, including DCFTA-related steps.

Although there is no comprehensive "trade sector coordination" with donors as such, coordination mechanisms are already in place on specific trade areas. In Food Safety/SPS

donors are already implementing the Food Safety Strategy and donors' coordination is progressively developing. In the area of quality infrastructure, the EU remains the sole donor but cooperation has been quite intense with the German cooperation in the course of several twinning projects. A donor coordination structure is in place in the area of competition, chaired by the MoESD and involving many donors. EU Member States are regularly informed by the EU Delegation about on-going and future assistance activities, also thanks to the quarterly meetings with their economic/trade counsellors.

In private sector development, donor coordination is led by the World Bank.

3.6. Stakeholders

The main stakeholder of the programme is the MoESD, responsible for the implementation of the budget support activities. The MoESD has also responsibilities over the agencies "Entrepreneurship Development Agency (EDA)" and "Georgian Agency for Technology and Innovation (GITA)".

Other stakeholders are:

- Trade-related agencies under the MoESD (GEOSTM, GAC, TCSA, Competition Agency, Public Procurement Agency, Saakpatenti)
- Sector Economy and Economical Policy Committee of the Parliament (to support the MoESD in drafting the required DCFTA-related legislation)
- NFA under the Ministry of Agriculture
- Customs under the Revenue Service of the Ministry of Finance
- Line ministries with thematic interfaces with the MoESD
- Local/regional authorities
- GeoStat (National Statistics Office) - responsible for trade statistics and improving SMEs surveys
- CSOs (academic institutions, think tanks, consumers associations, laboratories, business services providers)
- Business and sectoral associations, chambers of commerce
- Banks and financial institutions
- SMEs
- Conformity assessment bodies: testing/validation/calibration laboratories

The ultimate beneficiaries of the programme are the SMEs. Targeted enterprises are existing SMEs, that will be supported in the process of adapting to and exploring new opportunities on local markets and/or export markets (mainly EU), fostered by the DCFTA new regulatory environment.

Overview business/sectoral associations

In Georgia there are several business membership organizations (EU-Georgia Business Council EUGBC, Georgian Chamber of Commerce and Industry GCCI, Business Association of Georgia BAG, Georgian Employers' Association GEA, Georgian Small and Medium Enterprises Association GSMEA, American Chamber of Commerce AmCham, German Business Association, French Business Council, International Chamber of Commerce ICC, Georgia British Council, Georgian-Swiss Business Association). Some associations represent biggest companies and, in practice, are more influent and powerful in the policy dialogue with the authorities.

EUGBC has established DCFTA working groups, discussing over specific fields of interest for business, including SMEs. GCCI drafted its medium term strategy and revised the legal status of its regional branches. GCCI is actively involved in the establishment of an arbitration court for business disputes resolution, in cooperation with the Dutch Embassy.

Sector and consumers associations are rapidly growing. Sector associations are mostly non-governmental, with different degrees of maturity and responsibility, many of them members of the GCCI Board²⁴.

3.7. Conclusion on the balance between risks (2.6.) and expected benefits/results (3.2.)

The proposed programme will achieve its results and address its goals only if the actions foreseen for risk mitigation measures will be carried out as well as the Government of Georgia remains highly committed towards the implementation of the provisions of the Association Agreement/DCFTA and SMEs national policies. In the context of Georgian economic integration foreseen under the AA/DCFTA, the expected benefits of the programme by far outweigh the risks.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

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

The share of the programme covering DCFTA implementation/SME development²⁵ will be the object of a new financing agreement, while the share of the programme covering IDPs²⁶ will be added to the ongoing financing agreement in support of IDPs (ENPI/2011/022-671), which is part of the ENPI 2011 Annual Programme in favour of Georgia.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.4. and 4.4. will be carried out, is 60 months from the date of entry into force of the financing agreement or, where none is concluded, from the adoption of this Action Document, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. The European Parliament and the relevant Committee shall be informed of the extension of the operational implementation period within one month of that extension being granted.

