



**SME  
Development  
Strategy of  
Georgia**

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**Annual Report of  
Action Plan  
2019**

**Ministry of Economy and Sustainable  
Development of Georgia**

# **SME Development Strategy of Georgia**

## **2019 Annual Report of Action Plan**

© Implementation report on Action Plan represents the implementation of the relevant activities as of 2019, as a result of the work of the Ministry of Economy and Sustainable Development of Georgia and its relevant agencies under the Ministry, as well as the responsible agencies listed in the Action Plan.

## ABBREVIATION

CIB	Comprehensive Institutional Development Program
DCFTA	Deep and Comprehensive Free Trade Agreement
EFQM	European Foundation for Quality Management
FDI-SMEs linkages	Support of FDI-SME Linkages
GIZ	Organization of International Cooperation of Germany
ICT	Information and Communication Technology
IFRS for SME	International Financial Reporting Standards for SME
LLEL	Life Long Entrepreneurial Learning
OECD	Organization for Economic Cooperation and Development
RBC	Responsible Business Conduct
RIA	Regulatory Impact Assessment
R&D	Research and Development
SME	Small and Medium-sized Enterprise
TNA	Training Needs Assessment
TTPP	Technology Transfer Pilot Project
TBT	Technical Barriers to Trade
UNDP	United Nation Development Program
USAID-PROLoG	United States Agency for International - Development Rule of Law in Georgia

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## Summary

SME Development Strategy of Georgia (2016-2020) and the relevant Action Plan, developed by the Ministry of Economy and Sustainable Development of Georgia in close cooperation with the Organization for Economic Co-operation and Development (OECD) and Organization of International Cooperation of Germany (GIZ) and with support of European Union (EU), was approved by Resolution of the Government of Georgia in 2016. The strategy is in full compliance with the basic principles of the Small Business Act for Europe (SBA) and envisages the best practices of EU countries with regard to SME development policy. The main aim of the strategy is to create a favorable environment for small and medium-sized enterprises, increase their competitiveness and innovation opportunities, which will be resulted in growth of incomes and new jobs and respectively, will be achieved an inclusive and sustainable economic growth.

The strategy has set out the following targets to be achieved by 2020:

- Growth SMEs output by average 10% annually ;
- Growth of number of employees in SMEs by 15%;
- Productivity growth by 7%.

The SME Development Strategy for 2016-2020 includes 5 key strategic directions, such as: Further improvement of legislative, institutional framework and operational environment for SMEs (1); Improvement of access to finance (2); SME skills development and promotion of entrepreneurial culture (3); Export promotion and SMEs internationalization (4); Facilitation of innovation and R&D in SMEs (5). These strategic directions, in turn, include relevant priority measures and actions.

Accordingly, the Strategy Action Plan for 2019, within the framework of the 5 strategic directions mentioned above, envisages the execution of 36 priority measures and 118 actions.

**The first strategic direction** envisages further improvement of the legal, institutional and entrepreneurial environment for SMEs. Within the framework of this direction, the draft of the Law of Georgia “On the Rehabilitation and Collective Satisfaction of Creditors” was elaborated. After holding relevant public-private discussions with regard to the draft, it was submitted to the Government; The Law of Georgia “On Mediation” was elaborated and approved to facilitate alternative dispute resolution; The concept of a unified front office was developed to improve the delivery of public services to businesses. In order to simplify the process, the description, analysis, and integration of various governmental services into a web portal was carried out. In order to strengthen SME’s support institutions, staff of the relevant institutions were trained, including the representatives of LEPL "Enterprise Georgia" and Georgian Techparks and Innovation Centers have undergone the trainings for trainers. In order to deepen cooperation between the supporting institutions for SMEs, meetings were held in coordination with the Ministry of Economy and Sustainable Development of Georgia - with the participation of the LEPL

"Enterprise Georgia", the "Georgia's Innovation and Technology Agency" and the "Georgian Chamber of Commerce and Industry". The aim of the meetings was to identify the challenges existing in the hospitality industry and the needs of the private sector and therefore creating needs based services. The meetings with the representatives of the different sectors of SMEs were organized by the LEPL "Enterprise Georgia". To strengthen the dialogue between the public and the private sector, meetings of the "Private Sector Development Advisory Council" were held on a quarterly basis. In addition to this, the meetings of the Trade Advisory Council and DCFTA Advisory Group were also conducted. To implement "The Better Regulation" system, a Regulatory Impact Assessment (RIA) mechanism has been developed and adopted.

The performance of the priority activities identified in the first strategic direction was assessed according to the "Performance Indicators" foreseen in the Action Plan, and the performance of the strategic direction was assessed in line with the OECD recommended indicators.

**The second strategic direction** envisages further improvement of the access to finances. Within this framework, trainings were held for entrepreneurs, including the trainings with the objective of financial education improvement. Financial education training module was developed for agro-entrepreneurs. International Financial Reporting Standards (IFRS for SME) have been implemented in order to support SMEs. IFRS for SME training materials and training modules were prepared and trainings for target audiences were conducted. A draft law „On Investment Funds” was elaborated and submitted to the government for capital market development. To improve access to finance, a credit guarantee scheme was launched. Roundtables / discussions were held to identify obstacles to small and medium-sized entrepreneurship financing. Loans were granted under the Agro Credit Project. In addition, young entrepreneurs were funded under the Young Entrepreneurs Development Program. As part of the Co-financing Project for Storage and Processing Enterprises, processing and storage enterprises were established. Within the framework of the tea plantation rehabilitation program, cooperatives were provided with tea processing facilities. Under the agro insurance program, crop insurance has been performed.

The performance of the priority activities identified in the second strategic direction was assessed according to the "Performance Indicators" foreseen in the Action Plan, and the performance of the strategic direction was assessed in accordance with the indicators recommended by the OECD.

**The third strategic direction** envisages the development of small and medium-sized business entrepreneurship skills and promotion of entrepreneurial culture. Within this framework, labor market needs were identified, including the professional intentions of job seekers. Job seekers, including persons with disabilities (PWDs), have been employed under "The State Program for the Development of Employment Support Services". Labor market surveys and analyzes were conducted. The Action Plan 2019-2020 for the implementation of "Lifelong entrepreneurial learning at all levels of the education system" (LLEL) has been approved. It is mandatory to introduce entrepreneurship module for all vocational students in modular vocational programs

at state vocational education institutions. A Vocational Education Strengthening Project was implemented to support entrepreneurship learning through the development of a new curriculum and the introduction of project-based teaching principles. Work-based dual-approach educational programs are implemented in the vocational education system. The rule for the recognition of learning outcomes achieved through non-formal education has been approved. Trainings in “Electronic Literacy” were conducted. Socially vulnerable families have joined the internet. Entrepreneurs benefited from the Agency's technical support component of “Enterprise Georgia”. The Georgian Agency for Innovation and Technology, in cooperation with its partners, has launched a pre-accelerator program. Within the framework of entrepreneurship support activities, educational materials and business literature were posted on the agency's website. In order to identify the needs of women entrepreneurship and to support the development of it, under the the Private Sector Development Advisory Council was created relevant Sub-Council for Promotion of Women Entrepreneurship. To promote of women entrepreneurship “The National Business Forum for Women Entrepreneurs” was held. Trainings for women on branding, emotional intelligence, opportunities of business expansion and relationships with financial institutions was held. Small grant and co-financing grant programs have been developed in order to encourage female entrepreneurs. In accordance with the Waste Management Code, relevant meetings were held to raise awareness of the entities subject to the process of Extended Producer Responsibility (EPR). Waste accounting and reporting was also provided to entrepreneurs in order to ensure efficient operation of the electronic database of waste.

The performance of the priority activities identified in the third strategic direction was assessed according to the “Performance Indicators” foreseen in the Action Plan, and the performance of the strategic direction was assessed in accordance with the indicators recommended by the OECD.

**The fourth strategic direction** envisages export promotion and internationalization of SMEs. A number of activities were undertaken to raise awareness of the perspective and requirements of DCFTA. The National Agency for Standards and Metrology of Georgia (GEOSTM) provided entrepreneurs and stakeholders with information on national quality infrastructure services (metrology, standardization and accreditation) and international recognition gained in metrology. Representatives of business and media were informed about the benefits and opportunities arising from the DCFTA. Website [www.dcfta.gov.ge](http://www.dcfta.gov.ge), having 20,020 visitors in 2019 alone, is constantly being updated. Sectors with export potential were analyzed and priority export markets were identified. International market research has been carried out to identify market demand and priority products in these markets, including technical requirements. Entrepreneurs have participated in international events to find partners and establish business relations. Work is underway to register innovative entrepreneurs on the Enterprise Europe Network (EEN) platform. Numerous business forums and international exhibitions were held in Georgia and abroad with participation of local start-ups and active enterprises.



The performance of the priority activities identified in the Fourth Strategic Direction was assessed according to the “Performance Indicators” foreseen in the Action Plan, and the Strategic Direction Performance was assessed in line with the OECD recommended indicators.

**The fifth strategic direction** envisages the promotion of innovation, research and development. The aim of the strategic direction is to stimulate innovation for SMEs, develop effective schemes for innovation and R&D financing and commercialize them. During 2019, Georgian startups participated in startup events in the EU and elsewhere, including exhibitions, conferences and seminars. Grants have been awarded under the Innovation and Technology Grant Programs. Entrepreneurs in the regions have been trained in e-business. Innovation hub was built and arranged in Batumi. Coverage of regions with high-speed fiber optic backbone infrastructure is actively underway.

The performance of the priority activities identified in the Fifth Strategic Direction was assessed according to the “Performance Indicators” foreseen in the Action Plan, and the Strategic Direction Performance was assessed in line with the OECD recommended indicators.

## Introduction

According to the Social-Economic Development Strategy of Georgia – “Georgia 2020”, the economic policy of the Georgian government is based on three key principles. **The first principle** is to ensure rapid and effective economic growth focused on the development of the real sector of the economy, which will solve the country's economic problems, create jobs and reduce poverty. **The second principle** is to pursue an inclusive economic growth policy that implies comprehensive involvement of the population in economic development, the well-being of each member of the society as a result of economic growth, improvement of social equality and of living conditions for the population as a whole. **The third basic principle** focused on the rational use of natural resources in the process of economic development, ensurance of environmental security and sustainability.

The basic principle of economic development of the country is the development and promotion of the private sector. Therefore, the economic policy of the Government of Georgia considers the competitiveness of the private sector as the most important driving force of economic development.

The entrepreneurial sector, especially small and medium-sized enterprises, plays an important role in the development of the economy and contributes significantly to ensure sustainable and inclusive economic growth. SMEs, having enormous potential in employment generation and job creation, as well as in fostering economic growth, could be considered as a backbone of each country's economy. A strong and well-developed SME sector significantly contributes to export, innovation, and creation of modern entrepreneurial culture, playing at the same time a significant role in achieving prosperity in the country.

One of the major challenges of the Government of Georgia is the development and promotion of SMEs. Consequently, the existence of a unified supportive policy and appropriate strategy contributes to enhancing the competitiveness of the private sector of the country, both in internal and external markets, based on the development of human capital, the development of entrepreneurial culture, improved access to financial resources, innovation and research etc. All of these are necessary conditions for the successful functioning of the economy.

SME Development Strategy of Georgia (2016-2020) and the relevant action plan were developed by the Ministry of Economy and Sustainable Development of Georgia, with the financial support of the European Union, in close cooperation with OECD and GIZ. The strategy and corresponding action plan were approved by the Government of Georgia on February 26 of 2016 (Government of Georgia resolution N100; 26.02.2016). Monitoring of the implementation of the strategy with the support of the EU was carried out by the OECD, which evaluated the implementation of the strategy as successful and presented the results of the monitoring in the format of the Eurasia Competitiveness Roundtable (November 19, 2018) in the capital of France, Paris during the Eurasia Week event.

The strategy envisages the basic principles of the European Small Business Act, including the key principle of the Act "Think Small First" and the best practices of EU countries in the field of SME development policy. The importance of the existence and implementation of the SME development strategy and its action plan is obvious for further development of SMEs, as implementation of the strategy will contribute to enhance SMEs competitiveness. This is important both for employment growth and job creation, as well as for establishing a niche on local and international markets.

#### **Aim of SME Development Strategy:**

SME Development Strategy for Georgia aims at achieving:

- ✓ Creation of favourable environment for SMEs;
- ✓ Enhancement of their competitiveness;
- ✓ Innovation capacities, which will lead to income generation and job creation resulting in inclusive and sustainable economic growth.

#### **The main objectives of the strategy**

- ✓ Enhancement of competitiveness of SMEs in domestic and international markets;
- ✓ Improvement of SME skills and establishment of modern entrepreneurial culture;
- ✓ Support modernization and technology upgrading of SMEs.

#### **Target Indicators for 2020 (Baseline - 2013)**

- ✓ Growth SMEs output by average 10% annually by 2020;
- ✓ Growth of number of employees in SMEs by 15% by 2020;
- ✓ Productivity growth by 7% by 2020.

The strategy comprises **5 key strategic directions and policy-relevant priority measures**, which **were** developed based on an analysis of the current economic situation, an analysis of the institutional and entrepreneurial environment for SMEs, evaluations and recommendations. Relevant priority measures and actions are outlined in the action plan.



According to SME Development Strategy Action Plan, each strategic direction includes detailed actions that are important to accomplish the specified priority measures and, therefore, to achieve the goals set in each strategic direction. Specifically, **the Action Plan for 2019 envisages 36 priority measures and 118 actions within 5 strategic directions.** Between them:

- ✓ The first strategic direction includes 7 priority measures and 21 actions;
- ✓ The second strategic direction includes 6 priority measures and 19 actions;
- ✓ The third strategic direction includes 10 priority measures and 35 actions;
- ✓ The fourth strategic direction comprises 6 priority measures and 33 actions;
- ✓ The fifth strategic direction includes 7 priority measures and 10 actions.

At this stage, the achievement of target indicators set by the SME Development Strategy (growth of output of SME by average 10% annually by 2020; 15% growth number of employees in SMEs by 2020 and productivity growth by 7% by 2020), has been implemented successfully. In particular, according to “Geostat” data for 2018:

- ✓ In 2014-2018, average annual growth of output of SMEs was 13.5%;
- ✓ In 2018, growth of number of employees in SMEs was 31.8%;
- ✓ In 2018 Productivity growth was 4.5%.

The presented document is a progress report on the implementation of the Action Plan for 2019 of “SME Development Strategy of Georgia”.



## ***The first strategic direction: Improvement of the legal, institutional and entrepreneurial environment***

### **1.1. Improvement of business closure and insolvency procedures**

[1.1.1] **Improvement of business closure and insolvency procedures** has been identified as one of the priority measures in line with the SME Development Strategy and relevant Action Plan. At this stage, the Ministry of Justice of Georgia, in cooperation with the Ministry of Economy and Sustainable Development of Georgia, the Ministry of Finance of Georgia and the German Agency for International Cooperation (GIZ), has drafted the Law of Georgia “On Rehabilitation and Collective Satisfaction of Creditors”. **Public-private discussions were held about a draft law designed to improve business closure and insolvency procedures. The draft law was submitted to the Government of Georgia.**

### **1.2. Development of a legislative framework related to mediation**

[1.2.1] Support for the development of alternative means of dispute resolution represents an important priority for the state. The purpose of the development of the mediation system is to promote alternative means of dispute resolution, increase access to justice and its effectiveness. As a result, the court should be as free as possible from disputes that have the prospect of conclusion by mutual agreement. Therefore, a draft law was developed by the Ministry of Justice under the auspices of the Interagency Coordination Council for Private Law Reform, with the support of a working group established under the joint project of the European Union and the United Nations Development Program (UNDP), as well as with the support of donor organizations - USAID-PROLoG and GIZ. **The Government of Georgia has submitted the Draft Law of Georgia “On Mediation” to the Parliament of Georgia. The law was adopted by the Parliament of Georgia and entered into force on January 1, 2020.**

### **1.3. Improvement of service delivery to businesses**

[1.3.1] The priority measure provides **a description of the State provided services to the business sector**. Within the framework of this measure, the description, analysis and integration of the services to the web portal has been carried out. Dozens of the services of government agencies have been processed during the reporting period and are now available online in the form of a trial version. The platform created within the trial version reflects services relevant to businesses created and operated by various agencies within the Ministry of Economy and Sustainable Development. The trial version has 70 integrated services.

