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**PRELIMINARY
NEEDS ASSESSMENT
REPORT**

Georgia

For UNIDO Country Programming
Framework for ISID

8/11/2016

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LIST OF ABBREVIATIONS

AA	Association Agreement	KfW	KfW Development Bank
ADB	Asian Development Bank	MEA	Multilateral Environmental Agreements
ACDA	Agricultural Cooperatives Development Agency	MVA	Manufacturing, value added
ADC	Austrian Development Cooperation	NEEAP	National Energy Efficiency Action Plan
AIIB	Asian Infrastructure Investment Bank	NBG	National Bank of Georgia
CIDA	Canadian International Development Agency	NGOs	Non-Governmental Organizations
CPS	Country Partnership Strategy	NORAD	Norwegian Agency for Development Cooperation
CzDA	Agency Czech Development Agency	NRC	Norwegian Refugee Council
CPF	Country Program Framework	OECD	Organization for Economic Cooperation and Development
DANIDA	Danish International Development Agency	ODA	Official Development Aid
DaO	Delivering as One	PCBs	Polychlorinated Biphenyls
DCFTA	Deep and Comprehensive Free Trade Agreement	PPP	Purchasing Power Parity
DG	Director General	R&D	Research and Development
ESP	Eastern Europe Energy Efficiency and Environment Partnership	RECP	Resource Efficient and Cleaner Production
EBRD	European bank for Reconstruction and Development	SDC	Swiss Agency for Development and Cooperation
ECA	Europe and Central Asia	SDGs	Sustainable Development Goals
EDA	Entrepreneurship Development Agency	SIDA	Swedish International Development Cooperation
EIB	European Investment Bank	SMEs	Small and Medium-sized Enterprises
EU	European Union	SWOT	Strengths Weaknesses Opportunities Threats
EUR	Euro	TWh	Terawatt-hour
FDI	Foreign Direct Investment	UN	United Nations
FSU	Former Soviet Union	UNCT	United Nations Country Team
GATS	General Agreement on Trade in Services	UNDAF	United Nations Development Assistance
GDP	Gross Domestic Product	UNDP	United Nations Development Program
GEL	Georgian Lari	UNECE	United Nations Economic Commission for Europe
GeoSTM	Georgian National Agency for Standards and Metrology	UNEP	United Nations Environment Program
GII	Gender Inequality Index	UNIDO	United Nations Industry Development Organization
GITA	Georgia's Innovation and Technology Agency	UNFCCC	United Nations Framework Convention on Climate Change
GIZ	Gesellschaft für Internationale Zusammenarbeit	UNPSD	United Nations Partnership for Sustainable Development United Nations
GEF	Global Environment Facility	USA	United States of America
GHGs	Greenhouse Gases	USD	US Dollar
HDI	Human Development Index	WB	World Bank
IFC	International Finance Corporation	WTO	World Trade Organization
IMF	International Monetary Fund		
ISID	Inclusive and Sustainable Industrial Development		
JICA	Japan International Cooperation Agency		

Executive Summary

Within the work program of the UNIDO Regional Division - Europe and Central Asia, this **Preliminary Needs Assessment for Georgia** gives an overview of the country's economic structure with an analysis of the industrial development issues and the areas of UNIDO intervention with potential financial and technical support of donor institutions. The set out findings are only preliminary and will be validated during the UNIDO programming mission. The final conclusions and assessments' results will be integrated into the **Country Programming Framework for Inclusive and Sustainable Industrial Development** for Georgia that will be developed in cooperation with national counterparts as a result of UNIDO's programming activities in 2016.

The Needs Assessment is divided into four main chapters:

Chapter I examines the national context with a focus on the overall macroeconomic and socioeconomic profile of the country, the economic structure and sectoral analysis, the current industrial development trends and key challenges, SWOT analysis, as well as youth and gender issues;

Chapter II presents the Government's vision and strategic planning for industrial development;

Chapter III analyses the active donors and their priorities; and

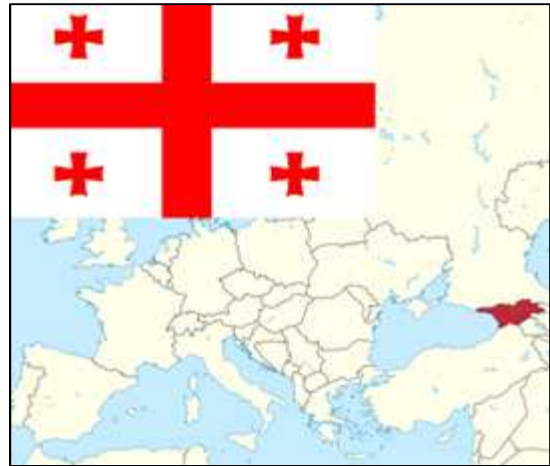
Chapter IV maps UNIDO current and future possible interventions in the country.

This report was prepared by Mr. Giorgi Todua, UNIDO National Consultant in Georgia under the supervision and guidance of the UNIDO Regional Division – Europe and Central Asia.

Chapter I: National Context of Georgia

Georgia is an upper middle income economy with GDP per capita at PPP of USD 9,679.2¹ in 2015. It is regarded as a key country for stability and peace in the Caucasus region.

Georgia is one of the richest countries in terms of water resources and also has deposits of subsoil minerals such as manganese, silver-lead and zinc ores, etc. During the Soviet period the country had a well-developed industrial sector with a focus on heavy industry. With half of the population living in rural areas, agricultural production was an important element of the economy and still remains so. Georgia experienced one of the largest economic downturns after the collapse of the Soviet Union caused by a civil unrest and separatist conflicts. Georgia was one of the latest Former Soviet Union (FSU) republics that started building a peaceful state in 1995 with strong economic growth caused by rapid privatization but slowing down after the 1998 Russian financial crisis. After a peaceful revolution in 2003, the country experienced rapid economic growth that averaged at 9.6% annually until 2007 but deteriorated in 2008, because of the military conflict with the Russian Federation in August 2008 and the global economic recession which occurred afterwards. The economy only started to rapidly recover in 2010. Political uncertainty in 2013 caused by changes of the Government led to a decrease in economic activities, but afterwards the economy showed growth trends. Despite the strong economic indicators and with an average annual GDP growth of 6.2%² between 2003 and 2014, and an increase in competitiveness ranking, Georgia still did not manage to reach its real GDP level of 1990.



As a transcontinental country located on the crossroads of Europe and Asia with a territory of 69,700 km², Georgia is a crucial corridor for energy and goods. Georgia's transport system is key for the connectivity of the One Belt One Road Initiative of the Chinese Government. The Anaklia Development Consortium (ADC-joint venture between TBC Holding (Georgia) and Conti International (USA)) was awarded the contract to build a USD 2.5 billion deep sea port in Anaklia, which will turn it into a major hub on China's Maritime Silk Road by 2030. Upon completion, the port will have the capacity to process 100 million tons of cargo per year, which could boost Georgia's GDP by 0.5%⁴. In addition to the Anaklia Port, ADC is developing a Free Industrial Zone on 600 hectares of the 1000-hectare parcel of land. The East-West highway is another project that will transform the country into a regional transport hub. These projects will improve access to markets and services, and increase employment. However, Georgia's transportation system is obsolete and there is a need to improve economic infrastructure, including roads, electric power plants, and other important structures to return to pre-crisis growth of 2007 and further develop the economy. In addition, Georgia has one of the highest inequality rates in the region and the gap is widening.

The signature and the full entry into force (as of 1 July 2016) of the Association Agreement (AA), that introduces a preferential trade regime known as Deep and Comprehensive Freed Trade Agreement

¹ World Development Indicators (WDI), GDP PPP <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=GE>

² WDI, Annual GDP growth <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

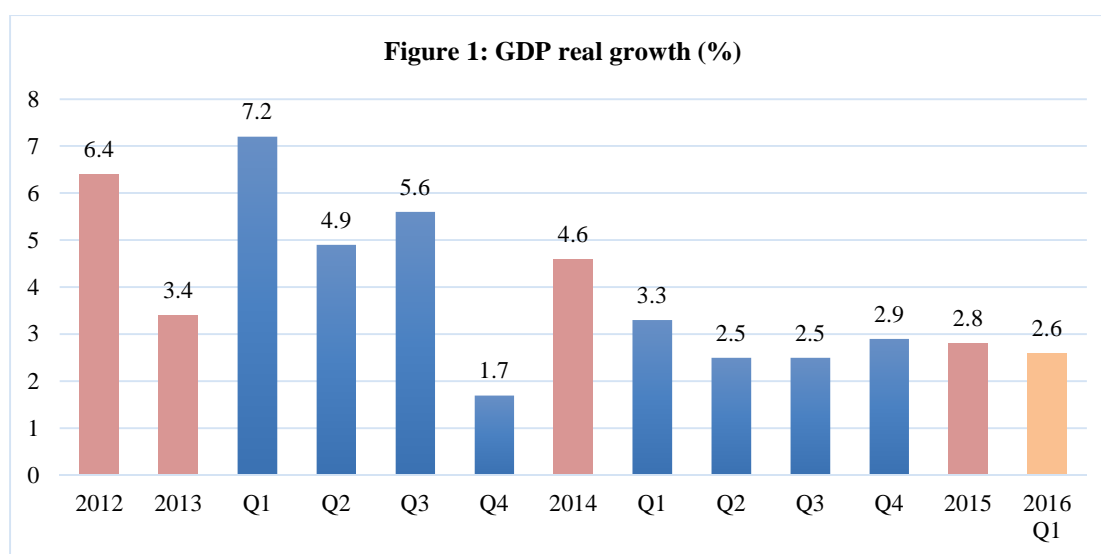
³ <http://www.gtreview.com/news/asia/anaklia-deep-sea-port-to-put-georgia-on-new-silk-road/>

⁴ *Id*

(DCFTA), brings new opportunities for Georgian producers, especially as the EU is the main trade partner with 32.6% of trade taking place with it, followed by Turkey (17.2%) and Russia (8.1%)⁵.

1.2 Overall Macroeconomic Profile

Between 2004 and 2007 Georgia experienced robust economic growth which remained in the 12-13% range. In the post-crisis period growth was volatile, especially during the political transition in 2013 due to changes in the Government and the introduction of new economic reforms that affected economic activities and slowed the growth rate. However, economic growth increased in the final quarter of 2013 after settling the political uncertainty which was concluded with the presidential elections and the appointment of a new Prime-Minister. In 2014-2015 the recession in Russia and slower growth in other trading partners impacted Georgia through lower exports and reduced remittances, particularly from Russia and Greece⁶. As a result of strong external factors causing the depreciation of the national currency and instability in the region due to the decrease of oil prices that affected the main trading partners, including oil producers such as Azerbaijan and Russia, economic growth decreased from 4.8% in 2014 to 2.8% in 2015⁷ (Figure 1)⁸.



In 2015, on the supply side, growth was driven by increases of 12.4% in construction and 13.7% in mining that offset a 2.8% decline in manufacturing. Industry overall rose by 3.5%, and the services expanded by 3.0%, reflecting strong performance in finance and tourism, and agriculture grew by 2.5% (Figure 2)⁹. On the demand side, domestic demand was the main driver, with private consumption rising by an estimated 11.9%, and with weak external demand and continued sluggishness in regional growth, the net exports deficit worsened by 15.4%¹⁰.

⁵ <http://ec.europa.eu/trade/policy/countries-and-regions/countries/georgia/>

⁶ <http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/4/741601460152922821/Georgia-Snapshot-eng.pdf>

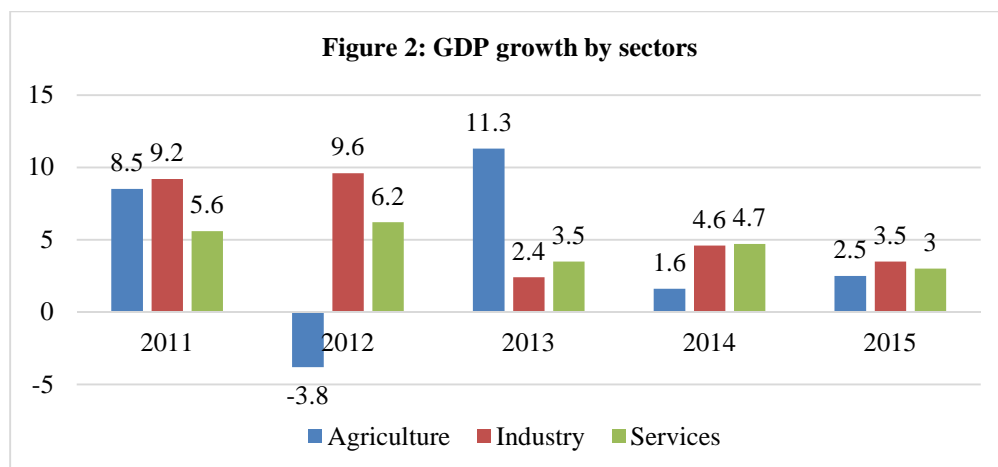
⁷ *Id*

⁸ http://www.geostat.ge/index.php?action=page&p_id=119&lang=eng

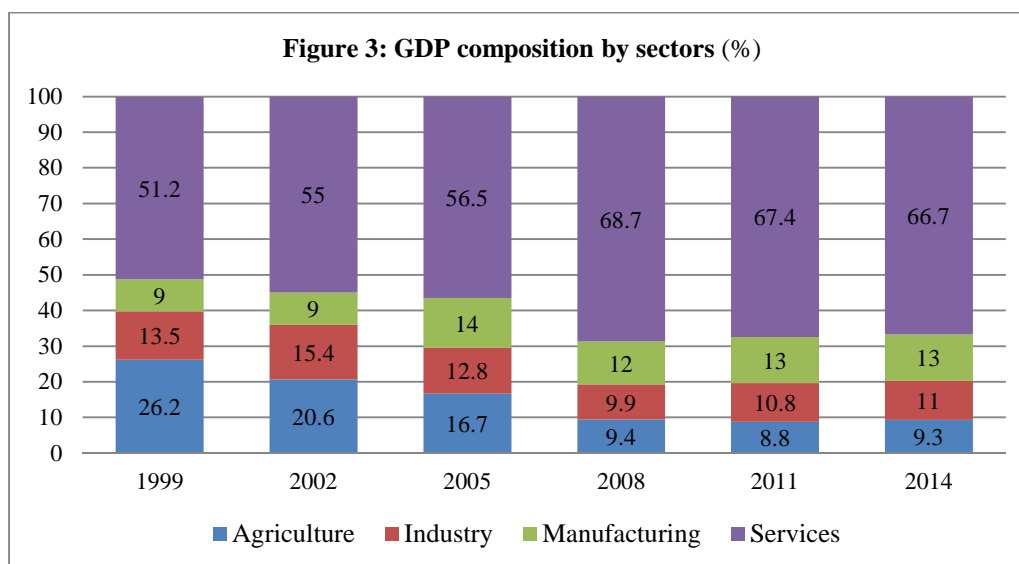
⁹ Sector growth in 2015 is for the first 9 months over the same period in 2014

<http://www.adb.org/sites/default/files/publication/182221/ado2016.pdf>

¹⁰ *Id*



In general, economic activity continues to be concentrated around the service sector with a strong growth in tourism, while the agricultural sector continues to decline (Figure 3)¹¹.



Georgia's export growth rates have been impressive at well above 10% per year on average since 2000. However, in 2015, the recession in Georgia's main trading partners, including the Russian Federation and Ukraine, had seriously affected external trade. The current account deficit remained sizeable at an estimated 10.5% of GDP, down slightly from 10.6% in 2014, as a 20.9% drop in exports widened the trade deficit. Exports to the Russian Federation in particular fell by 40.7%, while vehicle re-exports plunged by nearly 65%¹². Meanwhile, exports to the European Union rose by 3.6%. Imports fell by 15.2%, as the GEL depreciated against some trading partners' currencies (while appreciating by 11.0% against the ruble)¹³. Georgia's high current account deficit can be addressed through a shift towards new, export-oriented sources of growth.

In 2009, unemployment reached 16.9%, but has since gradually decreased to 12% in 2015% (Figure 4)¹⁴. However, the unemployment rate does not take into account the large number of people who live off subsistence farming, work erratically in self-employment or live off other Government benefits.

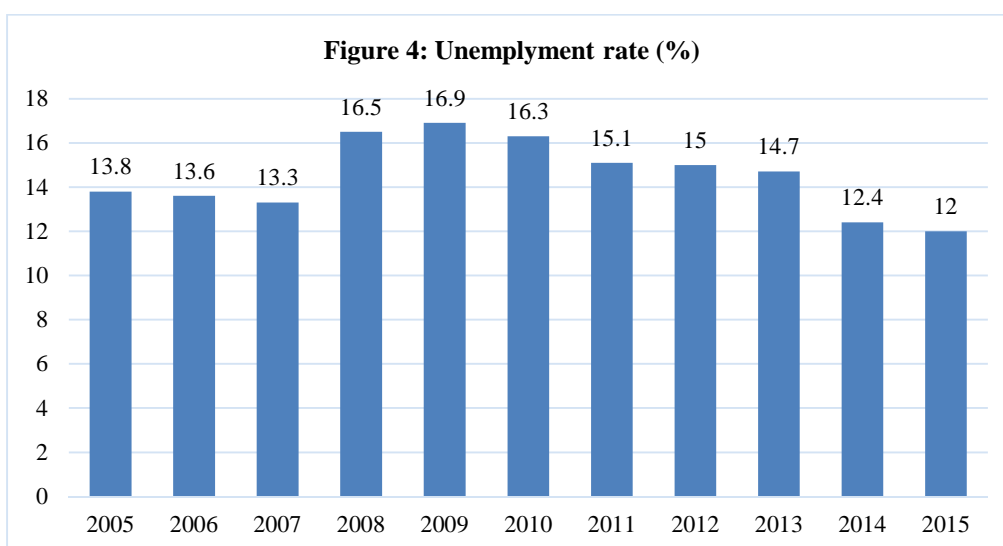
¹¹ <http://data.worldbank.org/indicator/NV.IND.TOTL.ZS?view=chart>

¹² <http://www.adb.org/sites/default/files/publication/182221/ado2016.pdf>

¹³ *Id*

¹⁴ http://www.geostat.ge/index.php?action=page&p_id=146&lang=eng

According to the results of a February 2012 National Democratic Institute survey the actual unemployment rate was around 33%¹⁵. This data is especially relevant to the agricultural sector that absorbs a significant proportion of the labor force, as since 2003 the increase in productivity and FDI was mostly concentrated on the non-tradable sector. As a result, despite the strong average growth, the manufacturing transformation never happened for the agricultural sector. In general, the main reasons of non-alignment between growth and reduction of unemployment are: (i) the substantial down-sizing of the civil service; (ii) a foreign investment focus on banking and real estate, which created few jobs; and (iii) modest growth by small and medium-sized enterprises and agricultural enterprises due to productivity, finance, and market access constraints¹⁶.



Georgia outpaced FSU countries with a FDI net inflow rate of 18.3%¹⁷ to GDP in 2007. This was one of the highest rates in the world. In recent years, FDI and tourism sector proceeds remained stable, which also helped increase employment by 20% and real wages by 4.7% in 2015¹⁸. However, in 2015 investment decreased by 27% compared to 2014, from the record growth in 2014 (Table 1)¹⁹. The main sectors of interest for foreign investors include transport and communication, construction, manufacturing, energy, real estate and finance²⁰. The Georgian Government established the Georgian National Investments Agency to promote and facilitate FDIs.

