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ANNEX I

to the Commission Implementing Decision on the Annual Action Plan in favour of Georgia for 2023

Action Document for EIP in Georgia's regions

ANNUAL ACTION PLAN

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

1. SYNOPSIS

1.1. Action Summary Table

<p>1. Title OPSYS Basic Act</p>	<p>EIP in Georgia's regions Sustainable implementation of the Economic and Investment Plan in Georgia's regions through Balanced Territorial and Human Capital Development and Energy Diversification Annual action plan in favour of Georgia for 2023 OPSYS business reference: NDICI-GEO-NEAR-/2023/ACT-61996 ABAC Commitment level 1 number: JAD.1254105 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).</p>
<p>2. Economic and Investment Plan (EIP)</p>	<p>Yes ii. Energy; iii. Environment and climate resilience; v. Economic development (incl. private sector, trade and macroeconomic support); vi. Human Development (incl. human capital and youth); vii. Health resilience; x. Rule of law, governance and public administration reform;</p>
<p>EIP Flagship</p>	<p>Yes 1b – Black Sea Connectivity (Improving energy connections with the EU), 3 - Economic recovery, 5 - Improved air quality and 6 – Energy Efficiency</p>
<p>3. Team Europe Initiative</p>	<p>Yes Primarily : Balanced Territorial Development TEI for Georgia Also synergies with Green and Health TEI for Georgia</p>
<p>4. Beneficiar(y)/(ies) of the action</p>	<p>The action shall be carried out in Georgia, with a focus on 7 (tentative) regions: Guria, Imereti, Kakheti, Racha-Lechukhumi and Kvemo Svaneti, Samegrelo-Zemo Svaneti, Adjara and Samtskhe-Javakheti. Four of them are already EU focal regions.</p>

5. Programming document	Multiannual Indicative Programming Document (MIP) 2021-2027 ¹			
6. Link with relevant MIP(s) objectives/expected results	<ul style="list-style-type: none"> • MIP Priority 1 - A resilient, sustainable and integrated economy • MIP Priority 3 - Environmental and climate resilience • MIP Priority 5 - Resilient, gender-equal, fair and inclusive society 			
PRIORITY AREAS AND SECTOR INFORMATION				
7. Priority Area(s), sectors	151- Government and Society-General 230 - Energy 111 - education 160 - Other Social Infrastructure & Services 430 - Other Multisector Urban development			
8. Sustainable Development Goals (SDGs)	Main SDG (1 only): SDG 10: Reduced Inequalities Other significant SDGs (up to 9) and where appropriate, targets: SDG 11: Sustainable Cities and Communities SDG 5- Gender Equality SDG 7 - Affordable and Clean Energy SDG 8 – Decent work and economic growth SDG 13- Climate Action SDG 16 – Peace, justice and strong institutions			
9. DAC code(s)	15112 - Decentralisation and support to sub-national government 40% 23110 - Energy policy and administrative management 20% 23210 - Energy generation, renewable sources - multiple technologies 20% 11120 - Education facilities and training 10% 43030 - Urban development and management 10%			
10. Main Delivery Channel	Official Development Assistance – 10 Recipient Government - 12000			
11. Targets	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Human Rights, Democracy and Governance			
12. Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Democratic and Inclusive Governance (DIG)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

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

13. Internal markers and Tags

Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Disaster Risk Reduction	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Principal objective
Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Policy objectives	Not targeted	Significant objective	Principal objective
EIP	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EIP Flagship	YES <input checked="" type="checkbox"/>		NO <input type="checkbox"/>
Tags	YES		NO
transport	<input type="checkbox"/>		<input checked="" type="checkbox"/>
energy	<input checked="" type="checkbox"/>		<input type="checkbox"/>
environment, climate resilience	<input checked="" type="checkbox"/>		<input type="checkbox"/>
digital	<input type="checkbox"/>		<input checked="" type="checkbox"/>
economic development (incl. private sector, trade and macroeconomic support)	<input checked="" type="checkbox"/>		<input type="checkbox"/>
human development (incl. human capital and youth)	<input checked="" type="checkbox"/>		<input type="checkbox"/>
health resilience	<input checked="" type="checkbox"/>		<input type="checkbox"/>
migration and mobility	<input type="checkbox"/>		<input checked="" type="checkbox"/>
agriculture, food security and rural development	<input type="checkbox"/>		<input checked="" type="checkbox"/>
rule of law, governance and public administration reform	<input checked="" type="checkbox"/>		<input type="checkbox"/>
other	<input type="checkbox"/>		<input checked="" type="checkbox"/>
Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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

BUDGET INFORMATION

14. Amounts concerned

Budget line(s) (article, item): 14.020111-Eastern Neighbourhood
Total estimated cost: EUR 50 000 000.00
Total amount of EU budget contribution EUR 50 000 000.00 of which EUR 40 000 000.00 for budget support and EUR 10 000 000.00 for complementary support.

The commitment of the EU's contribution to this action will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible.

In the event that the Team Europe Initiatives (TEI) and/or these contributions do not materialise, the EU action may continue outside a TEI framework.

TEI 1: Balanced Territorial Development in Georgia. TEI members: Austria, Czech Republic, Estonia, France, Germany, Netherlands, Poland, Slovakia, Sweden; plus EIB and EBRD; plus Switzerland. Austria and the EU co-chairing the dedicated working group. Indicative overall budget: EUR 1 233 million (grants and loans).

TEI 2: Green and Health. TEI members: Austria, the Czech Republic, Estonia, the EU, France, Germany, Lithuania, the Netherlands, Slovakia, Sweden, and EIB and EBRD; plus Switzerland. Germany and Sweden co-chairing the dedicated working group. Indicative overall budget: EUR 917.3 million (grants and loans).

MANAGEMENT AND IMPLEMENTATION

15. Implementation modalities (management mode and delivery methods)	Direct management through: <ul style="list-style-type: none"> - Budget Support: Sector Reform Performance Contract - Grants - Procurement Indirect management with the entity(ies) to be selected in accordance with the criteria set out in section 4.4.3
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1.2. Summary of the Action

The Action “EIP in Georgia’s regions” aims to contribute to the sustainable implementation of the Economic and Investment Plan in selected regions of Georgia through Balanced Territorial and Human Capital Development and Energy Diversification.

The Action takes into account Georgia’s ambition to bring its relations with the EU to a new level (as proven by its EU membership application, European perspective and inclusion of Georgia in the annual enlargement reporting), the consequences of Russia’s war of aggression against Ukraine, current state of play of reforms in the country (notably regional and human capital development) as well as the state of play of the Economic and Investment Plan (EIP) implementation with a particular focus on the preparatory actions to accelerate the development and deployment of the **Black Sea submarine electricity cable**.

Moreover, besides the projects on the six flagships under the EIP, the two Team Europe Initiatives (TEIs) for Georgia (‘Balanced territorial development’ and ‘Green and Health’) remain key points of reference.

To take full advantage of the Black Sea underwater electricity cable, a strong priority under flagship 1b is the development and diversification of energy sources. The Action will thus support Georgia in reaching its full potential in terms of production and export of green and renewable energy, and aligning with EU legislation in the electricity market (i.e unbundling the power utility). Furthermore, to ensure sustainable impact, the Economic and Investment Plan for the Eastern Partnership also includes investments in innovation and human capital². Improving the policy and regulatory environment remains essential to strengthen the governance pillar of the EaP post 2020 priorities reform agenda and foster its sustainable implementation at all levels³. It is also important, in order to enable the eco-system of the EIP in general, to deliver effectively on the investments in the infrastructure and to ensure sustainable economic and social development at local and regional levels. In this sense, this Action will directly facilitate implementation of EIP flagships 1b, 3, 5 and 6, notably on their dimensions related to supporting small producers and business, including women-owned business, and through further local authorities’ engagement in energy efficiency, diversification and production, with projects such as the rehabilitation of public and residential buildings, installation of solar panels.

In that light, and building on the success of the current pilot EU4 Integrated Territorial Development programme⁴ in four focal areas and the Skills4Jobs programme⁵, the Action proposed will have components to be rolled out across the entire country to promote a more ‘balanced territorial development’ (one of the two Team Europe Initiatives). It will include human capital elements to ensure inclusive and sustainable development. It will also promote gender budgeting at the municipality level and women’s economic empowerment. New avenues for cooperation have been opened with the recently adopted national strategies for education and science, for health, , as well as the second phase of the government’s Pilot Integrated

² SWD(2021) 186 final, p.18.

³https://www.eeas.europa.eu/eastern-partnership/joint-staff-working-document-recovery-resilience-and-reform-post-2020-eastern-partnership-priorities_en?s=273

⁴ C(2019) 8383, annex 2

⁵ C(2017) 8575

Regional Development Programme. In addition, as part of the EU-Georgia Association Agenda, Georgia started development of the Smart Specialisation Strategy. Imereti has been selected as pilot region for this exercise and with the JRC support the strategy will be completed by end 2023.

The Overall Objective of this action is the sustainable implementation of the Economic and Investment Plan in Georgia, notably in its regions, in a comprehensive manner.

The Specific Objectives of this action are to 1) promote integrated, balanced and sustainable human capital and territorial development for all and 2) boost Georgia's renewable and clean energy potential across the entire country in support of the Black Sea electricity cable.

The proposed intervention is directly linked to the MIP Priority 1 - A resilient, sustainable and integrated economy. It also contributes to priorities 2 (accountable institutions), 3 (environment and climate resilience) and 5 (resilience and inclusive society).

The Action contributes to SDG 10 - Reduced Inequalities and SDG 7 - Affordable and Clean Energy. It also contributes to SDG 5 – Achieve gender equality and empower all women and girls, SDG 11 - Sustainable cities and communities, 16 - Peace, justice and strong institutions, SDG 8 – Decent work and economic growth and SDG 13 - Climate Action.

It directly contributes to the Team Europe Initiative on “Balanced Territorial Development” SO 1: Improve entrepreneurship and enhance local competitiveness; SO 2: Increase access to local social, economic, education and health services; SO 3: Enhance local empowerment and inclusive participation, including through engaging women and minorities. It also contributes to objectives and indicators of the “Green & Health” Team Europe Initiative: SO 2: Improve waste management; SO 4: Green cities (air quality linked to transport, water and sewage infrastructure, energy efficiency of public and residential buildings).

1.3. Beneficiary of the action

The Action shall be carried out in Georgia, all regions of the country are included in the list of ODA recipients. Final beneficiaries would be the men, women, girls and boys living in Georgia.

2. RATIONALE

2.1. Context

Georgia is a small developing country with a population of about 3.7 million people (52% are women and 48% are men) and a gross national income (GNI) per capita of USD 5023⁶. Over the last decade, Georgia undertook significant social and economic reforms resulting, *inter alia*, in revising the role of the state vis-à-vis the private sector, in reducing corruption, and in developing a more favourable environment for business. Sound fiscal and monetary policies also contributed to foster economic growth particularly in large cities (Tbilisi, Batumi). The pace of reforms has slowed down since 2019, partially due to the global pandemic and partially due to high political polarisation that distracted the attention of authorities.