[1.3.2] **Work on optimization / digitalization of business services** has also been undertaken to modify the services of various relevant government agencies. Specifically, the following works were undertaken to provide businesses with electronic services:

- LEPL “Maritime Transport Agency” - aims at implementing the "Single window principle", which implies the introduction of digital services into the port industry, the release of incoming liners from bureaucratic barriers and the processing of unnecessary documentation;
- LEPL „National Agency of State Property“ – with the aim of optimization of State property creation of unified electronic portal of State property and optimization of services has been carried out;
- LEPL „National Agency of Mines“ - activities have been implemented towards implementation of integrated approach to extraction / processing i.e integrated permit - “Single window principle”;
- LEPL “National Agency of Public Registry” - activities were implemented for the introduction of additional electronic services in the business register.
- LEPL “Agency for Standards and Metrology” – availability of online purchase of international and European standards recognized as Georgian standard.

[1.3.3] **The concept of a unified front office was developed** to improve the delivery of public services to businesses. In order to simplify the process, the description, analysis, and integration of various governmental services into a web portal was carried out. Implementation of this concept will help improve the business environment in Georgia, access relevant governmental services to entrepreneurs and stakeholders, create new services for investors and entrepreneurs, and improve existing ones. In particular, with the development of electronic services, business sector representatives will be able to access verified, uniform information and the necessary governmental services.

#### **1.4. Improvement of enterprise statistics**

[1.4.1] The National Statistics Office of Georgia is **actively expanding the sphere of enterprise statistics and planning relevant research**. For the year 2019 there was planned and carried out a statistical survey of currency exchange unites. The survey has been published on the official website of Geostat accordingly. The study presents the volume of purchases and sales made by currency exchange unites in different currencies, net profit / loss from conversion operations, as well as the number of local and foreign nationals benefiting from currency exchange services, etc.

In 2019 a statistical survey of intermediate consumption in enterprises and organizations was carried out. Intermediate consumption determines the volume of goods and services consumed as inputs in the production process.

## **1.5. Capacity building of Small and Medium-sized enterprise support institutions**

[1.5.1] **Within the capacity building activities of SMEs**, staff of relevant institutions were trained, including the representatives of Georgian Techparks and Innovation Centers, who have undergone the trainings for trainers (TOT) in the following areas: Lego & LittleBits, CorelDraw, Tinckercad and 3D printing; An event organized by the World Business Angel Investors Forum (WBAF) was held in Croatia (Zagreb) on January 20-23 of the current year with the participation of an agency representative, who shared experiences and presented the work of “the Agency for Innovation and Technology”. The representative of the agency also participated in the CAMCA Regional Forum in Tashkent in June of 2019. On March 21, within the framework of the Intergovernmental Commission on Economic Cooperation between Georgia and Belarus, the Belarusian delegation visited the Agency's Techpark. During the visit, the parties discussed various issues, including the sharing of legislative experience, the entry of high-tech IT companies into Georgia and the possibility of establishing Georgian startups in the Belarusian market.

Seven employees of LEPL "Enterprise Georgia" have undergone training for trainers (TOT) organized by the International Labour Organization (ILO). Agency staff also participated in trainings organized by the Japan International Cooperation Agency (JICA) in various Japanese cities related to the topic of small and medium business and further sharing of country practices at local level.

[1.5.2] **Supporting the creation of business associations, strengthening business organizations/ associations** - In order to strengthen the institutionalization of Small and medium-sized enterprises, the Chamber of Commerce and Industry of Georgia **is supporting the creation and strengthening of business associations**. During the reporting period, the strengthening of the Chamber member organizations and other associations, who support business sector was carried out by the Chamber of Commerce and Industry of Georgia.

Meetings, organized by the Chamber of Commerce and Industry of Georgia, were held between the judges of the High Council of Justice and business-sector. At the same time, the Chamber organized a meeting with representatives of business associations to the Minister of Foreign Affairs of Georgia, who introduced the participants to the "Action Plan for Economic Diplomacy". The member business associations of the Chamber of Commerce and Industry were provided with information from the Ministry and the Chamber on the prospects for engaging in the process.

[1.5.3] One of the most important measures in strengthening SMEs is the study of international experience and practice. LEPL "Enterprise Georgia", in cooperation with the German Ministry of

Economy and Energy and with the support of GIZ, is implementing a managerial training program aimed at developing international trade opportunities for SMEs. This is of particular importance in the context of the EU-Georgia Association Agreement, which in its turn includes a Deep and Comprehensive Free Trade Area Agreement, which gives the unique opportunity for local entrepreneurs to the 500 million EURO market without restrictions.

The main objective of the program is to study German business management practices; Development of international relations capabilities; Development of international business relations skills; Establishment of links with German companies; Development of potential business relationships. The program includes both trainings and visits to German companies and individual meetings with local business representatives.

The program involves mid- or high-level managers of SMEs with at least 2 years of managerial experience, higher education in economics, commerce, technology, management or any other profession and fluent in English. Also, the company had to be represented in the local and / or international market for 2-3 years, willing to work with German companies with specific ideas. The program was held in the Federal Republic of Germany.

Representatives of 18 companies participated in the program during the year 2019.

With the support of the Agency for Innovation and Technology of Georgia, the following countries have exchanged experience on innovations, technologies, business accelerators, innovation infrastructure and other topics: UK, USA, Armenia, Croatia, Italy, Republic of Belarus, Turkey, and also international accelerators who have the experience of cooperation with both developed and developing countries.

[1.5.4] The measure envisages the **implementation of the recommendations, which were developed on the basis of the State program “Enterprise Georgia” evaluation results.** LEPL "Enterprise Georgia" agency commissioned the audit company "BDO" to conduct a study of the effectiveness of the State program "Enterprise Georgia" within the terms of the components of industry, technical support and access to finance. As a result of the research, “BDO” has made some recommendations regarding this program, such as sector analysis, import dependency, complex approach, inter-agency cooperation, experience in similar programs and more. The Agency has started and is continuing to work on the recommendations and implement them.

[1.5.5] **To provide services tailored to the needs of SMEs,** the Agency for Innovation and Technology of Georgia implemented Innovation and Entrepreneurship Technical Support Programs and awarded mini and matching grants under the Access to Finance Program. The agency will issue grants of 5,000 GEL, 100,000 GEL and 650,000 GEL under the program. The 5,000 GEL Small Grants Program represents a thematic funding mechanism designed to support the creation and development of startups. Applicants were selected through an open competition and through a set of criteria that were funded to develop, test, refine and /or improve a prototype in the field of innovation and technology.



New technologies were introduced and existing technologies have improved as a result; The event's grant was awarded to support Hackathon, Macathon, Creathon and other events, in order related to the promotion of innovation in Georgia, which included the creation of a prototype, creative business model or software for an innovative product in a short time; Travel grants have been issued outside of Georgia for international events in the field of innovation and technology (conference, congress, forum, symposium, workshop, innovation promotion activities, etc.). Participation in the exchange of information and sharing of experience with potential investors is important in strengthening the local innovation ecosystem. 393 applications were submitted to the agency under the Small Grants Program during 2019, out of which 124 were funded.

Within the framework of co-financing grants of 100,000 GEL and 650,000 GEL start-up entrepreneurs were provided with financial resources to develop and exploit innovative products and services with international potential in Georgia and to establish and commercialize innovations and innovative enterprises through commercialization. **39 projects** were funded under various components of 100,000 GEL co-financing grants and **4** out of 60 applicants under the 650,000 GEL co-financing grants received financial support in 2019.

**The agency "Enterprise Georgia"** implemented services tailored to the needs of SMEs in 2019 for entrepreneurs, which implies making changes to the relevant regulation, such as adding priority sectors and upgrading programs according to different conditions or criteria.

4 meetings were held with representatives of different sectors of Small and medium-sized enterprises organized by the Agency "Enterprise Georgia". Within the framework of the event, a meeting was held between the Executive Director of "Le Roche" Carlos Diesse La LaStra and the beneficiaries of the State program "Host in Georgia".

The event featured a presentation on the conditions and results of the program "Host Georgia" and highlighted the importance of the tourism sector in Georgia.

The purpose of the meeting was to identify the challenges existing in the hotel industry and the needs of the private sector, according to which a tailor-made program will be implemented under the auspices of the Agency "Enterprise Georgia" and the company "Le Roche".

In addition, a workshop was held with beneficiaries involved in the construction sector, during which were discussed the problems in the business sector and state regulations in this area.

GIZ organized a workshop with SME representatives, where entrepreneurs were informed about the projects implemented within the framework of the Agency and GIZ cooperation.

**Georgian Chamber of Commerce and Industry** has carried out a number of projects for SMEs with the aim of offering them the business services, in particular, offering the project "Search Partner". Counseling was provided to the business sector with respect to the important services,

the examinations and business-forums were carried out, the certificates were issued a GS1 codes were awarded.

[1.5.6] With the coordination with the Ministry of Economy and Sustainable Development of Georgia meetings were held with the participation of representatives of the Agency "Enterprise Georgia", "Agency of Innovation and Technology of Georgia" and "Chamber of Commerce and Industry" **In order to deepen cooperation between the supporting institutions of SMEs.**

## 1.6. Enhancing public-private dialogue

[1.6.1] To enhance dialogue between the public and private sectors, the Ministry of Economy and Sustainable Development of Georgia holds quarterly **meetings of the Private Sector Development Advisory Council**, attended by representatives of the public and private sectors. During each quarterly meeting of the Council, presentations on current and planned reforms was presented to the private sector and relevant discussions were held on them. Specifically, during the reporting period, presentations on the following topics were presented at the sessions of the Private Sector Development Advisory Council, such as the Credit Guarantee Scheme; Business Registry Electronic Services; Rural Development Public Network of Georgia; Reform of national quality infrastructure; Telecommunications reform; The situation in the wheat and flour sectors; Planned reform in the energy sector; Startup Ecosystem Development Services; Planned and performed financial education activities ; Law of Georgia on Mediation; Activities carried out and planned within the framework of the Women Entrepreneurship Promotion Sub-Committee. There was also a discussion on the issues raised by the private sector.

[1.6.2] Strengthening the dialogue between the public and private sectors involves organizing meetings of the Advisory Council on Trade and Advisory Group of DCFTA. To this end, the Ministry of Economy and Sustainable Development of Georgia regularly holds meetings of **the Advisory Council on Trade and Advisory Group of DCFTA** [1.6.3]. At the first meeting of the Advisory Council on Trade, the topical issues related to the effective use of Georgia's free trade regimes were discussed. On July 19 of 2019, with the support of the United States Agency for International Development (G4G), a joint meeting of the Trade Advisory Council and DCFTA Advisory Group was held. The meeting discussed the draft of technical regulation related to the topic of toy safety, which was prepared in accordance with DCFTA commitments and the results of the impact assessment of the new and global approach of the EU - EMC and Low Voltage Regulation (LVD), prepared by the PMO Advisory Group with the support of G4G.

[1.6.4] The Georgian Chamber of Commerce and Industry organized **a dialogue between the public and private sectors to identify existing obstacles**. Within the framework of public-private dialogue, a meeting was held on vocational education. The meeting was attended by the heads of about 100 companies and vocational education institutions (April 22, 2019).

The meeting was organized by the Chamber of Commerce and Industry of Georgia and representatives of the tourism sector in the framework of public-private dialogue. The purpose of the event was to provide sector representatives with information on educational and training projects and plans in the field of tourism. The meeting was attended by about 100 representatives of travel companies and hotel businesses (May 20, 2019).

Organized by the Chamber of Commerce and Industry of Georgia, in the framework of public-private dialogue, the members of the High Council of Justice met with the representatives of the Banking Association. The meeting was attended by representatives of 11 commercial banks. Bank representatives had the opportunity to discuss all the topical and problematic issues during the meeting with the judges (May 23, 2019).

In the framework of public-private dialogue a meeting was held between the State Procurement Agency and the private sector. The new draft law "On Public Procurement" was discussed at the event. The meeting was attended by the members of the Board of the Chamber of Commerce and Industry of Georgia and up to 30 representatives of the private sector (August 1, 2019).

## **1.7. Creation of RIA system for regulatory impact assessment for priority economic legislation**

[1.7.1] Under the Strategy's Action Plan, **implementation of the Regulatory Impact Assessment (RIA)** is one of the most important measures, as RIA is currently a key method of the "better regulation" system, which promotes a unified state approach. RIA represents a tool of making justified policy decisions that create a consistent and structured framework for resolving existing problems. Representatives of regulatory reform agencies analyzed the theoretical material reflecting the basic principles of regulatory impact assessment, best practices in developed European countries, and formulated a vision for the gradual introduction of regulatory impact assessment in Georgia.

[1.7.2] The analysis of the implementation of the RIA has shown the need to prepare legislative changes for the **mandatory implementation of the RIA and submit it to the Government and Parliament of Georgia**. In spring of 2019, the Government of Georgia submitted to the Parliament of Georgia a draft law "On Changes to the Organic Law of Georgia on "Normative Acts" adopted by the Parliament.

[1.7.3] According to the Law of Georgia "On Normative Acts", the Government of Georgia was assigned to adopt the methodology for assessing the impact of regulation in order to further **develop RIA institutional mechanism**. With the support of the partners of the Government of Georgia - the European Union, the German Society for International Cooperation (GIZ), Governance for Development (G4G) and USAID, a Concept Paper on Regulation of Impact Assessment and Cost and Benefit Analysis Technical Manual has been developed.

[1.7.4] With the support of the donors an event was held **to raise awareness and knowledge of RIA implementing institutions regarding the RIA SME Test**. A workshop on the topic "RIA SME Test" was held for the representatives of various state institutions within the framework of the European Commission's Technical Assistance and Information Exchange Instrument (TAIEX) on the topic "RIA SME Test". At the workshop, EU experts shared best practices from EU Member States on the RIA SME Test.

## **Results of monitoring and evaluation**

The first strategic direction includes **7 priority measures to be implemented in 2019 and 21 actions** that have been fully implemented.

In 2019, the first "performance indicators" relevant to the strategic direction were performed, including:

- ✓ *Public-private discussions were conducted about the new draft law on insolvency;*
- ✓ *New draft law on insolvency submitted to Georgian government and parliament;*
- ✓ *The draft law on mediation was elaborated and adopted by the Parliament of Georgia;*
- ✓ *The concept of a unified front office has been developed to improve business services;*
- ✓ *Business services are digitalized;*
- ✓ *The scope of enterprise statistical surveys has been expanded to include intermediate consumption statistics for enterprises and organizations, as well as statistical surveys of currency exchange unites;*
- ✓ *New business associations were established;*
- ✓ *Services tailored to the needs of entrepreneurship were offered;*
- ✓ *Meetings were held to foster cooperation between SME support institutions;*
- ✓ *Meetings of the Private Sector Development Advisory Council were held;*
- ✓ *Meetings of the DCFTA Advisory Council on Trade Matters were held;*
- ✓ *The RIA implementation process was analyzed and recommendations were made;*
- ✓ *Legislative changes were adopted to introduce mandatory RIAs;*
- ✓ *Trainings and workshops were conducted with respect to RIA and including the RIA SME Test.*

## Evaluation of the implementation of the first strategic direction in accordance with the indicators recommended by the OECD

Institutional, legal and entrepreneurial business environments have been significantly improved as a result of the measures outlined within the first strategic direction.

### Institutional environment

**The World Bank's Worldwide Governance Indicators** estimate 214 countries in 6 areas of governance, such as **Governance effectiveness; Quality of regulations;** The right to expression and accountability; Political stability and combating violence; Rule of Law and Control of Corruption.

In 2018, compared to 2012, Georgia's score improved in all indicators, while in 2018, Georgia's score in the two indicators of "Governance Effectiveness" and "Quality of Regulations" reached the historical maximum.