Sector/Year	2012	2013	2014	2015
Agriculture, fishing	16,119.3	11,857.4	12,290.3	28,774.4
Mining	4,862.2	43,704.9	42,781.5	42,665.2
Manufacturing	167,906.5	99,765.1	205,417.4	90,708.6
Energy sector	179,402.6	244,745.1	189,945.0	89,881.4
Construction	41,839.2	49,847.5	316,588.1	129,058.6

¹⁵ *Id*

¹⁶ <http://www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-pa.pdf>

¹⁷ <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?page=1>

¹⁸ <http://pubdocs.worldbank.org/en/741601460152922821/Georgia-Snapshot-eng.pdf>

¹⁹ http://www.geostat.ge/index.php?action=page&p_id=140&lang=eng

²⁰ http://www.keepeek.com/Digital-Asset-Management/oced/development/sme-policy-index-eastern-partner-countries-2016_9789264246249-en#.V6Seojt96M8

Hotels and restaurants	17,652.3	-13,360.1	124,851.8	60,982.4
Transport and communication	72,828.9	140,104.4	433,654.7	593,972.6
Health and social work	17,550.8	720.0	-9,507.6	66,366.1
Real Estate	52,805.6	42,294.6	138,654.8	47,840.1
Financial sector	162,552.2	166,386.3	115,322.6	191,207.9
Other sectors	178,044.8	155,837.4	188,424.2	9,596.5
Total	911,564.3	941,902.6	1,758,422.9	1,351,053.9

Since December 2013 the national currency depreciated by almost 30%. The National Bank of Georgia (NBG) tightened the monetary policy and owing to low oil prices, it was possible to contain inflation at the rate of 4.9% in 2015. The floating exchange rate, limited interventions, and independence of the NBG helped to achieve both nominal and real exchange rate realignment and maintain scarce international reserves²¹. Despite the economic challenges, the banking sector showed strong growth with record profitability.

After major changes in 2004, Georgia became one of the most attractive tax systems in the world with the number of taxes reduced from 21 to merely 6. With a value added tax of 18%, income tax of 20%, and corporate tax of 15%, Georgia is highly competitive among neighboring countries. In 2016 the Government announced plans to adopt an Estonian tax model in the area of corporate tax income. The reason for this is to encourage the reinvestment of corporate profit with the intention of boosting economic growth. According to the World Bank analysis, the impact on growth will come with a lag, while tax revenues will go down immediately. As a result, in 2016 Georgia will require cuts in expenditures, except for health and social expenditure that is planned to increase, in order to contain the fiscal deficit at 3% of GDP.

Remittances play a significant role in the Georgian economy as well, since a representative number of Georgians have migrated internationally. The majority of all remittances originate from the Russian Federation, Greece and Italy. Personal remittances, received as percentage of GDP, were 10.6%²² in 2015.

A gradual recovery in economic activity is expected to begin in 2016 with some improvements in the external environment. The industry is forecast to expand by 2.1% in 2016 and 4.0% in 2017, as the government is considering further tax measures to support businesses, such as a zero tax on reinvested profit²³. Services are projected to grow by 2.6% in 2016 and 3.4% in 2017 due to a continued expansion in tourism²⁴. The agricultural sector is expected to grow modestly by 2.4% in 2016 and 3.4% in 2017, assuming favorable weather and continued government support²⁵. Economic growth is projected at an average of 5.5% per year over the medium term, based on greater policy certainty, improved market access, and strong structural reform implementation²⁶. Medium-term growth prospects depend on a number of factors, including improved economic ties with the EU and the robust reform program outlined in the Government's development strategy, which will support growth in private investment.

²¹ *Id*

²² <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>

²³ <http://www.adb.org/sites/default/files/publication/182221/ado2016.pdf>

²⁴ *Id*

²⁵ *Id*

²⁶ http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/06/09/000442464_20140609092138/Rendered/INDEX/864360PGD0P146010Box385226B000UO090.txt

1.3 Socioeconomic Profile

In 2015 the population was equal to 3,729,500 people which is down from 4,371,000 from the previous general population census of 2002. 57.4% of the population live in urban areas and 42.6% in rural areas, with men constituting 47.7% and women – 52.3%²⁷. Due to the sharp increase of live births since 2009, the population in the 0-4 age group grew, but the biggest increase is associated with the 50-59 age group that reflects the issue related to the aging population. The biggest decrease was observed in the 10-19 age group.

The main reason for such a drastic drop in the total population is emigration. The emigration factors range from economic to political and personal. The character of Georgian emigration is predominantly a labor one and is gender imbalanced, as the majority of labor migrants are males.

In addition to economic migration, better opportunities related to education stand out too. Georgia compares well in the ECA region in terms of enrollment rates at basic education levels, despite a relatively modest level of public expenditure at approximately 2.9% of GDP in 2013²⁸. However, the comparatively high enrolment rate does not necessarily reflect the quality of education. The quality of public secondary and tertiary education needs improvement.

According to UNECE, population ageing is advancing rapidly in Georgia. In 2010, more than 14% were 65 years and older and about one third were 50 years old and above; by 2030 these figures are expected to grow to 21% and 40 % respectively²⁹.

Georgia is ranked 76th in the UNDP Human Development Index (HDI) and the country has been improving its position over the last decades but still lags behind countries with very high HDIs. However, Georgia did make some significant strides in poverty reduction, as poverty rates have fallen consistently over the past decade. In 2010 – 2014 extreme poverty declined from 47% to 32%³⁰ whereby wage and social assistance were the most important contributors, while employment growth and agricultural income played a much less significant role.

Despite the continuous decline in poverty observed over the past decade. large urban-rural disparities persist. In 2014 the rural poverty rate of 41% was more than double the urban rate of 21%. The lack of income opportunities in rural areas, where two-thirds of the country's working poor are engaged in semi-subsistence farming, presents a major challenge, as does the high rate of urban unemployment, especially among younger workers. To narrow rural-urban disparities, the Government has adopted a more proactive strategy to promote rural growth through investment in agriculture and to make reform more inclusive by targeting smallholder farmers and industrial startups with concessional funds³¹.

According to the ADB, poverty in Georgia has four major causes: (i) lack of economic opportunity; (ii) isolation; (iii) insufficient skills, capabilities, and assets; and (iv) income shocks due to adverse health events or disasters. Further expansion of the economy with inclusive growth, development of human resources, and protection of vulnerable households and the poor from economic shocks are the primary ways to address poverty.

Inequality in Georgia is one of the highest in the region. High income earners benefitted most from Georgia's recent economic growth which is reflected in an increase of income inequality. Since the early 00s the Gini coefficient has been slowly increasing. During 2003–2009, the top 20% of the population saw their income and consumption increase by more than 26%, while the bottom 20% saw theirs increase by only 10%. For the bottom 20% of the population, much of the gain occurred during 2007–2008 due to

²⁷ http://www.geostat.ge/cms/site_images/files/yearbook/Yearbook_2015.pdf

²⁸ <http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/4/741601460152922821/Georgia-Snapshot-eng.pdf>

²⁹ <http://www.unece.org/index.php?id=37439>

³⁰ <http://documents.worldbank.org/curated/en/734491467988918817/pdf/101083-REVISED-Box394821B-PUBLIC-GEO-FOR-WEB-rev.pdf>

³¹ <http://www.adb.org/sites/default/files/publication/182221/ado2016.pdf>

the introduction of higher public pensions and a targeted social assistance program³². However, the situation started to improve gradually and inequality fell between 2010 and 2014, especially after the introduction of higher public pensions and targeted social assistance, including a universal healthcare system. Inequality in per capita consumption fell between 2010 and 2014, as measured by the Gini coefficient, from 42.1 to 40³³. Observing the Gini by location (39.4 in rural areas and 38 in urban areas) that is lower than the national Gini indicates the strong differences in the living standards between urban and rural areas³⁴.

1.4 Economic Structure and Sectoral Analysis

1.4.1 Industrial Sector

Back in 1991, 37.1% of the GDP was derived from the industrial sector but the industry's contribution sharply dropped in the following few years to almost 10%. The sector gradually recovered and for the last 15 years it has remained in the range of 21-26% (including manufacturing) of GDP. In 2015, out of 1,779,900 employed, approximately 109,000 persons were employed in the industrial sector, which is a decline from 116,000 in 2014³⁵. The food and metal industries provide the largest industrial base for Georgia, while apparel, beverages, wood and chemicals are the fastest growing industries³⁶. Industrial production turnover reached GEL 9.3 billion in 2015, which is almost 1.9 times more than in 2008 with manufacturing industries accounting for 69.1% of the total value of industrial production in 2015, while mining and quarrying accounted for only 5.7%. In 2015, the share of manufacturing production decreased by 3.9% in comparison to 2014 and the share of mining and quarrying increased by 51%. However, manufacturing increased by 44 % compared to 2008 and mining and quarrying decreased by 8.1% indicating that industrial production growth is mainly driven by manufacturing, while mining and quarrying is lagging behind (Table 2)³⁷.

Subsector/Year	2008	2009	2010	2011	2012	2013	2014	2015
Mining and quarrying	585.0	196.6	243.7	313.8	283.8	288.5	357.8	541.1
Manufacturing	2,855.2	2,913.0	3,918.3	5,197.7	5,552.6	5,982.3	6,708.5	6,451.0
Electricity, water and gas supply	1,197.4	1,297.8	1,377.9	1,720.5	1,717.2	1,770.5	1,933.9	2,341.5
Total	4637.6	4,407.4	5,539.9	7,232.0	7,553.6	8,041.3	9,000.2	9,333.6

In 2014 the total turnover of the manufacturing sector increased by 17.2% compared to 2012 including manufacturing of food products, beverages and tobacco, manufacturing of transport equipment, machinery with the highest growth rate. However, in 2015 total turnover decreased by 4% and previously leading manufacturing activities also declined. Manufacturing of oil products, paper, textiles, leather, chemical minerals and non-metallic mineral products continued to grow (Table 3)³⁸

Activity/Year	2012	2013	2014	2015
food products, beverages and	2,303.4	2,724.9	3,136.4	2,944.5

³² *Id*

³³ <http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/4/741601460152922821/Georgia-Snapshot-eng.pdf>

³⁴ *Id*

³⁵ http://www.geostat.ge/index.php?action=page&p_id=464&lang=eng

³⁶ <http://www.investingorgia.org/en/keysectors/manufacturing>

³⁷ http://www.geostat.ge/index.php?action=page&p_id=464&lang=eng

³⁸ *Id*

tobacco products				
Textiles and textile goods	100.4	96.4	112.5	153.6
Leather, leather products and footwear	11.3	14.6	17.4	19.5
Wood and products wood and cork	94.2	74.0	81.4	73.3
Paper and publishing	244.7	247.9	234.0	252.8
Oil products	1.7	1.4	4.1	20.6
Chemical products	483.9	457.5	504.2	557.9
Rubber and plastic products	169.1	164.7	246.3	235.8
Other non-metallic mineral products	748.1	705.8	804.5	873.7
Basic metals and fabricated metal products	1,036.8	1,067.3	1,145.7	992.9
Machinery and equipment	71.2	83.1	101.3	53.8
Electrical machinery and optical instruments	45.8	40.6	54.9	52.9
Transport equipment	136.5	187.2	106.7	93.1
Other activities	105.6	116.9	159.2	126.6
Total	5,552.6	5,982.3	6,708.5	6,451.0

In 2015, there were 6,740 industrial enterprises in Georgia, of which 7% were large enterprises, according to the national classification (Table 4)³⁹. The great majority fall into the small enterprises category. 90% of all enterprises are manufacturing enterprises and mining and quarrying represents only a minor fraction. While the role of SMEs is gradually increasing in the total turnover of industry in Georgia, the share of the SME sector in GDP remains one of the smallest in the region. Large enterprises are still leading with approximately GEL 8 billion⁴⁰ of turnover in comparison to approximately only GEL 1 billion derived from SMEs.

	Total	Large	Medium	Small
Total	6,740	467	521	5,752
Mining and quarrying	403	20	47	336
Manufacturing	6,337	447	474	5,416

In 2015, the share of Manufacturing Value Added (MVA) to GDP was 12% with value added in percentage in total MVA of 44% in food and beverages, 12% in basic metals, and 11% in non-

³⁹ *Id*

⁴⁰ http://geostat.ge/index.php?action=page&p_id=464&lang=eng

⁴¹ At present, three size classes of enterprises are distinguished by National Statistics Office:

- Large enterprises: enterprises with an average number of 100 or more employees and an annual turnover which exceeds 1.5 million GEL.
- Medium size enterprises: enterprises with an average annual number of employees from 20 to 99 persons and an annual turnover from 0.5 million to 1.5 million GEL.
- Small size enterprises: enterprises with an average annual number of employees of less than 20 persons and an annual turnover of less than 0.5 million GEL

metallic mineral products⁴². Share of MVA in GDP rose in the late 1990s, but stagnated below 15% in the last decade, implying that the manufacturing sector has languished in the past few years. In terms of MVA per capita, in 2014 Georgia ranked at the lower end in the region. In 2015 Georgia had a MVA per capita of USD 397⁴³, which was ahead of Azerbaijan and Ukraine, but significantly below that of the Russian Federation, Kazakhstan and Belarus. Georgia has significantly increased its ranking in the Competitive Industrial Performance Index (CIP) since the 1990s but during recent years it did not make any significant changes with a position of 94 out of 143 in 2015.

Georgian metallurgy started to develop since 1944 with a giant factory established in Rustavi - a key industrial city as the largest metallurgical plants, cement production and the chemical industries are mostly situated there. Rustavi Metallurgical Plant is one of Georgia's largest industrial enterprises that is manufacturing reinforcing bars, seamless pipes, square billets, pig-iron castings etc. Heiderberg Cement Georgia is the largest cement producer in the South Caucasus running 4 cement and 9 concrete plants in the country. Rustavi Azot is one of the largest industrial enterprises in Georgia and is a main supplier of nitric fertilizers in the South Caucasus countries. JSC RMG Copper is Georgia's leading mining company focusing on copper and gold extraction. These are the main heavy industries remaining from the Soviet era. They still underperform due to technological backwardness and have made little progress in terms of modernization. They also do not fully use their capacities, with Heildelberg Cement Georgia being the exception to this. Although the privatization of industrial enterprises offered an opportunity to introduce cleaner technologies, many industrial facilities continue to operate with outdated technologies and low energy efficiency⁴⁴.

The role of construction has been increasing gradually but skyrocketed between 2010 and 2012 from total turnover of GEL 1.7 billion to GEL 4.4 billion⁴⁵, respectively. However, as with the rest of the economy, it plunged in the post-election period of 2012. But since late 2013, the construction sector benefited from renewed public infrastructure projects and resumption in business related investments.

Georgia had a high quality textile industry during the Soviet Union, however, the sector faced major challenges in 1991. It has been rapidly growing since 2004 due to the availability of a low-cost labor force, preferential access to the EU market and low energy costs. The textile sector now encompasses about 200 companies, 95% of which are micro-enterprises, while 5 large Turkish companies and 12 Georgian manufacturers employ respectively 3,000 and 2,000 people. The main export markets are: Turkey, CIS (including Russia) and the EU⁴⁶. Ajara Textile is one of the leading companies, established with Turkish investments, and produces apparel for internationally recognized brands such as Puma and Nike⁴⁷. Georgia has great potential in the textile sector and the DCFTA opens up new frontiers for the textile industry, however the sector requires strong support in value chain development. In addition, Georgia has strong potential in silk textile production based on its distinctive industrial heritage that was ruined in the early 1990s.

Georgia is not a manufacturing goods export country. The export products are fairly unsophisticated: copper ores, nuts, vehicles (re-export), ferro-alloys, medicaments vehicles (re-export), fertilizers, scrap metal, gold. In January- June 2016, the share of all major export commodities was as follows: copper ores- 16%, motor-cars – 8%, ferro-alloys – 8%, nuts 7% and medicaments – 5%.

In comparison to previous years, the Government is facing a challenge of attracting FDI, especially in the productive sector which has the potential to spur the economic growth and development. Recent years' investment in mining and quarrying remains at the stable rate of approximately USD 43

⁴² http://www.unido.org/Data1/IndStatBrief/Basic_Information.cfm?print=no&tttype=C1&Country=GEO&Group=

⁴³ *Id*

⁴⁴ http://www.unece.org/fileadmin/DAM/env/epr/epr_studies/ECE_CEP_177.pdf

⁴⁵ http://geostat.ge/index.php?action=page&p_id=467&lang=eng

⁴⁶ <http://www.east-invest.eu/en/investment-promotion/georgia-2/GE-textiles>

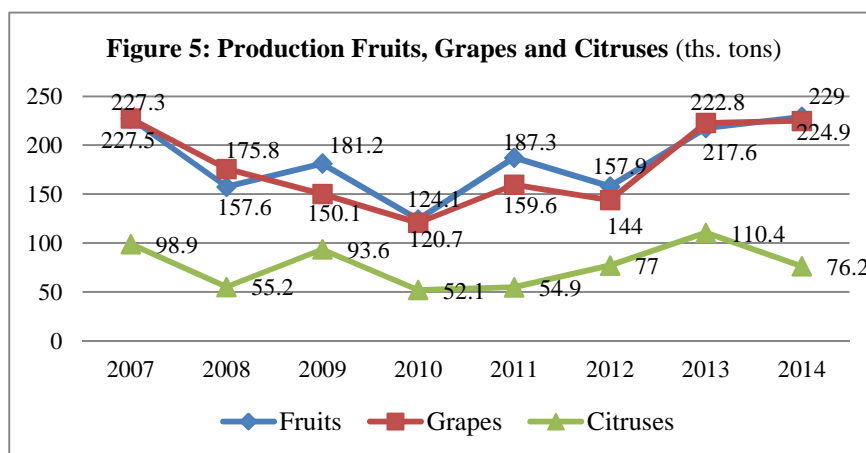
⁴⁷ <http://www.investingorgia.org/en/keysectors/success-stories/ajara-textile1.page>

million. In 2014, the investments in manufacturing almost doubled to USD 205 million compared to 2013. However, an investment influx in manufacturing declined in 2015 to USD 90 million following the general trend of FDI's decline in the economy except for transport and communications, financial sectors and agriculture and fishery that continued to grow, comprising 60% of total FDI. In 2015, weak export demand and slower-than-expected adjustment in imports caused a contraction in manufacturing and relevant decrease of FDI. However, the Georgian government continues to promote investments in the manufacturing sector especially in the Free Industrial Zones with a minimal tax burden.

1.4.2 Agricultural Sector

Agriculture has always been one of the most important sectors in the Georgian economy. During the economic downturn of the early 1990s, agriculture contributed over 50%⁴⁸ of GDP but the share in total GDP has declined significantly during the last decade from 12.8% in 2006 to only 9.3% in 2014. However, it employs more than 50% of the labor force. Agricultural production accounts for 45% of rural households' income and over 73% of the rural population are entirely dependent on their farms for subsistence. Georgia's agricultural production is diverse due to the different climatic zones and natural resource endowment and includes viticulture, cereal production, and a wide range of vegetables, fruits, and nuts, dairy, citrus and tea.