Despite reforms and growth over the last decade, the unemployment rate remains relatively high – at 17.3% (19.3% among men and 14.6% among women) in 2022 that has slightly decreased compared to pre-pandemic level (data of the National Statistics Office of Georgia). The real unemployment rate is presumably much lower as it also covers the non declared work-force, mainly working in households and subsistence economy.

⁶ Source: Geostat

Building resilience and ensuring that this growth is structural is a key priority for the government. The impact on the economy of Russia's unprovoked and unjustified military aggression against Ukraine was minimal, and even positive due to increased inflow of capital, but it has exacerbated tensions in the country due to a large influx of Russian citizens fleeing mobilisation and inflation.

Relevance to EU and Georgia's policies and strategies

The government adopted in September 2022 its "Vision 2030 - Development Strategy of Georgia". It puts forward a set of common goals: social equality, quality healthcare and education, eco-clean and healthy environment, boosted democracy, security and stability.

On 3 March 2022, Georgia submitted its application for EU membership, ahead of its Government previously established schedule (initially planned for 2024), following Russia's war of aggression against Ukraine. The European Commission recommended that Georgia should be given the perspective to become a member of the European Union and be granted candidate status once the set of policy priorities specified in the Commission's opinion on Georgia's membership application will have been addressed⁷. On 23 June 2022 the European Council granted a European perspective to Georgia.

On 2 July 2021, the EU published its Joint Staff Working Document "Recovery, resilience and reform: post 2020 EaP priorities"⁸, which includes an Economic and Investment Plan for the Eastern Partnership countries.

Overall, the Economic and Investment Plan, will mobilise EUR 2.3 billion from the EU budget for the whole EaP to stimulate jobs and growth, as well as connectivity and the green and digital transition. The plan could leverage up to EUR 17 billion in public and private investments. For Georgia, six flagship initiatives have been identified. With grants and guarantees, the EIP is expected to generate investments of up to EUR 1.175 billion for Black Sea connectivity (by improving data and energy connections with the EU), transport connectivity across the Black Sea, sustainable economic recovery, digital connectivity for citizens, improved air quality and energy efficiency.

While most flagships are on track and their implementation requires a long-term perspective, the localisation of EIP priorities will ensure its sustainability. This programme will contribute to most flagships, either directly or indirectly:

- Flagship 1: Black Sea connectivity – improving data and energy connections with the EU: support to electricity cable preparation, and Georgia's export potential will be strengthened directly (SO2), and also by a stronger role of local authorities and regions in energy efficiency (SO1)
- Flagship 2: "Transport connectivity across the Black Sea — improving physical connections with the EU" will be facilitated by urban renewal of port cities in the target regions (i.e. Poti; output 1.1.)
- Flagship 3: Sustainable economic recovery — helping 80 000 SMEs to reap the full benefits of the DCFTA: connected to the Smart Specialization Strategy, which aims, among others, to support innovation in SMEs, academia and business support organizations (output 1.3)
- Flagship 5: Improved air quality: will be addressed through cities' environment and climate action (output 1.2)
- Flagship 6: Energy Efficiency in Buildings: will be directly targeted by measures under output 1.2, for both public and residential buildings.

The Action will also directly contribute to the governance pillar of the Joint Staff Working Document (output 1.6), and to human capital development (output 1.5).

Over the last 20 years, several attempts have been undertaken to make the country more decentralised/deconcentrated and to bring local authorities closer and make them more accountable to citizens.

⁷ [Opinion on Georgia's application for membership of the European Union](#)

⁸ <https://data.consilium.europa.eu/doc/document/ST-10456-2021-INIT/en/pdf>

The Decentralisation Strategy for 2019-2025⁹ grants more functions and finances to the local authorities. The Strategy has three pillars: i) increasing powers to local authorities, ii) fiscal decentralisation and iii) citizens' involvement and transparency.

The government's Pilot Integrated Regional Development Programme (PIRDP) 2019-2022 has complemented the decentralisation strategy while targeting only 4 focal regions. The four focal regions were selected by the Government of Georgia in agreement with the European Union, namely Kakheti, Imereti, Guria, and Racha-lechkhumi & Kvemo Svaneti. The government is working on the new PIRDP 2023-2026 programme that will be approved by autumn 2023. The PIRDP, among other important elements, will take the new Smart Specialization Strategy into account.

Complementarity with other actions:

Human development, skills and SME

- Under the Multiannual action plan in favour of the Neighbourhood East Region for 2023, “Supporting Education Reforms & Skills in the Eastern Partnership region (SER)”, will support diagnostics of education sectors and relevant capacity development activities.
- Under the Neighbourhood Investment Plan 2023, the Agence Française de Développement (AFD) is planning a EUR 7.8 million grant to support the AFD/World Bank (WB) “Human Capital Development programme”, for about EUR 450 million in total, covering education, health and social protection reforms countrywide. The Asian Development Bank (ADB) is also joining this framework with a USD 50 million (to be confirmed).
- Under the 2022 programme “Support to the Implementation of the Deep and Comprehensive Free Trade Area and Small and Medium Enterprise development in Georgia (DCFTA-SMEs)”, SMEs, including women-owned SMEs, further skills development and skills matching will be supported, in particular for green skills. These newly acquired skills and competences at local level are crucial for energy efficiency measures under output 1.2, and boosting the renewable potential under output 2.1.

Energy and EIP

- Technical assistance to Georgia's energy sector reform is covered by a number of EU and other development partners' programmes:
 - EU4Energy, implemented by the Energy Community Secretariat and the International Energy Agency, covers energy acquis, including renewable energy and energy efficiency, as well as related parts of climate and environmental legislation.
 - The Georgian Energy Sector Reform, a NIP blending programme with KfW and AFD policy based loans, promotes reform of the electricity market, renewables and energy efficiency. The EU-NIP Grant supports the energy efficiency regulatory framework, capacity building and awareness-raising.
 - Twinning with the Georgian National Energy and Water Supply Regulatory Commission (GNERC) focuses on energy efficiency and renewable energy regulatory strategy.
 - The Georgian State Electrosystem is receiving technical assistance for advancement of electricity market reform, including preparation for introduction of new renewable energy sources, improvement of energy security and harmonization with ENTSO-e rules and standards.
 - The USAID Securing Georgia's Energy Future Program focuses on improvement of energy system planning and policy implementation, increased investment to promote energy sector resilience, support of energy market development and governance in line with the EU acquis, regional energy market integration and reduced cybersecurity vulnerabilities.

⁹ <https://mrdi.gov.ge/pdf/5e468e292b317.pdf/Decentralization-strategy-ENG.pdf>

- GIZ is supporting the implementation of energy efficiency measures in rural households as part of their long-term forest sector reform programme.
- Investments in renewable energy and energy efficiency are supported by large EU-NIP blending finance projects, including:
 - Extension of Georgian Transmission Network programme (KfW, EBRD) for integration of new renewables, regional integration and security of electricity grid;
 - Programme for Energy Efficiency Renovation of Public Buildings (KfW, EBRD) for energy efficient modernisation of hundreds of schools across Georgia
- Other development partners, incl. the WB, the ADB and KfW have deployed their own public buildings' energy efficiency programmes, focusing mainly in schools and kindergartens.
- In addition, Georgia benefits from a number of bilateral and regional lending facilities and programmes benefitting from NIP grants and EFSD+ guarantees.
- The feasibility study is ongoing for the 'Submarine Black Sea Cable Project' which will connect Georgia with Romania through an electricity cable with a possible capacity of 1000 MW. The study was contracted in April 2022 and will end by end 2023. The study, together with additional studies and assessments, mainly focused on seabed mapping and connection to on-land transmission network, is being done by the World Bank.
- Under AAP 2022, "Supporting Decarbonisation, Climate Resilience and Energy Security in the Eastern Partnership" implemented by GIZ and UNDP will support the green transition, enhance decarbonisation, boost energy security and increase resilience to counter the effects of climate change of the six Eastern Partner countries.

Regional development

- the on-going EU4ITD programme is composed of Budget support (until 2024), 2 indirect management programmes (GIZ, UNDP), 3 grants to municipalities (Kutaisi, Khoni and action on energy efficiency for Chokhatauri) and an upcoming technical assistance project to start in autumn 2023, that will prepare the ground for this Action.
- AAP 2022 EU4 Sustainable Governance and Resilience: the EUR 10 million "Sustainable Cities" component of the programme will be fully complementary to the Action. The USAID local governance programme (USD 21 million) supports more effective and accountable local government in Georgia as part of its ongoing decentralisation reforms.
- The Swiss Agency for Development and Cooperation (SDC) started in February 2023 a new phase of its support to Local Economic Development (LED). The purpose of the LED Project in Georgia is to improve economic opportunities for people living in regions of Georgia.
- Mayors for Economic Growth aims to increase the role of the initiative as a catalyst for mobilising further public and private investments at the local level. The second phase of the M4EG has a total budget of EUR 21.8 million.
- The Covenant of Mayors East (CoM East), now in its third phase, continues to support signatory municipalities in forming and implementing sustainable energy and climate policies through capacity building and demonstration projects.
- The MoESD is carrying out the project on the implementation of the Eurocodes in Georgia. The Eurocodes are the European standards for the structural design of buildings and infrastructure, currently implemented in EU MD and many other third countries. The Eurocodes are currently being translated into Georgian language and together with the Georgian National Annexes) will replace the existing Soviet-time construction rules and norms in Georgia.

- EU4Gender Equality in Eastern Partnership Countries has Georgia as one of the focus countries and the government is getting support through the HelpDesk to integrate a gender perspective in laws, policies and through gender budgeting.
- The priorities of Interreg NEXT Black Sea Basin programme for the period 2021-2027 are aiming to enhance research and innovation, nature protection and biodiversity, as well as to facilitate cross-border cooperation of public authorities.

Team Europe Initiatives:

TEI 1: Balanced Territorial Development in Georgia. TEI members: Austria, Czech Republic, Estonia, France, Germany, Netherlands, Poland, Slovakia, Sweden; EIB and EBRD; Switzerland. Austria and the EU co-chairing the dedicated working group.

The overall objective is to improve quality of life of men, women, boys, girls and communities across regions of Georgia by reducing the economic and social disparities between large urban centres (Tbilisi, Batumi) and the rest of the country:

- SO 1: Improve entrepreneurship and enhance local competitiveness
- SO 2: Increase access to local social, economic, education and health services
- SO 3: Enhance local empowerment and inclusive participation, including through engaging women and minorities

TEI 2: Green and Health in Georgia. TEI members: Austria, the Czech Republic, Estonia, the EU, France, Germany, Lithuania, the Netherlands, Slovakia, Sweden; EIB and EBRD; Switzerland. Germany and Sweden co-chairing the dedicated working group.