In 2018, Georgia took the 55th place with 74.04 score in the "Governance Efficiency" indicator. It is noteworthy that both the country's score and the rating improved in this indicator.

Governance effectiveness is based on assessments of the degree of independence of public and civil services and their freedom from political pressure. Also, the degree of reliability of the government in developing, implementing and producing such policies.

The "Government Effectiveness" index analyzes and evaluates areas such as bureaucracy, quality of infrastructure, quality of education, bureaucracy, efficiency of public governance, efficiency of asset utilization, integration of civil services, public governance, favorable business environment, trust in government and more.

Georgia ranked 83.17% out of 100% of ratings in the "Quality of Regulations" indicator and ranked 36th in 2018 in the world. It should be noted that compared to 2012, Georgia's position in this indicator improved its rank by 19 points.

The index of "Regulatory Quality" combines assessments by the government policies aimed at stimulation of private sector development as well as the development and implementation of regulations by the government. The indicator analyzes and evaluates, including areas such as the burden of government regulations, the effect of taxes, business start-up procedures, investment and financial freedom, the country's investment profile and more.

**The "Global Competitiveness" Index** of the World Economic Forum measures the quality of the macroeconomic environment in the countries, the state of public institutions in the country and the level of technological readiness. The index analyzes the factors that play an important role in creating a business environment in the country and are important in terms of productivity and

competitiveness. The index examines the strengths and weaknesses of the country, identifies priorities for facilitating the implementation of institutional reforms.

Georgia's rating in the World Economic Forum's Global Competitiveness Index was 60.6 in 2019, 0.8 points more compared to the result of 2017. Georgia's scores have improved in areas such as institutions, infrastructure, ICT adoption skills, skills, financial system, market volume, business dynamics, and innovative skills.

## Insolvency

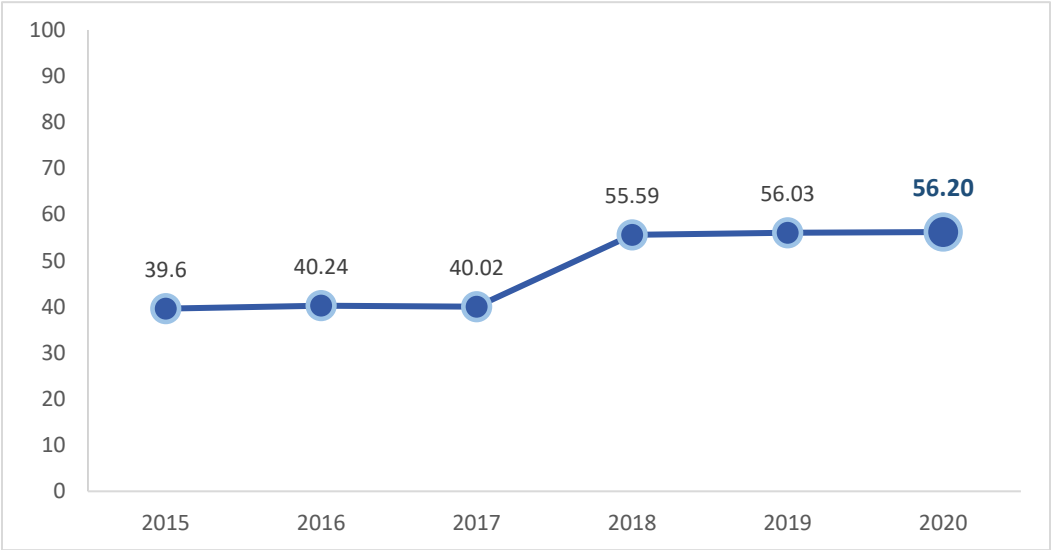
One of the World Bank's "Doing Business" indicators is **insolvency**, which evaluates 190 countries around the world in terms of time, cost and insolvency process required to complete an insolvency or rehabilitation process, as well as the effectiveness of the insolvency system.

In 2019 a new Georgian Law on "Rehabilitation and Collective Satisfaction of Creditors" was prepared, which incorporates the best principles existing in world practice today. It is noteworthy that the adoption and implementation of the draft law will significantly improve the process of business rehabilitation or closure in Georgia.

In turn, **the amendments** to the Law of Georgia "On Insolvency Proceedings" made in May 2017 are noteworthy. As a result of this reform, the rights of both the debtor and the creditor (s) have been further strengthened. In particular, according to the amendments, the debtor is entitled to apply for both rehabilitation and bankruptcy; Any creditor may file a claim for insolvency; The process of insolvency proceeds with the supply of essential goods / services for the continuation of the debtor's business; Damage to the creditor shall be deemed to be a transaction by the debtor or other action resulting in the impairment of the trusteeship (including the sale of the trusteeship or part thereof, or alienation at significantly lower market value, debt forgiveness, etc.); The creditor and / or the creditors' meeting may request financial information about the debtor at any time; Both the creditor against whom the judgment is rendered or any other creditor may appeal the judgment of the creditor.

The aforementioned legislative changes and its implementation have a positive impact on the assessment of Georgia by the World Bank's "Doing Business" rating. Specifically, in 2017 Georgia's DTF score accounted only to **40.02**. As a result of the legislative changes, in 2018 Georgia's score (DTF) improved significantly and reached 55.59 points. In 2019 and 2020 ranking surveys, the country's ratings improved further, reaching **56.03 and 56.20, respectively**.

Diagram 1. Georgia's score in the World Bank rating "Doing Business" in Insolvency Indicator





## **Second strategic direction: Improvement of access to finance**

### **2.1. Improvement of financial education**

[2.1.1] The Agency "Enterprise Georgia" conducted **trainings for entrepreneurs, including the trainings related to the improvement of financial education**. Specifically, within the framework of the Micro and Small Entrepreneurship Support Program, 2,403 winning beneficiaries were trained in finance, marketing, beekeeping, mechanization and accounting.

The Agency "Enterprise Georgia" with the support of GIZ provided training to 19 SME representatives on DCFTA issues in April of 2019.

The Agency "Enterprise Georgia", together with the leading Georgian Higher Education Institution (HEI) selected by tender, conducts the Certificate course for Export Managers. The course modules, along with other export-related topics, also cover trade in goods and services under the DCFTA. Within the framework of the Export Managers Certification Course, from 2015 to date, 238 export managers have been retrained, 40 of them in 2019. The courses were attended by 25 exporters and representatives of export-oriented companies.

[2.1.2] The National Bank of Georgia has developed a financial education program for micro and small entrepreneurs with the support of the European Development Fund for Southeast Europe (EFSE DF) and the Export Development Association (EDA) in financial education. Within the framework of the program, "Guide for Micro and Small Businesses: Relationship with Financial Organizations and Financial Decision Making" with the relevant training module has been developed. In 2019, within the framework of the project, a project information meeting was held at the National Bank with representatives of commercial banks and microfinance organizations. In addition, according to the developed training module and manual, **3 training for trainer (ToT) courses have been conducted for the representatives of commercial banks, microfinance organizations, non-governmental and public organizations** (14 organizations in total). In total 46 trainers have undergone the training.

[2.1.3] The National Bank of Georgia is working to develop a financial education training module for agro entrepreneurs, which includes translating and adapting **existing agro entrepreneurship brochures and delivering trainings, including Training for Trainers (ToT)**. A consulting company was selected to develop the brochure and training module and a contract was signed. Work has also been done to adapt the brochure.

[2.1.4] Within the joint project of the National Bank of Georgia and Savings Banks Foundation for International Cooperation (SBFIC) **adaptation of the simulation games "Business simulation for micro entrepreneurs" and "The farming game" in Georgian language was conducted together with the training of trainers**. During the reporting period a Georgian version of both games was



developed. In addition, SBFIC conducted training of trainers on “Business Simulation for Micro Entrepreneurs” and as a result 34 local distributors were retrained.

## **2.2. Support for SMEs in introducing International Financial Reporting Standards for Small and Medium-sized Enterprises (IFRS for SMEs)**

Law of Georgia “On Accounting, Reporting and Auditing”, which is fully in line with internationally recognized standards, has introduced in Georgia the standards for the preparation and reporting of accounting, financial reporting, management reporting and payments to the State.

Accounting and financial reporting standards include, among other things, International Financial Reporting Standards for Small and Medium-Sized Enterprises (IFRS for SMEs). IFRS for SMEs are intended for the second and third category enterprises.

[2.2.1] By the Service for Accounting, Reporting and Auditing Supervision , in the framework of G4G Financial Assistance Program and in partnership with business associations (Employers’Association, GSMEA, Farmers' Association, Professional Organizations (GAIAA, (Georgian Association of Independent Accountants and Auditors), GFPAA (Georgian Federation of Professional Accountants and Auditors), GFAAFM)) with the aim of implementing International Standards (IFRS for SMEs) **a working group was selected, IFRS for SME training materials were prepared and Teaching modules have been fully translated.**

[2.2.2] In order to implement the International Financial Reporting Standards, **target audiences were identified.**

[2.2.3] **Trainings for target audiences selected for IFRS for SMEs were conducted. International accounting standards** were taught to more than **800** accountants during the year. From this, by donor-funded training, more than **500** accountants were trained. The main sponsors of the training were USAID, the World Bank and the European Bank for Reconstruction and Development, with the assistance of which the trainings were conducted and will continue both in Tbilisi and the regions.

## **2.3. Raising the knowledge of Small and Medium-sized entrepreneurs in fund raising**

[2.3.1] Trainings on fundraising for startups were organized by the Georgian Innovation and Technology Agency and the European Union. Work Meetings/Workshops with Georgian Startups were held in September and December 2019 within the framework of the Investment Readiness Program.

## 2.4. Raising Private Equity and Venture Capital Funding for SMEs and Startup Businesses

[2.4.1] **The Georgian Agency for Innovation and Technology has hosted numerous events to support the cooperation of Georgian startups with angel and venture investors and mentors** (organizing pitching sessions and B2B meetings). KooPee Hiltunen, Director of the Finnish Association of Neogames, held a meeting with startups in the gaming industry at Tbilisi Techpark. The International Monetary Fund (IMF) Managing Director Kristin Lagarde visited the Techpark, where Georgian startups made presentations. Two-time NBA champion, entrepreneur and “angel investor” Zaza Pachulia met with Georgian startups at Techpark; Representatives and startups of CYBERPARK Techpark from Ankara Bilkent University of Turkey visited Tbilisi. Within the framework of the visit, B2B Business Forum was held with the support of the Turkish Embassy in Georgia and the Georgian Innovation and Technology Agency.

[2.4.2] **In order to develop a market capital, the draft law “On Investment Funds” was discussed twice in the framework of the public-private dialogue in 2019.** Market participants, members of the working group and members of the parliament participated in the dialogue format. The first meeting was aimed at introducing the key provisions and principles of the draft law “On Investment Funds” to a wide audience, and the second meeting was aimed at acquainting them with all the comments and notes on the edited draft in the light of additional meetings with market participants during the interim period. The meetings were attended by both large investors (in the form of co-investment fund) and venture capital investors (in the form of Alliance Group). It is noteworthy that as a result of the request and interest of market participants, the draft amendments to the “Tax Code” were introduced to them, and market participants made appropriate comments.

[2.4.3] **A draft law “On Investment Funds” was developed and submitted to the government for capital market development.** The draft law has been substantially refined in line with the opinions and comments expressed during the public-private discussions. In addition, consequent draft laws and a table of compliance with EU directives have also been prepared with respect to the draft law. Before submitting the draft law to the government, the final version was introduced to market participants, after which the draft law was submitted to the government.

## 2.5. Support of SMEs from commercial banks and microfinance organizations to increase funding

[2.5.1] In order to improve **access to finance, it is important mention a credit guarantee scheme launch.** The purpose of the scheme is to facilitate the elimination of market failures that hinder viable business to take credit. The Credit Guarantee Scheme will help financing viable SMEs that do not have sufficient collateral to lend under existing credit policies or operate in a sector or market that is particularly at risk in the context of the current credit policy of the banking sector.

The credit guarantee scheme is based on portfolio guarantees. The loan is evaluated by a commercial bank. Under the Credit Guarantee Scheme, a credit guarantee is issued on each loan issued by a commercial bank, with no more than 70% of the principal amount of the loan, and no more than 15% of the loan portfolio available under the program for each commercial bank.

Under the Credit Guarantee Scheme, guarantees are issued only on loans received in GEL. Entrepreneur will be able to borrow at least 50 thousand GEL and not more than 2 million GEL. However, the borrower's turnover over the last 3 years should not exceed 20 million GEL on average and its total loan liabilities at the time of borrowing should not exceed 8 million GEL. The maximum term of the credit guarantee is 10 years.

Relevant agreements were concluded between the Ministry of Economy and Sustainable Development of Georgia and 12 commercial banks to launch the Credit Guarantee Scheme.

[2.5.2] LEPL "Enterprise Georgia" organizes **roundtables / discussions between the parties to identify obstacles to SME financing, in order to further eliminate them**. The agency's regional or local information meetings with SMEs have revealed that access to finance is one of the main challenges for SMEs, especially in securing loans. To this end, the Credit Guarantee Mechanism has been set up under the Agency "Enterprise Georgia", which will be another supplementary program for support of SMEs. The Ministry of Economy and Sustainable Development of Georgia has initiated information meetings on the State Program. The meetings cover the topic of Credit Guarantee Scheme and are aimed at informing SMEs about the terms, procedures and stages of benefiting from the program.

The loan-guarantee scheme was discussed with the private sector, including within the framework of public-private dialogue platform – “The Private Sector Development Advisory Council”. The Council was created by the order of the Minister of Economy and Sustainable Development of Georgia and operates within the Ministry.

[2.5.3] 5,118 loans have been issued by the Ministry of Environmental Protection and Agriculture of Georgia and the NNLP “Agricultural and Rural Development Agency” under preferential agricultural credit project with a budget amounted to GEL 70,554,924.

## **2.6. Support to SMEs in agriculture, through state co-financing (subsidies) of SME startups or development of existed SMEs**

[2.6.1] The following programs have been implemented by the Ministry of Environmental Protection and Agriculture of Georgia and the NNLP “Agricultural and Rural Development Agency” **Young Entrepreneurship Development Program**, under which 100 young entrepreneurs were funded.

[2.6.2] 493 beneficiaries were funded under the **program “Plant the Future”** (of which 196 beneficiaries were funded within the subcomponent of funding for berry crops in the framework of the State Program “Plant the Future”).

[2.6.3] **Within the project of co-financing of storage and processing enterprises** 7 processing and 10 storage enterprises were created.

[2.6.4] Within the framework of the **tea plantation rehabilitation program**, 8 cooperatives were provided with the machinery necessary for primary treatment of tea and the tea plantations were rehabilitated.

[2.6.5] Under the agricultural insurance program, **crop insurance** was provided to 10,407 beneficiaries.

## **Results of monitoring and evaluation**

**The second strategic direction includes 6 priority measures and 19 actions. During the reporting period, all of the mentioned 6 priority measures were fully implemented.**

In 2019, “Performance Indicators” corresponding to the second strategic direction were fulfilled, namely:

- ✓ *Within the framework of technical support to the Micro and Small Entrepreneurship Support component beneficiaries’ trainings were held;*
- ✓ *Trainings were held for Micro and Small Entrepreneurs on Relations with Financial Organizations and Financial Decision Making;*
- ✓ *Brochures on financial education were developed for agro entrepreneurs;*
- ✓ *IFRS for SMEs training module was prepared;*
- ✓ *Target audiences were identified and IFRS for SMEs trainings for target groups were conducted;*
- ✓ *Meetings on fundraising were held;*
- ✓ *Meetings with startups and foreign venture capital investors were held;*
- ✓ *Public-private discussions were conducted about the draft Law “On Investment Funds” and the draft was submitted to the Government of Georgia;*
- ✓ *Credit Guarantee Scheme Launched within the component of access to finance of the state program “Produce in Georgia” ;*
- ✓ *Roundtables / discussions were held to identify obstacles to SME financing;*
- ✓ *Preferential loans were granted to persons engaged in agricultural activities;*
- ✓ *Young entrepreneurs were funded in agriculture.*

## Evaluation of the implementation of the second strategic direction in line with the indicators recommended by the OECD

### Access to Finance

Access to finance is a crucial to achieving business development, productivity growth, expanding the export area and, consequently, increasing investment in the economy.