Enormous structural changes occurred since the collapse of the Soviet Union which is reflected in the decline of total production and the decline of irrigated area from 386,000 hectares in 1988 to 25,000 hectares in 2013. Wine and mineral waters, nuts, citrus and fruits are key drivers of agricultural export growth. Agriculture is still recovering from the 2006 Russian embargo which was followed by the dismantling of public services and a low level of investments in agricultural irrigation up to 2011⁴⁹. The total volume of grapes produced has not yet reached the pre-embargo period but total production has been gradually increasing reaching 224,900 thousand tons in 2014⁵⁰ (Figure 5)⁵¹. Georgia is one of the largest producers of nuts in the world with approximately GEL 400 million per year and with the Nut Production State Program the Government intends to establish Georgian nuts as a global brand.



⁴⁸ <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?page=4>

⁴⁹ <http://pubdocs.worldbank.org/publicdoc/2015/10/24371444139906969/Georgia-Snapshot.pdf>

⁵⁰ http://geostat.ge/index.php?action=page&p_id=428&lang=eng

⁵¹ *Id*

Georgia has strong comparative advantages in agriculture but domestically producers need to be encouraged to move towards the production of high value-added products rather than focusing only on the export of raw fruits, nuts, or vegetables.

The agricultural productivity of Georgia is low due to the very small family farms and the lack of cooperative/clusters development, the low degree of entrepreneurship, and the limited educational opportunities (only 19% of the agricultural labor force have training in agriculture), as well as the low use of agricultural inputs⁵². Georgian agro-production is characterized by high labor-intensiveness especially in Western Georgia while Production in Eastern Georgia tends to be more mechanized and more commercially orientated, e.g. in terms of adding value.

Georgia is home to over 2000 mineral water springs and several (Nabeglavi, Sairme, Borjomi, Rachis Tsklebi, etc.) are bottled for domestic consumption and export⁵³. Georgian carbonated soft drinks are leading export products and the main export countries are Russia Federation, Ukraine and Azerbaijan. By far the most important exported commodity is shelled hazelnuts (USD 176 million), followed by wines and mineral water (USD 82 million). In 2015 wine export was approximately USD 96 million, which is a significant decrease compared to 2014 – USD 181 million⁵⁴. In January-April 2016, the value of exported wine amounted to USD 28 million, which was 15% more than in the same period of last year. According to the Georgian National Wine Agency, in the period of January-April 2016 the main wine export markets were: Russia (5,925,933 bottles), Ukraine (1,488,737 bottles) and Kazakhstan (1,282,100 bottles). The development of a value chain approach and clustering of small producers have emerged as immediate priorities for technical assistance, as Georgia is characterized with highly fragmented small-scale family holdings where more than 90% of the production is concentrated.

1.4.3 Services and tourism sector

The role of services in the total GDP has increased significantly but remains below 70%. The financial sector, healthcare and education, transport, and tourism are the leading economic drivers in Georgia.

The Government regards tourism as one of the key development areas and has increased efforts to promote the country as an attractive tourist destination. In 2010, the Georgian National Tourism Administration (GNTA) was established to ensure sustainable tourism development through positioning Georgia as a unique travel destination on the international tourist map. Between 2013 and 2014, the total value added in the tourism sector increased by 10%, reaching GEL 1.5 billion. As a result, tourism's gross value added, as proportion of GDP, increased to 6%. The additional value added in the tourism industry in 2014 was mainly driven by accommodation (+15%) and passenger traffic (air transport +10%, other transport +9%)⁵⁵. As a result of strong private investment in hotel industries, the number of hotels more than doubled since 2008. The number of visitors increased tenfold from 560,000 in 2005 to 5,900,000 in 2015 with 88% of the visitors coming from neighboring countries: Turkey, Azerbaijan, Armenia and the Russian Federation (Figure 6)⁵⁶. The cancellation of visa requirements for citizens of the Russian Federation significantly increased the number of inbound tourists. The number of inbound trips from Western and Northern Europe is growing as well. In 2015, approximately 5% of international arrivals were from EU countries.

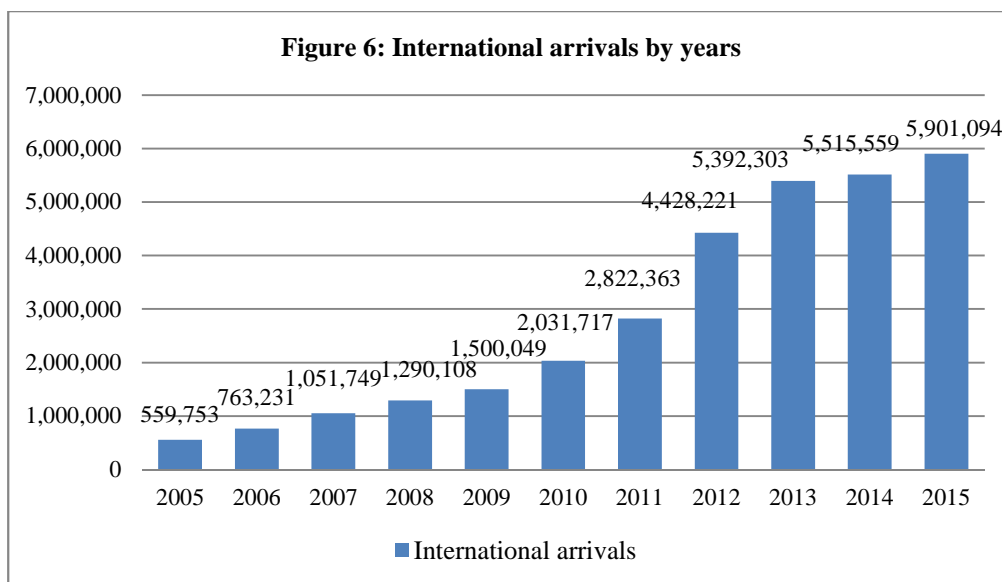
⁵² http://www.unece.org/fileadmin/DAM/env/epr/epr_studies/ECE_CEP_177.pdf

⁵³ http://www.beverages.tradewithgeorgia.com/upload/file/Non-alcoholic_Beverages_Catalogue.pdf

⁵⁴ http://www.geostat.ge/index.php?action=page&p_id=137&lang=eng

⁵⁵ *Id*

⁵⁶ <http://gnta.ge/statistics/>



Georgia has a unique setting of factors allowing the country to develop diverse types of recreational tourism – cultural, nature-based, wine and food, sports, religious, etc.

1.4.4 Energy and Environment

After a series of successful reforms, Georgia was able to develop a stable and reliable energy sector that plays a critical role in the economy. Still, vast amounts of Georgia’s tremendous hydropower resources (top five in per-capita water resources in the world) are underutilized. Among the total installed generation capacity of 3,320 megawatts, hydropower generation currently accounts for 85% of yearly energy output and the remaining 15% is from gas and oil-fired generation⁵⁷. The country’s hydropower potential is estimated at up to 80 terawatt-hours (TWh) per year, of which 60 TWh is economically feasible⁵⁸. Recent economic growth translated into a 3% increase in the demand for electricity in 2013, however, Georgia still relies on seasonal electricity exchanges with neighboring countries, which undermines the security of its supplies and poses a risk of seasonal electricity shortages. Currently, 17 hydropower plants are under construction, seven of them, with total installed capacity of around 300 MW, started in 2015⁵⁹.

The role of other renewable energy sources has been increasing over the past decade. Georgia has an important wind energy potential, which is estimated to be able to annually generate 4 billion kilowatt-hours⁶⁰. The construction of the first Wind Power Plant in Georgia started in 2015 with first generation expected to happen in September/October 2016. The total annual solar energy potential is estimated to be 108 MW, which is equivalent to 34 thousand tons of standard fuel⁶¹. Geothermal energy as an affordable and sustainable solution to reducing dependence on fossil fuels has strong potential in Georgia. According to recent hydro-geological studies, the Georgian geothermal water reserves reach 250 million m³ per year and at present there are more than 250 natural and artificial water channels where the average temperature of geothermal waters ranges from 30 to 110 °C, while the total debit is 160 000 m³ per day and night⁶².

⁵⁷ <http://www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-ssa-03.pdf>

⁵⁸ *Id*

⁵⁹ <http://www.investingorgia.org/en/keysectors/energy>

⁶⁰ http://www.energy.gov.ge/investor.php?id_pages=17&lang=eng

⁶¹ *Id*

⁶² *Id*

In 2013, industry consumed 325 million m³ of water (35% of total water use), excluding hydropower generation.

In Georgia, the major water pollution issues include⁶³:

- Discharge of untreated wastewater from the urban centers;
- Chiatura manganese mines: no treatment plan, very high concentrations of manganese and the total suspended solids (TSSs);
- Copper (JSC RMG Copper) and gold mines: as gold mine runs on a closed cycle, no discharges of contaminated water should occur, however acidic water is the main source of pollution;
- Coal mines at Tkibuli;
- Factories in Batumi and the Batumi refinery – not operational since 1990’s: hydrocarbons present in the soil contaminate water, especially in the rainy season;
- The Black Sea: there is eutrophication and fishing resources have diminished

The major waste generators are considered to be the mining industry (including coal extraction/processing), oil processing industries, and the ferrous and nonferrous metallurgy and manufacturing industries⁶⁴. The latter constitutes the largest number of existing facilities and include, for example, varnish and paint production, food and drink factories and construction materials processing. Waste from large industrial facilities is disposed mainly on landfills at the industrial site itself or nearby, with a few legal/environmental requirements. Hazardous waste that was generated in the past was not properly disposed. Hazardous waste can be found at practically every abandoned factory. A systematic inventory of hazardous waste sites has not yet been carried out in Georgia.

The industry sector is the third largest energy consumer in the country after residential and transport, accounting for 18.3% (645 Ktoe) of final energy consumption (TFC) in 2013⁶⁵. The TFC by energy source is dominated by oil and gas, followed by biofuels and electricity in 2011⁶⁶. In 2013 four industrial sub-sectors including non-metallic minerals, iron and steel, construction, and food and tobacco accounted for about 92% of total industrial energy consumption (Table 5)⁶⁷:

Table 5: TFC (Ktoe) by industrial sub-sector		
Sector	Sub-sector, total (Ktoe)	Share of total industrial use, %
Iron and steel	142	22.04%
Chemical and petrochemical	28	4.34%
Non-metallic minerals	334	51.9%
Transport equipment	2	0.31%
Mining and quarrying	12	1.9%
Food and tobacco	51	7.91%
Paper pulp and print	2	0.31%
Construction	68	10.6%
Textile and leather	1	0.15

⁶³ http://www.unece.org/fileadmin/DAM/env/epr/epr_studies/ECE_CEP_177.pdf

⁶⁴ *Id*

⁶⁵ IAE statistics, 2013

⁶⁶ IAE statistics, 2011

⁶⁷ IAE statistics, 2013

Non-specified (industry)	4	0.63%
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There are no clear and reliable available figures about the energy performance of the Georgian industry. However, data is available for energy intensity that is partially helpful to understand energy efficiency as declines in energy-intensity are a proxy for efficiency improvements. When compared with similar countries, Georgia has one of the most energy-intensive (the amount of energy consumed per unit of GDP) economies and uses 4.5 times more energy per unit GDP production than countries in the EU. This is despite the fact that Georgian companies face among the highest gas and electricity tariffs. According to the Ministry of Energy, energy intensity TPES/GDP (PPP) (toe/US\$1,000 [2005] PPP) was 0.229 in 2012. According to the United States Energy Information Administration data, Georgia experienced a steady decrease in energy intensity from 1992 to 2006, followed by a slight increase from 2006 to 2010. Since 2010, there has been some improvement in energy intensity in Georgia, which could be explained by the influence of both structural changes in the economy – such as a shift from industry towards services and within industry to less energy intensive industries – and improvements in the end-use energy efficiency – such as lower energy consuming appliances or the use of insulation in buildings.

Efficiency levels differ from one sector to another and significantly between companies of the same sector. The average energy efficiency of Georgia enterprises remains significantly below that of Western Europe. This is a result of little progress in terms of technological development and modernization in the industrial sector. Although the privatization of industrial enterprises offered an opportunity to introduce cleaner technologies, many industrial facilities continue to operate with outdated technologies and low energy efficiency.

However, Georgia has strong potential in energy savings especially in manufacturing sectors⁶⁸. It is estimated that energy efficiency measures can provide up to 20 % of energy saving in the country, in particular up to 1 TWh of electricity, up to 250 million m³ of natural gas and up to a million m³ of firewood⁶⁹. Food, beverages, and tobacco could be the most interesting and promising subsectors. These sectors require relatively smaller investments to replace equipment compared to heavy industrial sectors, and at the same time, payback periods are shorter – these sectors produce consumable goods. Additionally, the country’s location creates an excellent opportunity for the development of food and beverage sub-sectors: wineries, mineral water bottling and tourism infrastructure – all these are currently operating with outdated and inefficient technologies (with few exceptions).

In this context, it is important to discuss Greenhouse gas (GHG) emissions. GHG emission data available from national sources cover only the period from 2008-2011. There is no data at all available for hydrofluorocarbons (HFs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). In 2011, the highest share, 54%, of total GHG emission was generated by the energy sector. The industrial sector emitted 19.98% and the agriculture sector almost as much, 17.14%, while the waste sector produced 8.35% of the total (Table 6)⁷⁰.

Table 6: Main sector emissions, 2008-2011, thousand tons of CO₂-equivalent				
	2008	2009	2010	2011

⁶⁸ The data on potential energy savings (table 3) is derived from National Statistics Office of Georgia while data on industrial sector TFC (table 2) from IAE. TFC data from Statistics Office slightly differs from IAE, thus estimated energy savings would be different if calculated according to IAE statistics. <http://www.oe-eb.at/de/osn/DownloadCenter/Studien/Energy-Efficiency-Finance-Georgien.pdf>

⁶⁹ http://www.unece.org/fileadmin/DAM/env/epr/epr_studies/ECE_CEP_177.pdf

⁷⁰ *Id*

Total aggregated emissions without LULUCF	13,126.8	12, 567.6	12,454.0	14,268.5
Energy	7, 138.0	6,667.0	6,538.0	7,782.0
Energy industries	796.0	750.0	539.0	1,218.0
Manufacturing industries and construction	655.0	589.0	580.0	1,071.0
Transport	2,183.0	2,440.0	2,419.0	2,331.0
Other sectors	1,647.0	1,483.0	1,525.0	1,641.0
Other	54.0	51.0	218.0	80.0
Fugitive emissions	1,803.0	1,354.0	1,257.0	1,441.0
Industry	2,350.7	2,198.9	2,351.0	2,850.4
Solvent and other product use	-	-	-	-
Agriculture	2,552.3	2,604.3	2,451.3	2,445.3
Land use, land use change and forestry (LULUCF)	-	-	-	-
Waste	1,085.8	1,097.4	1,113.8	1,190.8

Emissions had been gradually decreasing until 2009⁷¹. The reason was the termination of operations at several installations and the application of emission abatement measures at other installations. Since 2009, industrial activities have increased leading to a subsequent increase in emissions. It is interesting that in 2013 emissions drastically decreased despite the industrial TFC remaining stable since 2011, pointing at the introduction of energy efficient measures. However, no reliable data exists to support this statement.

The importance of economic growth prevailed over environmental concerns in the last decade with excessive deregulation, resulting in unsustainable use of natural resources and environmental damage. Some of the core sectors of the Georgian economy – Energy, Tourism, Agriculture, Mining, and Forestry – substantially depend on environmental protective measures and waste considerate practices. Environmental law-making since 2010 has been narrow in scope and has not addressed gaps in major policy areas. However, new laws were adopted⁷²: 2011 Law on the Creation and Management of Javakheti Protected Area, 2012 Law on Nuclear and Radiation Safety, 2014 Law on Genetically Modified Organisms, 2014 Waste Management Code, etc.

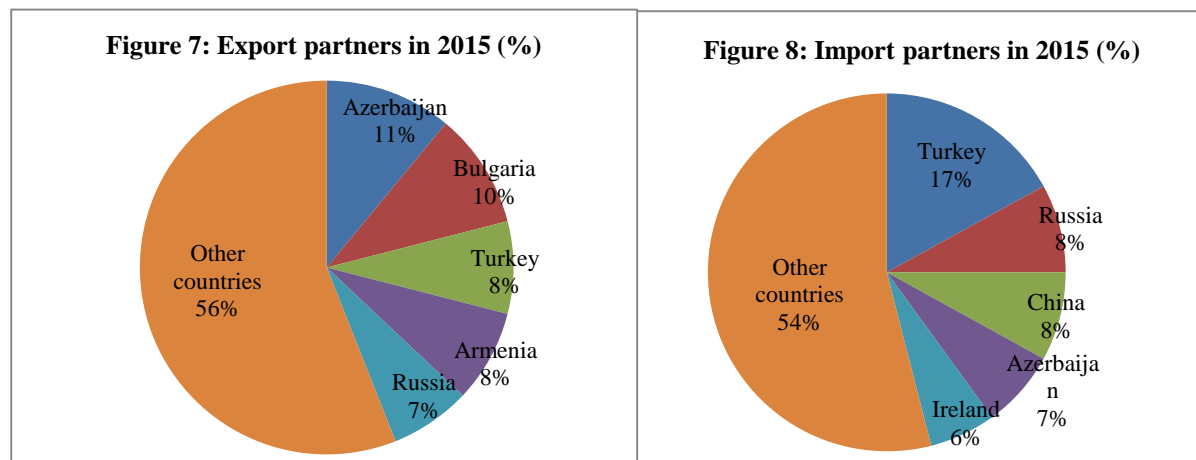
Georgia is engaged in international processes through the implementation of international commitments that are a part of 34 international agreements, including conventions and their protocols such as: Georgia is a non-Annex I party to United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol, Georgia ratified the Stockholm Convention in 2006, Paris Agreement, etc. The outlook for enhancing the policy and regulatory framework improved with the signing of the EU-Georgia Association Agreement and the recent institutional reforms. Currently, with the support of EBRD the Georgian Government is working on the development of its first National Energy Efficiency Action Plan (NEEAP) that will establish new standards in energy efficiency and environmental practices.

1.4.5 Trade

⁷¹ *Id*

⁷² *Id*

Georgia remains an import-oriented country with a high trade imbalance. Georgia continues to have a significant current account deficit (an estimated 9.5% of GDP in 2014) due to its heavy dependence on manufacturing and energy imports and the confluence of the above external shocks⁷³. In 2015, exports were USD 3,535 billion with major export products such as vehicles, ferro-alloys, fertilizers, nuts, scrap metal, gold, copper ores. In the same year, imports were USD 7,466 billion with major import products such as fuels, vehicles, machinery and parts, grain, other foods, and pharmaceuticals⁷⁴. Georgia has failed to diversify its exports and relies heavily on agriculture and low value added resource exploration. Azerbaijan and Turkey are the leading trading partners for Georgia, especially after the 2006 Russian embargo (Figure 7 and Figure 8)⁷⁵.



The Russian Federation was the largest trade partner but started imposing economic sanctions in December 2005 by restricting the export of agricultural products and had already banned the import of mineral waters and wine in 2006. In 2005, 87% of the total wine exported from Georgia was intended for the Russian market. However, after the embargo the Georgian Government supported the private sector in discovering new markets. These new markets included the European Union, Ukraine and Kazakhstan.

Substantial parts of the Association Agreement between the EU and Georgia have been provisionally applied since 1 September 2014. In that time, Georgian exports to the European Union increased by 16% in 2015 as a direct result of the DCFTA. The EU is the main trade partner of Georgia (32.6% of its trade takes place with EU). EU trade with Georgia accounts for only 0.1% of its total trade with a turnover of EUR 2.6 billion in 2015. Georgian imports from the EU amounted to EUR 1.84 billion with key commodities such as mineral products, machinery and appliances, chemical products and transport equipment. The key agricultural export commodities to the EU include kiwis, blueberries, nuts, garlic and wine. Copper and petroleum oils have also seen sizeable increases of exports to the EU. Georgian exports to the EU amounted to EUR 742 million in 2015⁷⁶.

