The European Union for Georgia
EU4Business

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

INCREASED CAPACITIES OF GEORGIAN CIVIL SOCIETY AND IDENTIFIED CHALLENGES FOR GEORGIAN SMALL AND MEDIUM ENTERPRISES TO ACCESS THE EU SINGLE MARKET

Project Findings & Recommendations for Further Action

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This publication is the integral part of the project **"Georgia on the European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation"** (henceforth - project) implemented from April 2017 – July 2019. The project aimed to address the lack of awareness about opportunities provided by the Deep and Comprehensive Free Trade Area (DCFTA) Agreement between Georgia and the EU. It sought to increase the role of Georgian civil society organizations in a nation-wide DCFTA communication campaign and their capacities to assist local small and medium enterprises (SMEs) prepare to access the EU single market.

The project has been implemented by an international consortium of non-governmental organizations and think-tanks under the leadership of the **Eastern Europe Studies Center** (EESC, Lithuania) together with the **Association of Business Consulting Organizations** (ABCO Georgia), the **Georgian Institute of Politics** (GIP, Georgia), **GLOBSEC Policy Institute** (GPI, Slovakia), **Young Scientists Union "Intellect"** (Georgia), **ATINATI** (Georgia) and **Association Caucasus Genetics** (Georgia).

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Contents

Abbreviations

AA – Association Agreement

APMA – Agricultural Projects Management Agency

BSO – Business support organization

CAC – Central Advisory Council

CSO – Civil society organization

DCFTA – Deep and Comprehensive Free Trade Area

EBRD – European Bank for Reconstruction and Development

EU – European Union

GEOSTAT – National Statistics Office of Georgia

HACCP – Hazard Analysis and Critical Control Point

ICCs – State Information-Consultation and Extension Centers

IDPs – Internally Displaced Persons

ISO – International Organization for Standardization

LAC – Local Advisory Council

MEPA – Ministry of Environmental Protection and Agriculture of Georgia

SME – Small and medium-sized enterprise

TBT – Technical Barriers to Trade

VET – Vocational education and training

Introduction

The Deep and Comprehensive Free Trade Area (DCFTA) Agreement, which is a part of the Association Agreement (AA) between the EU and Georgia, is active since September 1, 2014 and has the potential to be significantly beneficial for the Georgian economy. Compared to other EU-provided platforms for closer cooperation — such as the visa-free regime — DCFTA has the capacity to deliver significant changes over a period of several years. The size of a business determines how quickly it can benefit from the trade agreement. Small and medium enterprises (SMEs), one of the target groups of the project “Georgia on European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation,” account for more than ninety percent of Georgian businesses but produce less than one fifth of the total turnover and are weak exporters. For them to benefit from the DCFTA, their products must first meet EU quality standards and safety regulations. After that, they must find the best route to the EU single market.

During the project, local SMEs voiced a variety of concerns and challenges related to taking advantage of the DCFTA. However, they were also interested in the potential to use the benefits offered by the trade agreement and wanted to improve the quality of their products, as well as their logistic capacities. They expressed interest in selling outside their region of production, for example, in Tbilisi, where prices are higher, and to start exporting. The majority of the SMEs involved in the project considered the EU single market as a long-term perspective, not as something that could be achieved in the short-term.

Moreover, participants who were not involved in business did not understand the DCFTA’s effect on their lives until it was explained that the DCFTA does not solely focus on exporting goods to the EU. Overall, It impacts the safety of locally produced products overall, including what is being sold at the local market. The implementation of the DCFTA includes the adoption of the EU technical standards, for example, phytosanitary and hygienic standards. That will increase the safety of food products, which will have a direct and positive effect to consumers’ health.

The project also found that the local governments in Georgian regions and municipalities need more information and a deeper understanding of the DCFTA and how they can support local businesses. While the original intention was that civil society organizations (CSOs) in Georgian regions would help bridge the gap in awareness about the DCFTA and the SME strategy implementation, they also required more information and stronger capacities.

This study is the final product of the project “Georgia on European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation.” It provides a brief overview of the executed activities, but mainly focuses on measuring the effect the project had on increasing the capacities of Georgian CSOs to contribute to DCFTA/SME strategy implementation. It also compares Georgian SMEs’ preparedness to export to the EU at the beginning of the project (April 2017) to their level at the end of the project (July 2019).

Finally, it offers the main conclusion reached by the project implementers. This and similar projects have enabled Georgian CSOs to develop the capacity to work on DCFTA related issues. The project also contributed to informing Georgian SMEs about procedures and existing support mechanisms in order to start exporting to the EU. However, more work is needed and it should be done in cooperation with civil society, businesses and local and central governments. It is the hope of the project implementers that the project’s findings and recommendations will be useful for future work in this area.

Project activities and outreach

In the summer of 2017 researchers conducted a **nationwide survey** as part of the project. The survey was aimed at evaluating how prepared local SMEs were to adapt to the EU regulations and integrate into the EU single market. Additionally, since the project was created to strengthen the capacities of Georgian CSOs, in terms of the DCFTA and SME strategy implementation process, and to turn them into active partners who are able to execute a nationwide DCFTA/SME communication campaign, another survey was launched to assess the interests and capacities of regional Georgian CSOs to work on topics related to the DCFTA and SMEs. In particular, the survey looked at the interest and capacities of CSOs to support local SMEs in the process of entering and accessing the EU single market.

Both surveys — referred to as **mapping Georgian SMEs and CSOs** — covered all nine regions of Georgia as well as the Autonomous Republic of Adjara. In total, **168 CSOs and 559 SMEs in 61 municipalities** were mapped, interviewing approximately three CSOs and nine SMEs per municipality. The results of the mapping were described in the **Initial Study**[1] and were used to identify the SMEs and CSOs with the potential to be partners and beneficiaries of the project activities. Furthermore, establishing the extent that Georgian CSOs are able to work on issues related to the DCFTA and SMEs and what prevents Georgian SMEs from entering the EU single market was instrumental for preparation of the **DCFTA Communication Toolkit**.[2]

The Toolkit was used as a training tool for participants of the **DCFTA Trainings**, which were conducted in March and April 2018 in all regions of Georgia. **Altogether 10 trainings in 10 cities** — regional centers — were conducted for 153 regional CSOs. The CSOs received extensive knowledge about DCFTA implementation in Georgia; guidance on how to engage the local public; and provide SMEs with relevant guidance and information during the trainings. In addition, they also learned about the project's **re-granting scheme**, which allowed them to receive financial support for activities in their communities that would finance more efforts to increase awareness and capacity building in terms of DCFTA/SME strategy implementation in Georgia.

One of the most important features of the project was strengthening cooperation between civil society, local businesses and public officials on local and central levels. For this purpose, the **DCFTA Local Advisory Councils** (LACs) and the **DCFTA Central Advisory Council** (CAC) were established. LACs are formalized meetings of representatives of SMEs, CSOs and local government bodies from each region that meet regularly (at least three times per year) to discuss the challenges faced by SMEs in that given region. At every LAC meeting, participants discuss the most up-to-date developments concerning DCFTA/SME strategy implementation in that region, sum-up the challenges and problems, and come up with recommendations and practical solutions. These inputs are then tabled at the CAC meetings, which are held three times a year in Tbilisi.

The CAC is a formalized meeting of representatives of LACs (every LAC is represented by one CSO and one SME) and representatives of Georgian state institutions responsible for the implementation of the DCFTA, including the Ministry of Economy and Sustainable Development, Ministry of Environmental Protection and Agriculture, Ministry of Regional Development and the Ministry of Foreign Affairs of Georgia. At these meetings, the representatives discuss the issues raised by the LACs in the regions and search for possible responses or, if needed, changes to legislation or executive norms.