Its objective is to improve environmental health, provide conditions for healthier and safer men, women, boys, girls and communities, by protecting forests and biodiversity, improving waste management services for citizens, developing green municipalities.

2.2. Problem Analysis

Unbalanced territorial development

Georgia has had a successful development record over the past decade, underpinned by prudent economic management. Growth averaged 4 percent per annum between 2011 and 2021. Nevertheless, critical structural challenges persist, notably weak productivity and difficulties to create high-quality jobs. Many Georgians in rural areas, especially women, remain engaged in low productivity agriculture. Human capital formation remains weak, gender-imbalanced, with poor learning outcomes, and skills shortages remain a problem for doing business and firm growth. In addition, Georgia's trade openness, and reliance on income from tourism, make it vulnerable to external and global shocks. High dollarisation and persistent reliance on external savings further amplify risks.

In general, the trends after the post-pandemic recovery at national level in terms of regional disparities as well as in individual regions remain similar to previous surveys. The per capita disparities between the richest (Tbilisi) and the poorest region (Guria) is more than 2.8 times¹⁰. With a declining overall population, the further concentration of the population in Tbilisi and Adjara and the outflow of population in all other regions continue to be observed. Only in Shida Kartli it is possible to talk about a certain stabilisation of the population situation. However, unofficial statistics do not show data on short-term migrations – in 2022, significant numbers of Russians, Belarusians and Ukrainians fleeing the war in Ukraine temporarily stopped in Georgia. The number of people staying in Georgia for a longer and main period in Tbilisi and Batumi and the surrounding area was estimated by the Ministry of Finance in October 2022 at about 120,000 people.

The trend to concentrate the most productive activities in the capital and a limited number of other places will probably continue in the coming years also thanks to the progressive development of transport networks (i.e. highways on the main transit directions connecting Georgia and increasing transit and trade on almost all geographical directions). Trade and transport of goods through Georgia has now become an important element of economic growth, which will primarily create benefits for large cities and transport hubs, especially Tbilisi. Under these conditions, regional disparities in terms of economic activity will probably increase.

EIP flagship one - Black sea connectivity

The political ownership and will of the EIP flagships in Georgia is very high, in particular for flagship one – Black sea connectivity (digital and electricity cable). When it comes to the undersea electricity cable, the on-going feasibility studies commissioned by the Government of Georgia and the World Bank, specifically focus on the cable itself through the Black Sea. Overland connections, off-shore infrastructure, transmission and communication are not covered by it. Other necessary studies such as security and a full environmental screening and impact assessment are not covered by the on-going study.

Renewable energy policy framework and capacity

Although Georgia has undertaken ambitious reforms to implement the EU *acquis* for energy markets, renewable energy, energy efficiency and security of supply, they have so far failed to translate into major increase of investments in new renewable energy sources and large scale energy efficiency implementation.

Overall, energy sector development has been affected by lack of strategic policymaking and inadequate capacity for implementation of policies and investments. The government hopes to attract more investment into renewables with the new auction-based support scheme launched in February 2023 and promises to start with enforcement of energy efficiency regulations in buildings in July 2023.

¹⁰ Analysis of PIRDP2 draft concept

Human capital

As underlined in the Unified National Strategy of Education and Science of Georgia 2022-2030¹¹, access to infrastructure and quality learning resources is deficient in rural schools and for children from families with low socio-economic opportunities (OECD, 2019). In 2019, only one-third (34%) of schools were partially adapted for students with disabilities (Public Defender's Office, 2019). Similar weaknesses are to be seen in the health sector, where the planned decentralisation of certain aspects, such as in primary health care, has not started, the central authorities claiming it to be due to a lack of capacity of local authorities. However, municipalities are responsible for the local infrastructure linked to health and social services. While not systematically, many municipalities are also actively deploying additional social services for their population, which needs specific planning and preparation and monitoring capacity. The human capital component of this Action will contribute to the modernisation of social infrastructures and the improvement of the quality of essential local social services, including with a focus on skills development of municipal and social workers.

Human capital development in Georgia is also characterised by gender imbalances. Notably, over the last decade, Georgia's labour participation rate was between 62-67% for men and 40-46% for women, indicating significant gender differences in terms of entry into the labour market. According to the National Statistics Office of Georgia¹² in the second quarter of 2023, the employment rate of women was 36.7% and for men 53%. Women face challenges in earning equal wages due to various factors, such as the additional responsibilities of unpaid domestic and care work, which is still believed to be women's domain and which significantly limits opportunities for women to equally participate in the labour force. The distribution of men and women across different fields of study at the tertiary level, and eventually in different sectors of economy, is heavily skewed, with women underrepresented in STEM fields and overrepresented in education, the arts and the humanities. Also, women are underrepresented in entrepreneurship: only 32% firms with five or more employees have a woman top manager, and only 34% have female participation in ownership. Women face numerous barriers in starting and succeeding as entrepreneurs. Specifically, the surveys highlight the problems such as women's limited access to productive resources, including land, finance and decision-making. In addition, women's access to information, new technologies and industrial inputs also tends to be limited compared to men's. Significant effort and investment is necessary to make sure that women and men equally contribute and equally benefit from human capital development.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • On-going decentralisation strategy and successful Piloted Integrated Regional Development programme in 4 focal regions • High potential of Georgia in renewable energy and energy efficiency • Strong commitment of Georgian authorities to the Black sea cable • Existing policy framework for human capital development 	<ul style="list-style-type: none"> • Still weak local governance capacity and skills • Limited fiscal space, and limited financial resources for poorer municipalities • Regional disparities and migration • Gender barriers and other forms of discrimination and inequalities

¹¹ <https://matsne.gov.ge/ka/document/view/5557675?publication=0>

¹² [Indicators-of-the-Labour-Force-\(Employment-and-Unemployment\)---II-Quarte....pdf \(geostat.ge\)](#)

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Build on successes of Piloted Integrated Regional Development programme and high interest of other regions to join the competitive approach and programme • commitment of Georgian authorities to the Black sea cable can increase their interest in boosting renewable energy and energy efficiency 	<ul style="list-style-type: none"> • Instability – geopolitical and domestic • Continued polarization and concerning developments undermining democracy consolidation that would limit decentralisation and municipalities’ cooperation with civil society

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action.

The main stakeholders of the programme are the **Ministry of Finance (MoF)** and the **Ministry of Regional Development and Infrastructure (MRDI)** that have to co-share the responsibility for the efficient management and implementation of the Action.

The other key institutions include the **State Representative/Governors** in the regions and **local self-governments (municipalities and self-governing cities)**. The Administration of the Government and Committees of the Parliament which steer public administration/governance reforms, are also closely involved.

Despite adequate capacity and practice to regularly monitor and report on territorial (regional) policy implementation, the ability of the institutions involved in the implementation of development programmes should be significantly increased in the future, both in terms of the number of staff and their skills. Till recently, Ministry of Regional Development and Infrastructure (MRDI) and other institutions depended on external technical support on data processing and analysis. Capacity at regional and municipal level is rather limited for several factors (especially in high mountainous regions).

Other stakeholders include international partners involved in different forms of support, local civil society organisations, including women’s organisations, which have been, and will closely be associated throughout the preparation and the implementation of this programme.

The **Ministry of Education and Science**, and the **Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs** of Georgia (MoIDPLHSA) are responsible for the sector policies and implementation of the relevant strategies. They will coordinate with MRDI and municipalities under output 1.5 “human capital”.

The **Ministry of Economy and Sustainable Development (MoESD)** is in charge of energy policy, including energy efficiency and renewable energy policies under the remit of the Energy Efficiency and Renewable Energy Policy and Sustainable Development Department. MoESD is also coordinating the implementation in Georgia of the European standards for structural design of buildings and infrastructure (the Eurocodes). However, the Ministry does not possess sufficient resources and dedicated mechanisms for actual enforcement of the policies, notably in the area of energy efficiency. MoESD’s deficiencies in management and communication on large hydropower projects has been one of the main factors hampering their implementation.

The **Georgian National Energy and Water Supply Regulatory Commission (GNERC)** plays a key role in the implementation of energy sector reforms. As an independent regulator, it ensures a transparent market

regulation, competition as well as improvement of service quality and consumer protection while ensuring security of supply.

The **Georgian State Electrosystem** (GSE) is a state-owned transmission system operator. It ensures safe operation of the country's electricity grid and is tasked with its maintenance, planning and extension. GSE is also the promoter of the Georgia-Romania Black Sea Cable project.

The state-owned **Georgian Energy Development Fund** (GEDF) promotes the realisation of the country's energy potential by identifying, developing and implementing renewable energy projects.

The **Municipal Development Fund** (MDF) of the Ministry for Regional Development and Infrastructure (MRDI) implements municipal infrastructure projects, including public buildings construction and energy efficiency renovations.

Inter-Agency Commission on Gender Equality, Violence against Women and Domestic Violence and the **Gender Equality Council of the Parliament** coordinate gender mainstreaming across the board of government priorities, including European cooperation, economic development, territorial development and other priorities of the Action Document.

2.3. Lessons Learned

Lessons learned from previous EU-Georgia policy dialogue and cooperation confirm an overall satisfactory progress in institutional building and also the fact that budget support programmes are better understood as a tool to support reforms, ensure uninterrupted political will and sustainability, and therefore appreciated by the authorities. Budget support is also considered as an important driver for the design and implementation of jointly agreed reforms. Experience also highlights, on the one hand, the importance of being progressive in critical reforms and in the selection of a reduced number on annual measures, but also on the other hand, on the crosscutting importance of a frank and sustained long-term commitment and policy dialogue.

The implementation of PIRDP (EU4 ITD) made it possible, for the first time in the history of Georgia, to practice programming and implementation of projects on a large scale based on the model of integrated, bottom-up territorial development. The Integrated Territorial Development programme was implemented according to the participatory model of multilevel governance used under the EU Cohesion Policy in which significant roles were played by local governments, the regional government administration and government administration represented by: the Ministry of Regional Development and Infrastructure (playing a key strategic coordinating and management role) and executive agencies of the Ministry of Economy and Sustainable Development (Enterprise Georgia, Georgia's Innovation and Technology Agency) and the Ministry of Agriculture (Rural Development Agency).

The procedures for organising calls for municipalities, evaluation (assessment) and selection of projects were followed strictly in accordance with the Government decree, in the spirit of EU Cohesion policy principles. The role of other stakeholders representing business sector and civil society was limited, and this could be addressed in the future. The start of implementation of the ITD programme coincided with the strong measures undertaken by the State to decrease negative effects of the COVID-19 pandemic, which influenced heavily the financial profile of annual allocation available to beneficiaries. Despite these difficulties, thanks to continuous efforts of the MRDI and other institutions involved, the full amount available was allocated to beneficiaries (mostly municipalities) by the end of 2022 as planned.