Trade with China has significantly increased in recent years and the share of Chinese imports in the total imports of the January-June 2016 period reached 27%. In the same period, Georgia exported USD 89 million of value goods to China with wine as a leading export product (1,580,000 exported in the -January-June of 2016), followed by copper ore and other raw materials. To deepen trade and

⁷³ http://www.keepeek.com/Digital-Asset-Management/oced/development/sme-policy-index-eastern-partner-countries-2016_9789264246249-en#.V6Seoit96M8

⁷⁴ <https://www.cia.gov/library/publications/the-world-factbook/geos/gg.html>

⁷⁵ http://geostat.ge/index.php?action=page&p_id=137&lang=eng

⁷⁶ <http://ec.europa.eu/trade/policy/countries-and-regions/countries/georgia/>

economic cooperation Georgia and China started negotiations on the conclusion of a free trade agreement in December 2015 and plan to sign an agreement in October 2016.

The Republic of Turkey continues to be one of the leading trading partners of Georgia. Turkey and Georgia signed a free trade agreement in 2007 (entered into force in 2008). In 2015, Georgia's exports amounted to USD 186 million that is USD 53 million less compared to 2014.

On 27 June 2016, Georgia and EFTA countries signed a free trade agreement. Merchandise trade between the EFTA States and Georgia has increased at an average annual rate of 19 % between 2005 and 2015⁷⁷. In 2015, total merchandise trade between the EFTA States and Georgia was valued at USD 53.3 million, with EFTA's exports to Georgia amounting to USD 49.4 million and exports from Georgia to the EFTA States reaching USD 3.9 million⁷⁸. EFTA's key exports to Georgia were pharmaceuticals, fish and watches while EFTA's imports mainly consisted of apparel and hazelnuts.

The role of pharmaceutical exports is increasing in the total exports with USD 141 million in 2015 compared to only USD 23 million in 2008 making it a top 5 export product for Georgia. The re-export of moto-cars was once a leading export commodity; however its role in total export gradually declined to only USD 180 million in 2015 compared to USD 704 million in 2013. The reason is changes of legislation and restriction of policies on used cars in the main export markets including Azerbaijan. Although the country has gradually diversified its exports (main exports are metal and metal products (30%), repaired and remanufactured vehicles (20%), fertilizers, fruits and nuts, and wines and beverages (20%)), still the export basket remains unsophisticated.

According to the World Bank's analysis⁷⁹ on the top 10 products in which Georgia exhibits Revealed Comparative Advantage (index comparing the values of country's exports of a certain product to the values of the world exports of the same product), these are:

- Rail locomotives, electric
- Edible nuts
- Copper ores & concentrates; copper mate/cement
- Mineral or chemical fertilizers, nitrogenous
- Ferro-alloys
- Flours, meals & flakes of potatoes.
- Fruits & Vegetables
- Ships, boats and other vessels for breaking up
- Non-alcoholic beverages
- Sheep and goat (live)
- Waste and scrap metal of iron and steel

The same study also identifies products of high potential gain; however, it would be comparatively more difficult for Georgia to diversify into. The list is dominated by machinery and capital intensive products:

- Electrical machinery, apparatus and appliances
- Road vehicles
- Professional, scientific and controlling instruments and apparatus
- Photographic apparatus, equipment and supplies and optical goods
- Miscellaneous manufactured articles

⁷⁷ <http://www.efta.int/Free-Trade/news/EFTA-States-sign-Free-Trade-Agreement-Georgia-328686>

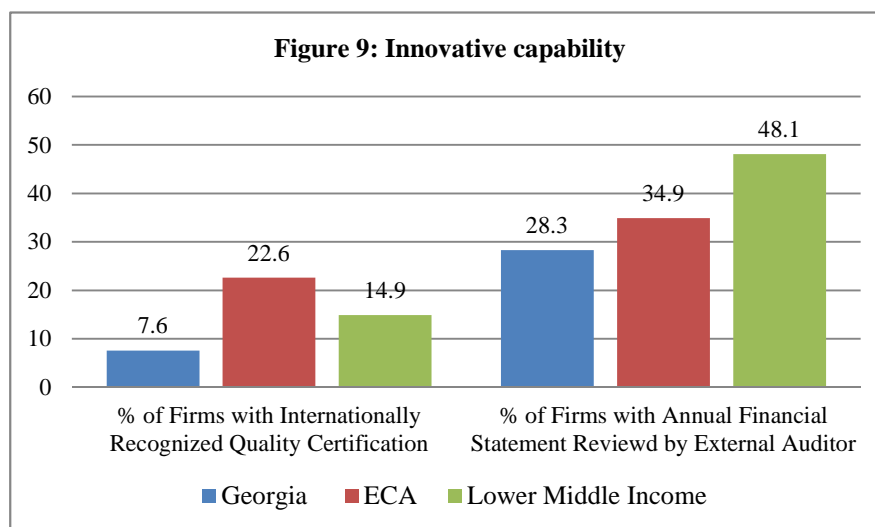
⁷⁸ *Id*

⁷⁹ http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/07/04/000356161_20130704114437/Rendered/PDF/792770ESW0P1440ox0377371B00PUBLIC0.pdf

1.5 Private Sector Development and SMEs

Georgia moved from a command Soviet economic system to market economy two decades ago, however, it is only since 2004 that significant steps have been taken by the Government to improve the business climate. Georgia has undergone extensive business friendly reforms by simplifying tax codes, reducing the size of and scope for rent-seeking activities by civil services, abolishing requirements for many business licenses and permits, liberalizing international trade, and by implementing a large-scale privatization program. These improvements made the country a more attractive destination for FDI and brought it global recognition as a top reformer. This has been reflected in international rankings including the Doing Business ranking (in 2016 24th position, however in 2014 it ranked in top 10 with 8th position)⁸⁰ and Index of Economic Freedom (in 2016 Georgia ranked 23rd out of 178 countries)⁸¹.

In 2013, Georgia had 557,379 registered businesses, but only 112,937 (20%) of them were active and, of these, 87% were small, 7% were medium-sized, and 5% were large⁸². The SME sector's share in GDP remains one of the smallest in the region, which in turn negatively affects future economic recovery, job creation and prosperity growth. SMEs accounted for 94% of registered businesses and 38 % of employment, but contribute less than 20% to GDP. Georgia's small businesses are largely owner-operated, employing an average of 1.3 people per firm. Just under 40% of SMEs operate in the trade sector (including repair of vehicles), followed by 12% in real estate. Merely 10% of SMEs are active in manufacturing, a significant decrease from 15% in 2010⁸³. While globally the SME sector is the main source of private sector growth, innovation, and jobs, in Georgia it remains a challenge⁸⁴ (Figure 9)⁸⁵.



The concentration of SMEs in low value-added activities accounts for their weak performance in terms of overall contribution to value added. Geographically, half of all SMEs are located in Tbilisi, with the rest being concentrated in two major regions, Adjara (11%) and Imereti (11%)⁸⁶. Moreover,

⁸⁰ <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>

⁸¹ <http://www.heritage.org/index/country/georgia>

⁸² <http://www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-psa.pdf>

⁸³ http://www.keepeek.com/Digital-Asset-Management/ocd/development/sme-policy-index-eastern-partner-countries-2016_9789264246249-en#.V6Seojt96M8

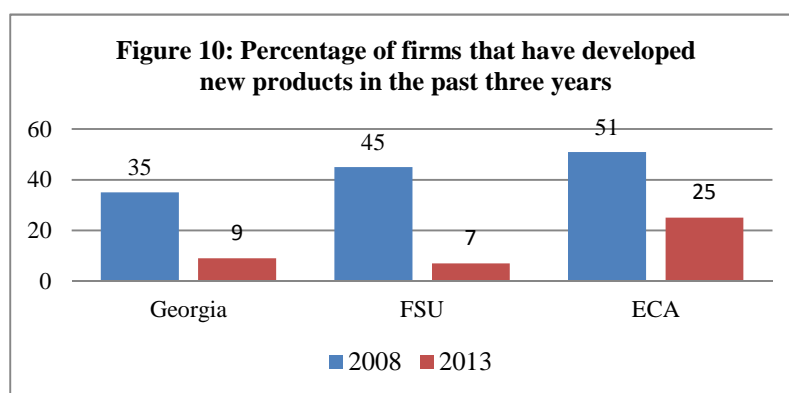
⁸⁴ <http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/10/24371444139906969/Georgia-Snapshot.pdf>

⁸⁵ <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Profiles/English/Georgia-2013.pdf>

⁸⁶ http://www.keepeek.com/Digital-Asset-Management/ocd/development/sme-policy-index-eastern-partner-countries-2016_9789264246249-en#.V6Seojt96M8

the relative weight of medium-sized enterprises within the SME sector has been reduced, suggesting that businesses face problems in scaling up⁸⁷.

The growth of the SME sector is constrained by gaps in essential infrastructure, limited access to finance, skills mismatch, absence of export promotion support, tax administration, and regulatory frameworks and logistics, which is especially problematic for the hydropower and the agriculture sector. The high cost and limited access to external finance is one of the main obstacles. The lending situation has changed since 2010 but remains beyond reach for specific economic activities and smaller firms and, particularly, for rural areas with only 1% of lending going to agriculture. Another constraint arises from the lack of management skills, scarce knowledge of markets and products, and skills mismatch in the labor market. The education system reaches most of the population and Georgia has one of the highest rates of individuals with tertiary education. However, the quality of education is relatively low and the subjects provided often do not address labor market needs and businesses still find it hard to recruit people with industry-relevant skills, particularly in manufacturing. To address these problems, new technical training facilities have been established for nurturing engineers and skilled technical staff, but the quality still remains low. In general, the productivity of Georgian firms, especially SMEs, remains inadequate due to poor technological preparedness and low business sophistication and innovation⁸⁸ (Figure 10)⁸⁹.



Since 2012, the government has broadened its approach to SME development beyond horizontal reforms by introducing targeted support measures. In particular, two new institutions, Entrepreneurship Development Agency and Georgia's Innovation and Technology Agency (GITA), have been created to provide financial and technical assistance for entrepreneurship, innovation and export promotion⁹⁰. In addition, a TechPark was opened in January 2016, where learning centers, laboratories, training centers and universal laboratories of industrial innovations are located in order to promote innovative technologies, support invention and implementation of innovative ideas.

The efforts of the Georgian Government are visible in the SME Policy Index which has been developed by OECD and is a benchmarking tool designed to assess SME policy frameworks. Georgia's 2016 SME Policy Index⁹¹ scores reflect the continued improvement of the institutional and operational environment for SMEs; Georgia continues to be the region's best performer in these areas. Significant progress has been made on the indicators for business support infrastructure, access to finance, technical barriers to trade and SME internationalization. Areas for improvement include SME greening and, despite considerable progress, innovation. Progress has also been made in the

⁸⁷ *Id*

⁸⁸ <http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/10/24371444139906969/Georgia-Snapshot.pdf>

⁸⁹ *Id*

⁹⁰ http://www.keepeek.com/Digital-Asset-Management/oecd/development/sme-policy-index-eastern-partner-countries-2016_9789264246249-en#.V6Seojt96M8

⁹¹ *Id*

human capital dimension, although the score for Entrepreneurial learning and women's entrepreneurship has decreased due to additional indicators which have broadened the assessment since 2012.

1.6 Cross-cutting Issues

1.6.1 Gender Policy

Georgia guarantees equal access to education with almost an equal number of male and female graduates. There is also equal access to the healthcare system for women. Despite a fall in the ranking of the World Economic Forum's Global Gender Gap report from 54th in 2006 to 82th place in 2015, (the reason is the increase in countries from 115 in 2006 to 145 in 2015) the score actually slightly improved from 0.670 in 2006 to 0.687 in 2015. The United Nations Gender Inequality Index (GII) 2015 ranked Georgia 76th of 188 which is a significant improvement from 81st of 148 countries in 2012. It is reflected in the representation of women in the policy-making organs which has been gradually improving as the proportion of women in Parliament increased from 6% in 2008 to 11% in 2012 and the gender voluntary quota increased from 20% to 30%. The unemployment rate among women was lower with 10.4% in 2014 compared to 14.0% in the male population. But the labor market activity is 20% less for women than for men with 57.1%. According to the World Bank Enterprise Survey, 32.1% of firms in Georgia have a female in the top management.

The concept of equality and non-discrimination has been articulated in Georgia's legal framework and development strategies, but achievement of gender-equality goals remains challenging mostly due to the cultural perception of women's role in society. Georgia ratified the Convention on the Elimination of All forms of Discrimination against Women in October 1994, and the Optional Protocol on violence against women in August 2002. The Parliament of Georgia adopted two key legal documents such as the Law of Georgia on Elimination of Domestic Violence, Protection and Support of Victims of Domestic Violence and the Gender Equality Law with a purpose to ensure that there is no discrimination in any aspect of public life; create proper conditions for realization of equal rights, freedoms and opportunities for men and women; prevent and eliminate any discrimination⁹². To ensure gender balance in political, economic and social life, the Gender Equality Council was established at the Parliament of Georgia in 2004 under the Speaker of the Parliament and after the adoption of the Gender Equality Law, the Council became a permanent body for gender equality. In May 2011, in order to implement the UN Security Council Resolution on "Women, Peace and Security" the Parliament of Georgia approved the National Action Plan for 2012-2015, followed by the National Action Plan on Gender Equality for 2014-2016. However, domestic violence continues to be a persistent problem for women in Georgia, and is frequently raised as a concern by women's organizations, together with reproductive and sexual health concerns.⁹³ The Ministry of Justice is working on the protection of women and developing policies to decrease violence so both men and women would benefit equally from SDGs. Additionally, the "Istanbul Convention on preventing and combating violence against women and domestic violence" will be submitted to Parliament for ratification and amendments to the criminal code will be introduced to punish the perpetrators of domestic violence according to the successful example of other countries.

The integration of gender equality perspectives in state programs for economic development and poverty reduction, as well as in employment policy, will help with gender balance in the labor market and especially in entrepreneurial activities. Equal access of women and men to fiscal, credit and production resources is one of the mechanisms for private sector development and for the creation of jobs.

⁹² <https://matsne.gov.ge/en/document/view/91624>

⁹³ <http://www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-ga.pdf>

1.6.2 Youth

Despite reform efforts and relatively strong economic growth, youth unemployment is especially high, having reached 30% in 2014. However, there is no specific Government program focusing on the issue of youth unemployment. An unstructured approach in youth employment, lack of access to finance, brain drain, skills mismatch and non-existence of direct and exclusive policy focusing on youth development are the main existing challenges in this area. The educational system does not provide the skills needed by the industry. To reduce youth unemployment, vocational education must be strengthened and tailored to represent labor market needs. The Government of Georgia has not yet prioritized youth development especially youth entrepreneurship and the creation of new businesses is supported only through limited financial and human resources. Under administrative control of the Ministry of Sport and Youth Affairs, two LEPLs⁹⁴ Children and Youth Development Fund (budget: GEL 1.5 million) and Children and Youth National Centers (budget: GEL 2.7 million) through revolving funds and grant schemes are involved in the support of youth entrepreneurial activities.

1.7 Summary of the Current Industrial Development Trends and Key Issues

As mentioned in the previous section, Georgia's main economic sectors include agriculture, manufacturing, retail/wholesale, construction, and transportation. The main economic activities are centered around cultivation of agricultural products such as grapes, citrus fruits, and hazelnuts; mining of manganese, copper, and gold; and output of a small industrial sector producing alcoholic and non-alcoholic beverages, metals, machinery, and chemicals. Based on the discussion in the previous section and the overview of major development strategies of Georgia, the following key challenges can be identified:

- **Volatile growth:** Since 2003, Georgia has seen strong real GDP growth, rising real wages, a declining fiscal deficit, and improved competitiveness⁹⁵. But in 2013 owing to the slowdown in Russia and the subsequent reduction of remittances as well as the political transition period after elections, growth rate sharply dropped. The economic growth is strongly dependent on external factors.
- **High unemployment, gender imbalanced migration, skills mismatch and poverty:** Despite solid economic growth, widespread poverty and high levels of unemployment persist. Youth unemployment is also very high for both men and women in the 15–24 age group at 30%. Making future growth more inclusive is a key development challenge. Georgia is also one of the poorest countries in the region. As per the World Bank's Europe and Central Asia poverty lines of USD 2.5 and USD 5 per day, Georgia's poverty rates are close to those of Armenia and Kyrgyzstan despite considerable poverty reduction achievements observed in recent years. Rural areas are greatly affected by poverty and poverty rates are almost twice as large as in urban areas. Persistent unemployment, together with poverty contributes to a significant migration wave, estimated at one-quarter of the Georgian population. The majority of migrants are males looking for work opportunities abroad. The result is an uneven economic burden on women who are unprepared to become breadwinners as traditionally their role is limited to household activities. High unemployment is also caused by the existing skills gap. Although Georgia has a highly educated labor force (more than 30% hold a university degree), there is a lack of basic practical skills needed by the private sector, a fact that has hindered many major international companies from locating in the country. There is a strong need for developing skills through practical and vocational training and thus increasing the levels of meaningful and stable employment in the country.

⁹⁴ Legal entity of public law

⁹⁵ <http://www.adb.org/sites/default/files/institutional-document/153660/cps-geo-2014-2018.pdf>

- **Low value added, highly labor intensive production and low investment in R&D:** According to the World Economic Forum Global Competitiveness Report 2014–2015, Georgia ranked 69th out of 144 countries analyzed. The export basket remains fairly unsophisticated, with low value added and high labor intensiveness. The insufficient competitiveness of Georgian production severely hampers exports. Industrial competitiveness is also constrained by the size of the domestic market and the labor skills mismatch. Due to poor technological preparedness and low business sophistication and innovation, the overall productivity of Georgian industrial sector firms remains inadequate. R&D is not promoted and as a result 90% of private enterprises have not had any R&D expenditures in the past 5 years and do not envisage such in the future⁹⁶.
- **Immature SME sector:** The share of the SME sector in GDP remains one of the smallest in the region. The growth of SMEs is constrained by limited access to finance, poor skills match, low technological preparedness, restricted access to infrastructure, and underdeveloped value chains and local suppliers' markets. Currently, the level of cooperation between industries is quite basic. There are no clear examples of manufacturing clusters in Georgia except food processing industries including wine industries.
- **Underdeveloped agricultural sector:** Although the share of agriculture in total GDP has gradually declined (from 12.8% in 2006 to 9.3% in 2014), it remains an important sector in Georgia. Agriculture was not a public policy priority until 2012, in spite of absorbing a significant proportion of the labor force. As a result, while the growth rates have been impressive on average, there was no strong revival of labor-intensive manufacturing or productive transformation of agriculture or agri-business. Lack of access to capital and finance negatively affects the development prospects of the agricultural sector. One of the main issues is increasing and controlling the quality of agriculture inputs and outputs so that Georgian agricultural products can meet the stringent European market criteria for food safety and other international standards. A properly functioning GIs protection system will boost the agriproducts demand on European and international markets. Meanwhile, private investment in agriculture is impeded by weak land markets and poor access to irrigation. Strong potential exists in eco-tourism especially in wine and food tourism.
- **Reduced energy security, high energy intensities and a vast renewable energy potential:** Georgia still relies on seasonal electricity exchanges with neighboring countries and the country needs to exploit its plentiful hydropower resources in a sustainable way. According to estimates, only 25% of Georgia's energy potential is exploited meaning that there is huge untapped potential, mostly from hydro resources, but also from wind, solar, geothermal and biomass sources as well⁹⁷. Currently several hydropower stations are being constructed. Despite limited resources and heavy reliance on imports, the country uses 4.5 times more energy per unit GDP production than countries in the EU. Georgia experienced a steady decrease in energy intensity from 1992 to 2006, followed by a slight increase from 2006 to 2010. Since 2010, there has been some improvement in energy intensity in Georgia, which could be explained by the influence of both structural changes in the economy. It is estimated that energy efficiency measures can provide up to 20% of energy saving in the country, in particular up to 1 TWh of electricity, up to 250 million m³ of natural gas and up to a million m³ of firewood⁹⁸.
- **Poor environmental practices:** Some of the sectors of the Georgian economy depend on environmental protective measures and waste considerate practices. For example, long-term crop yields are at risk if incentives are not provided to promote limited pesticide and chemical fertilizer use, biological pest control, soil conservation techniques, water use efficiency, food

⁹⁶ <http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/10/24371444139906969/Georgia-Snapshot.pdf>

⁹⁷ <http://www.investingorgia.org/en/keysectors/energy>

⁹⁸ http://www.unece.org/fileadmin/DAM/env/epr/epr_studies/ECE_CEP_177.pdf

safety, crop rotation, and farm diversification. The over-use of mineral fertilizers and pesticides results in water contamination. In addition, less than 10% of industrial waste water is treated prior to discharge. The last decade of environmental law-making has been narrow in scope and did not address gaps in major policies, ignored environmental safeguards and relevant procedures. The most recent example was when the Government failed to enact Environmental Code of Georgia and created false expectations in addressing the gaps in policy areas. However, Georgia is part of 34 international agreements including most recently the Paris Agreement. The outlook for enhancing the policy and regulatory framework improved with the entering into force of the EU-Georgia Association Agreement and the recent institutional reforms.