LACs and CACs are designed to be the direct communication channel between practitioners in regions and the decision makers in the capital that deal with the DCFTA implementation at the central level. Within the project, 10 DCFTA Local Advisory Councils have been established in each of the nine regions as well as the

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1 "Results of the DCFTA related mappings of Georgian SMEs and CSOs", Survey Results, http://georgiadcfta.ge/files/downloads/goew_-_survey_results_v7_web.pdf?fbclid=IwAR2fXlvEBSbA_IL7BrJAK1dgD0bcNC781QOc7J6XOt7OuQ7yFTkyckzC0lw

2 "Georgia's DCFTA Communication Toolkit. What is the DCFTA and how can Georgian SMEs access the EU single market?", Training Material, http://georgiadcfta.ge/files/downloads/dcfta_toolkit_eng_version_final.pdf

Autonomous Republic of Adjara. One DCFTA Central Advisory Council was established at the central decision-making level in Tbilisi. These councils are permanent structures initiated and facilitated by the project and are expected continue to function after the project is completed.

The first round of LACs took place in May and June 2018 followed by the first meeting of the CAC, which took place on June 12, 2018 in Tbilisi. The second round of LACs took place in September and October 2018 and was followed by the second CAC on October 30, 2018. The third round of LACs was conducted in February and March 2019 and was followed by **four sectoral meetings with representatives of the Ministry of Environmental Protection and Agriculture** on the following sectors: cattle and fish breeding, bee keeping, fruit growing and market gardening. After these meetings, the third meeting of CAC followed on March 6 – 7, 2019 in Tbilisi. The outputs and recommendations from the LACs and CACs that were organized under this project are listed in the parts bellow of this publication.

Selected representatives from the project's target groups had the opportunity to gain additional knowledge based on the experience of Lithuania and Slovakia. This sharing of experience has been conducted via two **study trips** — one to **Lithuania** (October 14 – 21, 2018) and one to **Slovakia** (November 11 – 17, 2018). Each study group consisted of 15 representatives from Georgian SMEs, CSOs and the local administration. They were provided with an opportunity to learn more about the Lithuanian and Slovak way to the EU, their economic transformation and how their businesses adapted to the standards and rules of the European single market. They learned about challenges and problems that SMEs from current EU member states had to overcome and endure. Furthermore, they have had the opportunity to meet representatives from Lithuanian and Slovak businesses, which had successfully entered the European market. Each of them shared with Georgian guests their "ingredient" for success.

The **re-granting scheme facilitated even deeper involvement of the target groups on the regional level.** The scheme enabled the CSOs that took part in the DCFTA training to apply for small grants with their own projects and ideas. The eligible projects fell under two following topics: 1) projects that would contribute to the nation-wide DCFTA information campaign; and 2) projects that would consult SMEs on how to enter the EU single market. **In total, 60 grants** amounting up to EUR 1,000 each were equal distributed between proposals based on topic 1 & 2, as well as the geographical coverage of all nine regions and the Autonomous Republic of Adjara. All re-granting projects were implemented during the period of September 2018 - March 2019 and achieved the following results: 182 consultation meetings, 164 informational meetings and 87 trainings and other events, with a total of over 9000 participants. Moreover, coverage of TV and radio programs and print media expanded the reach of the program. We estimate that **over 1 million Georgian citizens were informed about DCFTA and the opportunities it has created for Georgia.**

Status-quo of target groups at the beginning of project

Georgian CSOs

Civil society organizations were the key project partners in promoting and advocating the DCFTA in the Georgian regions. The project consortium acknowledged that local CSOs are usually close to their communities and can therefore greatly influence policy developments. For that purpose, local CSOs were actively engaged in the project activities to raise awareness about the benefits of the DCFTA and influence the government to carry out reforms for better DCFTA implementation process.

The initiative focused on three priorities: first, promoting an environment for CSOs in the regions that encourages them to engage in advocacy for better DCFTA implementation and contribute to policy making; second, promoting the meaningful and structured participation of CSOs in DCFTA implementation; last but not least, increasing local CSOs' capacity to more effectively perform their roles as independent actors.

The overall objective of the project was to strengthen the capacities of Georgian CSOs so that they can support the implementation of DCFTA and the SME strategy in Georgia. For that purpose, the consortium conducted a number of activities, including a nationwide survey to identify the interest and capacities of regional Georgian CSOs to support DCFTA implementation and to support local SMEs in the implementation process. The first survey identified CSOs that became partners and beneficiaries of the project activities. Based on the results of the first survey, the project consortium defined its vision of CSOs' involvement in project implementation.

The majority of the CSOs surveyed at the beginning of the project showed high interest in DCFTA implementation programs – 92% of surveyed CSOs said they would like to receive additional information and training about the DCFTA and would like to work on DCFTA-related issues. However, while motivation was high, the CSOs' capacities to contribute to DCFTA implementation in their respective regions were rather limited. The majority of CSOs reported a lack of information about the services provided by governmental agencies to promote DCFTA implementation.

The gap in awareness could be explained by the fact that, at the beginning of the project, many of the CSOs that expressed interest in the DCFTA were not necessarily working on economic issues. While 17% of surveyed CSOs noted economic development as one of their directions — and 16% mentioned agriculture — only 5% of all CSOs mapped nation-wide were engaged in DCFTA- and food safety-related projects. Only 4% worked on export promotion. It is also worth noting that from all the surveyed CSOs, only 9% identified SMEs among their main target groups. Therefore, while the vast majority of CSOs wanted to work on DCFTA issues, many of them needed to adjust their profiles and receive additional training in order to become successfully engaged in export promotion to the EU single market.

In addition, the regional distribution of the results demonstrated quite significant disparities between the regions: there were comparatively far fewer active CSOs in some regions, such as Guria, Racha-Lechkhumi and Kvemo Svaneti (each account for 4% of the total), while the Autonomous Republic of Adjara and Samegrelo - Zemo Svaneti together accounted for nearly half of all mapped CSOs (47%) at the beginning of the project. It later became clear that more locally operating CSO resulted in more active civil society engagement in the DCFTA implementation process.

Georgian SMEs

The SME survey compiled profiles and identified export patterns and readiness to export their products to the EU single market at the beginning of the project. In addition, the SME survey identified the challenges Georgian SMEs were facing in the process. The majority of surveyed SMEs fit the definition of small enterprises defined by the number of employees, with 74% employing no more than 15 persons. A majority of the surveyed SMEs (44%) were registered as cooperatives, a reflection of the fact that cooperatives have been actively promoted by the Georgian government and the EU over the last four years.

Other products produced by Georgian SMEs had varying prospects for accessing the EU single market: while some of the more popular products, such as wine, fruits and berries, had already been sold in the EU single market before the beginning of the project. Others still needed to meet the EU requirements for production in order to be considered for export, such as dairy products. Only 4 animal-origin products are permitted to the EU single market, the rest is forbidden due to the lack of the disease and veterinary control system.

Only 23% of the surveyed SMEs were exporting their products. Among them, 42% were selling all or part of their products to the EU single market countries, but the number of such companies throughout the country was not very high.

The surveyed SMEs identified the following main obstacles for selling Georgian products to the EU at the beginning of the project: lack of partners in the EU; lack of information about the procedures for exporting to the EU single market; insufficient production volumes; lack of resources to produce sufficient volumes for exporting; and not having quality certification required for exporting to the EU.