The implementation of the programme has achieved high visibility of EU support to territorially rooted development of Georgia among local authorities but also residents of the four regions. The regional development programme has become an accepted and desirable form of support to Georgia's regions by the

EU. The undoubted success of the programme is connected not only with the good reception of the European integration process, but also with an increase in appetite for the EU to transfer further funds in the future for the implementation of decentralised territorial development programmes addressed also to other regions of Georgia.

At the same time, it should be emphasised that this success was achieved thanks to the enormous work done a limited number of employees of the ministry and other institutions. The administrative capacity of the institutions involved in the implementation of regional development programmes should be significantly increased in the future, both in terms of the number of staff and their skills. It is also necessary to think about an upgraded IT system for the implementation of tasks related to the monitoring of projects and indicators of the programme, including financial management, in line with EU MS practices under the EU Cohesion policy.

The implementation of the EIP started in July 2021, with the adoption of the Joint Staff Working Document “Recovery, resilience and reform: post 2020 Eastern Partnership priorities” which is a direct successor of the “20 deliverables for 2020” reform agenda. The latter has delivered tangible results on the ground and improved people’s lives, especially in areas relating to the economy, digital and stronger societies, with continuing challenges as regards justice, anti-corruption as well as environmental protection and climate action¹³.

The implementation of the EIP flagships is channelled substantially via loans provided by International Financial Institution’s under the NIP and upcoming EFSD+ regimes. In that respect, it depends mostly on the willingness of the Georgian Government to take up new loans. The Ministry of Finance has at several occasions pointed out the very limited fiscal space for 2022-2023 and further with regard to the Government’s intention to cut down on the public debt. Dedicated and continuous policy dialogue is needed there to ensure the space for implementation of the different actions foreseen under the EIP.

Another important lesson is that gender should be mainstreamed into the EIP to make it more efficient and better address the needs and potential of women and men. First, it is a requirement of the European Commission to “notably consolidate efforts to enhance gender equality and fight violence against women,” which was expressed in the Communication from the Commission to the European Parliament, the European Council and the Council on the Commission’s Opinion on Georgia’s application for membership of the European Union. Second, women’s economic empowerment has a potential to bolster economic growth of Georgia’s regions. For this, action should be taken to address gender stereotypes and barriers that prevent women from entrepreneurship and from entering the professions in energy, IT and other sectors of the economy, and limitations associated with the double burden of domestic and care work.

Another area for strengthening the governance system in Georgia is gender budgeting, which is recognized as the public finance management instrument for boosting inclusive growth. Gender budgeting tools such as analysing the actual impact of programmes, action plans and budgets through gender-sensitive scrutiny at the national, regional and municipal level should be promoted through the EIP programming.

Against the foresaid challenges, there has been a relatively good progress in the implementation of the EIP flagships. It has been driven by the EIB’s loan to support the broadband connections in the regions and underpinned by several ongoing energy efficiency projects, the continuous support to SMEs, the adoption of AAP 2021 and AAP 2022 programmes with a strong focus on flagships, and the ongoing tenders for some of the envisaged actions.

The coordination with IFIs proved to be very useful in a way to exchange information and insights as well as to stimulate ideas for investment projects in the targeted areas.

¹³ “Recovery, resilience and reform: post 2020 Eastern Partnership priorities”, page 1.

2.4. Additional Areas of Assessment

2.4.1. Public Policy

National level public policy framework:

The two policy documents that will be used for assessment of the public policy general eligibility criteria are the Integrated Territorial Development Programme 2023-2026 (ITD Programme) and the Decentralisation Strategy 2020-2025.

Integrated territorial development.

The Pilot Integrated Regional Development Programme (2019-2022) targeted EU focal regions and about 1/3 of Georgia's population. Substantial improvement of socio-economic conditions in these regions was expected to increase the positive reception and public support for further governmental actions in this direction.

The decision on project financing was taken through a two-stage approach that ensured empowerment of municipal and regional authorities. First, a compliance check was done by the regional administration (State Representative-Governor's office). The Regional Consultative Councils (RCCs) conducted the actual evaluation of proposals. During the second stage, 138 full project applications were submitted to the Regional Consultative Councils. The Councils selected a total of 70 projects for financing: Kakheti – 12, Imereti -43, Guria – 6, Racha Lechkhumi and Kvemo Svaneti - 9. GEL 25 895 370 was allocated from the state budget for financing PIRD projects in 2021. GEL 29 945 061 was allocated in 2022. The co-financing of municipalities amounted to GEL 1 152 855, which is about 2% of the total cost of the projects.

Moving from a pilot to a more systematic programme, the Ministry of Regional Development and Infrastructure is finalising the new Integrated Territorial Development Programme (ITDP) 2023-2026 document. The new policy will allocate more funds and also widen the coverage of Georgian regions. Integration of human capital, SME development and energy policies are further strengthened in the programme through specific priorities (as reflected through outputs 1.1 to 1.6). The government is expected to adopt the ITDP 2023-2026 document in autumn 2023.

In the spirit of EU Cohesion policy and “integrated” development, Georgia has set the following priorities within the ITD strategy, amongst others, which are also supported by separate national strategies:

- *Improving human capital*: supported by the Unified National Strategy of Education and Science of Georgia 2022-2030 and its Action Plan, as well as the National Health Care Strategy of Georgia 2022-2030 (NHS) and its Action Plan. Both strategies are costed, and their implementation, together with social protection reforms commitments, is enshrined in the Government of Georgia's Programme for Human Capital Development (HCDP)¹⁴, supported by loans from the World Bank and AFD. Partial decentralisation of services is planned under the strategies;
- *Energy efficiency/promotion of renewable energy*: supported by the draft National Energy and Climate Plan (NECP) 2021-2030, currently being updated to ensure consistency with the Energy Community 2030 targets for Georgia, will include the National Energy Strategy and the National Energy Efficiency Action Plan. It is planned to be finalised and adopted by mid-2023. The NECP sets national objectives and targets and respective policies and measures for five dimensions: decarbonisation (including renewable energy), energy efficiency, energy security, internal energy market, research, innovation and competitiveness. Georgia's energy policy focuses on diversification of energy sources and supply routes, reduction of energy import dependency by developing domestic renewable energy sources and

¹⁴ <http://documents.worldbank.org/curated/en/799821648048296120/Georgia-Human-Capital-Program>

energy efficiency, increase of flexibility and resilience of energy systems, protection of critical infrastructure and mitigation of risks related to cyber security and climate change.

- *SME development*: supported through the SME Development Strategy 2021 -2025, elaborated with the assistance of the EU and Germany. The strategic priorities are in line with EU policy priorities and include, among others, access to finance, digitalisation and innovation, women entrepreneurship and green economy.

Decentralisation

The Government of Georgia is committed to pursue decentralisation reforms as shown by the adoption of the Decentralisation Strategy for the period 2020-2025 (GoG decree #678 31.12.2019). The strategy aims at transferring more administrative power, competences and finances to Georgian municipalities. It also strives at enhancing citizen participation for ensuring higher policy relevance to the local needs.

Together with the Decentralisation strategy, the GoG adopted its 2 year implementation action plan (2020-21). The second action plan 2022-2023 reflects three strategic objectives aiming at strengthening local democracy in Georgia by transferring more power and finances to Georgian Municipalities.

The Ministry of Regional Development and Infrastructure reports on action plan implementation on an annual basis. Progress report and achieved milestones are available online at www.mrdi.gov.ge.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.4.2. Macroeconomic Policy

In 2021 and 2022, strong economic recovery after the pandemic and the inflow of tourists contributed to the real GDP growth, in 2021 by 10.4% and 10.5% in 2022.

Spill-overs from the Russian war of aggression against Ukraine and imposed sanctions on Russia and Belarus were expected to lower Georgia's growth to around 3% in 2022, to raise inflation and to widen the current account deficit, while the outlook is subject to a higher-than-usual level of uncertainty. However, growth continued to be strong in 2022 reaching 10.5% (year-on-year). Growth was driven by transport, construction, IT services, mining, and trade. On the expenditure side, substantial credit growth coupled with inflows of money transfers and tourism receipts fuelled consumption. Georgia also benefited from strong FDI inflows (especially in real estate and the financial and manufacturing sectors). Growth is expected to ease in 2023 to around 4 percent due to subsiding migrant and Foreign exchange inflows, slowing trading partner growth, and an appropriately restrictive fiscal policy stance.

Annual headline inflation reached 9.8% in December 2022, being driven by higher prices of food (15.8%), transport (15.6%) and housing and utilities (12.4%), all year-on-year, with these three categories accounting for 75% of total annual inflation. Annual inflation declined from 11.5% in July to 10.9% in August. The National Bank of Georgia (NBG) kept monetary policy rate tight at 11%, following a considerable increase in February 2022. Continuing the gradual disinflation process in 2023 and reaching the NBG's inflation target of 3 percent by mid-2024 would require an appropriately restrictive monetary policy stance and continued strong credibility in the NBG's independence.

There was a substantial increase in external trade in 2022, with both imports and exports contributing: compared to the same period 2021 year, merchandise imports in nominal USD grew by 39.7%, driven by strong domestic demand and higher key commodity prices, while exports grew by 40.2%. With the import bill being more than double that for exports, the trade deficit continued to widen, a 36% increase (year-on-year). The growth in merchandise exports during 2022 was driven by increased demand and higher prices for key

commodities (copper ore, ferroalloys, nitrogen fertilizers), the major countries of destination being China, Azerbaijan, Russia, and Turkey, which together accounted for 46% of total exports 2022. Imports increased by 36.5% during 2022 compared to the same period of the previous year, reflecting higher imports of oil and oil-related products, used cars, and natural gas.

Money transfers remained strong overall during the first eight months of 2022, and up 62% compared to the previous year, reflecting a three-fold increase in money transfer inflows from Russia. International visitor trips surged by 179% in August, compared to the previous year, though this was still almost one third below pre-Covid-19 levels.

The Georgian lari remained strong, appreciating by 8% against the USD in late 2022, as compared to the rate in February (i.e. pre Russian war in Ukraine). During 2022, the National Bank of Georgia intervened to purchase USD 121 million, although official reserves remain comfortable at USD 4.2 billion, providing over four months of goods import cover.

The fiscal balance remained sound with tax collection by the central government increasing by 20.6% in nominal terms (year-on-year). Meanwhile, social spending experienced the sharpest reduction, with its value declining by 1.1% in nominal terms, a more than 13% fall in real terms. This was in part due to the winding down of measures adopted during the pandemic. Strong revenues supported significant progress on deficit reduction in 2022 and the 2023 budget aims to reduce the deficit to 2.8 percent of GDP, in compliance with the fiscal rule. Continued efforts on revenue mobilisation and public investment management as well as development of a medium-term revenue strategy will create space for priority spending including infrastructure investments. Public debt also benefited from the contained deficit and the appreciation of the Georgian lari, falling below 40% of projected GDP, as of end of July 2022.