Diversification in Georgia’s manufacturing is most feasible in lighter manufacturing processes. Georgia could take advantage of its high rate of labor force with tertiary education to develop labor intensive light manufacturing industries such as designer apparel, cultural artefacts, and wood furniture. Georgia’s average wage levels are currently low – however low wages must be accompanied by acceptable productivity levels and this is likely to require better workforce skills. One key point is that vocational training programs in Georgia should be focused more tightly on the skills required by the private sector.

1.8 SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong Government willingness for sustainable industrialization and modernization • Liberal and free market oriented economic policy • Top reformer of the business environment and favorable tax environment • Notable progress in anticorruption efforts • Unique climatic conditions and fertile soil • Advantageous geographic location • Well-developed, integrated and multimodal key transport infrastructure including East-West highway and sea ports • Vast renewable energy sources including abundant of water resources • Attractive business climate with leading position in ease of doing business • Low taxation and low labor cost • Perspective recreational tourism industry 	<ul style="list-style-type: none"> • Low value added, low productivity and highly labor-intensive production • Insufficient quantity and quality of tradable goods • Weak agriculture and agribusiness development • Weak diversification of sectors • Low R&D • Lack of access to finance and capital • Skills mismatch • Poor environmental practices • Relatively low level of internationalization, undiversified and unsophisticated exports, low export survival rates • Import-oriented economy • Immature SME sector and limited attention to SME greening with a few regulatory or financial incentives • Gaps in statistical data availability that hampers monitoring and evaluation of Government policies
Opportunities	Threats
<ul style="list-style-type: none"> • The entry into force of the Association Agreement with DCFTA as its integral part, signing of free trade regime with EFTA and ongoing negotiations with China • Privileged geographical position as a potential logistics and transportation hub 	<ul style="list-style-type: none"> • High dependence on external shocks including FDI and remittances • Security challenges with two separatist regions • Potential overlaps between different policy papers and no single strategic policy framework that would define the directions of Georgian economy for decades



Chapter II: Government Vision and Strategic Planning for Industrial Development

2.1 Regional and International Cooperation

Georgia is a member of various regional and international organizations but the country regards integration to the European Union as the main priority. At the end of June 2014, an important milestone in Georgian's efforts to become a recognized EU partner was achieved with the signing of an Association Agreement, which will deepen the political and economic relations between Georgia and the EU and will gradually integrate Georgia into the EU Internal Market. The core part of the Agreement is the creation of a Deep and Comprehensive Free Trade Area (DCFTA), which will offer Georgia a framework for enhancing its trade in the majority of goods and for economic growth by the removal of customs tariffs and quotas, and by a comprehensive approximation of laws, norms and regulations in various trade-related sectors. Georgia has already a very liberal set of commitments for services in the WTO General Agreement on Trade in Services (GATS), which is further extended under the DCFTA. The Ministry of Economy and Sustainable Development elaborated the **Action Plan for the Implementation of DCFTA for the period of 2014-2017**⁹⁹ to effectively coordinate the commitments under the DCFTA. On 1 July 2016, the Association Agreement fully entered into force.

China has gradually become an important trading partner for Georgia and an increasing number of Chinese companies are investing in Georgia. In 2015, the trade turnover with China reached USD 713 million (export USD 125 million and import USD 587 million). To deepen trade and economic cooperation, Georgia and China started negotiations on the conclusion of a free trade agreement in December 2015 and planned to sign an agreement in October 2016.

Georgia signed a Free Trade Agreement with the European Free Trade Association (EFTA) on 27 June 2016. The Agreement comprises the following areas: Trade in Goods, Rules of Origin, Trade in Services, Establishment, Intellectual Property Rights, Government Procurement, Competition, Trade and Sustainable Development and Legal and Institutional Issues (including Dispute Settlement, General and Final Provisions)¹⁰⁰. The free trade agreement with the Republic of Turkey signed in 2007 significantly eased trade barriers between businesses in both countries.

2.2 Development Strategies

To address the current economic constraints, the Government of Georgia implements the state program "Produce in Georgia" that aims at developing and supporting entrepreneurship, encouraging creation of new enterprises and increasing export potential in the country. The program provides support through access to finance and real property and technical assistance.

Two major investment funds (state-owned and private) have been established to support the private initiatives and facilitate investment inflows. JSC Partnership Fund (PF) was established on the basis of consolidating the ownership of the largest Georgian state-owned enterprises operating in transportation, energy and infrastructure sectors in June 2011 with two core functions of asset management and investment activities.

The Government of Georgia has adopted several national development strategies for the upcoming period that include development priorities related to different spheres of UNIDO's mandate and are reflected in the following documents:

- Socio-Economic Development Strategy, referred to as Georgia 2020

⁹⁹ Draft Action Plan can be found on the following link http://www.economy.ge/uploads/dcfta/DCFTA_Action_Plan_ENG.pdf

¹⁰⁰ <http://georgiatoday.ge/news/3125/Georgia-to-Sign-Trade-Agreement-with-European-Free-Trade-Association>

- The Strategy for Agricultural Development in Georgia 2015-2020
- The Regional Development Program of Georgia for 2015-2017
- National Tourism Sector Development Strategy for 2015-2025
- SME Development Strategy 2016-2020
- Rural Development Strategy (under development)
- Low Emissions Development Strategy (under development)

The overarching development strategy **Socio-Economic Development Strategy**¹⁰¹, referred to as **Georgia 2020**, has been developed by the Ministry of Economy and Sustainable Development and the Ministry of Finance of Georgia, which commit to a stronger, more inclusive growth process. The Strategy prioritizes an improved investment and business environment; development of innovations and new technologies; export growth; infrastructure development and maximum utilization of the country's transit potential; human resource development according to the labor market requirements; improved social security system; better health care; and others. The Strategy envisages strengthening Georgia's engagement towards the European Union.

The Strategy for Agricultural Development in Georgia 2015-2020, led by the Ministry of Agriculture of Georgia, spells out a unified state policy and the main medium-term strategic directions and specific measures that ensure sustainable development of the agricultural sector. It offers a strategic vision for the overall rural development of the country, based on the principles of sustainable development, and aims to create an environment that will enhance the competitiveness of the agriculture sector, stimulate high-quality production growth, and ensure lasting food security and safety system which will ultimately reduce rural poverty.¹⁰²

The Regional Development Program of Georgia for 2015-2017¹⁰³¹⁰⁴ is a medium-term document, which determines the main principles, objectives and tasks of the regional development policy of Georgia and defines favorable conditions for sustainable development of the country. It aims at creating the relevant physical infrastructure network in support of economic and social activities; supporting local businesses, and increasing their competitiveness as well as employment opportunities in all Georgian regions; modernizing Georgian agriculture and improving the quality of life for the rural population; achieving balanced distribution of resources between Tbilisi and other regions of Georgia; and offering a viable livelihood for at least the core population in the remote mountainous districts.

National Tourism Sector Development Strategy for 2015-2025 and **Action Plan** was developed by the Georgian National Tourism Administration in cooperation with the World Bank. It aims to set up a national tourism marketing plan and tourism brand for the country. The Strategy defines the ways of the industry development for the next 10 years including: Significant increase of the receipts in the sector (from today's 1.8 billion USD to 5.5 billion USD); Increase of the number of the international travelers up to 11 million (doubling of the visitors from Gulf States, European and the USA); Increase the amount of FDI by 63% and attracting 8 billion USD into the sector (2 billion USD - hotel and restaurants and 6 billion USD - transport and communications); Increase the number of the employees in the tourism sector by 85%.

SME Development Strategy 2016-2020 and relevant **Action Plan** has been completed by the Ministry of Economy and Sustainable Development in cooperation with the OECD and the financial support of EU. It aims to achieve by 2020: on average a 10% annual increase in SMEs output, 15% increase in the

¹⁰¹ <http://www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-sd-01.pdf>

¹⁰² www.moa.gov.ge/Download/Files/92

¹⁰³ <http://static.mrdi.gov.ge/550c24ee0cf24147438b16f6.pdf>

¹⁰⁴ The starting point for the first stage of the Program's development was the State Strategy for Regional Development of Georgia for 2010-2017. However, the circumstances have significantly changed and evolved leading to the development of a new Program that is in compliance with new realities and approximated more with the respective programming standards of the European Union.

number employed in the SME sector, and productivity increase by 7%. Five strategic directions have been defined: (i) improvements in legislative, institutional and entrepreneurial environment, (ii) improvement in financial accessibility, (iii) support in the development of entrepreneurial skills and culture, (iv) export promotion and SMEs' internationalization, and (v) support in innovation, research and development.

The other important documents are:

Professional Education Reform Strategy 2013-2020, elaborated by the Ministry of Education and Science, aims at the development of labor market-oriented human resources, ensuring access to vocational education, development of high quality competences for the training of competitive cadres, and others. The Strategy, for its effective implementation, highlights the importance of social partners such as participation of the businesses in the decision-making process that is important for the development of business-oriented human resources.

Green Economy of Georgia is an initiative led by the Ministry of Economy and Sustainable Development of Georgia to streamline green growth for sustainable economic development. The backbone of the vision is the goal of the Government to achieve 100% generation of electricity from renewables. It offers favorable conditions for the development of clean energy-based manufacturing, as well as clusters of clean energy industries. Health and recreational tourism is another priority for the Government together with the development of sustainable agriculture with due emphasis on strengthening agricultural processing chains.

Renewable Energy 2008 is a Governmental program aimed at creating investor incentives for the increased use of hydro power. Georgia is increasingly targeting the development of its substantive hydro power capacity estimated at 15000 MW annually. The overarching intention is to achieve full energy independence and become a reliable net electricity exporter to all four neighboring countries.

Recently the Government of Georgia introduced **the four-pillar reform agenda**:

1. **Economic Development and Employment** focusing on i) Entrepreneurship, SMEs & DCFTA implementation; ii) Taxation; iii) Tourism and iv) Agriculture.
2. **Education and Human Capital Development** oriented on competitive and self-realized Georgian citizens and fixing the existing imbalance between the demand and the supply of workforce; improvement of the educational system in the areas of VET and STEM; creating jobs for young people and involving the private sector in the process of human capital development through PPPs.
3. **Development of Infrastructure and Decent Environment for All Citizens** focusing on development of roads, transport and logistics infrastructure, utilizing Georgia's potential from the "Silk Road" perspective; development of drinking water supply and sanitation, secondary roads, irrigation, and distribution of gas and electricity all over Georgia.
4. **Open, Good Governance and the Rule of Law** as the prerequisite for stable and successful development of the country.

Since June 2015, the Ministry of Energy of Georgia through the EBRD technical assistance project in cooperation with line Ministries and relevant international and local partners is working on the development of the first **National Energy Efficiency Action Plan (NEAAP)**. The Ministry of Energy expressed a preference for the Energy Efficiency Directive (EED) based NEEAP both in terms of the format and measures. The main obstacles towards NEEAP elaboration are the lack of information and data for residential buildings and industrial sector especially energy audits. The NEEAP will document the plans for implementation of energy efficiency measures which have significant mitigation potential for the period before 2020 and beyond.

Since 2013, the Government has been preparing a **Low Emission Development Strategy (LEDS)** with support from USAID. The objective of this consultancy is to provide advisory services to assist the GoG

to complete a draft LED Strategy and to help foster their commitment to its implementation. The strategy will be available in September 2016.

As Georgia does not have a stand-alone rural development policy framework, through ENPARD, the EU is supporting the Georgian Government in the elaboration and adoption of a new **Rural Development Strategy** that will assist the establishment of support programs in many rural areas of the country.

2.3 Nationalization of SDGs

The Government of Georgia has confirmed the importance of the SDGs on various occasions and is determined to drive the process of the implementation of SDGs on a national level and become an important contributor to the global agenda.

The Government has worked closely with society and the civil sector to ensure their involvement in the nationalization of SDGs. Georgia has undertaken the good-faith effort of mainstreaming the SDGs into the country's strategic documents and objectives. The Planning and Innovations Unit within the Administration of the Government of Georgia drafted National SDG Indicators covering the following Goals:

1. **Goal 1:** End poverty in all its forms everywhere;
2. **Goal 2:** End hunger, achieve food security and improved nutrition and promote sustainable agriculture;
3. **Goal 3:** Ensure healthy lives and promote well-being for all at all ages;
4. **Goal 4:** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;
5. **Goal 5:** Achieve gender equality and empower all women and girls;
6. **Goal 7:** Ensure access to affordable, reliable, sustainable and modern energy for all;
7. **Goal 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;
8. **Goal 9:** Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
9. **Goal 10:** Reduce inequality within and among countries;
10. **Goal 11:** Make cities inclusive, safe, resilient and sustainable;
11. **Goal 12:** Ensure sustainable consumption and production patterns;
12. **Goal 13:** Take urgent action to combat climate change and its impacts;
13. **Goal 15:** Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss.
14. **Goal 16:** Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Following UNCT's engagement with the Government in nationalizing the SDGs, the Planning and Innovations Unit together with the UN in Georgia facilitated the completion of Georgia's "baseline" report to the Ministerial meeting of the High-level Political Forum conducted under the auspices of the UN Economic and Social Council (ECOSOC) on 18-20 July 2016.

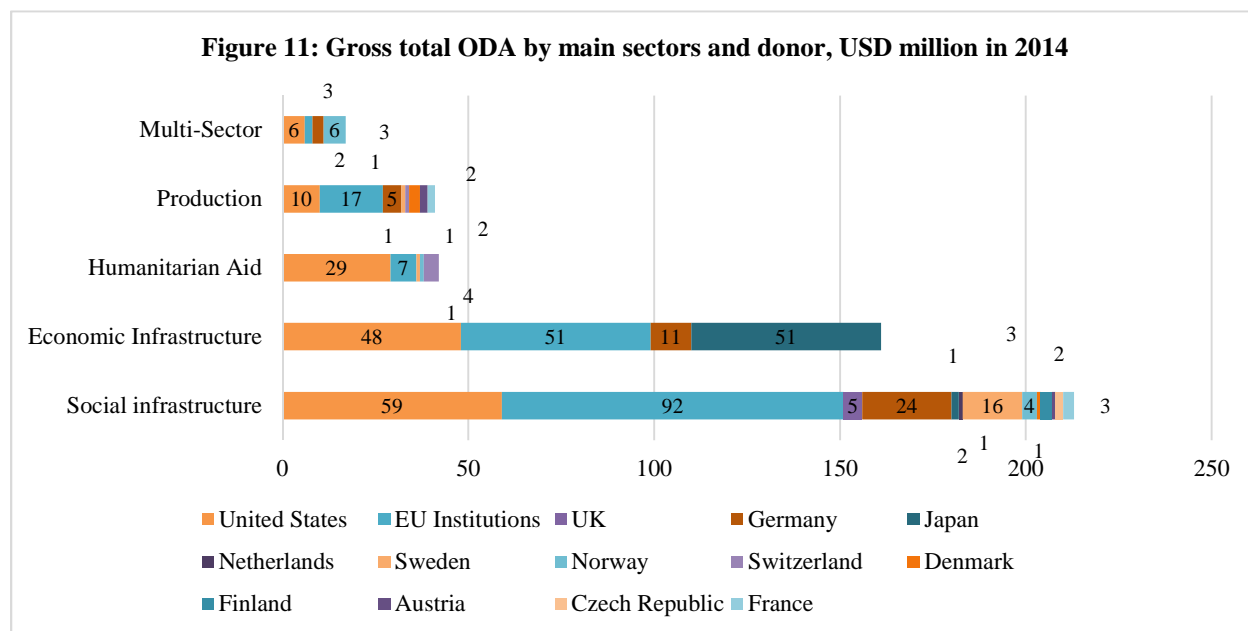
Chapter III: Donor analysis

Georgia is traditionally supported by the international donor community and the country is one of the largest ODA recipients in the Europe and Central Asia region. In 2014 Georgia received a gross total ODA of USD 689 million, USD 37 million less than in 2013 (Table 7)¹⁰⁵.

ODA	2013	2014
ODA net total	647	563
ODA gross total	726	689
ODA net per capita	144.3	125.0

In 2014, the allocations for social and economic infrastructures were the highest with approximately USD 213 million and USD 152 respectively (Figure 11)¹⁰⁶. Humanitarian aid and production also received significant support from the international community.

EU institutions, United States, Japan and Germany are the leading donor countries in these two sectors. The top five donors of gross ODA for Georgia are the EU institutions (USD 170 million), USA (USD 152 million), ADB Special Funds (USD 118 million), Japan (USD 60 million) and IDA (USD 52 million) have cumulatively spent approximately USD 552 million in 2014 (Figure 12)¹⁰⁷. Germany, Sweden, Global Fund, UK and France are also significant donors for Georgia, especially in the social infrastructure sector with Germany and Sweden being the largest donors after EU institutions and USA with USD 24 million and USD 16 million of gross ODA allocations respectively.