Low awareness about export possibilities, and about the DCFTA in particular, was also an important issue facing Georgian SMEs. The survey results showed that 57% of SMEs did not have enough information about export possibilities, and 38% lacked information about the DCFTA. Importantly, all surveyed SMEs that were informed about the DCFTA (65% of the total) expressed a positive opinion about it.

Out of all 559 companies surveyed, only one SME representative assessed the DCFTA negatively, and the respondent claimed to not have information about DCFTA. The remainder were not able to assess the DCFTA due to lack of information or knowledge.

The SMEs were positive about the DCFTA in terms of the potential to export to EU single market. Growth in sales, higher prices in the EU single market and the possibility to gain experience and bring new technologies to Georgia were among the most popular incentives indicated by the surveyed SMEs.

Project impact on Georgian CSOs

This part of the study presents the results of the project impact assessment of the Georgian CSOs that participated in different project activities and contributed to raising awareness about the DCFTA/SME strategy implementation. The assessment sought to determine the overall impact of the project activities aimed at strengthening the role and engagement of CSOs in policy-making process on issues of the DCFTA and SME strategy. These activities were largely focused on empowering CSOs in research, advocacy, monitoring and engagement in public-private dialogue.

A follow-up CSO survey was developed to assess the main components of the project in terms of effectiveness, relevance and impact sustainability; to identify outcomes qualitatively and quantitatively against the indicators set at the beginning of the project; and to establish the key lessons learned in order to contribute to organizational learning and enhancing CSOs and project partners' capacity.

The survey aimed to explore the effectiveness of project activities in terms of raising awareness about the DCFTA; whether CSOs have applied the learning acquired from the project activities and whether they are willing to work on DCFTA related issues in the future; and to identify types of support and cooperation that Georgian government and donor society should concentrate in order to improve the DCFTA/SME strategy implementation.

The objectives of the CSO survey included assessing: a) the impact of project activities for CSOs aimed at strengthening their capacities; b) the scope of the public awareness campaigns carried out by the CSOs about the DCFTA in Georgian regions.

Survey methodology

The methodology for developing the report included a combination of:

Survey: representatives of CSOs were asked to fill in a questionnaire composed of open and closed-ended questions about the project impact assessment during the final LAC meetings in the spring of 2019. The questionnaire was also sent electronically to those CSOs that could not attend LACs. The survey was conducted using quantitative methods.

Comparative analysis: researchers compared the newly obtained information from the survey with the results of the initial survey executed in the summer of 2017. For example, the level of growth in the interest and the capacities of regional Georgian CSOs over the last two years to support DCFTA implementation and, especially, to support local SMEs in the implementation process.

Field research: focus groups and on-site observations from the LACs with target CSOs based on semi-structured interviews with research subjects using the same questions that were asked in the survey questionnaire.

Secondary research: desk analysis of existing project documentation, such as survey results developed in the beginning of the project, evaluation reports of the study visits, monitoring data, etc. The initial survey served as the reference for this research that evaluates the impact of the implemented project activities on CSOs.

The questionnaire used for CSOs included 11 questions, grouped into two parts: part I – general information about local CSOs to compare with the previous survey results; part II – assessment of the project impact. The CSO survey covered 52 organizations in the Georgian regions and the Autonomous Republic of Adjara. The methods have been mixed in such a way to ensure that significant qualitative and quantitative data were gathered as evidence for further analysis and development of recommendations.

It needs to be noted that the survey sample of the initial study was three times bigger and included 168 CSOs. The initial aim was to map CSOs in the regions and to determine their economic literacy and capacity to work on DCFTA topic and to engage SMEs and local public officials. Based on the gathered information, trainings for the CSOs that were interested and showed a promise to work on DCFTA and SMEs strategy implementation were organized to fill the gaps in their skills and capacities. Out of the 168 CSOs surveyed, less than half were engaged in project activities and 52 CSOs provided data for the second survey. As mentioned, the latter survey estimates the impact the project had on Georgian CSOs and provides the opportunity to make recommendations for the further action, particularly on greater CSOs' engagement in AA/DCFTA implementation.

CSO SURVEY RESULTS

Target groups of CSO activities

As in the initial survey, CSOs were asked to list the target groups they are working with. They were able to name more than one target group. The main change is that **20% of surveyed CSOs indicated SMEs among their target groups, while at the beginning of the project only 9% of surveyed CSOs worked with the SMEs.** There is a slight increase in CSOs working with local self-governing bodies, from 14% in 2017 to 18% in 2019, and in focus on agribusiness — an increase from 8% in 2017 to 13% in 2019. These segments are important for promoting reforms to support DCFTA implementation at the local level. **Thus, if in 2017 the target groups related to DCFTA implementation (SMEs, self-governing bodies and agribusiness) accounted for 31% of CSOs interest, in 2019 that indicator had increased to 52%.** The most popular target group for CSOs (25%) remains the youth. For 10% of the surveyed organizations, their main target groups include ethnic minorities; 7% are mainly focused on internally displaced persons (IDPs); and 5% work mainly with people with disabilities. Two percent of the CSOs identified other target groups among their focus, such as women (see Diagrams #1 and #2).

Diagram #1. Target groups of CSO activities, spring 2019

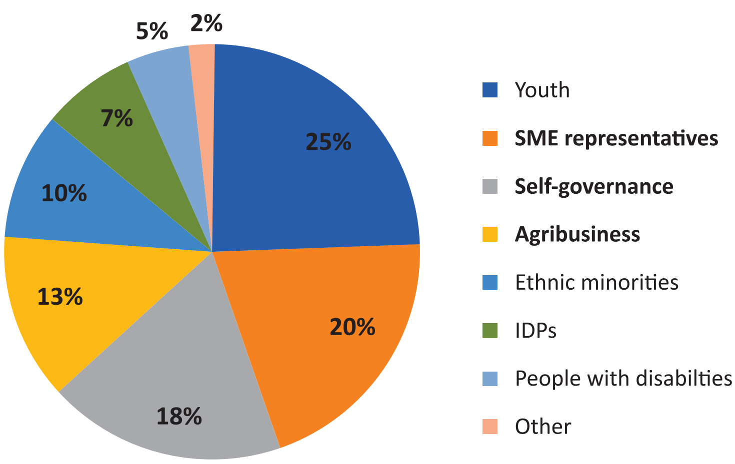
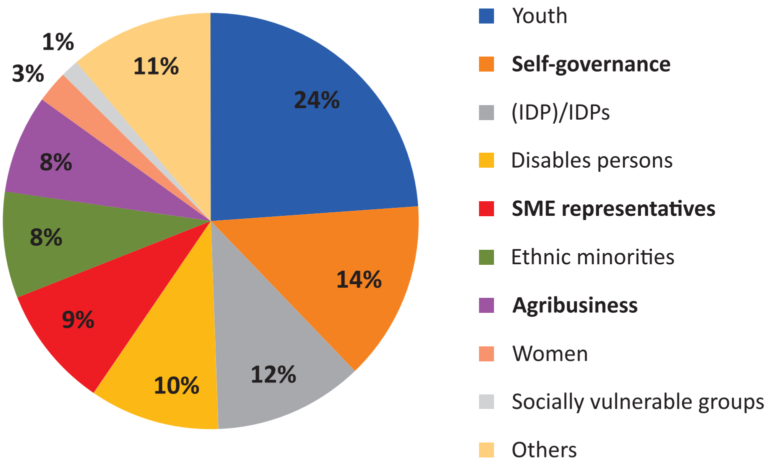


Diagram #2. Target groups of CSO activities, summer 2017



Fields of activities

There is a significant increase in the number of CSOs interested and working on DCFTA related issues. In particular, when asked about their fields of activities, 31 CSOs out of 52 (or 29%) indicated DCFTA implementation, compared to the 2017 survey results, when only 15 respondents out of 168 (or 5%) worked on issues related to DCFTA. According to the latest survey, agriculture is part of the scope of work of 21% of CSOs, while 20% work on economic development, a slight increase by 5% and 3% respectively compared to the 2017 survey. The CSOs that participated in the most recent survey work in the fields of food safety (12%) and export promotion (8%), which is a slight increase compared to the 2017 survey — 7% and 4% respectively. Other fields covered by local CSOs include education and social issues. Many organizations work simultaneously in several areas, and the survey allowed respondents to choose multiple answers to this question. The numbers look promising in terms of the increase in CSOs' interest to contribute to DCTFA implementation in the regions, to raise awareness and to encourage reforms in food safety and export promotion (see Diagrams #3 and #4).