4.3. Criteria and indicative schedule of disbursement of budget support

Disbursements of all tranches will depend on meeting the *general conditions* related to: satisfactory progress in the implementation of DCFTA and SME legal and regulatory framework, implementation of a credible stability-oriented macroeconomic policy, satisfactory progress in the implementation of the Government's programme to

²⁴ Association of Banks of Georgia, Union of Oil Products Importers, Georgian Incoming Tour Operators' Association, Developers Association, Tea Manufacturers' Association of Georgia, Association of Freight Forwarders of Georgia, Sheep Breeders Association, Georgian Beekeepers Farmers Association, Georgian Wine, Cheese Producers Association

²⁵ EUR 44 533 940 from budget line 21 03 02 02 (Eastern Partnership – Poverty reduction and sustainable development)

²⁶ EUR 6 466 060 from budget line 21 03 02 03 (Eastern Partnership – Confidence building, security and the prevention and settlement of conflicts): EUR 5 million as a budget support operation (see section 3.4.1 and 4.3) and EUR 1 466 060 for an action implemented under indirect management by the FAO (see sections 3.4.2 and 4.4.6).

improve PFM, satisfactory progress with regard to public availability of timely, comprehensive and sound budgetary information.

The specific conditions for variable payment tranches refer to performances in: i) legal approximation on trade including progress in transposing European standards; ii) SME policy areas iii) institutional capacities to support economic actors and SMEs in DCFTA implementation, to deliver relevant services and to raise awareness on DCFTA iv) promoting economic opportunities for all.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on the fiscal year of the partner country.

| Georgia | Year 2015 | | | | Year 2016 | | | | Year 2017 | | | | Year 2018 | | Total |
|-------------------|--------------|----|----|----|--------------|----|----|----|--------------|----|----|----|--------------|----|-----------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | |
| Fixed tranches | 6 | | | | 1 | | | | 1 | | | | 1 | | 9 |
| Variable tranches | | | | | 11* | | | | 5 | | | | 5 | | 21 |
| Total | 6 | | | | 12 | | | | 6 | | | | 6 | | 30 |

* Including a tranche (EUR 5 million) related to IDPs

4.4. Details on complementary support

4.4.1. Grants: call for proposal "Strengthened role of CSOs in DCFTA and SME policy implementation" (direct centralised management)

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

The objectives are linked with result R4. CSOs shall be involved in the following domains: DCFTA communication campaigns, DCFTA and SMEs legislative reform monitoring, policy formulation on DCFTA and SMEs areas, economic strategy monitoring, sectoral policy and trade dynamics analysis, more effective engagement into public-private policy dialogue.

(b) Eligibility conditions

Eligible applicants will be national and international non-governmental organisations, legal entities, local authorities, public bodies, international organisations, active in fields related to the objectives of the call. Partnership with EU Member States organisations is envisaged.

(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%.

The maximum possible rate of co-financing may be up to 100 % 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 essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative trimester to launch the call

3rd quarter of 2015

Grants: call for proposal "Strengthened role of business association" (direct centralised management)

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

The objectives are linked with result R4. The role of business and sectoral association shall be strengthened in order to enable these to deliver better services to SMEs, more effectively engage into public-private dialogue, expand their network with the EU business community.

(f) Eligibility conditions

Eligible applicants will be business membership associations registered in Georgia for at least one year and having at least 60% of their members being SMEs.

(g) 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.

(h) Maximum rate of co-financing

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

The maximum possible rate of co-financing may be up to 100 % 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 essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(i) Indicative trimester to launch the call

3rd quarter of 2015.

4.4.2. Grants: call for proposal for Twinning projects (direct centralised management)

Under the present programme, it is expected to conclude one Twinning grant contract.

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

The Twinning calls for proposals modality will be used for implementing the action under result R2 and will support the Georgian market surveillance agency (Technical and Construction Supervision Agency).

- (b) Eligibility conditions

In line with Article 5(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%²⁷.

- (e) Indicative timing to launch the calls

3rd or 4th quarter of 2015

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

Twining 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 States administrations. This system of unit costs and flat rate financing exceeds the amount of EUR 60 000 per beneficiary of a Twinning contract.