The Georgian government and the IMF concluded a three-year Stand-By Arrangement worth USD289 million (or 100% of Georgia's quota) – and approved by the IMF's Executive Board in May 2022, in support to the government's comprehensive economic reform programme. This is intended to help Georgia “maintain and further entrench macroeconomic and financial stability amidst back-to-back shocks from the pandemic and the war in Ukraine, strengthen medium-term growth, and achieve stronger and more inclusive growth and enhance economic resilience”. The Board made about USD 40 million immediately available.

The IMF staff concluded its latest visit in February 2023. It assesses that “*with growth expected to ease this year against the background of unusually high uncertainty, policy priorities include sufficiently tight monetary policy, exchange rate flexibility, and a further building up of fiscal and foreign exchange buffers. With risks to the outlook high, preserving policy credibility is critical*”.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.4.3. Public Financial Management

The public finance management (PMF) system is well established and operational in Georgia, widely reflecting international best practices. The country is well advanced in this area compared to countries of similar size and/or level of economic development. Looking forward and compared to best European standards, Georgia needs to make further progress in areas which require complex approaches and resources: performance budgeting, external audit, managerial and internal control, State Owned Enterprise and public investment management, advanced financial oversight. The PFM policies would also benefit from more evidence-based planning and results reporting.

The Ministry of Finance reform focus is set by the PFM strategy 2023-2026 that addresses most of the weaknesses identified by the 2022 PEFA assessment, the IMF's Fiscal Transparency Evaluation (FTE), the Public Investment Management Assessment (PIMA) report, the Open Budget Index, the Tax Administration Diagnostic Assessment Tool (TADAT) and requirements of EU Budget Directives.

2022 Public Expenditure and Financial Accountability (PEFA) findings indicate that the authorities continued advancing the reforms in line with the Public Finance Management strategy. Central government's budget preparation has improved, as additional information on the multi-year perspective in fiscal planning is provided.

There are some areas where the strengthening of important PFM functions is still to be achieved, for instance on the implementation of International Public Sector Accounting Standards based on an accrual method of accounting and the Financial Management and Control (FMC). These functions are second-generation reforms that are more difficult to fully implement and need the attention and dedication of senior managers and politicians. Measures must also be taken to address challenges in investment and asset management and public procurement.

The new PFM strategy will also build on Gender Responsive Public Finance Management (GRPFM) Assessment Report for Georgia that was produced in late 2022. The Assessment demonstrates that Georgia does not have a comprehensive framework in place yet. Despite some singular activities to include a gender perspective in the public financial management system, Gender Result Budgeting related instruments have not been institutionalized in Georgia.

The Russian war of aggression against Ukraine and the international crisis context will require close monitoring of exceptional spending procedures, financial management and control safeguards. While the PFM strategy remains relevant, the crisis context will require close monitoring of exceptional spending / procurement procedures, financial management and control safeguards.

The PFM Coordination Council of Georgia coordinates policies amongst different PFM stakeholders. The Council is chaired by the deputy Minister of Finance and comprise with the members from all line departments of the MoF, the Revenue Service, the Finance Academy, the State Audit Office and the State Procurement Agency. The Council also invites as observers representatives of civil society organisations, IFIs, Parliament and the EU Delegation. There is a close EU-Georgia policy dialogue and cooperation in the field with regular meetings (e.g. quarterly PFM Coordination Council, Association Agreement and Customs sub-Committee), and ongoing and new joint actions in support to PFM progress.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.4.4. Transparency and Oversight of the Budget

The Open Budget Survey 2021 (published in May 2022) by the International Budget Partnership ranks Georgia as highest in the country list on budget transparency. The country's score has risen by more than 30 points since 2008, with the ranking recognising its budget transparency amid the pandemic. OBS 2021 highlighted Georgia's progress in improving its Financial Management Information System, which enabled the country to withstand the challenges posed by the pandemic and "the government was well positioned to operate online when pandemic restrictions forced officials to work remotely". The index also said "regular coordination" had also "bolstered the country's budgetary system" and noted the International Monetary Fund and the European Union had helped pave the way for Georgia to produce budget documents in line with international standards. The survey identifies that "Mechanisms for public participation in the central budget process remain underutilised,". However, the survey fully acknowledges that the latest improvements demonstrated budget accountability in Georgia are "not just a temporary endeavour, but an ongoing commitment to embedding good budgeting practices over time that are capable of weathering challenges and crises".

Georgia makes all key budget documents publicly available online in a timeframe consistent with international standards. Open Budget Index (OBI) ranking puts Georgia far above the global average and ahead of most other countries in the EU Neighbourhood and Western Balkans regions. This confirms the capacity of the

Georgian authorities to deliver strong results in this critical governance area, not least thanks to past and ongoing EU-Georgia policy dialogue and intensive cooperation.

The Parliament regularly holds hearings on the State Audit Office (SAO)'s annual report. The report on the execution of the state budget, and parliamentary hearings are carried out within the six month period from the date of their receipt. During 2021, the permanent working group within the Budget and Finance Committee discussed 19 audits that represent 83% from all submitted “most relevant and important” SAO reports.

The technical capacities of the Budget Office of the Parliament have been improved but there is a need for timely and more diverse services to all relevant Committees. This would imply assisting sectoral committees in “digesting” technical financial/budgetary information that is provided in annual budget and quarterly execution reports.

As a direct result of EU-Georgia policy dialogue and cooperation, since 2015 the Ministry of Finance is regularly making publicly available a 'Citizen's Guide to the State Budget' which better informs citizens and media on budget planning and priorities. The government is following up on recommendations provided by the SAO and provides a status implementation report as an annex to the annual budget execution report submitted to the Parliament.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective of this action is a sustainable implementation of the Economic and Investment Plan in Georgia, notably its regions, in a comprehensive manner.

The Specific Objectives of this action are to

1. promote integrated, balanced and sustainable human capital and territorial development for all
2. boost Georgia’s renewable and clean energy potential across the entire country in support of the Black Sea electricity cable

The **Induced Outputs** to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

- 1.1 contributing to Specific Objective 1: **urban renewal** and the development of socially inclusive and gender-responsive cities as economic and social engines of growth, support structural change and sustainable employment
 - 1.2 contributing to Specific Objective 1: supported local initiatives for **energy transition**, environmental protection and mitigating climate change effects
 - 1.3 contributing to Specific Objective 1: supported innovative and SMART SMEs, including women owned/led
 - 1.4 contributing to Specific Objective 1: **local heritage** preserved, infrastructure upgraded and increased investment opportunities
 - 1.5 contributing to Specific Objective 1: **human capital** development for all by supporting modernisation of social infrastructure and improvement of quality of local social essential services
 - 1.6 contributing to Specific Objective 1: improved gender-balanced local **governance** and multi-stakeholder management of integrated development policies
-
- 2.1 contributing to Specific Objective 2: **renewable energy** production potential of Georgian regions has increased

2.2.: contributing to Specific Objective 2: appropriate conditions are met for the preparation of the deployment of the **Black Sea electricity cable**

The **Direct Outputs** to be delivered by this action contributing to the corresponding Induced Outputs are:

1.1.1.contributing to Induced Output 1.1 (urban renewal): socially inclusive and gender-responsive city functions in regional and supra-local centres are enhanced

1.1.2.contributing to Induced Output 1.1 (urban renewal): Socio-economic regeneration of cities dependent on traditional industries and energy from fossils has taken place

1.2.1 contributing to Induced Output 1.2 (energy and Green Deal) Energy efficiency solutions for public and residential buildings are implemented

1.2.2. contributing to Induced Output 1.2 (energy and Green Deal) Gender-responsive environmental protection and climate change mitigation are fostered

1.2.3. contributing to Induced Output 1.2 (energy and Green Deal): Local environmental infrastructure (i.e. sewage, water, waste management and re-utilisation) are rehabilitated taking into account gender needs

1.3.1. contributing to Induced Output 1.3 (innovative and SMART SMEs): creation, expansion and modernisation of local SMEs, including women-owned/led, with high potential for growth are supported

1.3.2. contributing to Induced Output 1.3 (innovative and SMART SMEs): innovativeness and R&D capacity of local companies, including women-owned/led, have increased

1.4.1. contributing to Induced Output 1.4 (local heritage and infrastructure): local infrastructure helped development of local businesses, including women-owned/led

1.4.2. contributing to Induced Output 1.4 (local heritage and infrastructure): natural and cultural sites are preserved and public infrastructure serving tourists is developed

1.5.1. contributing to Induced Output 1.5 (human capital): local infrastructure serving inhabitants is improved taking into account gendered needs

1.5.2. contributing to Induced Output 1.5 (human capital): skills for municipal and social workers, and essential local social services for men, women, boys and girls are improved

1.6.1 contributing to Induced Output 1.6 (governance): inclusive, gender-balanced and evidence-based policy making at national, regional and local levels is improved

1.6.2. contributing to Induced Output 1.6 (governance): “EU Cohesion policy” principles and practice are implemented: coordination, monitoring and evaluation system of PIRDP is upgraded

2.1.1. contributing to induced output 2.1. (renewable energy): Improvement of policy coherence and coordination in renewable energy development

2.1.2. contributing to induced output 2.1. (renewable energy): Support to renewable energy development and innovative solutions at local level / micro level, such as systematic installation of solar panels for public building renovation

2.2.1. contributing to induced output 2.2. (Cable preparation): Preparatory studies (i.e. security, environmental impact assessment; preparatory study for the transit infrastructure on Georgian territory) and capacity building

2.2.2. contributing to induced output 2.2. (Cable preparation): institutional framework in Georgia for the Cable deployment (legal and regulatory framework for major public investment management; European Network of Transmission System Operators for Electricity ENTSO-E compliance) and small scale physical infrastructure (such as landing point, connexion to AZ and ARM) upgraded.

The objectives of the Action contribute to the general objectives of the Team Europe Initiative and the EIP, which are:

- TEI 1: Balanced territorial Development : Improved quality of life of people and communities across regions of Georgia by reducing the economic and social disparities between women and men, as well as between large urban centres (Tbilisi, Batumi) and the rest of the country:
 - o SO 1: Improve entrepreneurship and enhance local competitiveness, including women's entrepreneurship
 - o SO 2: Increase access for all, including women, men, girls and boys, to local social, economic, education and health services
 - o SO 3: Enhance local empowerment and inclusive participation, including through engaging women and minorities
- TEI 2: Green and Health in Georgia: Improved environmental health provides conditions for healthier and safer people and communities
 - o SO 2: Improve waste management
 - o SO 4: Green cities (air quality linked to transport, water and sewage infrastructure, energy efficiency of public buildings)

EIP:

- Flagship 1 : Black Sea connectivity – improving data and energy connections with the EU: support to electricity cable preparation, and Georgia's export potential will be strengthened directly (SO2), and also by a stronger role of local authorities and regions in energy efficiency
- Flagship 2: "Transport connectivity across the Black Sea — improving physical connections with the EU" will be facilitated by urban renewal of port cities in the target regions (i.e. Poti)
- Flagship 3: Sustainable economic recovery — helping 80 000 SMEs to reap the full benefits of the DCFTA: will be directly supported with the SME innovation component (output 1.3)
- Flagship 5: Improved air quality: will be addressed through cities' environment and climate action (output 1.2)
- Flagship 6 : Energy Efficiency in Buildings: will be directly targeted by measures under output 1.2, for both public and residential buildings.