One of the main challenges for the development and growth of small and medium entrepreneurship in Georgia today is the issue of access to finance. In order to support small, medium and newly established businesses the government is actively supporting the development and implementation of a number of instruments, which are aimed at increasing the SME skills, improving access to finance, enhancing export potential and promoting market access for small and medium entrepreneurs, also the development of SME innovation, innovative ecosystem improvement, modernization of the Georgian companies and as a result, support to productivity growth.

In this regard, it is important to analyze the credit portfolio of financial institutions. According to the statistical data of the National Bank of Georgia, the dynamics of lending is characterized by a positive growth trend. However, in 2018, the structure of the credit portfolio changed slightly in terms of segments, which resulted by the increase in the share of SME loans. In 2016-2018, SME lending flows increased **from 21% to 25% of the total loan portfolio**.

Loans issued to SMEs in 2018 totaled \$ 6,525 million GEL, which is **26%** higher than the last year indicator. In 2017, the volume of loans equaled 5,176 million GEL, which was **30%** higher than in 2016. Positive growth dynamics were also observed taking into account the exchange rate effect. In particular, the growth rate of loans to SMEs in 2016 amounted to 20%. In 2017 and 2018, there was a positive growth of 15% and 14%, respectively.

In 2018, compared to 2017, interest rates on SME loans have declined. Interest rate declines were observed for both foreign currency and GEL loans. For example, the weighted average interest rates in 2016 were 12.5%, while interest rates fell in 2017 and 2018, equaling 12.3% and 12.1%, respectively.

On the one hand, the difference between interest rates on loans to micro, small and medium-sized enterprises and on the other hand, the difference (by flows) between the interest rates of the loans issued to the large-scaled enterprises is within the range of 2.6% during the last 2 years. The situation during this period was conditioned by the reduction of interest rates on loans for SMEs and large enterprises. As a result, in 2017 and 2018, the figure was 2.59% and 2.61%, respectively.

## **World Economic Forum “The Risks of Doing Business”**

The World Economic Forum's Global Competitiveness Index (GCI) assesses the country's competitiveness and analyzes the factors that play an important role in creating a business environment in the country and are important in terms of productivity and competitiveness. The index examines the strengths and weaknesses of the country, identifies priorities for facilitating the implementation of political reforms. Research defines competitiveness as the combination of institutions, policies, and other factors that determine a country's productivity level.

The World Economic Forum also separately identifies issues that, according to respondents, are a hindrance to competitiveness and assesses the risks associated with doing business in the country. The business risk assessment is based on an annual Executive Opinion Survey conducted by a group of researchers in the organization.

The World Economic Forum offers surveyed respondents an assessment of the risks that are causing significant problems in doing business in different regions of the world today. According to the 2017 report, Georgia's main challenge in enhancing competitiveness remained unskilled labor, access to finance, inflation, low workforce ethics and awareness, as well as low levels of innovation opportunities and more. Access to finance represented as the second major problem of doing business.

In 2018, the World Economic Forum published its “Report of Doing Business Global Risks”, which outlines the five major categories of risk. Specifically, the risks are categorized as follows: Economic, Geopolitical, Environmental, Social and Technological which in turn include 30 types of business-related risks that create significant problems in doing business in the country.

According to the 2018 report, 52.3% of respondents in Georgia rated unemployment or under-employment as the most problematic. 36.4% of the respondents cite possible public administration problems as a possible problem, while 34.1% cite conflicts between states as well as inadequate urban development (29.5%), social inequality (27.3%) and etc..

**Thus, based on the results of the 2018 and 2019 surveys, access to financial instruments in Georgia is no longer named as a major impediment to doing business.**



## **Third strategic direction: Support of SME skills development and entrepreneurial culture**

### **3.1. Identification of labour market needs for SMEs and development of relevant employment programs**

[3.1.1.] **To identify labor market needs and skill demands of enterprises**, the Ministry of Economy and Sustainable Development of Georgia has conducted quantitative survey of the labour market demand in the Construction Industry, the purpose of which is to identify employers' demand for human capital skills in the construction industry, considering of which in the relevant policy elaboration process will help to reduce an imbalance between demand and supply of skills in the construction industry and increase the economic efficiency of the use of skills.

As a result of the Survey, among other important issues, the general structure of employment in the construction industry has been studied (including foreign nationals), together with the distribution of employees into the classification of economic activities (NACE Rev.2) according to appropriate activity in the construction industry, occupational groups (on the level of International Standard Classification subgroups – ISCO2008), enterprise size, an education level (intermediate, professional, higher) and gender; Assessment of employees' skills by employer and examination of skills matching; Analysis of current demand on skills and identification of existing/potential vacancies; Assessment of applicants' skills mismatch and requirements; Study of offered payments on vacancies according to occupational groups considering relevant skills; Study of information sources used by enterprises during a hiring process; Study of activities provided by an employer for trainings and retrainings; The average monthly nominal wage of employees according to occupational groups.

The abovementioned research is publicly available on the webpage of the labour market information system [www.lmis.gov.ge](http://www.lmis.gov.ge).

**Qualitative labor market surveys** has been conducted by the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia under the "State Program for the Development of Employment Support Services". In order to facilitate the conduct of these surveys, the government of Georgia approved the "State Program for the Development of Employment Support Services" (Government Resolution N665, 28.12.2018), under which the qualitative surveys were conducted to identify the demanded professions and required qualifications, by surveying 284 employers nationwide.

[3.1.2] **Identification of professional orientation of job seekers** in the framework of "State Program for the Development of Professional Training-Retrainings and Raising Qualification of Job Seekers" (Government Resolution N9, 28.01.2019) by the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia. The State

Program was implemented in two stages in Tbilisi and 6 regions (Adjara, Imereti, Kakheti, Samegrelo, Zemo Svaneti, Shida Kartli, and Kvemo Kartli). 2 457 job seekers were involved in the training process and 2,101 of them completed the full course.

[3.1.3] In 2019, **within the framework of streamlining/further development of the state programs – “Vocational Training-Retraining and Raising Qualification” and “Development of Employment Supporting Services”**, a total of 1,415 job seekers were employed (among them, 98 Person with Disabilities (PWD) ), out of which, 755 job seekers were employed in the framework of The State Program for the Development of Professional Training-Retrainings and Raising Qualification (of which, 319 job seekers were retrained in the previous year); In the framework of intermediary service – 499; within the employment forums – 83; within the internship component – 42 persons; within supportive employment – 33 (PWD) ; within subsidy component – 3 persons.

Throughout the year 2019, employers were actively involved in various components of the program, in particular, 915 employers were involved in intermediary services, 3 - in subsidy component. 280 employers participated in the forums, 284 - in qualitative research and 25 - in the internship component.

[3.1.4] The Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia is actively consulting job seekers regarding job opportunities and services. In particular, in 2019 under The State Program of Development of Employment Support Services **1,793 job seeker was involved in group consultations** (Tbilisi – 82, region – 1,711), while **14,992 job seekers were involved in individual consultations** (Tbilisi – 2741, region – 12,251).

[3.1.5] The function of the Ministry of Economy and Sustainable Development of Georgia is **to prepare surveys and analytic report related to the labor market**. Consequently, research projects are being implemented in close cooperation with various state agencies, social partners, international and local organizations. Also, based on secondary information the Ministry analyses current tendencies of the labor market and prepares an annual labor market analysis report.

In 2019, as in previous years, an annual report on labor market analysis was prepared. The report presents an analysis of labor market statistics and employment tendencies in sectoral context. In particular, dynamic changes in workforce activity, employment, and unemployment are described in different contexts.

It also provides an analysis of the labor market demand component based on vacancies published by governmental and private employment agencies. Specifically, the report presents a review of published job vacancies from the Labor Market Management Information System (worknet.gov.ge) and private employment agency – HR.GE webpage in 2018, whereas vacancies were grouped according to the International Standard Classification of Occupations (ISCO 2008).



The report represents a desk research, which describes findings from other surveys, as well as issues discussed during the focus group meeting about the skill requirements in the construction sector.

The report's conclusive part is devoted to a list of relevant conclusions and recommendations. The prepared document is publicly available and is published on the webpage of the Labor Market Information System.

<http://www.lmis.gov.ge/Lmis/Lmis.Portal.Web/Handlers/GetFile.ashx?Type=Content&ID=c2626386-0422-4c0a-b756-759732a6d45b>

### **3.2. Training Needs Assessment (TNA) of small and medium-sized enterprises**

[3.2.1] Agency "Enterprise Georgia", together with the support of ETF (European Training Foundation), has developed a **Training Needs Assessment (TNA)** concept and relevant mechanisms (including questionnaire). The ETF supported the Training Needs Assessment of Small and medium-sized enterprises. Two sectors (paper production and printing, as well as the hotel sector) were identified for implementation of the pilot project, in which 132 companies and hotels participated. After surveying the abovementioned two sectors, 4 focus group meetings were held in Tbilisi and Batumi. About 100 duplicate of research and focus group analysis materials were printed and published. Also, to implement TNA, for internal skills development, several trainings were held by ETF and hired consultants.

[3.2.2] TNA result analysis was implemented and instruments were improved, the TNA concept and relevant mechanisms were developed. During the reporting period, invited experts of ETF and LEPL "Enterprise Georgia" launched **the implementation of TNA based project in the hotel industry.**

[3.2.3] The Chamber of Commerce and Industry of The Autonomous Republic of Abkhazia, with the support of Georgian Chamber of Commerce and Industry presented research named "SME Development Needs in Key Settlement of Internally Displaced Persons in Georgia", prepared by partnership project of Georgian Chamber of Commerce and Industry and Chamber of Munhen's and Upper Bavaria's Commerce and Industry (IHK), **to identify the needs and demanded professions (skills) of SME.**

The report includes desk and experimental, qualitative and quantitative research. The report reflects the result of micro research, conducted through individual and group surveying of internally displaced persons (IDPs) from Abkhazia as well as, Abkhazians, living on the occupied territories of Abkhazia. The purpose of the research is to identify needs and opportunities for expanding, developing and starting a new business (depending on the IDPs attitude).

The survey of labor market needs in the tourism sector was conducted with the support of GIZ, on the basis of which the first draft of teaching detailed plan for state vocational education institutions.

### **3.3. Introduction of Lifelong Entrepreneurial Learning (LLEL) at all levels of the education system**

[3.3.1] To support the introduction of LLEL, the Ministry of Education, Science, Culture, and Sport of Georgia elaborated and approved the **“LLEL introduction plan for 2019-2020 at all levels of the education system”** (Minister’s order N857, 28.06.2019). The Action Plan activities are integrated around two main goals: creating an entrepreneurial ecosystem in the education system and improving entrepreneurial learning. In order to coordinate the implementation of the mentioned Action Plan, an interagency working group has been created, comprising all key stakeholders involved in lifelong entrepreneurial learning. At the meeting with the members of the working group in November of 2019, the issue of implementation of the activities envisaged by the Action Plan was discussed.

[3.3.2] Ministry of Education, Science, Culture, and Sport of Georgia has started the **development of the adult education system**, within which a number of legal acts have been developed to implement and formalize short-term vocational training-retraining programs. Except for educational institutions, private legal entities that meet established standards may also involve in the short-term training-retraining programs. After obtaining the right, the organization is entitled to receive state funding in the specified priority areas. Together with the funding mechanism of the vocational training-retraining component, an electronic platform has been created where any legal entity will be able to join electronically in the implementation process of vocational training-retraining programs.

Since May 2019, 26 vocational education institutions in different regions of Georgia, together with their partner companies, have been implementing vocational training-retraining programs in the fields of tourism, construction, business administration, and information technologies. In 2019, **751 trainees were enrolled in 82 vocational training programs**. New vocational training-retraining programs will be added periodically according to the demand of the labor market.

In 2019, 8 legal entities obtained the right to undertake vocational training/retraining programs (27 programs).

[3.3.3] **Entrepreneurship module is mandatory for all modular program vocational students studying in state vocational education institutions**. At this stage, 828 educational programs have been implemented in 91 vocational education institutions. A compulsory component of each program is the “Entrepreneurship module”. In 2019, approximately 3,300 individuals completed a modular vocational education program in state vocational educational institution, all of them completed the compulsory entrepreneurship module.

[3.3.4] **An interagency working group meeting aimed at introducing LLEL into the education system** was held on November 26, 2019. At the meeting, the members of the group presented information regarding activities implemented and planned in the field of entrepreneurial learning. Their views on a number of activities of the Action Plan were also discussed.

[3.3.5] The Ministry of Education, Science, Culture and Sport of Georgia actively cooperates with various State and international organizations in order to improve the quality of entrepreneurship learning in state vocational education institutions and to implement new services. Under financing of United States Department of State, through the partnership of NNLE “Environment and Development”, Ministry of Education, Science, Culture and Sport of Georgia and University of California, Davis, D-Lab, the strengthening project of vocational educational entities have been implemented, **aiming at developing a new model of entrepreneurship teaching and implementing project-based learning principles**. In the scope of the project, based on the experience of the University of California (UC Davis) and within the framework of European EntreComp competencies, the existing entrepreneurship module and supporting materials were revised, which in turn are based on the proactive teaching method. The revised module was initiated in LEPL National Center for Educational Quality Enhancement. In addition, in collaboration with the University of Davis, organization Mindowrks implemented piloting of project-based teaching methodologies in three vocational colleges. The presentation of the results of piloting was held, also, the increase in the scope of project-based teaching is planned. The training process was conducted with the direct involvement of an entrepreneurship expert and with the support of teachers, simultaneously, the observations on lessons, interviews, focus groups and surveys of participants were held. A two-day workshop was held separately, with entrepreneurship teachers from 21 educational colleges, during which the module concept was introduced and feedback was provided.

The creation of the model of implementation of entrepreneurship culture in vocational colleges was planned with the support of ETF and UNDP. The model was developed with the involvement of professional education institutions, European colleagues and local experts.

It is noteworthy, that in 2019, the OECD assessed Georgia within the framework of the “SME Policy Index – 2020”. According to the results of an assessment, the entrepreneurship teaching component has improved to 4.24 points from 2.70 since 2016.

### **3.4. Development of the vocational education system oriented on entrepreneurship**

[3.4.1] In 2019, the Ministry of Education, Science, Culture, and Sport of Georgia set up a **Council entitled to grant the right of implementing vocational training and retraining programs**, which comprises the Georgian Chamber of Commerce and Industry and representatives of sectoral associations. Representatives of the private sector and business associations are also involved in VET’s authorization council. In addition to the aforementioned councils, Small and medium-sized

enterprises / their associations are represented in Supervisory Councils on the level of VETs, which is the governing body of vocational educational institutions.

[3.4.2] **In order to ensure entrepreneurs' participation in vocational qualifications implementation and development (at mezzo level)**, Ministry of Education, Science, Culture and Sport of Georgia implemented a rule for implementation, development, and approval of VET Standard and module/modules, which includes the formation of relevant Councils, with the function of participation in implementation and development of educational standards. At this stage, both, elaborated and existing vocational educational programs' framework documents/vocational educational standards include more than 90 qualifications. Employers were involved in the development of these documents and their views and opinions were taken into account. Also, the Council of Authorization of vocational educational institutions is composed of many associations or employer's representatives.

[3.4.3] **In the vocational educational system, a work-based dual approach is offered in the following educational programs:** agriculture, tourism, construction, information technologies, logistics, railway transport. Dual programs in information technologies and logistics were developed and implemented in 2019. United Nations Development Program (UNDP) and the German Corporation for International Cooperation (GIZ) support the processes. As of 2018, 24 dual programs were implemented, and as for the end of 2019, in 16 vocational educational program institutions, 48 programs (30 of which are unique programs) are being taught with the work-based (dual) teaching method. Since the fall 2019 admissions, applicants for dual programs are enrolled solely on the basis of the competition organized by the institution or an employer, and applicants are no longer required to undergo vocational testing, which has increased the role of employers in the student selection process. Moreover, work on regulating rules of work-based teaching has started, which will support the improvement of the quality of dual teaching.