Diagram #3. Fields of activities of Georgian CSOs, spring 2019

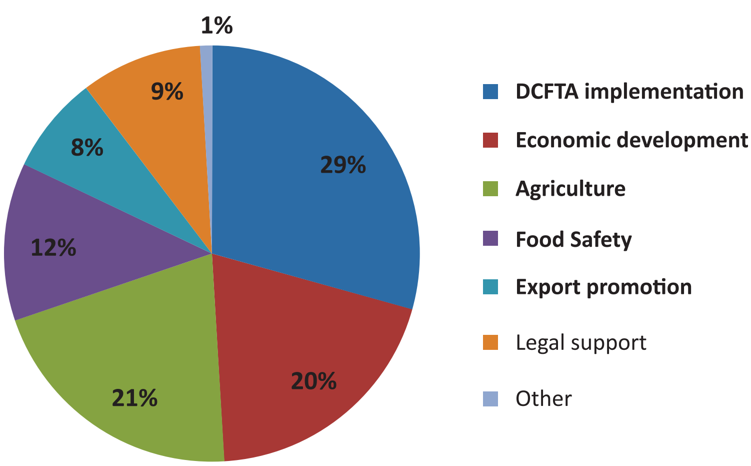
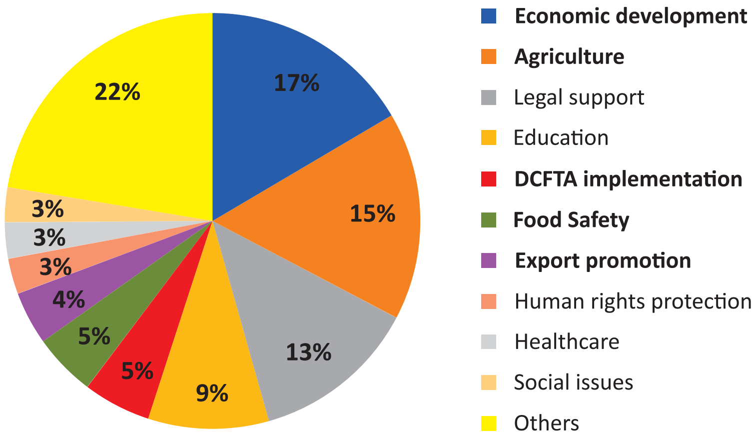


Diagram #4. Fields of activities of Georgian CSOs, summer 2017

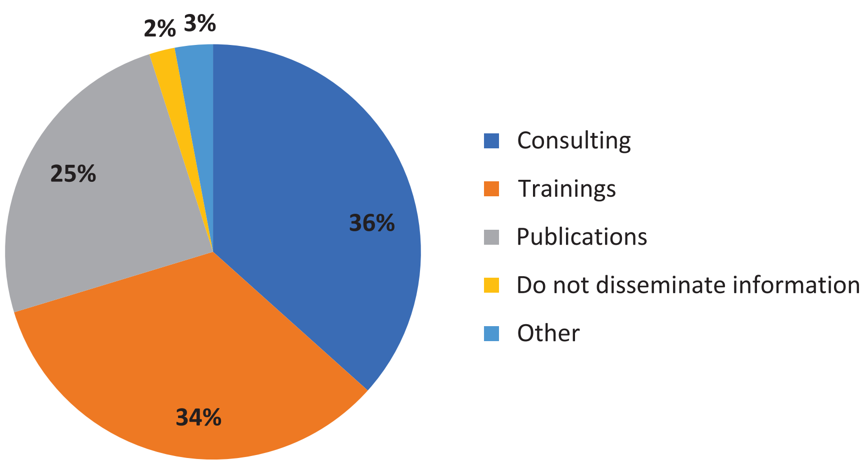


Forms of communication used by CSOs to disseminate information about the DCFTA

The pie chart below demonstrates the communication tools the CSOs use to reach their target audiences to disseminate information about the DCFTA. The survey results show that CSOs communicate with their target groups through different forms and channels, in many cases using several in combination. Consulting is the most commonly used tool for outreach (used by 36% of surveyed CSOs), followed by training (34%) and publications (25%). Other forms of communication mentioned by the CSOs include their websites, social media channels and informational meetings (see Diagram #5).

During the focus group meeting, one of the CSO representatives mentioned that their information campaigns included practical exercises, during which local producers and public servants learned not only about the opportunities provided by the DCFTA but also received practical knowledge on how to write business proposals and how Georgian producers can access the European market. They also highlighted that to improve communication about the DCFTA, it is important to adjust individual narratives to each target group.

Diagram #5 Forms of communication used by surveyed CSOs



Project impact on CSO awareness about DCFTA

Survey for the CSOs aimed to assess the impact of the project in terms of raising awareness about the DCFTA. **The survey results demonstrate that since the launch of the project, the level of CSOs' awareness about the DCFTA has significantly increased.** 71% of CSOs indicated that their level of awareness of the DCFTA before the project was 'somewhat familiar,' 17% of CSOs did not have any information about the DCFTA and only 12% were 'very familiar.' The largest number of CSOs (83%) stated that their level of awareness about the DCFTA has 'very much' increased through their participation in the project activities (see Diagrams #6 and #7).

Diagram #6. CSOs awareness about DCFTA before the project

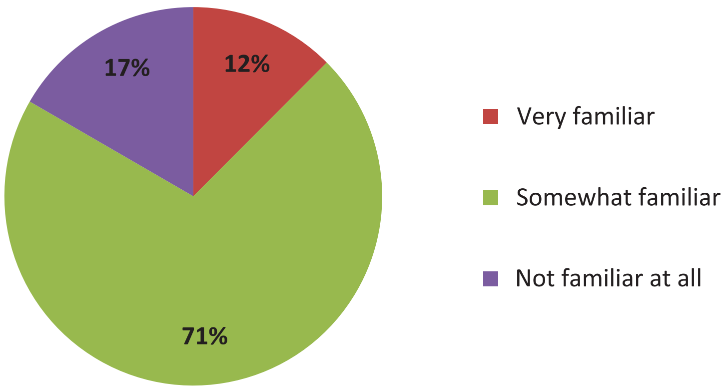
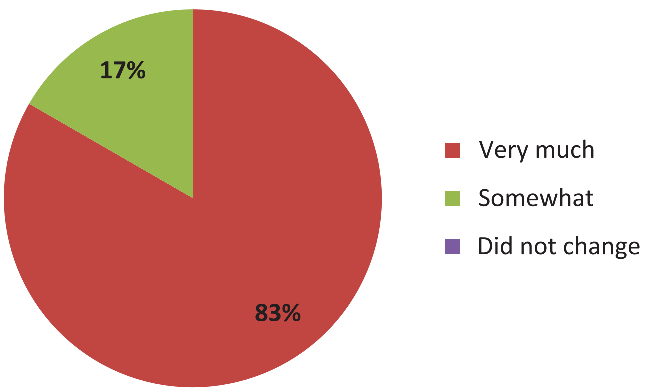