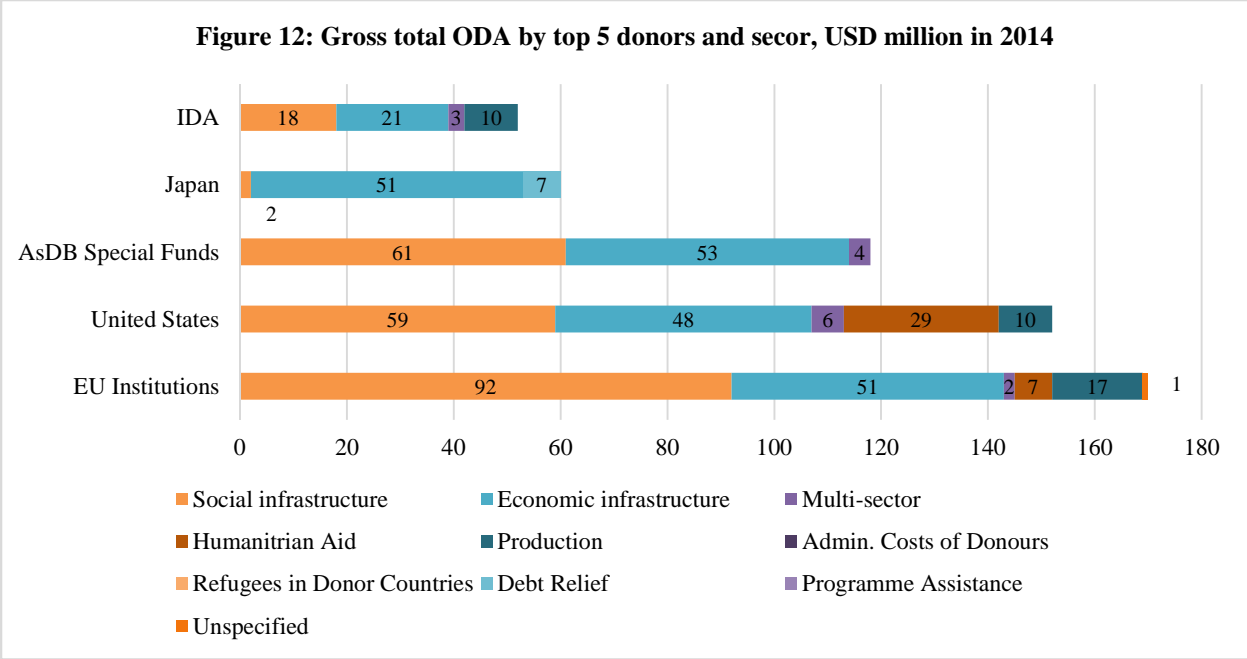


The charts and table above indicate gross disbursements of Official Development Assistance (ODA) in 2014 from DAC donors and multilateral organizations.

¹⁰⁵ <http://www2.compareyourcountry.org/aid-statistics?cr=302&cr1=oced&lg=en&page=1>

¹⁰⁶ <http://www2.compareyourcountry.org/aid-statistics?cr=612&lg=en&page=31>

¹⁰⁷ <http://www2.compareyourcountry.org/aid-statistics?cr=612&lg=en&page=21>



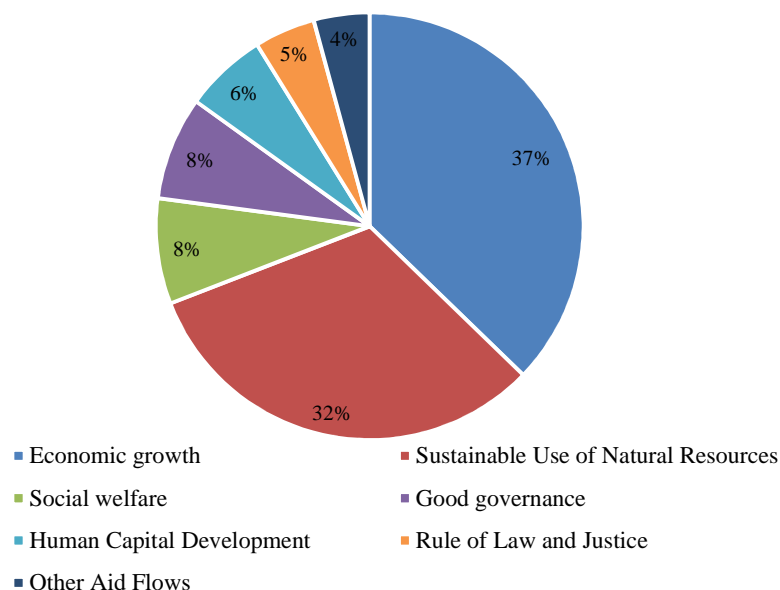
The Donors Coordination Unit within the Administration of the Government of Georgia was established in 2014 in order to increase donor support and effectiveness, and effectively coordinate foreign support, direction of donor efforts and resources to priority issues, identified by the state strategy. According to the 2015 report on External Aid in Georgia, prepared by the Donors Coordination Unit, the total volume of ongoing aid from all sources combined (OECD DAC members, non-DAC providers and multilateral agencies) is GEL 6.28 billion (USD 3.56 billion). In 2015, the largest donor countries by volume were the US, Germany and Sweden with over 90% of total bilateral aid (US Government – 36.5%, Germany – 34.9%, Sweden – 19%). Over 74% of total multilateral aid (excluding non-core contributions) continues to concentrate on the ADB, World Bank and the European Union, which provide 34.1%, 22.6% and 18.1%, respectively, of total development-related funding in Georgia. Economic growth and sustainable use of natural resources are the two largest thematic allocations (Figure 13)¹⁰⁸.

Economic growth: Georgia’s economic agenda is based on the assumption that structural reforms will support growth in investment, employment, productivity and ensure realization of potential benefits associated with the DCFTA in terms of higher exports and FDI. The Economic Growth thematic area is the largest recipient of assistance from the international donor community with a total active/ongoing aid portfolio of 2.34 billion GEL (1.34 billion USD) and estimated total disbursement amounting to 887.4 million GEL (371.3 USD million USD) in 2015. Largest donors in the sector have been ADB, World Bank and International Finance Corporation followed by European Union, European Bank for Reconstruction and Development (EBRD) and the US.

Sustainable Use of Natural Resources: The scope of the Sustainable Use of National Resources thematic area is defined to reflect national priorities, as well as the needs arising from the EU integration process. The active/ongoing aid portfolio is above 1.9 billion GEL (1.2 billion USD) and estimated total disbursement amounted to 119.4 million GEL (50.4 million USD) in 2015. Largest donors in this thematic area have been ADB, Germany and EBRD.

¹⁰⁸ Administration of the Government of Georgia, Donors Coordination Unit, 2015 Report on External Aid in Georgia

Figure 13: The share of ongoing assistance by thematic allocations



Social Welfare: The Government’s overall economic policy calls for standards of welfare to be increased through measures to support the creation of employment opportunities rather than through the provision of social assistance, however, further improvement of Georgia’s social security net is important to reach poor and most vulnerable groups and to contribute thereby to their empowerment and social inclusion objectives. Total active/ongoing aid portfolio in the area comprises of 500.6 million GEL (258.3 million USD) and estimated total disbursement amounting to 285.5 million GEL (119.8 million USD) in 2015. Largest donors in the sector have been World Bank, European Union and Sweden.

Good governance: Promoting the development of democratic principles and good governance are at the core of the reform process in Georgia. Total active/ongoing aid portfolio is 491.8 million GEL (262.6 million USD) and estimated total disbursement amounting to 182.6 million GEL (92.9 million USD) in 2015. Largest donors in the area have been European Union, Sweden and USA.

Human Capital Development: The development of human resources and the efficient use of existing human potential are two of the most important factors contributing to comprehensive economic growth. The total active/ongoing aid portfolio in this thematic area is 391.1 million GEL (232.7 million USD) and estimated total disbursement amounting to 8.9 million GEL (4.05 million USD) in 2015. Largest donors in the sector have been USA, EU and Sweden.

Rule of Law and Justice: Strengthening the rule of law and justice is essential for the achievement of the highest standards of democracy and decent living of Georgian citizens. The total active/ongoing aid portfolio is 289.9 million GEL (152.7 million USD) and estimated total disbursement amounting to 15.7 million GEL (6.6 million USD) in 2015. Largest donors in the sector have been EU, USA and Sweden.

Other Aid Flows: Contributions that are not susceptible to allocation by the six thematic areas presented above are reported as Other Aid Flows. Total volume of other aid flows amounts 265 million GEL (148.5 million USD). A major part of the assistance accounts for grants extended by multilateral and bilateral donors – EU, Germany and Sweden.

3.1 Bilateral Donors (*potential donor highlighted*)

Bilateral Source of Funding	Area of focus
Austria	<p>The Austrian Development Cooperation's (ADC) strategy¹⁰⁹ for Georgia has the following priority areas:</p> <ul style="list-style-type: none"> • Agriculture and Forestry economy- regional priority (southern border region) • Access to financial services • Capacity building • Local Government decentralization • Prevention of civil conflicts
Bulgaria	<p>The Bulgarian Embassy is guided in Georgia by its Strategic Program for Development Assistance. Bulgarian Embassy has two projects in the pipeline for the year of 2016:</p> <ul style="list-style-type: none"> • A project co-funded with UNICEF to establish a Center of Excellence for Health Care to Children with Disabilities • A project co-funded with the US Department of Agriculture. Bulgaria's support may also be potentially directed to the areas of food safety and energy sector. <p>Bulgaria's support may also be potentially directed to the areas of food safety and energy sector.</p>
China ¹¹⁰	<p>Since 2005 the Chinese Government has allocated more than USD 41 million in grants to Georgia and USD 4.3 million as a 20-year interest-free commodity credit with a grace period of 10 years. China has pledged to offer USD 4.8 million USD financial aid to Georgia to implement economic and technical projects in December 2014. The aid is allocated to priority economic and technical projects in Georgia, which have been selected through consultations between the Georgian and Chinese sides.</p>
Czech Republic	<p>The Czech Development Agency (CzDA) has on-going projects¹¹¹ in the following sectors:</p> <ul style="list-style-type: none"> • Environmental sector • Government and Civil Society Services • Social infrastructure and Services • Health sector • Agricultural sector • Education sector

¹⁰⁹ http://www.entwicklung.at/fileadmin/user_upload/Dokumente/Landesstrategien/CS_Georgia.pdf

¹¹⁰ <http://agenda.ge/news/26797/eng>

¹¹¹ http://www.czda.cz/czda/en_126/en_143.htm

<p>Denmark</p>	<p>Danish International Development Agency (DANIDA) through the Neighborhood Program 2013 -2017¹¹² with 1 billion DKK, which is a bilateral development program for EU’s neighboring countries including Georgia, promotes:</p> <ul style="list-style-type: none"> • Human rights and democracy • Sustainable and inclusive economic development <p>Government of Denmark developed the following programs¹¹³ specifically for Georgia:</p> <ul style="list-style-type: none"> • Support to Energy Efficiency and Sustainable Energy in Georgia with focus on energy efficiency in the building sector and implementation (2015-2019, DKK 30 million) • Agriculture Program (2011-2016, DKK 40 million) • The Rule of Law Program (COE) (2013-2016, DKK 4.5)
<p>Estonia¹¹⁴</p>	<p>According to the Strategy for Estonian Development Cooperation and Humanitarian Aid 2016-2020, Georgia remains the priority country of Estonia’s bilateral aid. The basis of cooperation in 2016–2018 is the Estonian development cooperation Country Strategy for Georgia. The key areas include:</p> <ul style="list-style-type: none"> • Strengthening democratic state structures and systems • Supporting economic development • Improving the quality of education <p>Over the period 2012-2015 Estonia’s authorities committed EUR 3.33 million to supporting Georgia including EUR 3.32 million for development cooperation actions and about EUR 0.01 million as humanitarian aid. More than 45 development cooperation projects were implemented during this period.</p>
<p>France</p>	<p>Georgia is not a recipient of French ODA. The assistance targets:</p> <ul style="list-style-type: none"> • Mainly Human Capital Development (Up to EUR 100K for Master and Post-graduate programs) • Through small grants support Rule of Law and Justice <p>In 2015 France discussed an idea with GoG to establish a Georgian branch of the Development Agency of France (AFD). The Embassy of France also considers the possibility to support small agricultural cooperatives starting in mid-2016.</p>
<p>Germany</p>	<p>The priority areas of Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ)¹¹⁵ are:</p> <ul style="list-style-type: none"> • Sustainable economic development • Democracy, municipal development and rule of law • Environment and energy <p>Within these areas 6 regional programs are implemented which focus on private sector development, support for legal and judicial reform, promotion of municipal development, the sustainable management of biodiversity, integrated erosion control in mountainous areas, and the management of public</p>

¹¹² http://www.netpublikationer.dk/um/11205/pdf/strategy_web.pdf

¹¹³ <http://ukraine.um.dk/en/developmental-assistance/ukraine-2/>

¹¹⁴ <http://www.vm.ee/en/georgia>

¹¹⁵ <https://www.giz.de/en/worldwide/359.html>

	<p>finance in South Caucasus.</p> <p>KfW Development Bank¹¹⁶ has been working in the energy sector since 1993 and has made great strides in this area. In addition to the energy sector, where it is the largest donor, KfW covers the following areas as well:</p> <ul style="list-style-type: none"> • Financial Sector • Urban Development • Environment <p>The National Metrology Institute of Germany (PTB) has a number of projects in Georgia.</p>
Japan	<p>Priority areas for the Japan International Cooperation Agency (JICA)¹¹⁷ are:</p> <ul style="list-style-type: none"> • Improvement of Economic Infrastructures • Stabilization of the people's livelihood
Lithuania	<p>Within the Development Cooperation and Democracy Promotion Program, Georgia is a priority country. Main recipients of the Lithuanian assistance are Lithuanian and Georgian NGOs.</p> <p>Lithuania has been focusing on Georgia's support to effectively implement AA as well as DCFTA.</p>
Netherlands	<p>Netherlands funds the projects that support and strengthen cooperation between the private sectors of two countries. Funding is also available in the area of capacity building or for the demonstration of innovative approaches¹¹⁸.</p>
Norway	<p>The Norwegian Agency for Development Cooperation (NORAD) is not active in Georgia.</p> <p>The Norwegian Refugee Council (NRC) provides humanitarian assistance and protection to refugees and Internally Displaced People.</p> <p>The Norwegian Centre for International Cooperation in Education (SIU) funded projects related to the education and public health.</p>
Poland	<p>The Multiannual Development Cooperation Program for 2016 – 2020¹¹⁹ lists ten priority countries including Georgia that is covered by Eastern Partnership program. For Georgia, the development priorities include:</p> <ul style="list-style-type: none"> • Good governance • Human capital <p>The ODA from Poland includes 48 completed projects in areas Good Governance, Rule of Law and Justice, Economic Growth, Human Capital Development, Social Welfare and Sustainable Use of Natural Resources.</p>

¹¹⁶ <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/Europe/Georgia/>

¹¹⁷ <http://www.jica.go.jp/georgia/english/index.html>

¹¹⁸ <http://georgia.nlembassy.org/organization/economic-section>

¹¹⁹ <https://www.polskapomoc.gov.pl/Multiannual,Development,Cooperation,Programme,for,2016-2020,2085.html>

Romania	Romania provides grants to Georgian and Romanian NGOs for development assistance. Together with Moldova and Serbia, Georgia (15% of development aid, the rest is divided among the other two countries) is considered a priority country for Romania. Romania's priority area of interest in Georgia is Good Governance.
Slovakia	According to the Medium-Term Strategy for Development Cooperation of the Slovak Republic for 2014-2018 ¹²⁰ , Georgia is included in the SlovakAid territorial priorities as part of the Eastern Partnership Program. The emphasis is put on the application of the EU standards. Georgia is a partner country in the following bilateral cooperation programs: <ul style="list-style-type: none"> • Transformation Experience Sharing Program • Government Scholarship Program Currently there are two ongoing projects ¹²¹¹²² in Georgia.
South Korea ¹²³	South Korea is increasing its financial assistance to Georgia. Korea International Cooperation Agency (KOICA) gifted Georgia's MFA computer equipment worth USD 100,000 in December 2015.
Sweden	The priorities of the Swedish International Development Cooperation Agency (Sida) for the EaP countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) for the period 2014-2020, as set out in the "Results Strategy for Sweden's Reform Cooperation with Eastern Europe, the Western Balkans and Turkey" ¹²⁴ , are: <ul style="list-style-type: none"> • Enhanced economic integration with the EU and development of market economy (incl. trade capacity building, competitiveness with a special focus on SMEs, agriculture, entrepreneurship, productivity enhancement, with special focus on rural areas and young people) • Strengthened democracy, greater respect for human rights and a more fully developed state under the rule of law • Better environment, reduced climate impact and enhanced resilience to environmental impact and climate change (incl. CSR, waste management, water and sewage, energy and resource efficiency, energy diversification) Support to EaP countries during the strategy periods totals about SEK 4.2 billion. Demo Environment ¹²⁵ is a program that aims to promote sustainability and reduce poverty by developing partnerships and knowledge about new and innovative technical solutions. Demo Environment is able to fund projects in 11 of Sida's partner countries including Georgia. Sweden also supports energy efficiency at the municipal level through the

¹²⁰ http://pdc.ceu.hu/archive/00007077/01/MFEASR_Development-cooperation-strategy_2014-2018.pdf

¹²¹ <http://slovakaid.sk/en/project/630-strengthen-process-water>

¹²² <http://slovakaid.sk/en/project/302-promoting-transparency>

¹²³ <http://agenda.ge/news/48389/eng>

¹²⁴ <http://www.regeringen.se/contentassets/12a89180bafb43e3823b6c6f18b6d86a/results-strategy-for-swedens-reform-cooperation-with-eastern-europe-the-western-balkans-and-turkey-2014-2020>

¹²⁵

http://www.tillvaxtverket.se/download/18.51a78f44151a6055c201425/1450262185369/DemoEnvironment_Information+for+applicants_Dec2015.pdf

	regional program Eastern Europe Energy Efficiency and Environment Partnership (E5P) .
Switzerland	<p>The Swiss Agency for Development and Cooperation's (SDC) long-term objective of Swiss Cooperation in the South Caucasus is to contribute to a peaceful transition towards democracy and inclusive economic development in the region</p> <p>Under the Swiss Cooperation Strategy South Caucasus 2013–2016¹²⁶, SDC identifies three priority domains:</p> <ul style="list-style-type: none"> • Economic development and employment (market development of agricultural value chains, skills development in agriculture, framework conditions for agricultural sector) • Governance and public services (local Government capacities related to economic development and DRR; • Human security and protection (vulnerable and natural disasters affected people)
UK	<p>UK launched a new multi-year program to provide expert advice, training and assistance to the Government of Ukraine, Georgia, Moldova, Serbia and Bosnia and Herzegovina through the Good Governance Fund¹²⁷. The Fund will provide up to GBP 20 million in the first year (2015-2016) to carry out political and economic reforms.</p> <p>GBP 1 billion Conflict, Stability and Security Fund (CSSF)¹²⁸ replaced the Conflict Pool, which has supported the UK's work in addressing conflict and fragility. In the South Caucasus region, it aims to reduce the potential for violent conflict by investing in upstream conflict prevention and by creating an environment that is more conducive to the resolution of conflicts¹²⁹.</p>
USA	<p>The US is by far the biggest bilateral donor, disbursing aid through two implementing partners: U.S. Agency for International Development (USAID) and Millennium Challenge Georgia</p> <p>USAID's¹³⁰ development programs in Georgia are:</p> <ul style="list-style-type: none"> • Strengthening democracy and governance • Improving economic competitiveness and welfare • Enhancing energy security and environmental management • Improving delivery of social services <p>Millennium Challenge Georgia's¹³¹ Compact II (signed 2013, entered into force July 2014) seeks to improve the quality of education in the science, technology, engineering, and math (STEM) fields and increase the earning potential of Georgians through strategic investments from the start of a student's general education to graduation from technical training and advanced</p>

¹²⁶ https://www.eda.admin.ch/content/dam/deza/en/documents/laender/cooperation-strategy-south-caucasus_EN.pdf

¹²⁷ <https://www.gov.uk/government/news/new-uk-funding-to-help-build-stronger-and-more-democratic-nations-in-the-eastern-neighbourhood-and-balkans>

¹²⁸ http://www.c-r.org/downloads/Joint%20SW_CR_IA%20briefing%20on%20CP%20CSSF%20BSOS%20-%20FINAL0914.pdf

¹²⁹ <https://www.gov.uk/government/world-location-news/invitation-to-tender--2>

¹³⁰ <https://www.usaid.gov/georgia>

¹³¹ <https://www.mcc.gov/where-we-work/program/georgia-compact-ii>

degree programs. Total amount of grant is USD 140 million.