Within the framework of formal education, LEPL National Center for Education Quality Enhancement has begun to approve/implement granting of the right for short-term vocational training and retraining programs. (Basis: 15 March 2019 Decree of the government of Georgia N131 and 31 December 2018 N786 Order of Minister of Education, Science, Culture and Sport). The right to implement dual programs was confirmed to 6 vocational educational institutions for 34 vocational training/retraining programs.

[3.4.4] During the reporting period, **the network of fab labs of vocational educational institutions were actively reinforced**. The processes were coordinated by the fab lab – Fablab Modusi based on the system of LEPL College “Modusi”. In the framework of the creation of a vocational fab lab network, in collaboration with Techpark, managers of laboratories were retrained. Also, working visits to college fab labs throughout Georgia were conducted. In addition, in a number of colleges, students, through fab labs' special programs were actively preparing different prototypes and products. Within the framework of the fab lab network, organization of competitions, both, internal and between colleges, are planned in 2020.

It is noteworthy that negotiations were actively held with representatives of the private sector to support the process of organizing the contest of entrepreneurial ideas.

[3.4.5] **The development of the forum for the Knowledge Partnership** is important in order to exchange work-based teaching information between parties. With the support of the United Nations Development Program, the relevant platform has been developed:

[http://wbl.ge/view2/?fbclid=IwAR3irVBWcjm\\_10nrP4XJYIHbs3\\_rYdDfFfn2iWXGmiwFiQJVJD-pYZINj6A#](http://wbl.ge/view2/?fbclid=IwAR3irVBWcjm_10nrP4XJYIHbs3_rYdDfFfn2iWXGmiwFiQJVJD-pYZINj6A#).

The format of the platform is designed to connect the parties involved in the work-based learning process together to support the coordination of the process.

### **3.5 Increasing accessibility to non-formal training**

**The rule of recognition of learning outcomes achieved through non-formal education** has been approved (Minister of Education, Science, Culture and Sport, Order N188/n of 6th September of 2019), providing lifelong learning support. Also, the rule on selection, certification and status termination of consultants has been approved (Order N837/i of 16th September of 2019, Director of LEPL National Center for Educational Quality Enhancement). A competition has been launched to select informal education recognition consultants (Order N842/i of Director of LEPL National Center for Educational Quality Enhancement). 9 consultants for recognition of non-formal education were selected as a result of the competition (Order of the Director of the LEPL National Center for Educational Quality Enhancement, N931/i of 7 October, 2019) of on granting status to certified consultants on non-formal education recognition).

The terms and conditions for obtaining the right to recognition of non-formal education and the fee for obtaining the right were approved (Government of Georgia's Decree N459 of 20 September of 2019), and the application form for the acquisition of the right of recognition of non-formal education (Order of the director of the LEPL National Center for Educational Quality Enhancement of 2 October, N915).

Thus, the legal acts required for the process of recognition of non-formal education are approved and accordingly, educational institutions may apply for the right of recognition of non-formal education. At the same time, together with the implementation of recognition mechanisms, process monitoring will be provided to identify the needs for improving and modifying the mechanisms if needed.

On October 18, 2019, LEPL National Center for Educational Quality Enhancement held a meeting with institutions interested in acquiring the right to recognition of non-formal education. Representatives of educational institutions were provided with detailed information on the acquisition of the right to recognition of non-formal education.

The center is currently working on guidelines, when finished, will provide a unified guide on the processes of recognition of non-formal education, also guidelines for all the parties involved in the process of recognition will be developed (seeker, consultant, assessment commission and examination commission). Educational institutions can already apply for the acquisition of the right to recognition of non-formal education. It is noteworthy that from 2019, the subprogram of support of the recognition of non-formal education is being implemented, with the aim of supporting non-formal education recognition processes.

[3.5.2] Within the framework of a joint project between the Georgian Agency for Innovation and Technology and the GeoLab New Technologies Lab, on since May 2019, **with the aim to support non-formal education programs**, IT retraining course in graphic design started in 9 regions of Georgia with the duration of 11 weeks.

In 2019, the Agency conducted trainings in computer literacy for entrepreneurs in 25 mountainous municipalities of Georgia, attended approximately by 300 entrepreneurs. In 2019, 1,027 households were registered on portal “Internet for the Development”, out of which, the internet has been installed in 638 socially vulnerable households.

This year, LEPL “Creative Georgia” of the Ministry of Education, Science, Culture, and Sport of Georgia organized various entrepreneurship oriented events using informal education methods. Specifically, in Tbilisi and regions, 2 entrepreneurship retraining events and 2 student entrepreneurship training-competition (so-called Bootcamps) were held, also, 3 seminar-competitions for people with creative ideas.

### **3.6. Ensuring Technical Assistance (TA) for SMEs**

[3.6.1] In 2019, 12 beneficiaries benefited from the technical support component of Enterprise Georgia **within the framework of technical assistance state programs**. The technical assistance component included in the component of Access to Finance Implies co-financing of 10,000 Georgian GEL to each beneficiary involved in the program, while only the expenses of the beneficiary on the following services on the territory of Georgia can be co-financed/reimbursed:

1. Information-consulting service, except service for instruction on mounting fixed assets (equipment(s) / installations), or/and usage of fixed and circulating assets;
2. Trainings and consultations on company and/or production management, productivity and production volume growth, operation optimization, product sales and marketing, R&D, financial reporting and legal issues;
3. Introduction of modern standards and quality control in the production process;
4. Development and implementation of technical assistance schemes for the beneficiary;

5. Implementation of advanced international and local environmental norms and standards in the manufacturing process.

[3.6.2] Georgia's Innovation and Technology Agency **in collaboration with partners** launched the **pre-accelerator program**, while trainings were conducted by leader startup accelerator companies on European market STARTUP WISE GUYS and CIVITTA. The market research required for creating technical assignments for implementation of the accelerator program has been conducted (Introducing of the international accelerator to Georgia).

The Chamber of Commerce and Industry of Georgia, on the basis of the request of regional entrepreneurs, with the help of National Food Agency, the National Agency for Standards and Metrology, various trainers and ministries, **trainings on production compliance with European standards and requirements** were conducted to regional entrepreneurs.

[3.6.3] Implementation of the **EFQM Excellence Model** in the Georgian Chamber of Commerce and Industry has started with the support of the German Corporation for International Cooperation (GIZ) and the European Union's project. EFQM model is based on European values, which aim to support an international and local organizations, including, public and private institutions to improve their performance by using the EFQM model, which integrates qualitative components of ISO international standards. More than 30 000 European organizations, using model successfully, operating in 50 different sectors are members of The European Fund for Quality Management.

Since the EFQM was implemented by the Chamber of Commerce and Industry of Georgia, it actively popularizes standards of European Fund of Quality Management, both at forums and fairs, and DCFTA information centers of the Chamber and through regional chambers.

### **3.7. Development of educational component on the web-site of the Agency "Enterprise Georgia"**

[3.7.1] Within the framework of entrepreneurship supporting events, LEPL "Enterprise Georgia" **collects educational materials and business-literature and publishes it on the Agency's website**. The Agency in cooperation with Mindworks, within the framework of USAID's project "Governing for Growth" (G4G), developed animated online training on basic issues of export incorporating 10 export-related modules. Online training provides a good opportunity for distance learning for people interested in export. It also makes it easier for a person living in the region to gain knowledge and access the needed information without leaving the house or office. Modules are located on the website of Agency Enterprise Georgia in the "Directory" "Export" under the block of "Online Training". Online training is accompanied by a PDF reading version. Link: <http://www.enterprisegeorgia.gov.ge/ka/export-management-fundamentals>.

### 3.8. Business Service Center service portfolio expansion for entrepreneurs

[3.8.1] LEPL “Enterprise Georgia” **provides entrepreneurs with a variety of services including provision of library and computer operating space.** In particular, service center of Agency is equipped with a variety of resources giving business entities and people interested in economic activity opportunity to enjoy the service center infrastructure free of charge, such as access to electronic and printed resources, library including various types of business literature and also, space for meetings/conferences.

The infrastructure is used to organize lectures and seminars, both for entrepreneurs and students of schools and universities.

### 3.9. Encouragement of female entrepreneurship

Support for women entrepreneurs and their economic empowerment is one of the important directions. The Government of Georgia, in close collaboration with donor organizations, has been implementing a number of programs aimed at promoting women’s entrepreneurship. These programs offer women entrepreneurs important tools such as improving access to required finances, which, in turn, ensures sustainable development of enterprises and job creation; creating a specific, sustainable financial product for women-run small and medium-sized enterprises; assisting women-owned small and medium-sized enterprises with access to consulting services and know-how, and etc.

[3.9.1] **In order to support womens involvement in state programs,** Out of the 71 beneficiaries funded under the Small Grant Program of Georgia’s Innovation and Technology Agency, 15 beneficiaries were women. Within the scope of co-funding grants, 20 startup founders out of 70 winner startups were women.

“Enterprise Georgia” Agency has been implementing a grant program for micro and small entrepreneurs since 2015 in the component of access to finance. The project defines criterion for business project evaluation, one of which is the launch of business by woman, or expansion of the existing business. Within the scopes of the same program, it is stipulated, that 40% of funded businesses should be a female entrepreneur implemented in business projects. As of 2019, within the Micro-Grant Program, the results are as follows: A total of 9,380 beneficiaries are funded, out of which 3,783 (40,33%) are women beneficiaries.

[3.9.2] With the purpose of female entrepreneurship development and identification of their needs, the Ministry of Economy and Sustainable Development of Georgia has set up **a platform - Sub-Council for Promotion of Women Entrepreneurship,** with the aim of identifying and developing relevant recommendations regarding women entrepreneurship development. The sub-council within the action plan held sub-committee meetings. On December 11, 2019, the Ministry of Economy and Sustainable Development of Georgia organized the concluding meeting



of women entrepreneurship sub-council. The meeting was attended by representatives of state agencies and women's associations, participants of the Women Entrepreneurship Sub-Committee were provided with information on state activities aimed at achieving gender equality. The meeting also reviewed the activities of Women Entrepreneurs Sub-Council's activity, future activities were identified and recommendations were elaborated.

[3.9.3] On 8th March 2019, in the city of Batumi, with the organization of the Chamber of Commerce and Industry of Georgia "Women Entrepreneurs' National Business Forum" was held, **in order to promote women entrepreneurship and involve women in business activities and**

[3.9.4] **organize Women Entrepreneurs' Business Forum. The forum attended by approximately 250 woman entrepreneur throughout the regions of Georgia.**

[3.9.5] On the forum organized in Batumi by The Chamber of Commerce and Industry of Georgia, **trainings were held on branding, emotional intelligence, business expansion opportunity issues and about the relationship with financial institutions.**

[3.9.6] 4 Abkhazian entrepreneur women were informed about GITA services and programs in Techpark of Tbilisi in March, 2019 **within the scope of women's innovation awareness events.** Within the framework of the "Young Entrepreneur's School" 2-stage training was held in techpark of Zugdidi. At the first stage, the trainees developed the skills of decision making, self-organizing, managing, planning, analyzing and more. In the second stage, the participants themselves prepared a business plan and prepared investment projects. The best projects prepared by trainees got funding. 10 of the trainees were internally displaced persons from Abkhazia.

Tbilisi Techpark's fab lab organized trainings in seven directions on following issues: (1) how to create an innovative product; (2) eBay & Etsy – international online platforms; (3) the theory of inventive problem solving; (4) Arduino; (5) Coreldraw; (6) Fusion 360; (7) training for trainers Lego & LittleBits. 68 people participated in these trainings, 31 of them were female. In 2019, with the organization of regional centers (Zugdidi, Rukhi, Akhmeta, Telavi) 91 trainings were held involving 1,512 participants.

[3.9.7] **To encourage female entrepreneurs, Agency "Enterprise Georgia" funded 10 women entrepreneurs for an international event in the Netherlands Women in Wine Expo event (city of Rotterdam).**

### **3.10. Promotion of "Green Practices" among SMEs**

[3.10.1] The Waste Management Code provides an implementation of the principle of **Extended Producer Responsibility (EPR)**. This implies that the first-hand producer and marketer of the product should take care to form a product in a way that the waste and therefore the negative impact on the environment will be reduced. In addition, the producer/marketer of the product,

including the importer, shall be responsible for the collection, separation, and recycling of waste generated from the used product for their subsequent recovery. The Extended Producer Responsibility mainly focuses on streams of six types of waste: batteries, obsolete vehicles, oils, tires, packaging materials, electrical and electronic equipment.

The following projects of the Government of Georgia are prepared with the aim of implementation of Extended Producer Responsibility – “On the Approval of the Technical Regulation on Packaging Waste Management”, “On the Approval of the Technical Regulation on Waste management of Batteries and Accumulators”, “On the Approval of the Technical Regulation on Waste Management of Obsolete Vehicles”, “On the Approval of the Technical Regulation on Waste Management of Oils”, “On the Approval of the Technical Regulation on Waste Management of Tires”, “On the Approval of the Technical Regulation on Waste Management of Electrical and Electronic Equipment”.

**In order to Introduce Extended Producer Responsibility (EPR), it is essential to enhance the capacity of the entities subject to the process and to raise awareness.** Public forums regarding Extended Producer Responsibility were held in 2019 (presentation of bylaws). The presentations were attended by representatives of central and local government, International and donor organizations, Private sector, Chambers of commerce, Business associations and other stakeholders.

Sectoral, consultation meetings were held during the reporting period in order to discuss bylaws on Extended Producer Responsibility.

[3.10.2] The Ministry of Environmental Protection and Agriculture of Georgia provided consultations **on waste electronic database system in order to ensure efficient performance of waste accounting and reporting with the waste electronic database system**, with respect of which, relevant meetings in different formats, including individual consultations, were held with entrepreneurs.

[3.10.3] LEPL “Environmental Information and Education Centre” provides an **Environmental Manager course** designed to retrain and raise the qualification of relevant staff of the companies in accordance with the requirements of the law and modern international standards. Upon successful completion of the course, the participant will be able to prepare and update the company waste management plan; Organize the implementation of the company’s waste management plan and implement self-monitoring and internal control in the waste management sphere on compliance with Georgian legislation.

5 Environmental Manager courses were held in 2019, with 70 participants taking part in it. As a result of the courses, 100% of the requirements of the applicants for Environmental Manager courses were fulfilled.

## ***Results of monitoring and evaluation***

**The third strategic direction comprises of 10 priority measures, 35 actions in it in total. In 2019, all 10 priority measures and 35 actions were implemented.**

In 2019, relevant “Performance Indicators” of the third strategic direction were implemented, namely:

- ✓ The qualitative and quantitative surveys of the labor market were carried out;
- ✓ Annual labor market analysis was prepared;
- ✓ Program beneficiary job seekers were retrained;
- ✓ Employers were involved in the teaching process;
- ✓ Program beneficiaries, including from vulnerable groups, were retrained and employed.
- ✓ The relevant action plan to implement LLEL in educational system was updated;
- ✓ Report on the implementation of LLEL in the educational system was prepared;
- ✓ Vocational students passed Entrepreneurship Module;
- ✓ 2 sessions of the working group created in order to implement LLEL were held;
- ✓ Project-based teaching is piloted in state vocational colleges;
- ✓ SME representatives are involved in Vocational Educational Councils and thematic groups;
- ✓ Reports and protocols of sectoral councils were prepared;
- ✓ The new work-based learning program is implemented;
- ✓ Contest of industrial ideas is organized;
- ✓ A forum/platform was created to exchange information between the parties;
- ✓ Teaching programs are conducted in Tbilisi and regions on the basis of the center of innovations;
- ✓ Activities were undertaken to promote the EFQM – Excellence Model;
- ✓ Educational materials and business literature are located on the webpage;
- ✓ Entrepreneurs Service Center provided services and consultations to the entrepreneurs;
- ✓ Meetings of Sub-Council for Promotion of Women Entrepreneurship were held;
- ✓ Measures have been taken to promote women’s entrepreneurship;
- ✓ National business-forums of women entrepreneur were held;

- ✓ Meetings were held to enhance the capacity of the entities subject to the process and to raise their awareness the meetings regarding implementation of Extended Producer Responsibility (EPR);
- ✓ Consultations and meetings with entrepreneurs were held for waste accounting and reporting;
- ✓ The requirements for applicants for Environmental Manager courses were fulfilled;

## **Evaluation of the implementation of the third strategic direction in line with the indicators recommended by the OECD**

The increase in employment and reduction of structural unemployment represents one of the main challenges for the Georgian Economy. In addition, further development of the private sector is the most effective mechanism for reducing unemployment and increasing employment. In order to implement effective economic policy in this direction, it is important to analyze the Georgian labor market, to study the trends of the demand of a labor market and to identify the challenges it faces. Also, it is crucial to develop and implement effective vocational and educational policy, which plays an essential role in the reduction of structural unemployment and imbalances between demand and supply on the labor market. While increasing the quality and availability of education significantly contributes to the attractiveness of vocational education, which is an important pathway for employment and career growth.