The Action will also directly contribute to the governance pillar of the EIP (output 1.6), and to human capital development (output 1.5).

3.2. Indicative Activities

Activities related to Output 1.1; 1.2; 1.3;1.4;1.5;1.6:

- policy dialogue in the framework of the Budget Support component, including on gender budgeting and local governance/decentralisation
- assistance to perform compliance review of the Budget Support conditions
- grants for preparatory studies, increased capacity, better public services, sustainable energy and local development

Activities related to Output 2.1; 2.2.:

- policy dialogue in the framework of the Budget Support component, including on gender budgeting
- assistance to perform compliance review of the Budget Support conditions, including on gender budgeting
- preparatory studies, capacity building and small scale works / equipment

The commitment of the EU's contribution to the Team Europe Initiative to which this action refers will be complemented by other contributions from Team Europe members. It is subject to the confirmation of each respective member's contribution when possible. In the event that the Team Europe Initiatives (TEI) and/or these contributions do not materialise, the EU action may continue outside a TEI framework.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

The implementation of design standards for safe and climate resilience buildings and infrastructure as the Eurocodes is an instrument for long-term resilience and disaster reduction in the built environment. Georgia is already in the process of implementing the Eurocodes.

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

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

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

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

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

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

Gender equality and empowerment of women and girls

Along with the EU's Gender Action Plan III¹⁵ for gender equality and women's empowerment in EU external action and the Country Level Implementation Plan (CLIP) for Georgia, this Action shall take into consideration the conclusions and recommendations provided in the Country Gender Equality Profile of Georgia elaborated by United Nations (UN) Women and published in June 2020. Notably, women in all their diversity have improved access to entrepreneurship opportunities, including social entrepreneurship, alternative livelihoods and strengthened participation in the green and circular economy. It shall also draw from the findings of the UN Women Country Gender Equality Profile Report for Georgia, published in 2021, as well as Georgia Country Gender Profile published in 2021 and Gender Equality and Post-2020 Eastern Partnership Priorities: A Guide on how to Promote Gender Equality in Policy, Programming and Reform Work published in February 2022.

In line with EU cross-cutting priorities, this Action will ensure that a gender-transformative results-based approach is systematically applied and built into the design of all actions. These shall address issues that contribute to greater gender equality and non-discrimination in line with the EU-Georgia cooperation agreements and EU Membership application. In addition, efforts will be made to support Georgian authorities in improvement of collection and use of sex-disaggregated data for policy-making as currently in many fields also of the EU intervention such data is missing or is relatively outdated.

¹⁵ SWD(2020) 284 final 25.11.2020

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality is a significant objective and gender equality will be mainstreamed across this Action. Furthermore, specific activities aimed at gender equality will be implemented in the framework of activities under SO 1, mostly at municipality level.

Under outcome 1.6 (governance), a relevant gender-transformative results based approach will be promoted, such as further steps towards introduction and use of gender responsive budgeting, at national and local level. Furthermore, under this programme a more inclusive budgeting and decision making process will be facilitated. Municipal policies towards gender equality and the empowerment of women and girls will be screened and supported throughout outcome 1.1 to 1.5.

Human Rights

There is no specific risks of Human Rights violations through the action. Any feasibility study related to the electricity cable or renewable energy projects shall undergo HR screening and ensure the rights of the local population is respected. Capacity building of duty-bearers (municipal authorities) is planned to support them to implement projects the action. Civil society organisations will be involved in monitoring and implementing local policies, such as related to social services or local heritage / environment protection.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1 (significant objective). This implies that specific attention will be given to the inclusion of disability, especially in output 1.1 and 1.5 (“urban renewal” and “human capital”). People centred urban planning is understood as an inclusive tool for serving the citizen, for example for better accessibility of public and private building and disability-friendly movement in cities. Georgian cities have for the moment a grim track record of non-accessibility. The Action will support cities for better governance and social inclusion. Technical assistance and grants to cities can help them to change this situation and ensure more accessible services and free movement for all.

Democracy

Improved public finance management, transparency and oversight at local level will contribute to democratic development. Local democracy mechanisms will be supported, such as public participation in local governance.

Conflict sensitivity, peace and resilience

Georgia is a multi-cultural and multi-ethnic country. Many remote areas are home to ethnic and/or religious minorities. In order to contribute to peaceful inter-communities relations, it is necessary to address the needs of these minorities, and promote public accountability and Public Administration Reform at the local level. Decentralisation and PIRDP2 provide an opportunity to integrate conflict prevention, capacities for local conflict resolution into local authority development plans. This can include inclusive principles and mechanisms for fostering community cohesion, consultation, participation. There is potential here to build local administration capacity to manage local conflicts, including those that arise due to the new infrastructure developments, such as related to renewable energy or the Black Sea electricity cable. Those are also conflicts between the government and local communities. Timely public consultations, involvement of local communities in the discussions of future plans for development might be crucial here. As seen in many of the localised inter-communal conflicts, not only are underlying causes, perceived inequality, discrimination driving conflict, but also ways in which conflicts are handled at early stage – in particular the religious conflicts over mosques, or between communities competing for resources/services (eco-migrants). One of the

issues which should be addressed is women’s underrepresentation in the peace and conflict resolution processes, as well as in public decision-making. The National Action Plan on the Implementation of the United Nations Resolution on Women, Peace and Security for 2022-2024 adopted in November 2022 provides a roadmap to empower women in peace and conflict resolution and thus to make these processes more inclusive.

Full consequences of the Russian war of aggression against Ukraine on 24 February 2022 are yet to be analysed. In the short term, influx of Ukrainian, Russian and Belorussian citizens, could be felt mostly in the capital real estate market and rise of prices in bigger cities. Official figures of Russian citizens’ influx are not shared anymore by the Ministry of Interior (MIA) since Nov 2022. Due to strong interlinkages between Russian and Georgian business and economy, the situation may increasingly affect Georgian economy and livelihoods. In the mid-term, decrease of remittances from Russia and some EU countries (with Ukrainian manpower replacing the Georgian) can be foreseen, and may have direct consequences on the macro-economic situation.

Specific objective 1 shall contribute to resilience of cities, be it in terms of better contingency planning, economic resilience or better co-existence of ethnic groups – by helping to manage diversity and potential tensions between groups. The selection of regions, and municipalities participating in the programme will take into account the ethnic composition of the targeted areas.

Disaster Risk Reduction

Many regions of Georgia are prone to natural disaster, even more in times of climate change. The output 1.2. will support cities to prepare relevant plans, and put them into action, in line with the National Adaptation Plan and to better implement the Sendai Framework, including the specific needs of women during the disasters, and also, role of women in risk reduction efforts.

3.4. Risks and Assumptions

Category	Risks	Likelihood (High/Medium/Low)	Impact (High/Medium/Low)	Mitigating measures
1	Macroeconomic instability, increased unemployment and inflation that may divert authorities’ commitment/attention	M	H	Continuous policy dialogue with the IMF and the government, monitoring of macro-fiscal and political situation, provision of technical and financial assistance
	Intention from the Government to cut down on the public debt leads to reluctance to invest in EIP projects (notably the Black Sea submarine cable)	M	M	Continuous policy dialogue and dialogue with other donors / IFIs Support improving revenue mobilisation function

2 and 3	Insufficient commitment by authorities to decentralise implementation system for actions; poor coordination with relevant line ministries	M	H	Multi-stakeholder policy dialogue, sharing lessons learned and rationalisation of the broader policy reforms Facilitation of inter-ministerial coordination, including through dialogue with other donors and EU-funded interventions
3 and 5	Lack of alignment of complementary actions financed from sources other than EU	M	L	Enhanced coordination with other donors
3	High turnover of civil servants in beneficiary institutions involved in Programme implementation; insufficient technical capacity/experience	M	M	Continues capacity building and dialogue with the state institutions Provision of supportive measures and technical assistance especially on regional and municipal level
1	Security risks derived from Russia's war of aggression against Ukraine	M	H	Continuous dialogue with the government, monitoring of the developments
1	COVID-19: resurgence – new waves	M	H	Preparedness measures from previous waves, invoking of contingency measures if required

External Assumptions

- Commitment and focus of national and local authorities are sustained
- The Russian war of aggression in Ukraine does not extend directly to neighbouring countries
- The Georgian government policy doesn't divert from the European Integration agenda
- Any new potential wave of COVID-19 or other pandemic doesn't disrupt significantly the economy and livelihoods (tourism in particular)
- No economic recession affects the country over the medium term
- Commodity prices on international markets are stabilised