3.2 Multilateral Donors (*potential donor highlighted*)

Multilateral Source of Funding	Area of focus
Asian Development Bank	<p>The Country Operations Business Plan (COBP)¹³² for 2015–2017 is aligned with the Georgia Country Partnership Strategy 2014–2018, the findings from the recent Midterm Review of Strategy 2020, and the Socio-economic Development Strategy of Georgia (Georgia 2020).</p> <p>The COPB will support the Government to:</p> <ul style="list-style-type: none"> • Improve internal and regional market connectivity to enhance private sector competitiveness and to broaden community access to economic opportunities; • Make essential drinking water, sewerage, and sanitation services more accessible and reliable, particularly in smaller towns and secondary cities that are potential hubs for agribusiness and tourism; • Improve the security and stability of power systems, especially for communities in lagging regions; • Strengthen public sector management for domestic resource mobilization and investment in business and infrastructure; • Increase access to finance and promote financial inclusion, particularly for micro, small, and medium-sized enterprises.
Asian Infrastructure Investment Bank	<p>The AIIB was recently created for the purpose of providing loans for infrastructure projects in developing countries in Asia with capital of USD 100 billion. Georgia was the 45th country to join the AIIB in June 2015¹³³. Government of Georgia considers AIIB as an important counterpart to finance its infrastructure projects, particularly in the transport, logistics and energy sectors.</p>
Eastern Europe Energy Efficiency and Environment Partnership (E5P) ¹³⁴	<p>E5P is a EUR 168 million multi-donor fund that was initiated in 2009. It was initially active in Ukraine and further expanded for other Eastern Partnership countries. EBRD, NIB, NEFCO, CEB, the World Bank and other Financial Institutions may act as Implementing Agencies (IA) for the fund. The AIs develop projects with E5P grants intended to complement loan funding and make investments financially viable. The key objectives of the Fund are:</p> <ul style="list-style-type: none"> • Improvement of energy efficiency, • Significant reduction of CO₂ and • Other Green House Gas emissions, • Enhanced economic competitiveness and affordability of assets maintenance. <p>Approximate amount of pledged contribution for Georgia is EUR 22 million.</p>

¹³² <http://www.adb.org/sites/default/files/institutional-document/151686/cobp-geo-2015-2017.pdf>

¹³³ <http://agenda.ge/news/50658/eng>

¹³⁴ <http://georgia.e5p.eu/>

<p>European Bank for Reconstruction and Development</p>	<p>The EBRD Strategy for Georgia (2013-2016)¹³⁵ envisages the following priority areas:</p> <ul style="list-style-type: none"> • Strengthening private sector investment (structural reform, governance, rule of law, competition policies) • Modernization of the energy sector (increased energy production, access to export markets, regulatory framework) • Support to regional and global economic integration (infrastructure, logistics, telecommunications, skill-transfers, value-chains)
<p>European Investment Bank¹³⁶</p>	<p>The EIB's activities in the Eastern Neighborhood and Central Asia (ENCA) aim at supporting the goals set up by the EU's European Neighborhood Policy.</p> <p>The current EUR 4.8 billion mandate runs from 2014 to 2020 and covers Armenia, Azerbaijan, Georgia, Moldova, Russia and Ukraine.</p> <p>The main objectives of the EIB in ENCA are:</p> <ul style="list-style-type: none"> • Development of the local private sector, in particular support to SMEs • Development of social and economic infrastructure • Climate action
<p>European Union¹³⁷</p>	<p>EU's bilateral cooperation with Georgia contributes to the objectives of the Eastern Partnership. Two key documents are as follows:</p> <ol style="list-style-type: none"> 1. European Neighborhood Instrument (ENI) 2014-2020¹³⁸ (Indicative allocation EUR 610,000,000 – EUR 746,000,000 and split into 2 periods) 2. Single Support Framework 2014-2017¹³⁹ (SSF-1st period) <p>The SSF 2014-2017 indicative allocation is EUR 335,000,000 – EUR 410,000,000 is set out in the. The three priority sectors are:</p> <ul style="list-style-type: none"> • Public Administration Reform (indicative 25%) • Agriculture and Rural Development (30%) • Justice Sector Reform (25%) <p>In addition, the remaining 20% of indicative allocation for the 1st period goes to Complementary Support for Capacity Development and Civil Society</p> <p>The European Neighborhood Partnership Agriculture and Rural Development (ENPARD) is a five-year program (March 2013-March 2018)¹⁴⁰. Allocation for the 1st period goes to Complementary Support for Capacity Development and Civil Society. The total budget of the programs is EUR 52 million with three phases:</p> <ul style="list-style-type: none"> • ENPARD I ends this year • ENPARD II: Budget is allocated and will be signed in near future • ENPARD III is under development and implementing partners have been identified <p>EU funding mechanisms include:</p>

¹³⁵ <http://www.ebrd.com/downloads/country/strategy/georgia.pdf>

¹³⁶ <http://www.eib.org/projects/regions/eastern-neighbours/>

¹³⁷ http://ec.europa.eu/enlargement/neighbourhood/countries/georgia/index_en.htm

¹³⁸ http://eeas.europa.eu/enp/pdf/financing-the-enp/georgia_2014_2017_programming_document_en.pdf

¹³⁹ *Id*

¹⁴⁰ <http://enpard.ge/en/>

	<ul style="list-style-type: none"> • ENPI (including TWINNING, TAIEX, SIGMA, Regional Programs, Cross Border Cooperation). TWINNING is used to support the efforts of neighbor countries to harmonize their regulations with EU legislation. Since 2007 over EUR 15 million was allocated in the framework of this instrument for Georgia¹⁴¹. • Thematic Programs • Instruments for Stability (Ifs) • Instrument contributing to the Peace and Stability (IcPS) • European Instrument for Democracy and Human Rights (EIDHR) • Macro Financial Assistance • Food Security Program • 7th Framework Program for Research and Technological Development, Horizon 2020. Georgia joined Horizon 2020 and the researchers and innovators from Georgia will now be able to participate in Horizon 2020 under the same conditions as their counterparts from EU Member States and other associated countries¹⁴². • Education and Training programs <p>EU is working on the development of joint programming with EU Member states. Needs Assessment was completed by May 2016 and a joint response must be developed in summer 2016. New joint programming will cover 2017-2020.</p>
GEF ¹⁴³	<p>GEF disbursed grants for 25 national projects totaling around USD 37 million in the following areas:</p> <ul style="list-style-type: none"> • Biodiversity • Land degradation • Climate change • International waters • Persistent Organic Pollutants (POPs) • Multi-focal area <p>GEF 7 allocations for the period of 2017-2022 are important for funding potential projects.</p>
World Bank	<p>The Country Partnership Strategy (CPS) for 2014-2017¹⁴⁴ has the objectives to reduce poverty and promote inclusive growth focused on job creation. These objectives are supported through the following two areas of focus:</p> <ul style="list-style-type: none"> • Strengthening public service delivery to promote inclusion and equity • Promoting job creation and competitiveness to enable private sector-led inclusive growth. <p>The current portfolio consists of 13 active investment projects financed by IDA</p>

¹⁴¹

http://eeas.europa.eu/delegations/georgia/eu_georgia/tech_financial_cooperation/instruments/twinning_taiex_sigma/index_en.htm

¹⁴² http://europa.eu/rapid/press-release_IP-16-1630_en.htm

¹⁴³ https://www.thegef.org/gef/project_list?keyword=&countryCode=GE&focalAreaCode=all&agencyCode=all&projectType=all&fundingSource=all&approvalFYFrom=all&approvalFYTo=all<gt=lt<gtAmt=&op=Search&form_build_id=form-XYTuJldw1O1Ya8_lMsvxOOYs64BRG8TYo-VSNogr-vw&form_id=prjsearch_searchfrm

¹⁴⁴ <http://www->

wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/04/17/000371432_20140417112902/Rendered/PDF/852510CAS0P144080Box385177B00OUO090.pdf

credits and IBRD loans for a total of USD 920 million, of which USD 200 million is IDA. In addition to IDA/IBRD operations, there is an active program of seven recipient-executed trust fund operations of about USD18 million¹⁴⁵.

IFC committed USD 291 million in 28 projects with 15 clients making it IFC's largest IDA country exposure in ECA region. Within this Country Partnership Strategy, IFC works to¹⁴⁶:

- Contribute to greater financial intermediation and increase access to finance for MSMEs through the provision of trade finance, risk management products, longer term senior and subordinated debt, and equity
- Promote sustainable private sector-driven growth through increased trade and increased competitiveness of local companies
- Help develop the country's significant renewable energy potential
- Support improvements in productivity for agricultural processing and food safety
- Foster the development of PPP.

Of direct relevance for UNIDO is the project Georgia Competitive Industries Technical Assistance¹⁴⁷, launched in February 2013 which aims to:

- enhance skills and innovation
- foster entrepreneurship
- advance the competitiveness
- and sophistication of Georgian exports, and
- promote the export of products and services with higher value added

In June 2016 UNIDO and World Bank signed cooperation agreement that will fully enter into force in 2017.

¹⁴⁵ <http://www.worldbank.org/en/country/georgia/overview#2>

¹⁴⁶

http://www.ifc.org/wps/wcm/connect/region_ext_content/regions/europe+middle+east+and+north+africa/ifc+in+europe+and+central+asia/countries/georgia+country+landing+page

¹⁴⁷ <http://www->

wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/07/04/000356161_20130704114437/Rendered/PDF/792770ESW0P1440x0377371B00PUBLIC0.pdf

Chapter IV: Mapping of UNIDO Interventions

4.1 Past and Ongoing Cooperation

4.1.1. Projects

Georgia has been a member of UNIDO since 1992 and throughout this period the organization has been delivering technical assistance (TA) at the country and regional level. Since 1994, UNIDO has completed 10 country level projects in Georgia with a budget of USD 801,226¹⁴⁸ in the UNIDO thematic areas of energy and environment, and trade-capacity building:

Georgia is a part of a regional level project on *Regional Resource Efficient and Cleaner Production Demonstration Program for the European Union's Eastern Neighborhood (EaP) region*. UNIDO in collaboration with the OECD, lead partner, UNECE and UNEP is implementing a program entitled “Greening Economies in the Eastern Neighborhood (EaP GREEN)”. It includes national and regional activities to be implemented between 2013-2016 in each of the six EaP countries, respectively Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine. Core funding for the UNIDO component of the RECP project (EUR 2,500,000) is provided by the EU, with additional co-funding from UNIDO, the Government of Slovenia and the Development Bank of Austria (DBA). UNIDO plans to continue the project beyond 2017, however, UNIDO needs letters from the Ministry of Environment and Natural Resources Protection and the Ministry of Economy and Sustainable Development confirming the project’s success. These letters will help UNIDO to get funding from relevant donors.

Since September 2016, UNIDO has been implementing a country level project on *Reducing Greenhouse Gas (GHG) Emissions through Improved Energy Efficiency in the Industrial Sector* with a total budget of EUR 1,700,000 (both cash and in-kind). This project aims at reducing GHG emissions in the industrial sector of Georgia through the demonstration and dissemination support of selected industrial energy efficiency best-available practices and technologies, such as energy management systems; assistance for enhancing policy and institutional frameworks for industrial energy efficiency, and promotion of financial mechanisms to incentivize and facilitate investments. The project will be implemented in cooperation with Austrian Energy Efficiency, Kommunalkredit Public Consulting GmbH and the Ministry of Economy and Sustainable Development of Georgia. The project’s technical assistance will translate mainly in barrier-mitigation interventions at three levels:

- *Policy and institutions for IEE*: raising the profile of industry within the EE policy-making and institutional space and strengthening technical capacity
- *Market demand and service offer for IEE*: boosting adoption of and service offer for energy management systems (in line with ISO 50001)
- *Financing (including carbon financing) for and investment in IEE*: increased mobilization of financing from local and international financing institutions.

UNIDO plans to implement the project on *PCB-free Electricity Distribution in Georgia* that will consolidate ongoing and planned activities in implementing Georgia’s obligations for PCB elimination as required by the Stockholm Convention. In this phase, the emphasis is put on ensuring that PCBs are safely managed in the upgrade of the electricity distribution networks. The total project cost is expected to be USD 21, 530,000 (GEF financing and co-financing). It is foreseen that the main part of the assistance for PCB disposal operations and de-contamination will be assisting State owned enterprises like JSC “Georgian State Electro System” (GSE). The project is divided in three components:

- Legal, institutional and capacity strengthening activities, including laboratory testing capacities
- Management and disposal of equipment containing high concentration PCB oils and
- Technology transfer and its piloting for long lasting capacity in the power sector.

¹⁴⁸ Based on information retrieved from UNIDO Infobase

GEF has released the project preparatory grant and a relevant expert to work on the baseline assessment was hired.

4.1.2 United Nations Partnership for Sustainable Development (UNPSD) 2016-2020

The UNPSD 2016-2020 summarizes the Government of Georgia and UN partnership for the priority policy and program areas for a five-year period. In contrast to the previous program cycle, the UNDAF for 2011-2015, the current document emphasizes the shift from the “Development Assistance” to “Partnership for Sustainable Development.” In line with the UN Delivering-as-One (DaO), the Paris Declaration principles on Aid Effectiveness and Accra Agenda for Action, the UNPSD encourages a coordinated response of the UN family and other international development partners to maximize effectiveness of the program and operational support to the country. However, UNCT through extensive internal discussions had agreed that full-scale implementation of the DaO approach is not feasible at the current stage of UN operations in the country.

The five focus areas identified by the Government of Georgia and UN country team for the UNPSD 2016-2020 include:

- (i) Democratic Governance;
- (ii) Jobs, Livelihood and Social Protection;
- (iii) Education;
- (iv) Health;
- (v) Human Security and Community Resilience.

UNIDO provided support via comments to the formulation of the UNPSD and made a commitment to contribute to the Outcome 8: Communities enjoy greater resilience through enhanced institutional and legislative systems for environment protection, sustainable management of natural resources and disaster risk reduction of fifth focus area approximate amount of USD 3 million.

4.2 Government Requests

Request	By whom?	On what occasion?
<ol style="list-style-type: none"> 1. SMEs development 2. Youth and women entrepreneurship 3. Export promotion and trade facilitation 4. Agro-business development 5. Green economy and green growth 6. Resource efficient and cleaner production 7. Sustainable energy sources 	<ul style="list-style-type: none"> • Ministry of Economy and Sustainable Development of Georgia • Ministry of Environment and Natural Resources Protection of Georgia • Ministry of Energy and Natural Resources of Georgia • Georgian Technical University 	UNIDO fact-finding mission to Georgia, 18-20 September 2013
GHG Emissions through Improved Energy Efficiency in the Industrial Sector	Mr. Ilia Eloshvili, Deputy Minister of Energy	Formal letter, dated 17 January 2014

Request to develop technical assistance projects and readiness expressed to cooperate with UNIDO in funds mobilization	Mr. Giorgi Kvirikashvili, Minister of Economy and Sustainable Development and Vice Prime Minister of Georgia. Since December 2015, Mr. Kvirikashvili is Prime Minister of Georgia	Formal letter, dated 20 March 2014
Request to provide information about the programs and explore possibilities of future cooperation	Mr. Besik Bolkvadze, Deputy Minister of Finance and Economy of Adjara A.R	E-mail, dated 6 August 2014
Potentials of project development on Geographical Indication (GI)	Mr. Ana Gobechia, Head International Affairs and Project Management Division of the National Intellectual Property Center of Georgia Sakpatenti	E-mail, dated 28 January 2015
PCB-free electricity distribution project	Mr. Teimuraz Murgulia, First Deputy Minister of Environment and Natural Resources Protection of Georgia	Formal letter, dated 24 February 2015
Request to assist in the elaboration of the Industrial Development Strategy	Ms. Irma Kavtaradze, Deputy Minister of Economy and Sustainable Development of Georgia	Formal letter, dated 21 April 2016

4.3 Possible UNIDO interventions

In view of Georgia's national priority for sustainable industrial development, the Government of Georgia has recently expressed interest in deepening its cooperation with UNIDO on a number of occasions (as reflected in the above section). To follow-up on the given commitment, UNIDO organized a CPF fact-finding mission to Georgia on 18-22 July 2016 to discuss potential avenues of cooperation between UNIDO and Georgia, and identify priority areas and modalities of joint work. CPF components with relevant project ideas, subject to Government validation are summarized below.

4.3.1 Industrial intelligence and governance

4.3.1.1 Project idea 1: Support to the Ministry of Economy and Sustainable Development in the elaboration and implementation of the Industrial Development Strategy/Policy for Georgia

In the letter from Ms. Irma Kavtaradze, Deputy Minister, Ministry of Economy and Sustainable Development of Georgia, to Ms. Solomiya Omelyan, Program Officer, UNIDO, dated 21 April 2016, the Ministry approached UNIDO to assist in the elaboration and implementation of the Industrial Development Strategy under CPF for ISID. The draft project concept on ***Support to the Ministry of Economy and Sustainable Development in the elaboration and implementation of the Industrial Development Strategy for Georgia*** was prepared with an outcome to be the Industrial Development Policy document with enhanced policy and programmatic framework for sustainable industrial growth.

During the mission it was agreed to organize a conference on the role of industrialization in November/December 2016.

Project objective and outcome

The central objective of this project is to support the Ministry of Economy and Sustainable Development of Georgia in the elaboration and implementation of the Industrial Development Strategy and Action Plan for its implementation.

The **project outcome will be the Industrial Development Policy document** with enhanced policy and programmatic framework for sustainable industrial growth.

Scope of services

As standard practice, UNIDO will deliver required services through the technical cooperation project in four components:

a) Review component

1. A desk-based assessment of the **performance of the Georgian manufacturing sector** in the regional context and over the period 2000-2014 (or up to the latest official data). Furthermore, the assessment will dwell on the key drivers of industrial performance (finance, skills, investment, infrastructure and regulation) and shed light on its inclusiveness and environmental sustainability. Finally, the assessment will explore issues related to the degree of diversification of the Georgian manufacturing sector and its risk exposure in terms of markets and output concentration.
2. A desk-based review of and assessment of the strategies and policies currently implemented in Georgia that impact upon the performance of the Georgian manufacturing sector and on the drivers of its competitiveness.
3. It is proposed that a complementary capacity-building output is provided to the Ministry of Economy and Sustainable Development for the creation of a monitoring unit equipped with the tools and the dataset required to regularly review the performance of the Georgian manufacturing sector.

b) Industrial Strategy Formulation

The second component of the project includes support to the Ministry of Economy and Sustainable Development toward formulation of the industrialization strategy of Georgia. The Industrial Development Strategy will be formulated in close cooperation with the local Georgian stakeholders.

c) Industrial Policy

The third component of the project support involves expert support to the Government of Georgia towards the preparation of a detailed industrial policy including the choice of policy instruments (especially fiscal incentives, access to financial resources, regulation and skill development), indicative timelines for the delivery of the expected results (closely related to the quantitative KPIs of the revised strategy), resource requirements (both financial and organizational), risk management options and allocation of responsibilities.

d) Monitoring and Evaluation

The establishment of a monitoring framework that allows timely tracking on the results of the implementation of the industrial policy as a package as well as of its individual components.