### **“The Risks for Doing Business” – World economic forum**

As already mentioned, the World Economic Forum’s Global Competitiveness Index assesses the country’s competitiveness, as well as issues that, according to respondents, are a hindrance to competitiveness in terms of doing business in the country. The assessment of the risks for doing business is based on an annual Executive Opinion Survey conducted by a group of researchers of the organization. According to the 2018 report, similar to previous years, the biggest problem, according to the surveyed respondents, is still named unemployment or incomplete use of employee qualifications.

### **Enterprises founded by women**

In order to promote enhancement of women’s economic, within the framework Sub-Council for Promotion of Women Entrepreneurship of the Ministry of Economy and Sustainable Development of Georgia, the survey was conducted: **“Women’s Entrepreneurial Activity in Modern Georgia: Reality and Perspectives”**. The study analyzed a number of issues, such as **women’s entrepreneurial opportunities** and supportive programs, trends of women’s involvement in entrepreneurial activities, factors affecting the growth of women’s labor and

entrepreneurial activity, problems and challenges in women's entrepreneurship. Within the framework of the study, relevant suggestions and recommendations were developed.

According to the survey, as of 2018, women-founded enterprises totaled 61,544 units. Including, physical entities – 39,955; LLC – 21,415; GPs – 133; LPs – 13 and cooperatives – 10. Women-founded enterprises accorded to the regions are divided as follows: Tbilisi – 26,870 (43.7%); Imereti - 8,419 (13.7%); Adjara - 5,746 (9.3%); Samegrelo-Zemo Svaneti - 5,126 (8.3%), Kvemo Kartli - 3,782 (6.1%); Kakheti - 3,693 (6%) and Shida Kartli- 3,168 (5.1%).

### **Vocational education and employment**

Hence the need of transition to the market economy, orientation on internal and international vocational education, enhancement of competitiveness of workforce and mobility, the aim of Georgia's vocational educational system's is to create unified vocational-educational space, taking the opportunity of Life-Long Learning Education, multistage teaching and diversity into account, also, to promote the vocational development of the individual, prepare work-oriented, competitive, qualified employees. To promote the employment of a person, including, promotion in starting one's own business and self-employment. Also, create an educational-entrepreneurial partnership system in the field of vocational education and facilitate the participation of employers of the relevant field in the process of planning and implementation of the program.

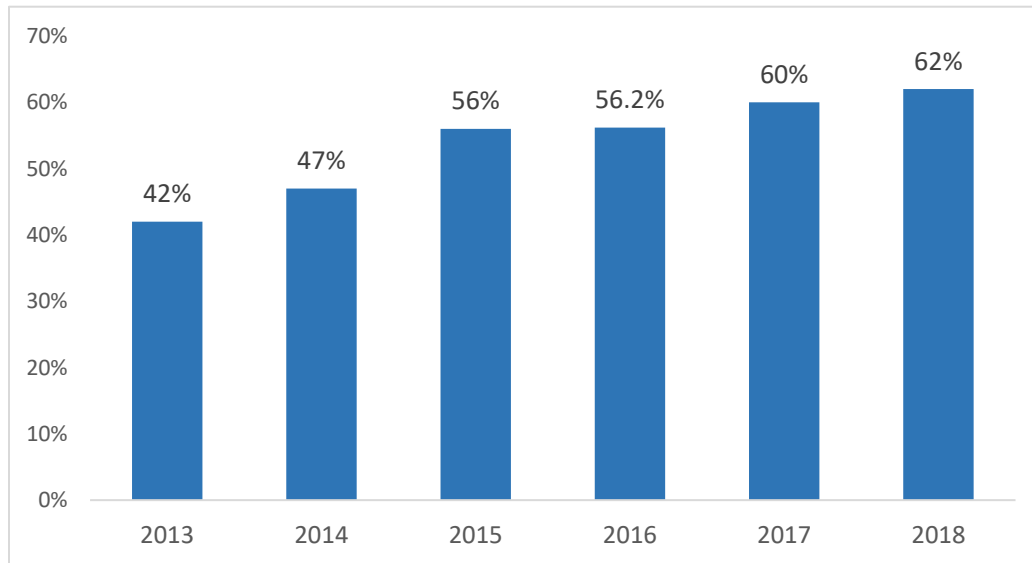
Access to vocational education has significantly improved in recent years. Since 2013, state vocational education institutions are fully funded by the state. New colleges/educational branches were established; the infrastructure of existing colleges was upgraded; inclusive education approaches were implemented – educational resources for persons with disabilities and persons with special needs, teachers and students were developed and adapted; Short-term vocational trainings for job seekers has begun.

It should be noted that the quantity of enrolling students in vocational programs has been declining in recent years. In 2018, the number of students enrolled was 7,774. In 2017, the number of students enrolled was 10,821. The decline in the number of enrolling students was prompted by the reform of vocational education programs, which implies the introduction of competency-based, modular vocational programs. According to the modular approach, both program development and teaching are based on themes (one topic may even be a combination of several subjects). Hence the implementation of learning on modular programs, the period of learning was prolonged and correspondingly, vocational educational institutions' availability of receivable students on subject programs throughout the year was reduced.

It should be noted that one of the important indicators of the positive impact of changes in the vocational education system is the employment rate of vocational program graduates and their successful integration into the labor market. The Ministry of Education, Science, Culture, and Sport of Georgia regularly conducts research on graduates of vocational programs (so-called Tracer Study).

It is noteworthy, that the rate of employment of vocational education graduates is growing annually in the wake of vocational education reform. According to an alumni survey conducted in 2019, the employment rate of 2018 graduates was 62%, which exceeds the indicator of the previous year by 2%, and of 2013 – by 20%.

*Diagram 2. The employment rate of graduates of vocational programs*





## **Fourth Strategic Direction: Export promotion and SME Internationalization**

### **4.1 Raising awareness on DCFTA perspectives and its requirements**

[4.1.1] About 3000 citizens in 5 regions and in more than 50 municipalities were consulted **within the frameworks of a memorandum signed with EPRC on raising awareness on DCFTA perspectives and its requirements**. Representatives of small and medium-sized enterprises were consulted in 5 regions. 3 informational videos were prepared and shared to different audiences. 5 radio translations and the issues were devoted to DCFTA the small and medium-sized enterprises in Radio Atinati, which covers western Georgia, including occupied Abkhazia.

[4.1.2] **In order to raise awareness** of DCFTA, the Chamber of Commerce and Industry of Georgia, organized 48 phone consultations; 68 field meetings – attended by 480 entrepreneurs; 29 trainings – attended by 771 entrepreneurs; 6 regional meetings – attended by 192 entrepreneurs; achievements report conference – attended by more than 200 entrepreneurs and more than 30 diplomatic corps.

[4.1.3] The Chamber of Commerce and Industry of Georgia has undertaken **activities to expand the network of DCFTA Information Centers**, in particular, at this stage 4 Information Centers are functioning in the Chamber of Commerce and Industry of Georgia in – Gori, Batumi, Kutaisi, and Zugdidi.

In 2020, the Chamber plans to expand, which implies the opening of representations of chambers in new regions, where DCFTA Information Centers will be represented as well.

[4.1.4] The National Agency for Standards and Metrology, within the scopes of TWINNING project, held awareness-raising workshop for local entrepreneurs and other stakeholders in Gori on 21st February of 2019, within which **entrepreneurs were provided with information on services of the national quality infrastructure o (metrology, standardization, DCFTA – benefits and challenges)**. On March 5, 2019, the Agency hosted an open day. The event was a unique opportunity for representatives of business, academic and scientific fields to get acquainted with the Agency's services on the spot, to receive theoretical and practical information from agency experts in various fields.

During the reporting period, The Unified National Body of Accreditation – Accreditation Center organized a meeting with students of Georgian Technical University, within which the dialogue was held regarding the role and engagement of an accredited person in the promotion of export with facilitation of national quality infrastructure (in terms of accreditation), which helped to overcome technical barriers.

Two meetings of the National Council of Accreditation were held during the reporting period. The first session was attended by representatives of various entities whose interests are related to the accreditation system and its related activities. Amongst entities are the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia, members of associations of different fields, entrepreneurs (beneficiaries of accredited entities), Georgian National Communications Commission, LEPL National Agency of Standards and Metrology of Georgia. Invited people were informed on EA (European Accreditation) accreditation; also, accredited periodic technical inspection centers were informed about The Road Testing Center and their activity and mandatory technical inspection. The second session was held on 13 December of 2019, with the renewed membership of Accreditation Council (Accreditation Council consists of different stakeholders; government agencies; compliance assessment bodies; Chamber of Commerce and Industry, regulating commissions and others.).

Training for technical assessors of Accreditation Center was conducted to introduce the updated SST ISO/IEC 17025:2017/2018 standard. The standard was updated in 2017. Prior to update, accreditation was issued according to the 2010 version of the standard. According to European Accreditation (EA), all testing and calibration laboratories should implement SST ISO/IEC 17025:2017/2018 by 1st December of 2020. The aim of the training was to raise the qualification of the technical assessors in order to facilitate the implementation of new standards in laboratories according to the European best practice and to effectively move to the new standard in the abovementioned terms.

Within the framework of the project Using Regional Synergies of the Eastern Partnership Countries implemented by the German Institute of Metrology (PTB), German specialists provided training for leading and technical assessors of Accreditation Center on the updated ISO/IEC 17025:2017/2018 standard, specifically the rule of taking standard-defined decisions and issues of risk assessment. Qualification of Accreditation Center's assessors were enhanced, which will further facilitate effective implementation of the standard requirements in the laboratories in this particular section.

In 2019, training was also conducted on topics related to the field of ISO/IEC 17020:2012/2013 standard and Government Resolution N511 of Georgia for those representatives of accredited bodies, who provide periodic technical inspection of vehicles. The purpose of the training was to provide information to those interested in periodic technical inspections of vehicles and to improve their skills in accordance with international standards.

On 20th December of 2019, Twinning Project – Strengthening Georgian Accreditation System with the Focus on EU Technical Regulations was launched in an Accreditation Center. The project partners of the Accreditation Center are the Accreditation Center of Italy (ACCREDIA) and the Accreditation Center of Germany (DAkkS). The project lasts for two years and it is planned to organize different trainings and seminars on issues of accreditation and other standards. Entrepreneurs will also be actively involved in the events.



The Accreditation Center was granted recognition in the field of medical laboratories and continued to receive European accreditation until November of 2022. The Accreditation Center has been a signatory of the European bilateral contract (EA-BLA) since 2017, which implies recognition of the Accreditation Center in the fields covered by an agreement. In order to maintain recognition of European accreditation, the Agreement provides a periodic assessment of accreditation bodies' compliance with ISO/IEC 17011 international standard.

[4.1.5] In the field of metrology, the National Agency for Standards and Metrology, on 3-4 October of 2018, achieved international recognition in the following areas: Humidity, Temperature, Length, Mass, Small Volume, Electricity, Radiation Measurements, Pressure. In June of 2019, the agency added two new CMC records in the field of dosimetry measurements, which is another internationally recognized direction. This significantly increased **the range and areas of services offered by quality infrastructure institutions to entrepreneurs and stakeholders**. As a result of the significant achievements in the field of metrology, as well as of great expansion of service areas and internationally recognized areas, the National Agency for Standards and Metrology of Georgia has become a regional service provider. Accordingly, the agency provides services to clients from the South Caucasus region (Azerbaijan and Armenia) in the following areas: temperature, mass, humidity, low volume, pressure.

Access to International and European standards is one of the key issues for businesses. As of 2019, up to 15,000 international and European standards have been adopted by Georgia, of which ISO and IEC are 6,234 and European CEN/CENELC – 8,612, including so-called Harmonized European Standards, which are important for the process of approximation of legislation provided for in the Annex to the DCFTA TBT. Also, it is noteworthy, that as of 2019, the number of Georgian standards is 123.

[4.1.6] With the organization of the Ministry of Economy and Sustainable Development of Georgia and with the support of European project – Supporting the Implementation of the Association Agreement, within the framework of the dialogue between Georgia and Europe on the Deep and Comprehensive Free Trade Areas between private and public sectors, on 18th January of 2019, regional workshop was arranged with business and media with a format of the roundtable in the city of Rustavi, dedicated to **meeting the obligations of DCFTA and to the benefits and opportunities Free Trade Agreement**. The meeting was attended by more than 100 representatives of the private sector and media.

[4.1.7] **Webpage – [www.dcfta.gov.ge](http://www.dcfta.gov.ge) is constantly being updated**. In particular, trade statistics have been updated on the webpage; draft legislative acts on sanitary and phytosanitary were published in the fields of technical barriers and safeguards in trade; in order to inform public better, information on draft legislation is also being published on the webpage; The integrated calendar contains information on events related to DCFTA. In 2019, the number of webpage visitors was 20,020. Except for Georgia, the webpage is most often visited by the US, Germany, Russia, Turkey, and Belgium.

## 4.2 Support businesses to adapt to DCFTA requirements

[4.2.1] **To analyze the export potential of Small and medium-sized enterprises**, the electronic questionnaire was developed to categorize exporter companies and identify their needs. As of today, 171 companies have filled the questionnaire. All activities organized by the agency are tailored to the needs and requirements of exporter companies.

[4.2.2] **To analyze the sectors with potential for export**, the local market demand of trading partner countries has been studied, new positions and relevant export markets have been identified, where these products have potential. Active work is being conducted to identify additional new sectors and products.

[4.2.3] **The Agency “Enterprise Georgia” is conducting research in order to find new sectors with export potential and to be in compliance with the requirements of DCFTA.** In particular, the EPRC conducted market research and identified two new competitive sectors: sectors of toys and baby clothing. In collaboration with the Agency, a joint electronic questionnaire was developed to identify needs for compliance with DCFTA requirements.

[4.2.4] The Agency “Enterprise Georgia” has developed **support tools (technical, financial)** to identify new sectors with the export potential and to comply with DCFTA requirements. With the support of the agency, managers of Georgian exporter companies are given the opportunity to improve their knowledge and develop necessary skills each year through Export Managers Certification Course. This program is being constantly improved and currently covers all basic issues including INCOTERMS and quality infrastructure modules.

An animated online course on basic issues of export has been developed with the Agency’s initiative and with the support of Governing for Growth (G4G) in Georgia. The purpose of the course is to help entrepreneurs, especially those living in the region, to understand, plan and implement the process of export management through distance learning. The course covers the basic issues both beginners and existing exporters need to know. The online course is available on 4 different platforms, including the official webpage of the Agency [www.enterprise.gov.ge](http://www.enterprise.gov.ge) (link: <http://www.enterprisegeorgia.gov.ge/ka/export-anagement-fundamentals>).

[4.2.5] The Georgian Chamber of Commerce and Industry conducted 35 trainings for entrepreneurs, within which 831 stakeholders were trained, 65 field meetings and 48 phone consultations were conducted for 528 entrepreneurs.

