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## Georgia on the European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation

### Findings of the 1<sup>st</sup> DCFTA Central Advisory Council

June 12, 2018

Tbilisi, Georgia

On June 12, 2018, implementers of the European Union funded project **Georgia on the European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation** – co-funded by the Lithuanian Development Cooperation and Democracy Promotion Program – convened the first DCFTA Central Advisory Council (CAC) to convey problems identified at regional Local Advisory Councils (LACs) to national decision-makers. The CAC includes 20 members of the LACs, established as part of the project, with one representative of civil society and one of small and medium-sized enterprises (SME) coming from each of Georgia’s ten regions. In addition, the CAC gathered representatives of five Georgian ministries responsible for DCFTA implementation: the Ministry of Economy and Sustainable Development, the Ministry of Education and Science, the Ministry of Environmental Protection and Agriculture, the Ministry of Foreign Affairs, and the Ministry of Regional Development and Infrastructure.

This initial Central Advisory Council meeting consisted of three sessions. The **first** part of the event was dedicated to presenting the findings of each of the ten regional LACs held in May 2018. In particular, the LACs identified the following ten main challenges to economic development at the local level:

1. The lack of education and of a qualified workforce in many economic sub-sectors, including those that have the potential to export to the EU market.
2. The lack of necessary infrastructure and technologies in various sub-sectors.
3. Access to finance for SMEs.
4. Inadequately high collateral requested from SMEs by financial institutions.



5. Challenges in acquiring certification to sell products to the EU market.
6. Lack of certified laboratories in Georgia to conduct quality controls / tests.
7. The need for better access to soil diagnosis / testing.
8. Challenges in using the state-run Information and Consultation Service.
9. The lack of strong campaigns and programs to promote Georgian products, both abroad, and also domestically
10. The absence of information about success stories from those who are already selling to the European market.

At the **second** session, government officials from several ministries shared the latest updates on the implementation of the DCFTA.

#### Ministry of Education and Science

- The Ministry of Education and Science has developed over 100 new professional education programs in cooperation and consultation with the business sector. However, there is a lack of teachers for these programs; accordingly, know-how from the private sector will also be needed.
- For these new vocational education and training programs, a dual approach will be introduced, according to which students' training will be equally divided into theoretical instruction and practical experience in their respective fields.
- At its spring session, Parliament will discuss a draft law to create professional education centers in the regions. As part of this law, private universities and other institutions would also receive state funding for vocational educational programs.
- The Ministry has also developed special short-term vocational education programs with an emphasis on accessibility. These focus on persons with disabilities, prisoners, and ethnic minorities.
- Currently, vocational education institutions are less attractive to young people than colleges and universities. It is therefore important to develop further steps to popularize vocational education. In this regard, the opportunity for vocational education institutions to issue recognized credits (under the ECTS system) would be a valuable initiative.

### Ministry of Foreign Affairs

- Despite public support for Georgia's membership to the European Union, it is still necessary to increase awareness about the benefits Georgian citizens are receiving from EU-Georgia cooperation.
- The Ministry is working to develop a comprehensive approach to strategic communication. After first identifying existing trends in public opinion while analyzing the sources from which the population receives information, it has developed a communication strategy. Communication should be addressed to those stakeholders who have the most influence and ability to disseminate information both in Tbilisi and in the regions.
- Despite the efforts of the government, public awareness is still very low. Special attention is required for non-Georgian speakers. Consequently, to improve awareness it is important to work with the civil society in the process of strategic communication.

### Ministry of Economy and Sustainable Development

- The Ministry of Economy and Sustainable Development is a leading agency coordinating implementation of the DCFTA in Georgia. Accordingly, it provides information and advice to both SME and civil society representatives on DCFTA-related issues.
- With the support of the EU Delegation in Georgia, the capacity of the state-run Information-Consultation Centers will be strengthened, thereby increasing their capability to provide necessary information on the DCFTA to interested stakeholders.
- Within the Ministry, an Inter-State Commission has been established to which small and medium-sized business can turn if they encounter artificial barriers while exporting to the international market.
- One of the main challenges Georgia faces today in terms of DCFTA implementation is production volume. Agricultural land holdings are fragmented, making it difficult for single farmers to reach the volume of production sufficient to export—as continuous supply is particularly essential for exporting to the EU market. In this regard, it is crucial to support cooperation among SMEs aimed at developing large-scale production.
- Georgian SMEs are entitled to co-funding of their participation in trade fairs and exhibitions abroad through the Ministry's Produce in Georgia and Manufactured in Georgia programs. Even though the Ministry covers up to 80% of the participation costs through these programs, it has encountered difficulties in finding businesses to apply for them.