Indicative budget

The overall net budget for the execution of the four above components (net of UNIDO 13% support costs) is envisaged to be **EUR 2,000,000**, specifically, EUR 300,000 for the first component, EUR 400,000 for the second component, EUR 800,000 for the third component and EUR 500,000 for the fourth. Indicative co-financing sources include UNIDO, national government (Ministry of Economy and Sustainable Development of Georgia), donor organizations (EU, GIZ, UK, Friedrich Ebert Foundation, etc.)

Duration

24-36 months

4.3.2 Productive employment for rural communities and entrepreneurship development

4.3.2.1 Project idea 1: Agro-industrial value chain development (fruits and vegetables, fishery, aquaculture, tea, etc.)

Background

The following constraints exist at the primary production, processing and marketing levels:

- Primary production level: Fruit and vegetable crop production in Georgia is mainly based on old varieties introduced years ago. Noticeable absence of modern varieties which are grown throughout the world in the agro-climatic conditions comparable to those in Georgia is a significant constraint. Furthermore, there is a lack of high quality planting stock (e.g. disease-free certified nursery plants). Crop cultural practices including soil preparation, plant establishment, irrigation methods, fertilization, pruning, and pest management need also to be significantly improved. Improper postharvest care and practices are another serious limitation. Postharvest losses due to a lack of postharvest cooling, cold chain maintenance, appropriate cleaning, waxing as well as due to inadequate temperature/humidity control, deficient packing process and poor quality packaging materials, amount up to 15-35 % of the harvest volume.
- Processing level: While there is a minimal amount of agro-processing capacity for horticulture crops in Georgia, modernization of agro-processing facilities is needed. Agro-processing operations include several fruit juice processors, a fruit and vegetable bottling canning plant, several fruit preserving operations, and a small fruit block-freezing operation. There is no individual quick-freeze processor or fruit/vegetable dehydrating plant.
- Marketing and exportation level: Marketing is a significant constraint for the development of the horticulture sector in Georgia. Improved market intelligence and stronger producer-buyer links are needed to obtain more profitable returns. Another serious limitation, particularly for export, is an absence of grade standards, which results in a lack of product uniformity (e.g. uniformity in size, shape, color). In addition, GlobalGAP certification by producers and ISO/HACCP certification by agro-processors is needed to access high-value horticulture product export markets. Moreover, currently used poor quality packing (i.e. wooden crates and sacks; newspaper is commonly used for protection of fruits inside the wooden crate) is another constraint for export. All this impedes marketing for export.

Areas of intervention along value-chain may include:

- Provision of sufficient quantities of the agricultural inputs. Grapes and hazelnuts are the only exception;
- Storage facilities are not sufficiently developed. As a result, fruits and vegetables are transported to Armenia for storage and imported back to Georgia;
- Technology transfer is required for processing purposes;
- The packaging sector is not developed and relevant activities must be undertaken;
- Laboratories do not have enough capacity, equipment and experience to cover all agricultural goods;
- Adoption and implementation of new standards are expensive and the relevant support is necessary to provide certification and guarantee compliance with international standards;
- Trade and market access as the final component of value chain is of critical importance for the sector.

Objective

The overall objective of the project is to improve the quality of life of the rural population in selected regions in Georgia. The regions are to be selected during the preparatory assistance phase. More precisely, the project will empower youth, women and vulnerable communities in the selected regions through applying measures for strengthening value chain development thus helping small agro-processing producers to attain higher efficiency in producing quality inputs and value added products and in marketing their products effectively at the national, regional and international (among others, European) markets.

Expected target beneficiaries

- SME and households engaged in primary agricultural production, as well as in agro-processing, marketing and other value chain support services. The project will particularly target youth and unemployed;
- Intermediate institutions (e.g. associated businesses and support institutions) which will be strengthened in their role to promote sustainable development of the value chain;
- Consumers, as they will have better access to nutritious and safe products meeting their demand, thanks to, *inter alia*, assuring the compliance with national and international safety and quality standards.

Indicative budget

The overall net budget for the execution of the project depends on the exact scope of the envisaged interventions. Potential donors include SIDA, EU, Poland, Czech Republic, China, etc.

Duration

3 years

4.3.2.2 Project idea 2: Youth/women employment and entrepreneurship

Objective

To assist the Government of Georgia in its efforts to promote the economic empowerment of women and youth, through the creation of job opportunities in the productive sectors of the economy and by supporting entrepreneurship development.

Scope of services

To create an entrepreneurial ecosystem and achieve the overall project objective, UNIDO will focus on the following:

1. **Promotion of entrepreneurial culture:** UNIDO will support the promotion of an entrepreneurial culture by raising awareness about the benefits of entrepreneurship, bringing together relevant stakeholders, and encouraging the creation of synergies between local entrepreneurs, as well as national and international partners. Engagement with key stakeholders will allow for the main challenges to be identified and specific goals and priorities to be set. The entrepreneurial culture in the value chains selected in the inception phase will thereby be enhanced and entrepreneurship development will be encouraged, with a special focus on youth and women. To that effect, the regulatory requirements for starts-up will be examined, hindrances for business start-ups will be minimized, and confidence of entrepreneurs will be improved.
2. **Access to finance and training schemes:** UNIDO's intervention will provide technical support to the selected value chains, financial and non-financial institutions and the financial service providers identified during the inception phase of the project. The aim is to strengthen the capacity of institutions in order to enhance the delivery of quality services and support to youth and women-led SMEs in the agriculture and manufacturing sector. The overall support provided by the project will include training/coaching, counselling and advice, business innovation, support in building business linkages and investment promotion. The project will strengthen the

capacities of financial and non-financial service providers in entrepreneurship development in order for these to better support youth and women in SME development, including services relating to improve the credit worthiness of youth and women, to financial education and business literacy. This will result in improved opportunities for youth and women, which will translate into inclusive and sustainable economic and social development of Georgia.

3. **SMEs promotion:** The project also aims at promoting youth and women-led enterprises by connecting them to national and international business networks and promoting quality investment and export opportunities. This can be done through B2B networks and by reaching out to the diaspora. The objective is to connect them to the local and international markets and support their expansion/consolidation through partnerships.

Indicative budget

The overall net budget for the execution of the project depends on the exact scope of the envisaged interventions. Potential donors include SIDA and the EU. To increase odds of getting financial support, the project could be developed in cooperation with UNFPA and UN Women.

Duration

4 years

4.3.2.3 Project idea 3: Development of tourism cluster and the support to the cultural and creative industries in the tourism development of Georgia

Tourism is a potential driver of economic growth and has been growing rapidly over recent years. The number of visitors increased from 560,000 in 2005 to 5,900,000 in 2015 with 88% visitors coming from bordering countries. The tourism sector has become an important source of job creation but is mostly limited to seasonal employment. Georgia has become increasingly popular in terms of cultural tourism with 12,000 historical monuments, three of which are included in the list of UNESCO World Heritage sites. Remote communities in Georgia stand out with unique handicrafts that can be linked with tourism.

4.3.3 Competitiveness and market access

4.3.3.1 Project idea 1: Improving SME competitiveness and market access through origin consortia development in Georgia (wine, greenery, nuts, etc.)

Background

The Georgian Government recognizes the mounting interest of consumers in typical products and pays special attention to promote Georgian agricultural products internationally, especially wine, nuts (Georgia is one of the largest producer in the world) and greenery. At the same time customers on the global markets are increasingly willing to pay a premium for unique products with a strong territorial link. However, often the main concern of the stakeholders is quickly to obtain a geographical indication. Yet, all too often they ignore the fact that a geographical indication only serves to identify and protect a product with special characteristics and thus enhance its marketing. An origin consortium is a voluntary alliance of individual producers, companies or cooperatives in the same value chain that are involved in the production of the same traditional agro-food or artisan product of regional origin. The main objective of the origin consortium is to increase the global reputation of the typical product on local and possibly international markets.

1. Representatives of public and private support institutions in Georgia working with SMEs, cooperatives or producers that will be trained and coached to establish origin consortia.
2. SMEs, cooperatives and wine/handicraft producers in Georgia that will be assisted in the process of establishing an origin consortium.

Objective

Enhance competitiveness of SME clusters and improve their market access through development of origin consortia in Georgia and brokering linkages with local productive industries

Indicative budget

The overall net budget for the execution of the project depends on the exact scope of the envisaged interventions.

Duration

24 months

4.3.3.2 Project idea 2: Establishment of functional and effective protection system for Geographical Indications (GIs)

Background

In order to effectively protect GIs, Georgia acceded to the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration. Another very important document in force is the “Agreement between the European Union and Georgia on Protection of Geographical Indications of Agricultural Products and Food Stuffs” setting forth protection and cooperation mechanisms for the successful implementation of the Agreement. The protection of the GIs under the Agreement is fully in line with the general policy of the Georgian Government in making Georgian products increasingly competitive and available on the European market. On the practical level a lot of improvements are needed to achieve a high standard of protection.

Objective

To assist Georgia in establishing a functional and effective protection system for Geographical Indications (GIs), in order to contribute to a better positioning of Georgian quality products on national and international markets using distinctive signs.

Scope of services

UNIDO can provide technical assistance and would be pleased to cooperate in all four areas indicated in your request, namely:

- Identification of potential geographical indications (GI) for their further registration; (this would be done in cooperation with FAO, which has a specific methodology)
- Strengthening cooperation with relevant structures and involving stakeholders;
- Establishing control system over GIs and facilitation of its implementation;
- Increasing awareness on GI protection among main stakeholders.

Indicative budget

The overall net budget for the execution of the project depends on the exact scope of the envisaged interventions. Potential donors include SIDA, EU, Poland, Czech Republic, China, etc.

Duration

2-3 years

4.3.3.3 Project idea 3: Improving the competitiveness of textile and clothing manufacturing (or any other sector) through industrial modernization and upgrading (IUMP in Georgia)

Objective

Enhancement of the productivity and competitiveness of the Georgian textile and clothing manufacturing enterprises through identification of regional and international market access, improvement of the technological circle and industrial modernization, introduction of innovative marketing tools, and the formation of the national expertise in providing services to local enterprises on the sustainable basis.

4.3.3.4 Project idea 4: Trade facilitation and export promotion for Georgia

Background

In the context of the Association Agreement that fully entered into force on 1 July 2016, Georgia is obliged to harmonize its standards and legislation with the European Union that will guarantee compliance with international and regional standards and promote export.

One of the project components may be focused on sanitary and phytosanitary (SPS) measures. Following the adoption of a food safety strategy in December 2010 aiming at aligning this sector with EU and international standards, Georgia adopted a new Food Safety, Veterinary and Plant Protection Code in May 2012. For the first time ever an animal registration program was introduced and state-funded vaccination campaigns implemented and mouth disease and anthrax have been run. Furthermore, Georgia aims at approximating its law to two EU directives with regards to horizontal rules on the marketing of industrial products. The EU provided technical assistance in the area of SPS and TBT through the Comprehensive Institution Building programs in 2011 and 2012. In 2014, signed Financing Agreement in Brussels launched a new program in support of the EU-Georgia Agreements. Through this program, which will be carried out over five years, the European Union plans to allocate up to EUR 19 million to various Georgian institutions including National Food Agency, Georgian Agency for Standards and Metrology, and Georgian Accreditation Centre. Strategy of Agricultural Development in Georgia 2015-2020 prioritizes food safety, veterinary and plant protection. In this regard, implementation of SPS related reforms on the basis of the strategy shall be continued. Animal disease surveillance needs continued attention. The promotion of accredited certification among SME is very important. Food Safety Management System Standard – ISO 22000 – needs to be promoted widely in the country and capacity should be built through the training of ISO 22000 auditors and consultants.

Objective

The objective of the project is to enable and promote Georgian products on international markets through improving safety, integrity and marketability of goods and services and removing TBT. It aims at modernizing the quality of infrastructure and promoting quality of products produced by small and medium enterprises.

Expected target beneficiaries

- Metrology laboratories
- Domestic small and medium enterprises
- Consumers

Indicative budget

The overall net budget for the execution of the project depends on the exact scope of the envisaged interventions.

Duration

3 years

4.3.3.5 Project idea 5: Support to the Government of Georgia in the development of economic zone

Background

Anaklia Free Industrial Economic Zone: The Anaklia Development Consortium (joint venture between TBC Holding and Conti International) was awarded the contract to build a USD 2.5 billion deep sea port in Anaklia becoming a major hub on China's Maritime Silk Road by 2020¹⁴⁹. Upon completion, the port will have the capacity to process 100 million tons of cargo per year, which could boost Georgia's GDP by 0.5%¹⁵⁰. In addition to the Anaklia Port, Anaklie Development Consortium (ADC) is developing a Free Industrial Zone on 600 hectares of the 1000-hectare parcel of land. This will complement the Port by positioning it for made-to-order order products for Europe-Asia trade as well as direct access to Real Estate and Tourism zones. ADC has plans to develop the following FIZ industry clusters:

- Light Industrial - will help strengthen the regional significance of Anaklia Port
- Food and Beverage - will build upon the regional agricultural strength. This cluster has the potential to evolve as a food manufacturing hub - a regional exporter
- Logistics - will help Anaklia Port establish itself as a regional transshipment hub for a range of exporting industries
- Tourism and Real Estate - will have access to the coast, proximity to national park, and may contain a cultural center
- Training and Development - will help address regional workforce skills development objectives
- Financial Center - will aid business development

Techpark: As innovation and creativity is a necessary precondition for the sustainable growth and development of the country, Georgia's Innovation and Technology Agency (GITA) was established on 19 February 2014 in Georgia. Georgia's Innovation and Technology Agency promotes implementation of the modern technologies and innovations, commercialization of the researches, development of applied studies, etc. Creation of Georgia National Innovation Ecosystem is planned aiming to establish innovation infrastructure in the regions (through innovation centers, regional innovation hubs, and internet-availability), develop special skills and increase the accessibility of the financial resources (through grant programs). Under GITA in the framework of this program, TechPark was opened in January 2016, where learning centers, laboratories, training centers and universal laboratories of industrial innovations are located in order to promote innovative technologies, support invention and implementation of innovative ideas.

Hualing Group is developing Free Economic Zone and Free Technology Park in Tbilisi and Industrial Park in Kutaisi municipality.

China may become the main donor for the project

4.3.4 Renewable energy, energy efficiency and environmental management

4.3.4.1 Project idea 1: Second phase of Resource Efficient and Cleaner Production project

Background

Regional Resource Efficient and Cleaner Production Demonstration Program for the European Union's Eastern Neighborhood (EaP) region is a regional level project. UNIDO in collaboration with

¹⁴⁹ <http://www.gtreview.com/news/asia/anaklia-deep-sea-port-to-put-georgia-on-new-silk-road/>

¹⁵⁰ *Id*

the OECD, lead partner, UNECE and UNEP is implementing a program titled “Greening Economies in the Eastern Neighborhood (EaP GREEN)”. It includes national and regional activities to be implemented between 2013-2016 in each of the six EaP countries, respectively Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine. Core funding for the UNIDO component of RECP project (USD 2,500,000) is provided by EU, with additional co-funding from UNIDO, the Government of Slovenia and the Development Bank of Austria (DBA).

Duration

From 2017 onwards (if the Georgian side is interested in the project’s extension)

4.3.4.2 Project idea 2: Scaling up the development and operationalizing power plants in Georgia (hydro, wind, solar and geothermal)

Indicative budget

The overall net budget for the execution of the project depends on the exact scope of the envisaged interventions. Potential donors include SIDA, EU, Poland, Czech Republic, China, etc.

4.3.4.3 Project idea 3: Environmental regime compliance support and water/waste management

UNIDO approach

Implementation of multilateral environmental agreements: UNIDO supports countries in meeting their obligations under the major Multilateral Environmental Agreements (MEA), such as the Montreal Protocol, the Stockholm Convention, the Minamata Convention on Mercury, and the United Nations Framework Convention on Climate Change (UNFCCC).

Water management: UNIDO assists developing countries and countries with economies in transition with the transfer of best available environmentally sound technologies and environmental practices to improve water productivity in industry and prevent discharge of industrial effluents into international waters (rivers, lakes, wetlands and coastal areas) thereby protecting water resources for future generations. UNIDO supports through the following programs:

- **Transfer of Environmentally Sound Technologies (TEST):** support sound management of resources use at priority industrial hot spots, to minimize use, maximize productivity, and promote zero discharge, through demonstration of best practices, application of clean technologies, and capacity building.
- **Mercury Program:** introduction of clean technologies and policy reforms to minimize the use and discharges of mercury by promoting Best Available Technologies (BAT) and Best Environmental Practices (BEP) through awareness raising, capacity building, and technology transfer.
- **Large Marine Ecosystems (LME):** program supports the ecosystem approach through demonstration of best practice strategies, capacity building, and strategic partnerships, to reduce the degradation of transboundary river basins and the marine and coastal environments.

Chapter V: Conclusion

Despite the market oriented reforms, Georgia is one of few FSU countries that did not reach its 1990s GDP per capita rate. The country is still vulnerable to exogenous shocks because of its heavy reliance on foreign direct investment and remittance inflows, low domestic savings, large current account deficit, and a high level of dollarization¹⁵¹. Two-thirds of the GDP is derived from the service sector but the majority of the population is employed in the agricultural sector that has less than 10% contribution to GDP. In the agricultural sector, no strong revival of labor-intensive manufacturing or productive transformation ever happened. The food and metal industries provide the largest industrial base for Georgia, while apparel, beverages, wood and chemicals are the fastest growing industries. However, these industries are of low value added and are highly labor intensive. The insufficient competitiveness of Georgian production severely hampers exports. Industrial competitiveness is also constrained by the size of the domestic market, the labor skills mismatch and the lack of R&D.

Georgia has undergone extensive business environment reforms making the country a more attractive destination for FDI and bringing it global recognition as a top reformer. However, the growth of the SME sector is constrained by gaps in essential infrastructure, limited access to finance, skills mismatch, absence of export promotion support, tax administration, and regulatory frameworks and logistics, which is especially problematic for the hydropower and agriculture sector. Vast amounts of Georgia's tremendous hydropower resources are untapped. Despite heavy reliance on imports, the country uses 4.5 times more energy per unit GDP production than countries in the EU. An affordable and reliable energy supply is essential for building a competitive and productive economy.

In this regard, UNIDO can assist the Government in line with its mandate to achieve higher competitiveness in priority industrial sectors, industrial diversification and upgrading, as well as adding value to products and services. Additional measures need to be undertaken to support knowledge intensive, innovative and green industries with higher value addition, foster private entrepreneurship and job creation as well as enhance skills in growth areas, create conditions for SME scaling up, and contribute to sustainable and inclusive economic growth.

UNIDO as a technical UN agency is not in the position to thoroughly finance the implementation of technical assistance projects, and is strongly committed to work together with the Government of Georgia for raising funds and attracting other development partners for this undertaking.

¹⁵¹ <http://www.adb.org/sites/default/files/institutional-document/153660/cps-geo-2014-2018.pdf>