3.5. Intervention Logic

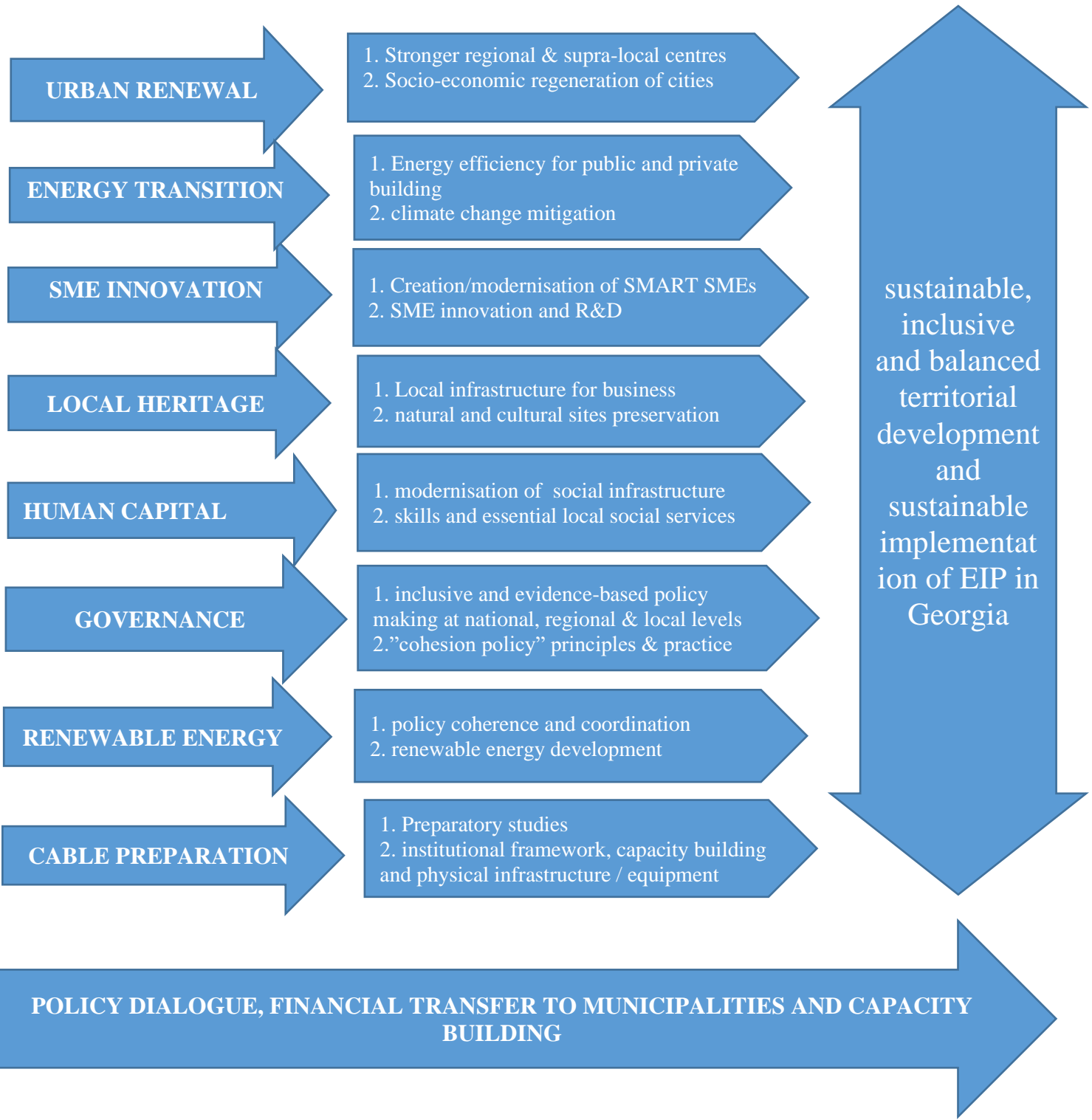
The underlying intervention logic for this action is that increased capacity and financial means at municipality and regional level will result in reducing the inequality between the 2 major cities and the rest of the country, whereas a better legal and regulatory framework for renewable energy and Black Sea cable on Georgian territory will contribute to an optimal preparation of the Black Sea cable. Consequently, these components will contribute to sustainable, inclusive and balanced territorial development and implementation of EIP in Georgia.

For specific objective one:

If urban renewal, energy transition, SME innovation are supported, while local heritage and human capital are strengthened, and gender barriers in human development and entrepreneurship are addressed through an activated role of local communities, municipalities and regions following EU cohesion policy principles, then Georgia's economic and human development will be sustainable, inclusive and territorially balanced, and will also directly contribute to a sustainable implementation of the EIP.

For specific objective two:

The legal and regulatory framework for renewable energy promotion and Cable deployment are strengthened, including on environmental, transparency, human rights and gender equality aspects, and the appropriate preparations are done in terms of increasing renewable energy production and infrastructure preparation, and then the future deployment of electricity cable will bring benefit for Georgia's economy and welfare for the people.



3.6. Indicative Logical Framework Matrix

Results	Results chain	Indicators (max. 15)	Baselines (value and year)	Targets by the end of the budget support contract (value and year)	Sources of data (1 per indicator)
Indicative Impact of the policy	Sustainable implementation of the Economic and Investment Plan in Georgia	Georgia maintains positive GDP growth over medium period 2024-2030	4% (2022) IMF estimate	3.5% on average (2024-2030)	IMF and Geostat data
Expected Outcomes of the policy	<ol style="list-style-type: none"> 1. Promote integrated, balanced and sustainable human capital and territorial development for all 2. Boost Georgia's renewable and clean energy potential across the entire country in support of the Black Sea electricity cable 	<ol style="list-style-type: none"> 1.1 Gross Value Added, Employment and Poverty levels in regions targeted by the Action, sex-disaggregated 2.1 Electricity production and export data 	<ol style="list-style-type: none"> 1.1 TBD 2.1 TBD 	<ol style="list-style-type: none"> 1.1 Employment of women and men increased by 10%; Poverty decreased by 3% for women and men 2.1 [Renewable and clean?] Electricity production and export increased by 5% (2025-2028) 	<ol style="list-style-type: none"> 1.1 Geostat data 2.1 Georgian Electricity Systems data

Induced Outputs	1.1 Urban renewal and development of socially inclusive and gender-responsive cities as economic and social engines of growth, support structural change and sustainable employment	1.1.1 Number of socially inclusive and gender-responsive cities emerged as regional/ urban centres	1.1.1 Tbilisi and Batumi (2022)	1.1.1 additional 5 cities apart from Tbilisi and Batumi (2027)	1.1.1 Geostat, independent assessments 1.1.2
	1.2 supported local initiatives for energy transition, environmental protection and mitigating climate change effects	1.2.1 Number of supported/financed initiatives	1.2.1 N/A	1.2.1 at least five projects with total financial value of 5 MEURO (2024-2027)	1.2.1 MRDI reports; State budget execution reports
	1.3 Supported innovative and SMART SMEs, including women-owned/led	1.3.1 Number of SMEs supported, with disaggregated by sex of owner/manager	1.3.1 50	1.3.1 at least 150 SMEs in total (2024-2027) (equal support to women and men owned business)	1.3.1 MRDI reports
	1.4 Local heritage preserved, infrastructure upgraded and increased investment opportunities	1.4.1 Number of local heritage sites upgraded	1.4.1 2	1.4.1 at least 10 local heritage sites in total	1.4.1 MRDI reports
	1.5 Human capital development by supporting modernisation of social infrastructure and improvement of quality of local social essential services	1.5.1 Number beneficiaries/users of the upgraded local social services, sex-disaggregated	1.5.1 N/A	1.5.1 at least 5000 beneficiaries in 7 regions (equal proportion of women and men)	1.5.1 MOLHSA reports
	1.6 Improved governance and multi-stakeholder management of integrated development policies	1.6.1 Policy planning, monitoring stakeholder consultation framework upgraded	1.6.1 Policy planning framework exist, not regular/dependent on international assistance	1.6.1 Regional/territorial development policies are designed regularly,	1.6.1 MRDI, independent reports, CS monitoring
		1.6.2 Number of new actions supporting public finance management (PFM) reforms that include a gender budgeting component, by year	1.6.2 0	1.6.2 Reports on such actions	1.6.2 Reports on such actions

	<p>2.1 Renewable energy production potential of Georgian regions has increased</p> <p>2.2 Appropriate conditions are met for the deployment of the black sea electricity cable</p>	<p>2.1.1 Relevant legislative framework is in place and implemented</p> <p>2.2.1 Number of renewable energy initiatives/projects financed through state/international financial support</p>	<p>2.2.1 N/A</p> <p>2.2.1 N/A</p>	<p>priorities based on collected evidence (2025-2027)</p> <p>1.6.2 ... % of new actions supporting public finance management (PFM) reforms that include a gender budgeting component.</p> <p>2.1.1 Renewable energy regulation passed by the parliament (2024)</p> <p>2.2.1 at least five projects with total value of 2 billion Euros (2024-2030)</p>	<p>2.1.1 Official legal herald</p> <p>2.2.1 MoESD, MoF data</p>
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Direct Outputs	1.1.1 socially inclusive and gender-responsive city functions in regional and supra-local centres are enhanced	1.1.1.1 Number of initiatives supporting gender-responsive governance of local self-governing cities	1.1.1.1 N/A	1.1.1.1 more competencies in urban/spatial planning, attracting investments, gender equality (2023-2025)	1.1.1.1 Decentralization action plan implementation report
	1.1.2 Socio-economic regeneration of cities dependent on traditional industries and energy from fossils has taken place	Functions/competences of local self-governing cities increased, including competencies/functions in gender-responsive governance	1.1.1.2 N/A	1.1.1.2 at least 5 regeneration plans implemented in cities	1.1.2.1 MRDI reports
	1.2.1 Energy efficiency solutions for public and residential buildings are implemented	1.1.2.1 Number of regeneration plans approved and implemented	1.2.1.1 TBD	1.2.1.1 at least 5000 sq. m2 in seven regions	1.2.1.1 MRDI reports
	1.2.2 Gender-responsive environmental protection and climate change mitigation are fostered	1.2.1.1 Number/sq. m2 of public and residential buildings equipped with EE solutions	1.2.2.1 N/A	1.2.2.1 10 gender-responsive env. prot&clm.mtg plans implemented in 15 municipalities	1.2.2.1 MoESD reports
	1.2.3 Local environmental infrastructure (i.e. sewage, water, waste management and re-utilisation) are rehabilitated taking into account gender needs	1.2.2.1 Number of environmental protection and climate change mitigation plans implemented	1.2.3.1 N/A	1.2.3.1 at least 12 buildings in 5 regions	1.2.3.1 MRDI reports
	1.3.1 Creation, expansion and modernisation of local SMEs, including women-owned/led, with high potential for growth are supported	1.2.3.1 Number/sq. m2 of local environmental infrastructure built/rehabilitated	1.3.1.1 Gita implemented 3 M Euro programme for 4 focal regions (2022)	1.3.1.1 at least 3 programmes covering 7 regions, with the total amount of 12 M Euro (2024-2027)	1.3.1.1 MRDI reports, state budget execution
		1.3.1.1 Number of SMEs support programs designed&implemented, with disaggregated by sex of owner/manager			1.4.1.1 MRDI reports
			1.3.2.1 20	1.3.2.1 100	