Diagram #7. CSOs awareness about DCFTA after the project



Effectiveness of the project activities according to CSOs

Surveyed CSOs were asked to evaluate the project activities, particularly how effective they were in terms of raising awareness about the DCFTA and promoting better DCFTA/SME strategy implementation. As the diagrams below indicate, the **vast majority of CSOs considered project activities very effective or effective.** In particular, 63% of the surveyed CSO indicated that DCFTA training was very effective and 37% said it was effective; 69% considered DCFTA Communication Toolkit very effective and 31% said it was effective. CSOs that took part in the study trips in Lithuania and Slovakia evaluated the action as very effective (65%) and effective (35%). LAC meetings were perceived as very effective by 50% of CSO and effective by the other 50%. Only in one single case, the activity — a sectoral meeting between the CSOs and the Ministry of Enviromental Protection and Agriculture — was listed as ineffective (see Diagram #8)

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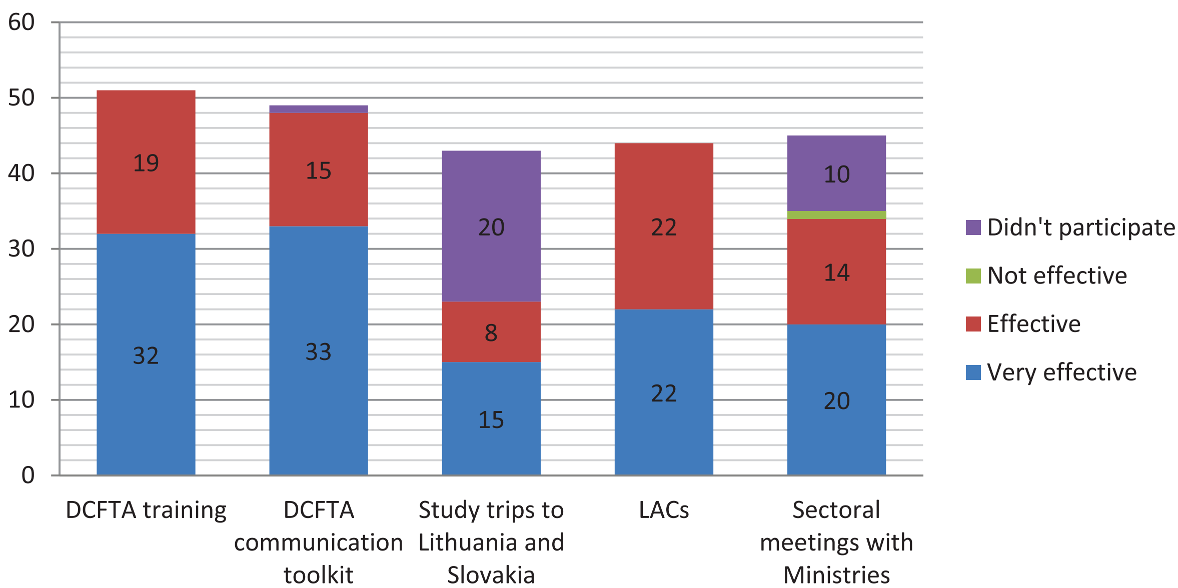
Diagram #8. Evaluation of project activities by CSOs

CSOs were asked the following question: if you participated in any of the project activities, indicate how effective were they?



In addition to the survey, project participants were asked to fill in evaluation questionnaires. In the case of DCFTA training, which was based on the DCFTA Communication Toolkit and provided expertise for 153 CSOs in the nine Georgian regions and Autonomous Republic of Adjara, the questionnaires were filled in before and after the training. Based on the collected data, **DCFTA training was a great success as CSOs' awareness about DCFTA increased from 34% to 95%.** At the beginning of training, 34% of participants said that they had information about the DCFTA, 51% had partial information, and 14% indicated they had no information about the agreement. By the end of the training, about 95% indicated that they then had information about the DCFTA, 3.5% reported partial information and 1.8% said that they already were aware about the information that was provided at the training. The graphs below illustrate the answers and the change in awareness about the DCFTA in each region (see Diagrams #9 and #10).

Diagram #9. CSOs‘ awareness about DCFTA before the training

Do you have information about DCFTA? (pre-training)

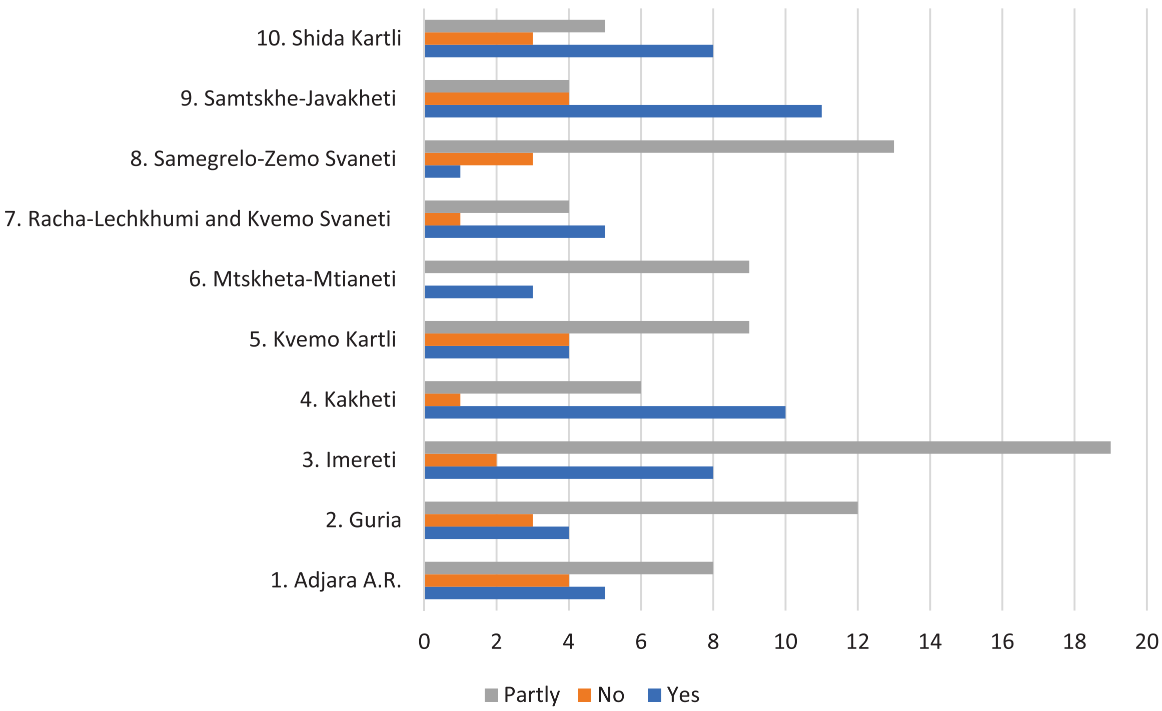
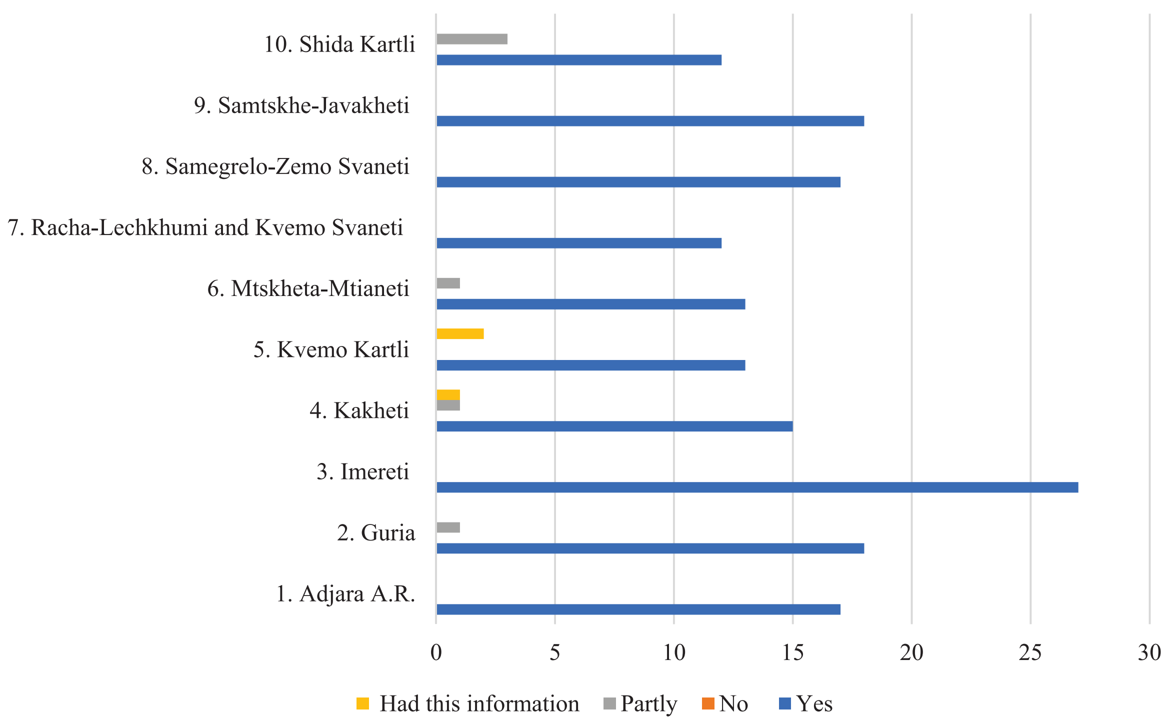