### Ministry of Regional Development and Infrastructure

- The Ministry identifies and addresses infrastructure problems in the regions through the Municipal Development Fund; working with local government bodies, it provides funding for appropriate infrastructure projects. At the local level, municipalities can propose their own initiatives to the Ministry; furthermore, Civil Advisory Councils<sup>1</sup> have been established, which allow the people of local communities to discuss and resolve existing problems together with local decision-makers.
- In terms of encouraging further economic development, the [Mountain Law](#) can be considered a valuable initiative. Under this law, enterprises established in high mountainous regions are exempt from taxes on profits for 10 years.
- Each region of Georgia is distinct both in terms of its potential for development as well as the challenges it faces, thereby increasing the difficulty of addressing local challenges at the national level. Thus, in addition to regional development strategies, the Ministry has launched regional development programs (for the period 2018-2021) to focus on specific areas and territories in need of development assistance.

### Ministry of Environmental Protection and Agriculture

- The Ministry of Environmental Protection and Agriculture coordinates the work of the Information and Consultation Service centers in Georgia's regions. Moreover, if they need information on important aspects of the DCFTA, both small and medium-sized businesses as well as local NGOs can contact a hotline established by the Ministry.
- The Ministry is actively working towards harmonization with EU standards.
- The Ministry's state laboratory is now operational; not only does it—which meet EU standards, but it—is now operational; it is capable of providing services that private laboratories cannot.
- Although the Information and Consultation Service centers work actively in the regions to provide information regarding important aspects of the DCFTA, its specialists do not always have accurate information about specific characteristics of each regions; accordingly, the Ministry is continuously working to improve the quality of the consultation provided.

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<sup>1</sup> An entity established at the municipal level, where general public can discuss problems together with public officials

During the **last session**, representatives of LACs reacted to the presentations by national government officials, called attention to further problems and challenges in their regions, and suggested solutions. The main results of the discussion in this session are summarized below; they will be further developed during the second DCFTA CAC meeting in October 2018.

Main findings and conclusions:

1. The government of Georgia is currently modernizing and renovating irrigation systems developed during the Soviet period. Georgia should actively cooperate with international donor organizations in this initiative to benefit from sharing experience as well as financial support.
2. The application process for state-funded programs should be modified in order to allow the most successful previous recipients—as identified through monitoring carried out by Enterprise Georgia—to apply for second grants.
3. LAC representatives cited the success of the previously-implemented Village Support Program, and expressed interest either in its revival or in the development of a similar program—in order both to facilitate the implementation of infrastructure projects in the regions while providing villages with access to funding. This initiative is currently being discussed by the government.
4. LACs representatives called for a review of the requirements for state-funded programs to make them better suited to the specifics of each region. For example, the 5 hectare minimum for the tea rehabilitation program is not an adequate precondition, as it is very difficult to allocate this amount of land in certain regions (e.g. Guria, Mtskheta-Mtianeti).
5. In addition, many of the Agricultural Projects Management Agency (APMA) projects are targeted at larger landowners. However, most farmers' plots are less than a single hectare in area. In this respect, the Government should reduce eligibility criteria so that farmers with 0.5 hectares of land can apply to APMA programs.
6. Local entrepreneurs suggested lowering the self-financing requirements for applying for state programs. Except for berries and imported plants, state-funded programs cover only 40% of total costs, leaving the remaining 60% to businesses themselves—a share so demanding that it limits SMEs' possibilities to utilize state programs.
7. CAC participants discussed reviewing long-term existing lease contracts, which often mean that large plots (20-30 hectares and more) are not cultivated and thus do not provide any economic benefits. They suggested revising such leases—perhaps by including a land-cultivation requirement—while also proposing a review of land taxes.
8. The quality of services provided by the state-owned Information and Consultation Service centers remains an issue. Participants argued that the existing structure is too bureaucratic and ineffective, with a lack of both resources and qualified staff specialized in areas

relevant to each region. In future, the centers could provide farmers with information on how best to fertilize and improve the health of their crops, for example.

9. Government agencies could outsource more services, especially in regions where state resources are limited and where local non-governmental actors could contribute their experience and expertise.
10. Under the Plant the Future program, some regions have been selected to receive 100% funding for growing berries. These regions were selected because of their smaller average plot size and higher soil acidity, which makes them more suitable for developing berry-growing.
11. Infrastructure and connectivity need to be further developed so that agricultural and other products can be delivered in a safe and timely manner. A representative from the Shida-Kartli region shared an example of how half of a particular harvest was lost during delivery due to transportation difficulties.