	<p>1.3.2 innovativeness and R&D capacity of local companies, including women-owned/led, have increased</p> <p>1.4.1 Local infrastructure helped development of local businesses, including women-owned/led</p> <p>1.4.2 Natural and cultural sites are preserved and public infrastructure serving tourists is developed</p> <p>1.5.1 Local infrastructure serving inhabitants is improved, taking into account gendered needs</p> <p>1.5.2 Skills for municipal and social workers, and essential local social services for men, women, boys and girls are improved</p>	<p>1.3.2.1 Number of R&D companies supported, with disaggregated by sex of owner/manager</p> <p>1.4.1.1 Number of expo/exhibition centers rehabilitated/equipped with basic infrastructure</p> <p>1.4.2.1 Number of cultural/historical infrastructure rehabilitated</p> <p>1.5.1.1 Number of local community centers (front offices) redesigned taking into account gender needs; Number of physical / digital public services according to gender needs</p> <p>1.5.2.1. Number of municipal social services redesigned</p>	<p>1.4.1.1 2 centers rehabilitated under EU4ITD (2022)</p> <p>1.4.2.1 5 cultural sites rehabilitated under EU4ITD (2022)</p> <p>1.5.1.1 N/A</p> <p>1.5.2.1 N/A</p> <p>1.5.2.2 N/A</p>	<p>1.4.1.1 at least 4 additional exhibition centres rehabilitated (2025-2027)</p> <p>1.4.2.1 at least 7 additional cultural sites rehabilitated in at least 3 regions (2025)</p> <p>1.5.1.1 at least 5 community centres redesigned/rehabilitated taking into account gender needs (2025-2026)</p> <p>1.5.2.1 at least 2 municipal social service redesigned targeting local needs, including gender needs (2025-2027)</p> <p>1.5.2.2 at least 20 municipal and social workers received dedicated training</p>	<p>1.3.2.1 MRDI reports</p> <p>1.4.2.1 MRDI reports</p> <p>1.5.1.1 Municipal Service Development Agency data</p> <p>1.5.2.1 Municipal Service Development Agency data</p>
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	<p>1.6.1 Inclusive, gender-balanced and evidence-based policy making at national, regional and local levels is improved</p> <p>1.6.2 EU Cohesion policy principles and practice are implemented: coordination, monitoring and evaluation system of PIRDP is upgraded</p> <p>2.1.1 Improvement of policy coherence and coordination in renewable energy development</p>	<p>1.5.2.2 Number of municipal and social workers having participated in dedicated training sessions</p> <p>1.6.1.1 Number of policy planning and monitoring statutes amended</p> <p>1.6.1.2 Percentage of policies based on the findings of gender analysis</p> <p>1.6.1.3 Percentage of policies developed with an equal participation of women and men</p> <p>1.6.2.1 Extend to which 2021-2027 EU cohesion policy objectives are met</p>	<p>1.6.1.1 N/A</p> <p>1.6.1.2 N/A</p> <p>1.6.1.3</p> <p>1.6.2.1 N/A</p> <p>2.1.1.1 N/A</p>	<p>1.6.1.1 Policy planning documents reflecting changes implemented (2024)</p> <p>1.6.1.2 at least 60% of policies are developed on the findings of gender analysis</p> <p>1.6.1.3 at least 40% of the decision-makers of the opposite sex participated in policy development .</p> <p>1.6.2.1 EU Cohesion policy targets on climate and empowerment of local, urban & territorial authorities are applied (2025)</p> <p>2.1.1.1 Policy coherence and coordination mechanism in</p>	<p>1.6.1.1 Administration of the government reports</p> <p>1.6.1.2 Gender analysis reports and evidence that their findings are integrated in policies</p> <p>1.6.2.1 MRDI report on cohesion policy implementation</p> <p>2.1.1.1 MoESD report</p>
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	2.1.2 Support to renewable energy development and innovative solutions at local level / micro level, such as systematic installation of solar panels for public building renovation	2.1.1.1 Status of Policy coherence and coordination mechanism in renewable energy		renewable energy created (2024)	
			2.1.2.1 N/A	2.1.2.1 at least 20 solar panels installed in 10 municipal buildings	2.1.2.1 MRDI, MoESD reports
			2.2.1.1 N/A	2.2.1.1 Preparatory studies on environmental and gender impact assessment, on transit infrastructure completed and discussed with stakeholders (2024-2025)	2.2.1.1 MoESD reports, Stakeholder meetings
	2.2.1 Preparatory studies (i.e. security, environmental impact assessment; preparatory study for the transit infrastructure on Georgian territory) and capacity building	2.1.2.1 Number of solar panels installed in public buildings			
		2.2.1.1 Number of Preparatory studies on environmental and gender impact assessment, on transit infrastructure			
			2.2.2.1 N/A	2.2.2.1 ENTSO-E compliant regulatory framework for public investment management adopted and applied (2024-2025)	2.2.1.1 MoESD reports; independent assessments
2.2.2 institutional framework in Georgia for the Cable deployment (legal and regulatory framework for major public investment management; European Network of Transmission System Operators for Electricity ENTSO-E	2.2.2.1 Existence of ENTSO-E compliant regulatory framework for public investment management				

	compliance) and small scale physical infrastructure (such as landing point, connexion to AZ and ARM) upgraded.				
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4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

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

4.2. Indicative Implementation Period

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

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer in duly justified cases. .

4.3. Implementation of the Budget Support Component

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 40 000 000.00 and for complementary support is EUR 10 000 000.00. This amount is based on the analysis of the relevance of the policy and the capacity of Georgian partners: on the solidity of the overall related policy in Georgia (ITD Programme) and the needs, capacity, and opportunities for sustainable results at national and local level.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions.

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

- Satisfactory progress in the implementation of the **Integrated Territorial Development Programme 2023-2026 and the Decentralisation Strategy 2020-2025, as well as continued credibility and relevance thereof or of the subsequent policies.**
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches may focus on the following policy priorities:

- City functions in regional and supra-local centres
- Socio-economic regeneration of cities dependent on traditional industries
- Energy efficiency solutions for public and residential buildings
- Environmental protection and climate change mitigation
- Creation, expansion and modernisation of local SMEs with high potential for growth
- Natural and cultural sites are preserved and public infrastructure serving tourists
- Skills of social and municipal workers and essential local social services are improved

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante or at the latest by the end of the first quarter of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

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

4.3.3. Budget Support Details

The following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

Indicative disbursement timetable

Country fiscal year and quarterly breakdown	Year 1 (2025)				Year 2 (2026)				Year 3 (2027)				Total in MEUR	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Fixed tranche in MEUR	10												10	
Variable tranche in MEUR				12				5					13	30
Total in MEUR	10			12				5					13	40

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

4.4. Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures¹⁶.

4.4.1. Direct Management (Grants)

a) Purpose of the grant(s)

¹⁶ [EU Sanctions Map](#). Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

The grants will contribute to the implementation of part of Specific Objective 1 (urban renewal, energy transition, local heritage and human capital development, gender barriers in human development and entrepreneurship).

b) Type of applicants targeted

The potential applicants eligible for funding will be legal entities such as: local authorities, public sector institutions at local level, universities and research institutions, non-governmental organisations.

4.4.2. Direct Management (Procurement)

The procurement will contribute to achieving part of Specific Objective 1 (independent review and assessment of the Budget Support).

4.4.3. Indirect Management with a pillar-assessed entity(ies)

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

- Specific expertise and experience in respective areas.
- Experience and presence in the country. In depth understanding of the situation, its strengths and weaknesses in Georgia in respective field of operation.
- Available necessary organisational, human and management capacity also to mobilise specific expertise in short time.
- Added value as well as innovative approaches proposed by the organisation to effectively reach sustainable results.

The implementation by this entity(ies) entails contributions to achieve parts of Specific Objective 1 (energy transition) and Specific Objective 2 (renewable energy promotion and Cable deployment).

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

If the implementation modality under indirect management as defined in section '4.4.3' cannot be implemented due to circumstances beyond the control of the Commission, the modality of implementation by procurements under direct management would be used according to 'section 4.4.2 (procurements)'.

If the implementation modality under direct management as defined in section '4.4.1.(grants)' or '4.4.2 (procurements)' cannot be implemented due to circumstances beyond the control of the Commission, the modality of implementation by indirect management with a pillar-assessed entity would be used according to section '4.4.3'.

4.5. Scope of geographical eligibility for procurement and grants

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

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

4.6. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 4.3	40 000 000.00
Implementation modalities – cf. section 4.4	
Objective 1 composed of	
Grants (direct management) – cf. section 4.4.1	N.A.
Procurement (direct management) – cf. section 4.4.2	N.A.
Indirect management with pillar assessed entity(ies) – cf. section 4.4.3	1 000 000.00
Objective 2 composed of	
Indirect management with pillar assessed entity(ies) – cf. section 4.4.3	4 000 000.00
Grants – total envelope under section 4.4.1	4 500 000.00
Procurement – total envelope under section 4.4.2	300 000.00
Evaluation – cf. section 5.2	100 000.00
Audit – cf. section 5.3	100 000.00
Contingencies	0
Totals	50 000 000.00

4.7. Organisational Set-up and Responsibilities

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

The steering of the programme will be entrusted to the Government Commission for Regional Development (GCRD) / ITD Coordination Council under the MoRDI, which will oversee and guide the overall direction and policy of the programme. It will assess progress in the implementation of the action and decide if any

modifications are needed. It shall devote separate session on the implementation of this Action once a year and can be convened whenever the programme implementation requires strategic decisions.

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

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

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

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

Arrangements for monitoring and reporting, including roles and responsibilities for data collection, analysis and monitoring:

By the end of the first quarter of the year, the external review mission will submit to the EU Delegation an evidence-based technical report assessing the degree of compliance in line with mutually agreed conditions for disbursement.

Monitoring of the implementation of the Integrated Territorial Development Programme is entrusted to the Government Commission for Regional Development (GCRD). Continued sector monitoring shall be a general condition for the budget support component of the Action.

The GCRD will organise semi-annual sector coordination meetings, involving the EU Delegation and other relevant stakeholders. Sector coordination meetings will be an opportunity to assess progress in the implementation and deciding of any proposed modification to the Action.

Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the strategy, policy or reform action plan of the partner country (for budget support). For project modality, the report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: national government statistics and reports, provided by GEOSTAT and MoRDI, are of adequate quality and relevance and will be used to monitor the implementation of the Action. However, for specialized researches GEOSTAT does not always have accurate and reliable data for the different territorial units.

5.2. Evaluation

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

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the Programme targets several priority areas of cooperation within the MIP.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

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

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

Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

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

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document [*Communicating and raising EU visibility: Guidance for external actions*](#) (or any successor document), which are complemented by the *Supplementary Guidelines for Communication and Visibility of EU Projects in Georgia* (or any successor document). This includes registration of each project and use of the EU Digttool for communication and visibility purposes.

All entities implementing EU-funded external actions in Georgia have the contractual obligation to comply with requests by the Delegation and/or the communication team contracted by the Delegation (EU4Georgia IV, ENI/2022/432-998, or any successor project).

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

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

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

For communication on Team Europe Initiatives, the EU and its Member States can rely on the specific guidance on the Team Europe visual identity.

During contract negotiations with the Government, the Delegation will develop a dedicated Annex on Communication and Visibility to be attached to the Financing Agreement. This will be based on the good practice examples of earlier budget support programmes starting from AAP 2018, particularly “EU4 Integrated Territorial Development”.

Building on the existing good cooperation with the respective ministry (Ministry for Regional Development and Infrastructure of Georgia), the Delegation’s communication contract will be used to highlight tangible results of the budget support programme. This may include high-level events, specific visibility events such as field missions with media attention, and the development of success stories.

Any actions related to communication and visibility will be coordinated with the strategic communication actions of the EU Delegation, to ensure coherence of narrative and message, as well as horizontal strategic communication. Strengthening of the capacities of the partner country to communicate on its policy, on the related reforms and on the expected/achieved results may also be considered in this context.