## 4.3. Promotion of export of small and medium-sized enterprises

[4.3.1] 30 priority export markets are identified according to products (15 EU countries, 12 Asia-Afric region countries, Turkey, USA, Canada). According to the results of 2018, the analysis of the import requirements of the consumer markets of the abovementioned countries was updated

and accordingly, the list of products was updated for which these markets represent attractive export markets.

[4.3.2] The Ministry of Economy and Sustainable Development of Georgia conducts international market research on market demand and priority products according to the demand of these markets, including, including identification of technical requirements. Annual statistical analysis of 2018 of the target countries has been completed. Also, the analysis of other important trading partner countries is prepared. A list of products was identified with the aim of developing the existing ones as well as the production with new export potential export.

[4.3.3] Agency “Enterprise Georgia” provides consultations (electronic, phone) to any interested person regarding export market requirements in a constant regime.

[4.3.4] In order to support marketing and popularization on international markets, agency “Enterprise Georgia” developed enterprise selection criteria. The implementation of company selection criteria and co-financing mechanism provides company co-financing only by enterprise size category.

It should be noted that any international event, planned by the Agency, directed at promoting and popularizing the export of Georgian products is being carried out by means of a competition, which also set out the relevant criteria to be met by the enterprise, but the amount of co-financing was not determined by enterprise category.

[4.3.5] With the aim of identifying marketing skills in selected enterprises, Agency “Enterprise Georgia” actively collaborates with the regional project of European Union Eastern Partnership: Ready to Trade – EU4Business initiative and, also, USAID’s program of agriculture, which ensures the identification of needs of marketing skills in enterprises.

[4.3.6] Within the framework of each international event planned by the Agency, the products are identified in selected enterprises on the basis of the pre-filled electronic questionnaire to promote the products on international markets. on the basis of the pre-filled electronic questionnaire.

[4.3.7] Agency “Enterprise Georgia”, with support of the European Union’s Eastern Partnership: Ready for Trade EU4Business initiative and USAID agriculture program, developed relevant instruments for the marketing and popularization of enterprises, including, brochures, product labels, and other promotional materials according to different market specifics. Also, the Agency publishes/promotes various relevant information on online platforms in relation to the activities.

[4.3.8] Together with donor agencies, Agency “Enterprise Georgia” has developed marketing and promotion tools for selected enterprises tailored for specific markets (e.g., producing relevant labels, brochures).

[4.3.9] In 2019, in order to promote the country's export potential, Agency "Enterprise Georgia" organized 14 international fairs and 3 international events in which Georgian enterprises in participated.

- ✓ With the support of the Agency, 2 Georgian child clothing companies were represented at the "Play Time Paris" fair, and already in summer of 2019, the number of companies increased in the international childrenswear fair "Pitti Immagine Bimbo" and 4 Georgian companies took participation in it; In 2019, the Agency funded child clothing manufacturers for the first time.
- ✓ Local leather accessories manufacturer companies participated in the international fair "APLF Leather & Materials" (Hong-Kong);
- ✓ With Agency's organization and co-financing, Georgian companies participated in fairs held in various countries, in particular, 12 Georgian companies participated in Gulfood 2019 (Dubai), while 19 companies took participation in "IFE LONDON 2019" (City of London).
- ✓ It is noteworthy, that for the first time, Georgian companies were introduced to the Korean market. 6 local companies were participating in the international food and drink fair - Import Goods Fair (Korea);
- ✓ The Agency facilitated the display of clothing and footwear produced by Georgian designers at the accompanying event of Paris Fashion Week, which is held on different seasons of the year – in total, 32 Georgian designers/companies received financial support from the Agency;
- ✓ With the co-financing of the Agency, 8 Georgian designers, 2 shirts manufacturer companies and 1 national garment manufacturer participated in international clothing fair which was held in the city of Tokyo – "FASHION WORLD TOKYO 2019";
- ✓ The agency organized the participation of 5 Georgian companies on international toy manufacturer companies' fair Spielwarenmesse (City of Nuremberg). The Agency also ensured (organization/co-financing) the participation of 4 local companies at the PASSAGEN fair in the city of Cologne, which is one of the major international events in the industry of furniture;
- ✓ With the organization and co-financing of the Agency, Georgian export companies participated in the food and beverage international fair "ANUGA 2019" in the city of Cologne, Germany. Space was assigned in two pavilions. Anuga Fine Food for food producers and Anuga Drinks for producers of drinks. In total, 18 Georgian companies participated.
- ✓ It was the first time for Georgian companies to participate in the largest fair of ingredients (B2B). 8 Georgian companies participated in this fair.

- ✓ In 2019, with the organization and co-financing of Agency “Enterprise Georgia”, 33 companies participated in the second exhibition of China International Import. 13 companies were presenting wines, 4 companies – fruit and vegetable juices, 2 companies – hazelnuts, 2 companies – beer and lemonade, 1 company– tea, 1 company – fresh and mineral waters, 1 company – whiskey, 1 company – brandy, 1 company – dried fruits and spices, 1 company – blueberry and fruit vodka, 1 company – herbal infusions / natural juices, 1 company – prosecco type alcoholic drink and one – coffee manufacturer. Several companies also provided compot and jam as a non-core product line. In the pavilion, about 20 different types of products were presented at the Georgian stand of food and beverage. Textile and related industry representatives participated in the second pavilion. In particular, 3 companies were from Georgia producing clothing, footwear and various types of accessories.

#### 4.4. Support for small and medium-sized enterprises to establish international trade relations

[4.4.1] Within the framework of entrepreneurship support measure, Georgia’s Innovation and Technology Agency conducted the analysis of the capacity of entrepreneurs to establish international relations. Specifically, two memorandums were signed – Startup Grind (SG) and (Startup Armenia Educational and Scientific Foundation – SAF).

With the support of the Chamber of Commerce and Industry of Georgia, entrepreneurs participated in various international events and also in the framework of the “Find Partner” Service. During this period, 50 such international relations were established.

[4.4.2] The Enterprise Europe Network (EEN) is a platform for exchanging specific business offers and links between Small and medium-sized enterprises in the EU and partner countries. EEN creates new opportunities for Georgian companies to broaden their business proposals throughout the EU market and attract relevant partners. Georgia’s Innovation and Technology Agency is working to promote the effective participation of entrepreneurs, including innovative entrepreneurs, to register 2 startups on the EEN platform. With the help of the Agency “Enterprise Georgia”, 6 Georgian company profiles are placed on the platform, 3 profiles are archived and several are waiting for a response regarding registration.

It should be noted that the Chamber of Commerce and Industry of Georgia, with the purpose of supporting small and medium-sized enterprises, helps Georgian entrepreneurs to find partners abroad and to place Georgian entrepreneurs’ profiles on EEN European Entrepreneurs Network. In order to improve the operation of the EEN, the Chamber is actively cooperating with EEN headquarters.

[4.4.3] The Chamber of Commerce and Industry of Georgia annually organizes **business forums in Georgia and abroad.**

On April 18, the Chamber organized the Georgia-Cyprus business forum. More than 120 companies of both countries participated in the business forum. Areas of mutual business interest were: International investments, IT services, and web-design, soft furniture, and home accessories, agribusiness, real estate & property management, tourism, legal and financial consultations, international shipping & more.

On May 3, the first international business forum “In Search of the Golden Fleece” opened in Kutaisi with the co-organization by the Chamber. The event lasted two days, the aim of which was to show the economic potential of Kutaisi and Imereti region on international arena.

On May 13, with the co-organization of the Chamber, Georgia-Austria business forum was held. Within the framework of the forum, the Austrian side was provided with the information on Georgia’s investment potential. 13 Austrian and 70 Georgian companies were attending an event; bilateral meetings were also held.

On May 16, a business forum was held with the organization of the Chamber of Commerce and Industry of Georgia and Georgia-Lebanon’s Chamber of Commerce. Within the event, about 40 Lebanese companies visited Georgia. The business forum is titled “Georgia-Lebanon Economic and Trade Relations: Dynamic Challenges for a Better Future” and its aim is to develop trade-economic relations between the two countries.

On May 30, with the co-organization of the Chamber of Commerce and Industry of Georgia and with the support of Kakheti region and Kakheti Regional Development Agency (DMO) Office, international regional investment forum – “More Investments in Georgian Regions was held in Kakheti. The representatives of more than 20 foreign and 150 Georgian companies attended the event, having the opportunity to discuss the prospects of cooperation.

On June 14, Georgia-Slovakia Regional Business Forum “Doing Business in Georgia” was held in Bratislava, Slovakia. The event was held in partnership with the Agency “Enterprise Georgia”, Chamber of Commerce and Industry of Georgia, EU-Georgia Business Council and Embassy of Georgia. Within the framework of the business forum, Georgia’s economic development potential and perspectives were discussed. More than 80 Slovak, Austrian, Polish, Czech and Georgian companies participated in the business forum.

On July 3, Georgia-Serbia business forum was held with the organization of the Chamber of Commerce and Industry of Georgia in Tbilisi. Within the framework of the business forum, the 5 largest company of Serbia visited Georgia, which aims to find a business partner in Georgia.

On July 5, Italian-Georgian business forum was held with the co-organization of the Chamber of Commerce and Industry of Georgia and Agency “Enterprise Georgia” regarding infrastructure, smart cities and energy sector issues. More than 100 companies, agencies, public or private companies participated from Georgia.

[4.4.4] Georgia’s Innovation and Technology Agency provides **information and supports to entrepreneurs to participate in international exhibitions planned abroad**. Within the framework of the small grant competition, with the support of Travel Grant, 49 beneficiaries attended 28 different international events, including Startup Grind Global Conference, Techstars Berlin Accelerator Mentorship, Wolvessummit, Seedsars World Summit, Global Meetup 2019 - Berlin, Creative Business Cup 2019.

[4.4.5] The Agency “Enterprise Georgia” **promotes startup company development and their participation in international events**. In 2018-2019, startup toy companies had the opportunity to participate in Spielwarenmesse, the most prestigious and large-scale fair in Europe. In 2019, children’s clothing sector participated in the event in Paris, France, the fair – Playtime – and in Florence, Italy, the fair - Pitty Imagine Bimbo.

[4.4.6] The Agency “Enterprise Georgia” has **implemented commercially attractive business sectors promotion** and appropriate amendments were made to the relevant Decree of the Government of Georgia. According to the amendments, it was determined to encourage business sectors the development of which is a priority for the country. In particular, the development of fishing, tourism services, balneological resorts, and other sectors.

[4.4.7] The Agency began working to prepare the research, oriented on developing identified sectors.

#### **4.5. Responsible Business Conduct (RBC) promotion**

[4.5.1] In order to **promote Responsible Business Conduct (RBC) in the entrepreneurial sector**, the Memorandum of Understanding between LEPL Agency “Enterprise Georgia” and Global Impact significantly contributes to the promotion of RBC in the entrepreneurial sector.

The Ministry of Economy and Sustainable Development of Georgia participated in an annual corporate social responsibility initiative competition, Georgia’s Responsible Business Competition **Meliora** award ceremony (which means Best in Latin), founded by the Center of Strategic Research and Development of Georgia (CSRDG) with support of European Union. In the competition of 2019, 38 companies participated with 71 implemented projects. The projects submitted to the competition were evaluated by leading foreign and Georgian experts and identified the most responsible and exemplary projects. The award ceremony took place on December 12, 2019.

[4.5.2] Representatives of 55 beneficiary companies of the state program of LEPL Agency “Enterprise Georgia” participated in the meetings and trainings of the **UN Global Network Georgia and Corporate Social Responsibility Club**.

#### **4.6. Support for the establishment of links between FDI-Small and medium-sized enterprises and foreign investors**

[4.6.1] In order to collect relevant information on enterprises **founded by direct foreign investments and multinational brand hotels, in connection with their demand on product/service**, LEPL Agency “Enterprise Georgia” conducted research in the first phase of FDI-SME Linkages project. On the basis of the demand-supply according to the study, the pilot phase industry and Georgian and foreign companies were selected to engage in the connectivity project. Activities related to the selection of the new pilot industry were implemented.

[4.6.2] On the basis of the research related to the FDI-SME Linkages project, **SME companies were identified, which have the potential to become providers of goods and services to foreign partner organizations**. 14 local companies have undergone training programs. Also, 25 international brand companies were consulted and informed about the potential of local small and medium-sized enterprises to provide services and goods.

**Appropriate measures were taken to facilitate the interconnection of small and medium-sized enterprises with foreign investors (SME-MNC)**. In addition, the Agency “Enterprise Georgia” has provided support to small and medium entrepreneurs to take participation in international fairs and business forums, during which the communication was established between Small and medium-sized enterprises and foreign investors with the aim of seeking partnerships and establishing business relationships. Among them, business forums organized by Agency “Enterprise Georgia” are important: Kakheti Regional Investment Forum (30.05.2019), Italy-Georgia Business Forum (4.07.2019) and Japan-Georgia Business Forum (25.11.2019). Within this framework, different Georgian and foreign companies were linked together.

#### **[4.6.3] Support for the interconnection of enterprises founded by a direct foreign investment / potential foreign investors and small and medium-sized enterprises**

The Chamber of Commerce and Industry of Georgia has started providing important services to support Small and Medium-sized enterprises, in particular, Service Find a Partner, which helps Georgian entrepreneurs to find a partner abroad. In order to deepen cooperation between SME supportive institutions, during the reporting period, a Memorandum of Understanding was signed between the Business Ombudsmen and the Chamber of Commerce and Industry of Georgia, which aims to deepen cooperation between the parties and assist the communication of Business Ombudsman and business entities operating in regions with the help of representatives of the Chamber.

During the reporting period, two Memorandum drafts were prepared on cooperation between the Georgian Chamber of Commerce and Industry and LEPL National Agency for Standards and Metrology and LEPL the Unified National Body of Accreditation – Accreditation Center. On the basis of the Memorandum, the Chamber will further inform Georgian entrepreneurs on access to European and international standards and internationally recognized certificates.



During 2019, the Chamber of Commerce and Industry of Georgia signed 17 Memorandums, that aim at investment support.

### ***The results of monitoring and assessment***

**The fourth strategic direction includes 6 priority measures and, in total, 33 actions. In 2019, all 6 priority measures and 33 actions were taken.**

- ✓ The relevant activities of the Memorandum of Understanding signed with EPRC have been implemented;
- ✓ Beneficiaries were consulted regarding DCFTA;
- ✓ Workshops and meetings were held with entrepreneurs to raise awareness of DCFTA prospects and requirements;
- ✓ Trainings were conducted in renovated laboratories within the EU project (CIB);
- ✓ Services were offered in new directions of measurement;
- ✓ The webpage is functional and entrepreneurs' awareness of DCFTA has increased;
- ✓ Measures have been taken to adapt to DCFTA requirements;
- ✓ Beneficiaries were supported to stimulate SME exports;
- ✓ Informative cognitive meetings were organized for entrepreneurs' participation in EEN;
- ✓ Startup and innovative profiles were registered on the platform of EEN;
- ✓ Commercially attractive entrepreneurial sectors have been identified;
- ✓ Communication was established regarding the supply of goods and services from Georgia by the enterprises created through the direct foreign investment;
- ✓ Bilateral meetings were held on business forums.

### **Evaluation of the implementation of the fourth strategic direction in line with the indicators recommended by the OECD**


#### **Promotion of export**

Over the past two years, Georgia's export has been characterized by a positive growth trend. In 2018, Georgia's total export reached a record high of 3,355.7 million USD. During this period, exports of Small and medium-sized enterprises amounted to 1,667.4 million USD, which exceeds

last year's index by 10%. It should be noted that in 2017, SME export was 1,515.4 million USD, which is 16.1% higher than in 2016. In 2017 and 2018, the SME export rate in total exports was 55.4% and 49.7% respectively.

Exports to EU countries have continued to increase in the last two years. In 2017, Georgia's export to EU countries amounted to 655.4 million USD, 15.9% higher than in 2016, while in 2018, export reached a record high of 730.7 million USD, exceeding the previous year's index by 11.5%. On the other hand, in 2017 and 2018, the share of exports to the EU countries equaled to 24.0% and 22%, respectively.