Diagram #10 CSOs‘ awareness about DCFTA after the training

Do you have information about DCFTA? (post-training)



Furthermore, a substantial majority of the training participants assessed the received information as useful for their activities and expressed interest in sharing their newly acquired knowledge with other interested parties (see Diagrams #11 and #12).

Diagram #11 CSOs‘ assessment of the DCFTA training

Do you think that the information and knowledge received during the training will be useful for you and your future activities?

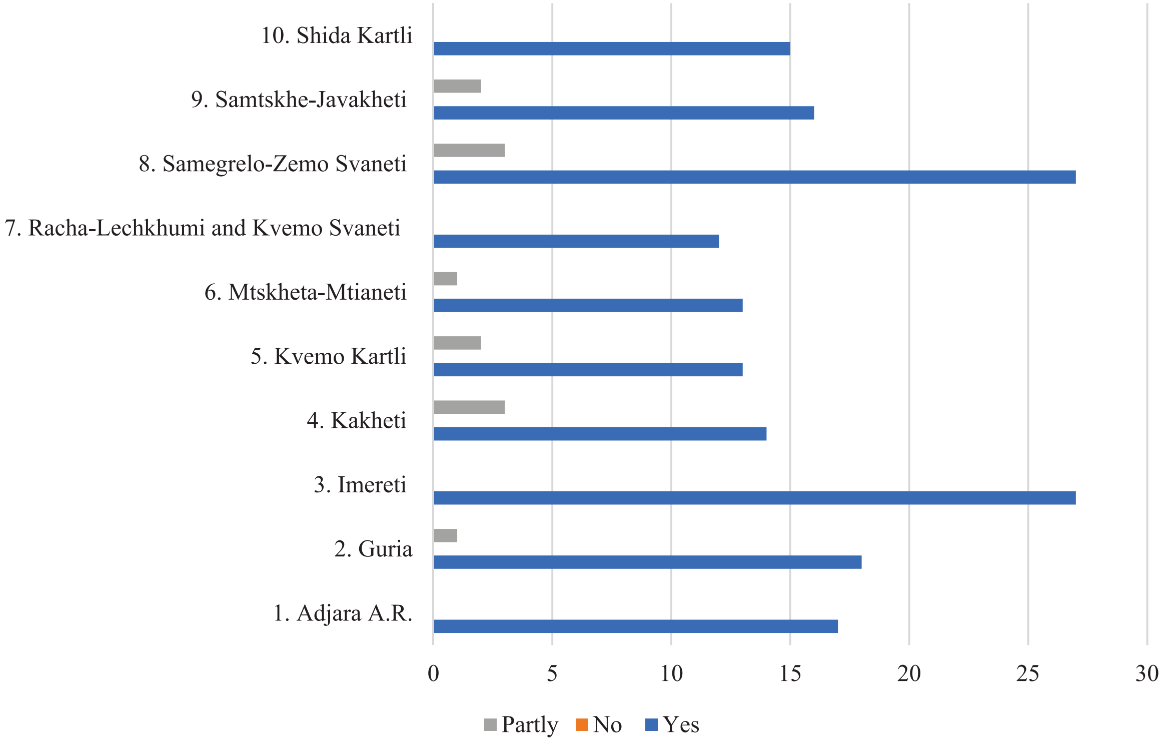
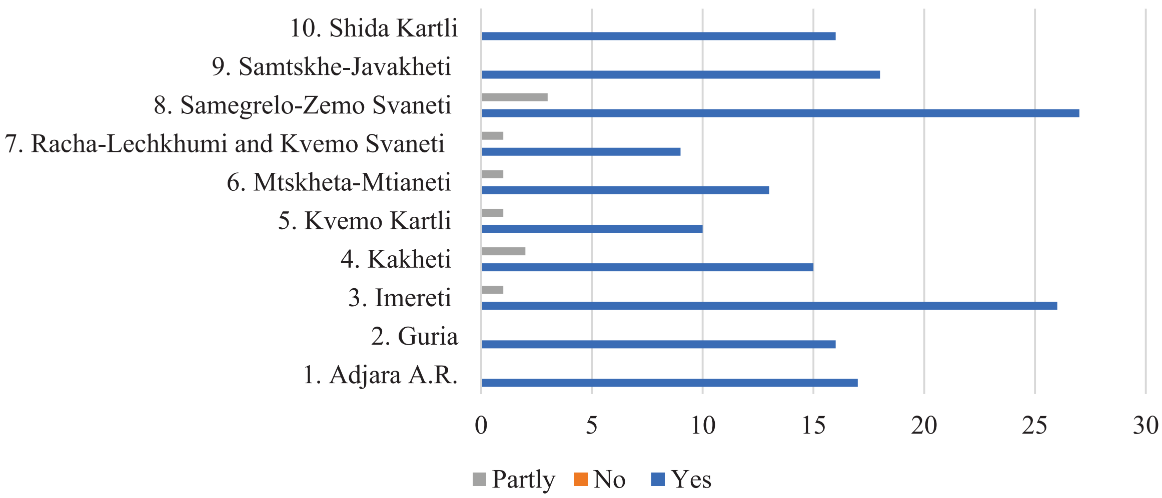


Diagram #12 CSOs‘ interest to share gained knowledge

Would you like to spread the information you received to interested parties?