4.4.3. Procurement (direct management)

| Subject | Type | Indicative number of contracts | Indicative trimester of launch of the procedure |
|--|----------|--------------------------------|---|
| Technical assistance to accompany the Sector Reform Contract (high level policy advice and expertise in trade-related matters) | Services | 2 | Q1-2015 Q1-2016 |
| Sector Reform Contract external review, evaluation and audit missions | Services | 2 | Q3-2015 Q2-2018 |
| Communication and visibility | Services | 1 | Q1-2015 |

²⁷ As provided for in the Twinning Manual

4.4.4. *Indirect management with a EU Member State Agency*

A part of this action with the objective of fostering capacity-building of SME institutions and the SME sector at large may be implemented in indirect management with **Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH** in accordance with Article 58(1) of Regulation (EU, Euratom) No 966/2012.

The objective of the proposed project aims at strengthening the SME sector and entrepreneurship in Georgia, thus laying the foundations for inclusive broad-based growth.

This implementation is justified because the entrusted entity has the required capacities and expertise to implement part of the action. In particular, GIZ successfully implemented similar actions in support of private sector development in Georgia and in the Southern Caucasus region. GIZ is very familiar with the country and the central/local authorities and closely coordinates with the EU Delegation to Georgia. As part of its tasks, GIZ will conclude and manage contracts.

The entrusted entity is currently undergoing an ex ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. In anticipation of the results of this review, the responsible authorising officer deems that, based on a preliminary evaluation and on the long-standing and problem-free cooperation with this entity, it can be entrusted with budget-implementation tasks under indirect management.

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

4.4.5. *Indirect management with an international organisation*

A part of this action with the objective of directly supporting SMEs along the DCFTA implementation process may be implemented in indirect management with the **European Bank for Reconstruction and Development (EBRD)** in accordance with Article 58(1)(c)(i) of the Regulation (EU, Euratom) No 966/2012.

The objective of the proposed project is to directly assist Georgian SMEs and the local consultancy sector in adapting to the challenges brought by the DCFTA and to facilitate access to finance.

This implementation is justified because the entrusted entity has the required capacities and expertise to implement part of the action. The choice of EBRD is justified by its proven experience in mobilizing and channelling international consultants and working with local consultancy companies. EBRD is a reliable partner with a long standing experience in Georgia on SMEs, private sector development, and access to finance. SMEs development is also one of the pillars of their new strategy for Georgia, therefore synergies would be created. As part of its tasks, EBRD will conclude and manage contracts.

The total value of the project is EUR 6.8 million of which the EBRD will contribute up to EUR 0.6 million for covering operational expenses. In addition, the programme should enable SMEs to mobilize up to EUR 10 million in loan financing from the EBRD, its local partner banks and/or other financial institutions.

The entrusted entity is currently undergoing an ex ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. In anticipation of the results of this review, the responsible authorising officer deems that, based on a preliminary evaluation and on the long-standing and problem-free cooperation with this entity, it can be entrusted with budget-implementation tasks under indirect management.

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

4.4.6. *Indirect management with an international organisation*

A part of this action with the objective of enhancing the integration of very vulnerable IDPs to economic life, with a particular focus on single-headed female households, may be implemented in indirect management with the **Food and Agriculture Organisation of the United Nations (FAO)** in accordance with Article 58(1)(c)(i) of the Regulation (EU, Euratom) No 966/2012.

The project aims at sustainably improve the livelihood of extremely vulnerable IDPs, through economic empowerment and capacity development of the Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees (MRA). It will complement the on-going IDP IV programme, by focusing on extremely vulnerable IDPs in the agricultural livelihood support action.

This implementation is justified because the entrusted entity has the required capacities and expertise to implement the part of the action in support of vulnerable groups. The project also builds on the long term experience and success of FAO in the area in Georgia and the MRA's full support of the action. The implementation of part of the activities will be done by UN Women as implementing partner. As part of their tasks, FAO and UN Women will conclude and manage contracts.

The entrusted entity is currently undergoing an ex ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. In anticipation of the results of this review, the responsible authorising officer deems that, based on a preliminary evaluation and on the long-standing and problem-free cooperation with this entity, it can be entrusted with budget-implementation tasks under indirect management.

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

4.5. **Scope of geographical eligibility for procurement**

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 shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No. 232/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.6. **Indicative budget**

| | EU contribution (in EUR millions) | Third party contribution (in EUR millions) |
|--|--|---|
| 3.4.1. – Budget support | 30 | N.A. |
| 3.4.2 – Complementary support | 21 | 1.1 |
| <i>4.4.1. Calls for proposals (CSOs and business associations)</i> | <i>2.0</i> | <i>0.5</i> |