Positive trends in export growth in OECD countries are also worth noting. In 2016, export was characterized by a declining trend, while in 2017 the growth rate was 6.9% and amounted to 794 million USD, which is 29% of the whole export. In 2018, export increased by 15.7% and amounted to 918 million USD – 27.4% of total export.



## ***Fifth Strategic Direction: Facilitation of electronic communications, information technologies, innovations and R&D in small and medium-sized enterprises***

The purpose of facilitating innovative development in the country is to help the local population, startups and already existing enterprises to utilize hitherto unavailable technologies for developing their activities and to acquire knowledge in innovations and technologies, as well as in entrepreneurship. Access to technologies equals to progress, which plays a key role in the country's development.

### **5.1. Stimulation of innovations among small and medium-sized enterprises**

[5.1.1] With the support of the Georgia's Innovation and Technology Agency, Georgian startups participated in startup promoting events in the EU and other countries (fairs, conferences, workshops). Within the support of Travel grant, part of Small Grant competition, 49 beneficiaries attended 28 different international events, including Startup Grind Global Conference; Techstars Berlin Accelerator Mentorship, Wolvessummit, Seedsars World Summit, Global Meetup 2019 - Berlin, Creative Business Cup 2019. In parallel with the co-funding project, in cooperation with the United Nations Women organization, the program has been developed within which 8 startups traveled abroad for a study visit.

[5.1.2] 62 events, attended by approximately 3000 people were held with the organization and co-organization of Georgia's Innovation and Technology Agency at the Techpark, in order to promote innovations and technologies.

### **5.2. Elaboration of effective schemes of innovation and R&D financing**

[5.2.1] Under the innovation and technology grant programs, 4 beneficiaries were financed by 650 000 GEL within and 56 beneficiaries were financed by 100 000 GEL co-financing grant A total of 69 projects were funded under the Small Grant competition, including 15 prototype projects, 49 travel projects, and 5 event projects.

### **5.3. Support for the commercialization of innovations and R&D**

[5.3.1] Within the project of increasing institutional capacity for innovation, financed by the European Union, the Technology Transfer Pilot aims to support the commercialization of Georgian scientific results that respond to market needs. This means selecting ideas with the potential of commercialization in collaboration with research institutions. Within the framework

of the **Technology Transfer Pilot Project (TTPP)**, Georgia's Innovation and Technology Agency has developed an action plan of the project and identified the ways of implementation. Within the scope of the project, information was delivered to the target groups. In particular, public and individual meetings were held with stakeholders.

A special form of project submission was announced (Snapshot), giving interested scientists the opportunity to express their interest in the project. It was important that the technology readiness level should have been 4 (TRL4) and beyond. In total, 70 projects complying with the key criteria (technology readiness level 4 and beyond), were submitted to the Agency. A total of 60 projects were interviewed.

A project management system was developed using Microsoft Sharepoint. Blank forms and contracts needed for the project were developed and translated into Georgian. Projects that have passed the interview phase have moved to the due diligence phase of the technology.

In addition, the Agency has sent experts to individually assist scientists in filling and delivering relevant blanks and information during the detailed study of technology. A detailed study of selected technologies was carried out.

#### **5.4. Improvement of the application of Information Communication Technology (ICT) Skills in the sphere of entrepreneurship**

[5.4.1] Georgia's Innovation and Technology Agency is conducting a training course for entrepreneurs in regions in the field of electronic business. Within the framework of this project, 832 entrepreneurs received training in digital literacy (BFD component).

#### **5.5. Providing infrastructure for innovation (Techparks, Innovation Centers, FabLabs; iLabs)**

[5.5.1] Georgia's Innovation and Technology Agency is responsible for the creation of the necessary infrastructure for innovations. In particular, **techparks and innovation centers created in Tbilisi and regions** are oriented at developing the technology and innovation ecosystem of the country. Techparks of Tbilisi, Zugdidi, and Telavi, equipped with the technological, educational and professional resources, are designed to support the development of the knowledge-based economy. The aforementioned techparks incorporate incubators, training centers and laboratories, as well as the office shared work and recreational spaces. The park provides access to training centers and showrooms. As for 2019, Regional Innovation Centers are successfully operating in Kharagauli, Tchoporti, Baghdati, Akhmeta, and Rukhi, which locally provide the same service as techparks to a relatively small amount of customers. In 2019, the Batumi Innovation Hub was built and equipped with the necessary equipment for operation.

Fab labs, i.e. fabrication laboratories, are created and operating to support Innovative development. Fab labs are a high tech workshops, which offer a digital fabrication to customers.

With the use of fab lab equipment – 3D printers, CNC routers, laser cutters, PCB equipment – simple, complex and “smart” items are created. In the fab lab, which was created in Georgia’s Innovation and Technology Agency, customers are offered the services of prototyping, testing, and even small production.

The development of a network of innovation laboratories is important for developing an ecosystem of startups. With the support of Georgia’s Innovation and Technology Agency, innovation laboratories are operating on three locations – GeoLab, Gamelab Iliani and CG MultiLab at Gipa. Innovation laboratories help to train specialists, create a comfortable environment to generate innovative ideas, develop project management skills and create startups based on innovation and technology. Innovative laboratories created through collaboration with the private sector at 3 universities, encourage applied learning process, offer stakeholders the curriculums to enhance mobile platform programming skills, to develop computer games, to enrich knowledge and skills in computer graphics and visual effects. Laboratories are equipped with modern equipment. The laboratories, together with Georgia’s Innovation and Technology Agency, play an important role in the organization of Hackathons, makeathons, Olympics and in the creation of startups. Innovation laboratories provide a 24-hour workspace for beginner companies and encourage additional investment in the startup ecosystem.

[5.5.2] One of the most important issues is to cover regions with high-speed fiber-optic backbone infrastructure. With the support of the World Bank, work on updating the state broadband infrastructure development program is being conducted. The Ministry of Economy and Sustainable Development of Georgia, in order to update the program, set up a working group headed directly by the Minister. The group comprises of the Deputy Minister, representatives of Communications, Information and Modern Technologies Department, Open Net, Georgian National Communications Commission and World Bank. The group is working on updating the Resolution N375 of the Government of Georgia on Approval of the State Broadband Infrastructure Development Program in Georgia.

For the implementation of the program, the relevant I model of EU guideline has been selected (so-called Lietuva Rein Model), in particular, development of a unified network in the so-called White Zones – where there is no network and no building of network is planned by private companies for the next 3 years. The main goal of the project is to eliminate the digital inequality between cities and villages of the country, promote competition, attract investment and further develop the digital economy and information society.

## **5.6. Promotion of small and medium-sized telecom operators’ development**

[5.6.1] **In order to identify needs of small and medium telecom operators**, the Ministry of Economy and Sustainable Development of Georgia held workshops with the representatives of

small and medium-sized telecom operators, broadcasters and NGOs on legal projects of “Electronic Commerce”, “Child Rights’ Code”, and making amendments to the law “On Broadcasting”. As a result, conciliatory positions were prepared.

[5.6.2] The European Commission, together with the World Bank provided the Ministry of Economy and Sustainable Development of Georgia with the technical assistance of experts on developing the plan on **the national strategy of development of Georgia’s broadband infrastructure and its implementation**, which is oriented at the development of competition, the attraction of investments and development of digital skills of the population with the aim of overcoming the digital inequality in Georgia. Through the implementation of the strategy, the problems hindering the development of the broadband network, especially for small and medium-sized enterprises will be identify and solved. Consequently, small and medium-sized telecom companies will, one more time, be given the opportunity to enter the competitive market of powerful telecom companies and the opportunity to develop.

## **5.7. Implementation of Pshav-Khevsureti and Gudamakari regions commune internet network project**

[5.7.1] **Building of commune internet network of Pshav-Khevsureti and Gudamakari Regions** Is implemented by the Ministry of Economy and Sustainable Development of Georgia in cooperation with partner organizations – NNLE “Mountain Community Network”, “Small and Medium Telecom Operators Association of Georgia”.

ISOC Europe Office, LEPL “Georgia’s Innovation and Technology Agency”, Georgian National Communications Commission, Embassy of Czech Republic in Georgia, Dusheti Municipality, Company “Veon Georgia”, LLC “Digital Technology”, LLC “Skytel”, and LLC “Enby Nett” participated in the implementation of the project.

Within the framework of Pshav-Khevsureti and Gudamakari commune internetization project connection of subscribers in Magharoskari and Ukana Pshavi valleys, also in Barisakho and so-called Gorshmegho valley (except Gudani and Roshki directions) has ended. At the present stage, settlements of Ukana Pshavi, villages of Tkhiilana, Shuapkho, Muko, Matura, the village of Vake, Akhadi, Tchicho, Udzilaurta Chalatkhevi, Eliagza are covered by internet. The test connection of 120 subscribers has been completed.

Also, the creation of Pasanauri-Tsinamkhari-Kitokhi internet backbone has been completed. Most of the villages of Gudamakari valley are ready to connect. Within the framework of the aforementioned project, villages of Gogolaurta and Zarithchala will be covered in the near future. At this stage, work is being conducted to cover the Shatili and Mighmakhevi (mutso-Ardoti direction). The installation of Chargali mast has begun and will continue in order to cover Chargali valley and Katsalkhevi direction.

Connections were made at broadband level with following capacities: Zhinvali-Gudrukhi broadband 1.1 gb/sec, Gudrukhi-Motsamo broadband 1 gb/sec, Gudrukhi-Kudo mountain broadband – 0.6 gb/sec, Motsamo-Tseltgza – 0.5 gb/sec, Tseltgza-Datvijvari – 0.5 gb/sec, Datvijvari-Shatili – 0.4 gb/sec, Motsamo-Vakissopeli – 0.4 gb/sec.

After the completion of the project, 76 villages - 496 families, 1291 permanent residents will be covered with broadband internet.

### ***The results of monitoring and assessment***

**The Fifth Strategic Direction includes 5 priority measures and a total of 10 actions. In 2019, 5 priority measures and 10 actions were implemented.**

- ✓ Trainings for startups were conducted;
- ✓ A number of activities have been undertaken to promote innovation and science;
- ✓ “Co- financing grant Program” and “Small Grant Program” have been implemented;
- ✓ Technology Transfer Pilot Projects (TTPP) implemented;
- ✓ Entrepreneurs in the regions have been trained in e-business;
- ✓ Batumi Innovation Hub was created;
- ✓ Construction of fiber optic infrastructure was implemented;
- ✓ Measures have been taken to identify the needs of small and medium-sized telecom operators and broadcasters;
- ✓ "National Strategy for Broadband Infrastructure Development of Georgia and its Implementation Plan" was developed and approved;

### **Evaluation of the implementation of the fifth strategic direction in line with the indicators recommended by the OECD**

#### **Accessibility to innovations and new technologies**

Access to innovations and technologies represents one of the most important areas for small and medium-sized entrepreneurship development. As a result, the increase of competitiveness of

enterprises is an important foundation for the development of knowledge and innovative technology-based economy.

According to the National Statistics Office of Georgia, which assesses the share of innovations in production, the introduction of innovative goods and services to the market and etc., the innovative development of Small and medium-sized enterprises in Georgia is characterized by a positive growth trend. Specifically, in 2018, the share of small and medium-sized enterprises' contribution of innovations to the market was 19.7%. In 2016 and 2017, the figures were 16.5% and 17.1% respectively.

In 2018, the use of electronic invoices by small and medium-sized enterprises was 35.8%. In 2017, it was only 31.8%, while in 2016 and 2017 it was 33.3% and 34.5%, respectively.

There is also a growing dynamic in terms of electronic procurement. Small and medium-sized enterprises are increasingly active in e-procurement. In 2018, this figure was 38.3%, which is 25% higher than in 2017.

It is noteworthy, that the rate of electronic sales has reached its historical maximum in recent years. Specifically, in 2015, the share of small and medium-sized enterprises' total electronic sales was only 10.8%, while by 2018 this figure was 29.9%.

### **Fulfillment of obligations under the 2019 Action Plan**

The report on the implementation of the present Action Plan represents the implementation report of the relevant activities envisaged by the Action Plan 2019 and carried out by the central apparatus of the Ministry of Economy and Sustainable Development of Georgia, the agencies existing within the system of the ministry and the institutions implementing particular activities according to Action Plan.

The report is developed by the Department of Economic Policy of the Ministry of Economy and Sustainable Development of Georgia, based on the information provided by the responsible agencies/departments responsible for the provision of information according to the Action Plan.

Performance indicators of the "SME Development Strategy" priority measures have been fulfilled by 100% in 2019.



Diagram 3. Turnover o SME (mln GEL)

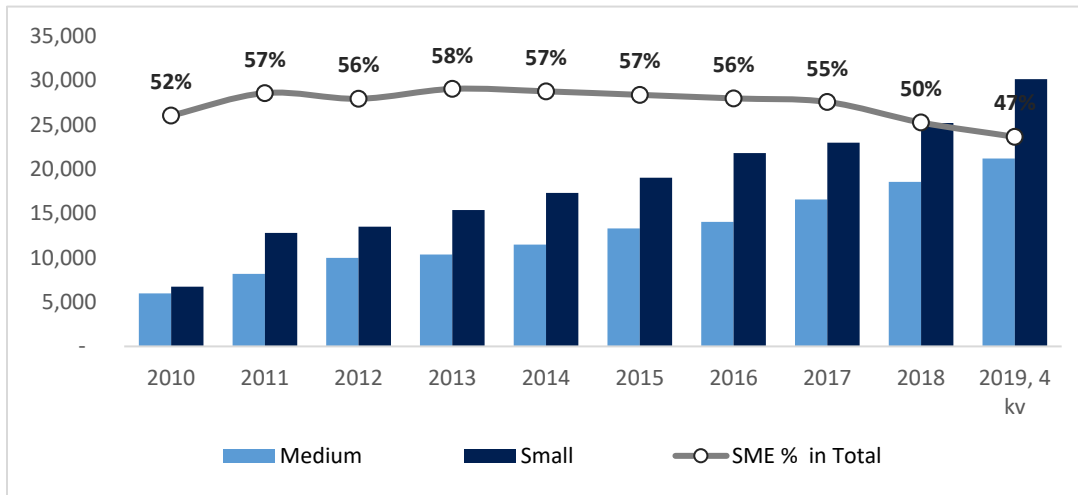


Diagram 4. Output of SME (mln GEL)

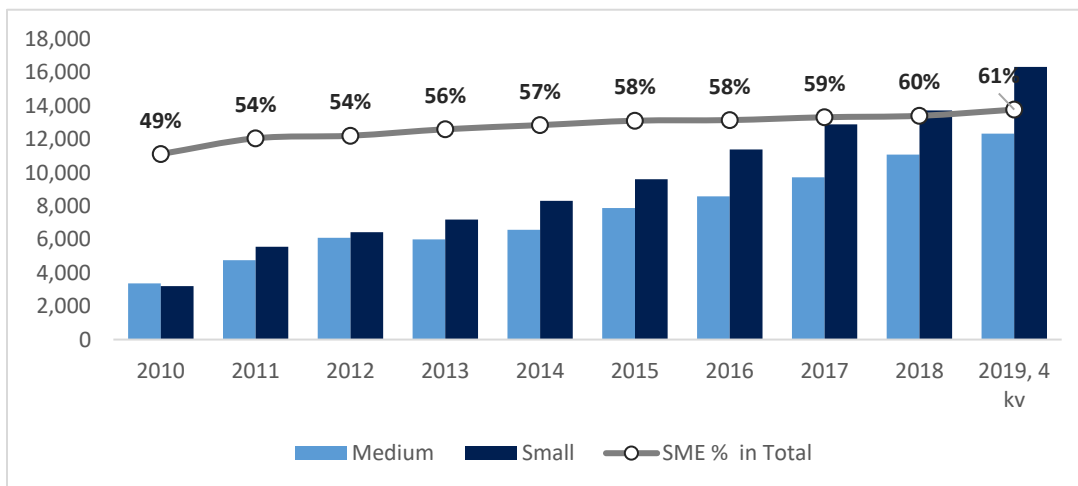


Diagram 5. Number of Persons Employed by SME