In the evaluation form for the study visit to Lithuania and Slovakia, an absolute majority of participants indicated that their expectations were completely met and the visits helped them become more involved in the process of DCFTA/SME strategy implementation. One of participants said that the study visit was comprehensive and versatile, while another one added that Lithuanian experience in “state-provided support for business mechanisms surpassed all expectations”. CSO representatives expressed their strong intention to work with local SMEs to share the knowledge and experience they gained from the study visits. These intentions were followed by attending, for example, local radio programs and sharing their impressions from the study visit. Also, during the CAC meetings, the CSOs and SMEs that took part at the study visit often suggested solutions to issues based on the Lithuanian and Slovak examples.

CSOs' activities associated with DCFTA implementation

Out of the surveyed CSOs, 76% indicated that they have already applied what they learned from the project activities. The majority of the projects they have implemented were supported by the re-granting component of the project. Other activities were self-funded or financed by other donor organizations.

Within this project, 60 grants, each amounting up to EUR 1,000, were distributed, out of which half of the re-grantees worked on a nationwide DCFTA information campaign and the other half concentrated on raising SMEs' and public servants' awareness about the DCFTA. Out of 60 re-grantees, 42 attended the DCFTA training. However, participation in the training was not obligatory. The main criteria included the CSO's capacity to educate the general public and/or SMEs and public officials about the DCFTA. The type of activities and project's outreach were equally important, as the aim was to support activities across Georgia and the Autonomous Republic of Adjara. The quality of the submitted applications was low; only a few organisations submitted well-designed project proposals that left no doubts about the CSO's knowledge about the DCFTA and its ability to plan both the project activities and the expected results. The majority of re-grantees required help to clarify their planned activities, target groups and expected impact.

The main outcomes of the re-granting component for CSOs:

- CSOs were provided with the means to apply knowledge gained during the DCFTA training; those CSOs that did not attend the training were provided with an opportunity to receive support for their activities;
- New CSOs in Georgian regions were established — people who received information during the project became interested in joining the nationwide DCFTA communication campaign and, in order to apply for the re-granting program, established a non-governmental organisation;
- CSOs learned project management skills from the project implementing consortium members, in addition to advice on how to properly plan their re-granting project outputs. Re-grantees received similar guidance during the reporting period;
- A network of 60 CSOs was established as a platform for cooperation and joint work on DCFTA/SME strategy implementation. CSOs in the same or nearby regions have the most opportunities for this type of cooperation, as project activities such as DCFTA training and LACs took place in separate regions. Only CAC and study visits to Lithuania and Slovakia brought together CSOs from different Georgian regions.

The main results of the re-granting projects

The most popular activity chosen by re-grantees (50%) was informational meetings, followed by trainings, field visits in local communities, lectures/seminars, consultations and study visits/exhibitions (see Diagram #13). In many cases, re-grantees executed more than one type of activity. Data from the executed activities showed that most offered consultations (organized 182 events) and informational meetings (164 events), followed by trainings (87 events), field visits (44 events), lectures/seminars (22 events) and other events. In total 513 events were organized (see Diagram #14). Activities such as trainings, lectures/seminars, consultations and informational meetings were more common among CSOs that target SMEs and public officials. In the meantime, CSOs working with the general public tend to hold town hall meetings and discussions to inform their local communities about the DCFTA. Four re-grantees held competitions/intellectual games to educate the local youth about the progress, benefits and challenges related to DCFTA implementation.

Diagram #13. Activities preferred by re-grantees, indicates how many re-grantees chose the activities listed below

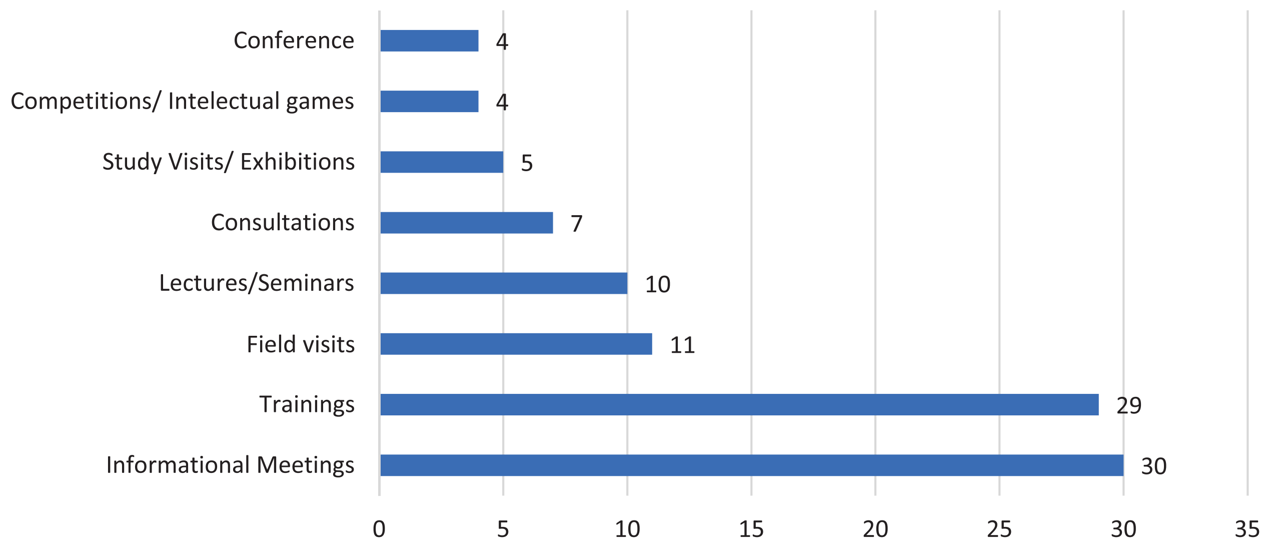
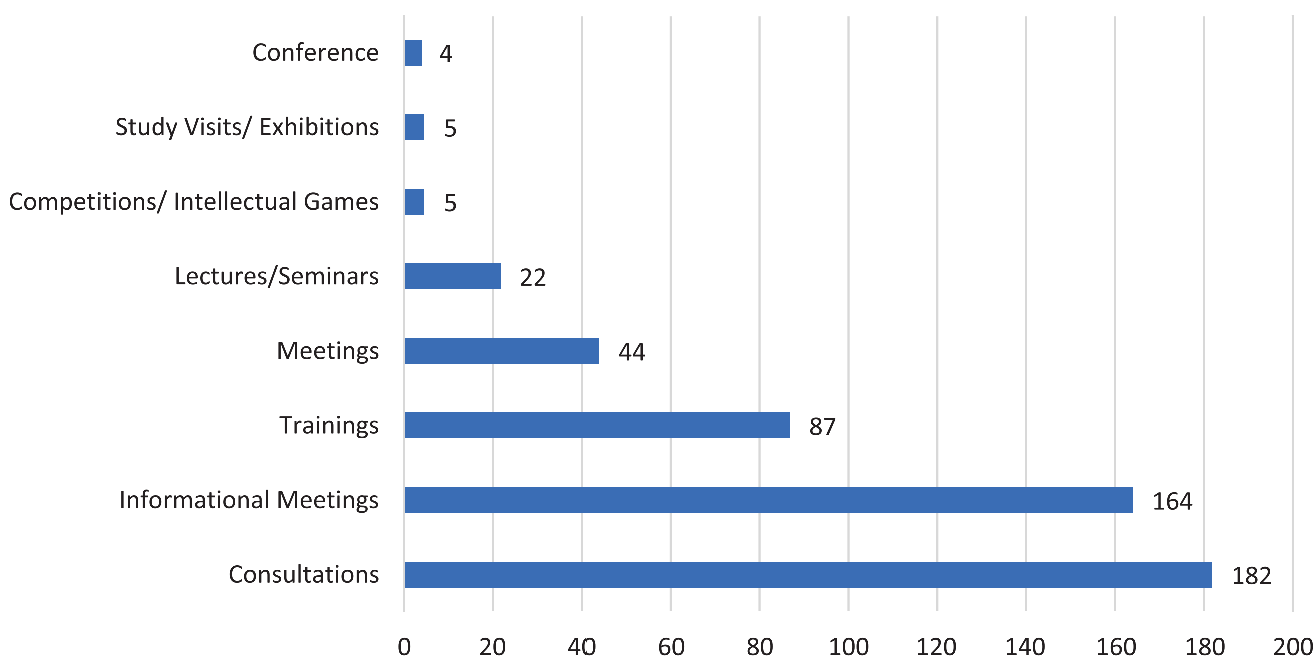
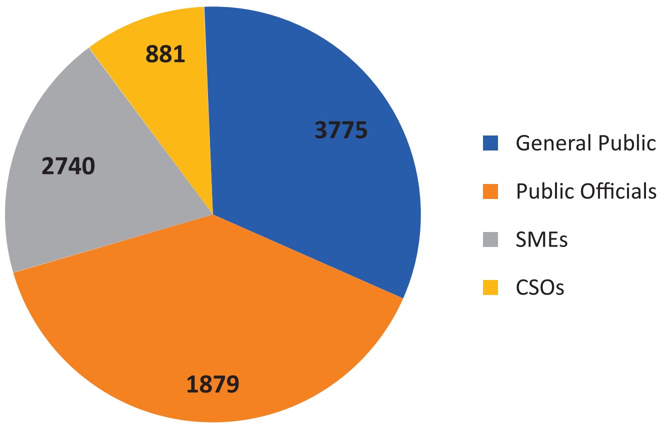


Diagram #14 Events organized by re-grantees, in total 513 events



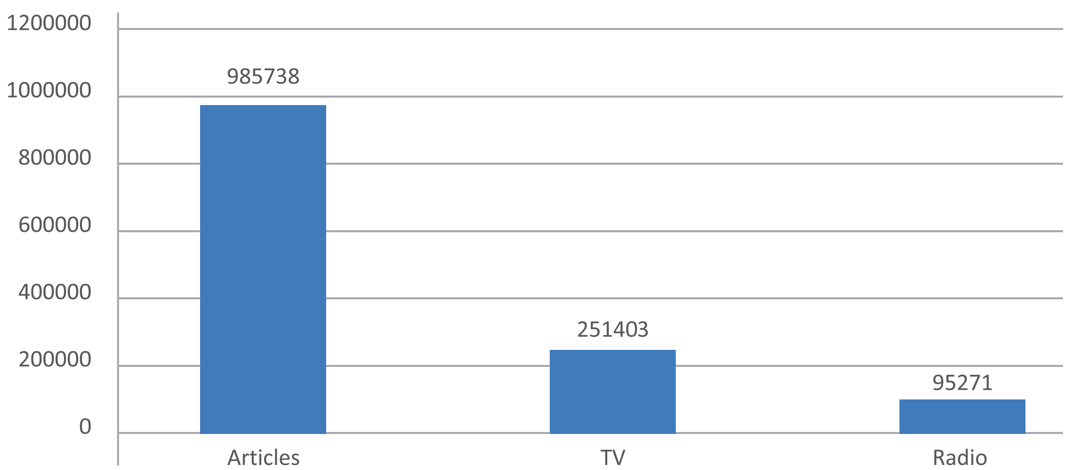
The re-granting component was the main tool for project implementers to execute the nationwide DCFTA/SME information campaign. All the indicators for the project's outreach that were set at the beginning of the project were closely met. **Events organized by re-grantees directly involved 9,275 participants, including public officials, SMEs, CSOs and general public. 40% of the participants were women** (see Diagram #15).

Diagram #15. Number of persons per target group that participated in the activities funded by re-granting projects, in total 9,275 people



In addition to those who took part in the re-granting projects' events, many more were reached via various informational materials. **More than 20,000 informational materials**, including brochures, newspapers, leaflets and calendars, were printed and disseminated as part of the re-granting projects. Also, information was spread online through social and traditional media and reached roughly around 52,000 people. Moreover, based on Facebook data analytics, it is estimated that **nearly one million of Georgians saw articles and interviews that were prepared by re-grantees**. Based on TV channels' data on viewership, an estimated **250,000 Georgians saw TV programs featuring re-grantees** and consortium members with the purpose of raising awareness in local communities. An **estimated 95,000 listeners were reached via radio programs** (see Diagram #16).

Diagram #16. Estimated reach of the materials — articles, TV and radio programs — produced by re-grantees. Data is based on Facebook links and likes



Level of CSO interest in working on DCFTA-related issues

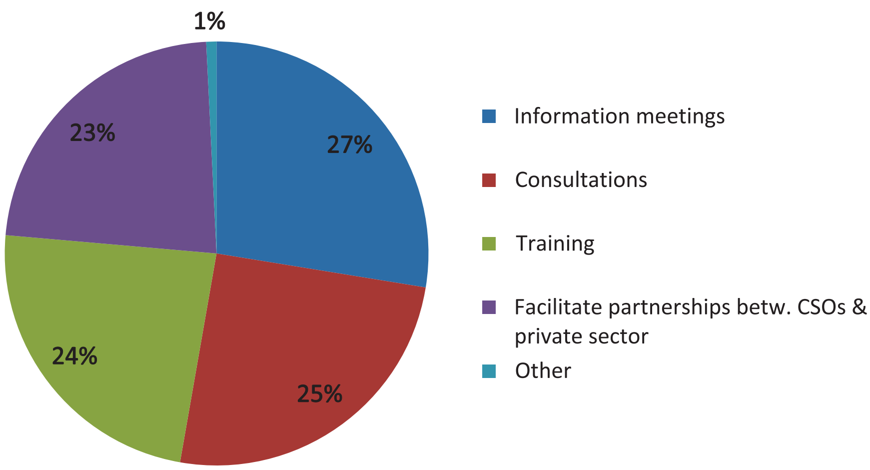
The majority of surveyed CSOs expressed interest in working on DCFTA-related issues in the future. They are planning to work on areas including: raising the general level of awareness about the DCFTA; training/consulting SMEs about sanitary and phytosanitary measures; technical barriers to trade (TBT); quality certification procedures; and other topics.

Types of support the government and donor society should provide

The survey results show that CSOs need different types of support from both the government and donor organisations in order to improve their participation in the DCFTA/SME strategy implementation. Out of all surveyed CSOs, 27% would like to have regular meetings to receive up-to-date information about the DCFTA/SME strategy implementation. Individual consultations and training are equally important, according to 25% and 24% of respondents respectively. Other forms of support mentioned by the CSOs include facilitating partnerships between CSOs and the private sector, as well as financial assistance to regional CSOs (see Diagram #17).

During the focus group meeting, some CSOs expressed skepticism about receiving any support from governmental agencies to promote DCFTA. Furthermore, CSOs said they lack information about the services provided by those agencies. For example, very few local producers were aware that there is a consultant at the local level of state entities to help them search for support and ways how to meet all EU-imposed production requirements and regulations in order to export into the EU, including where to look for required funding or the consultations provided by Georgian government and international donor organizations.

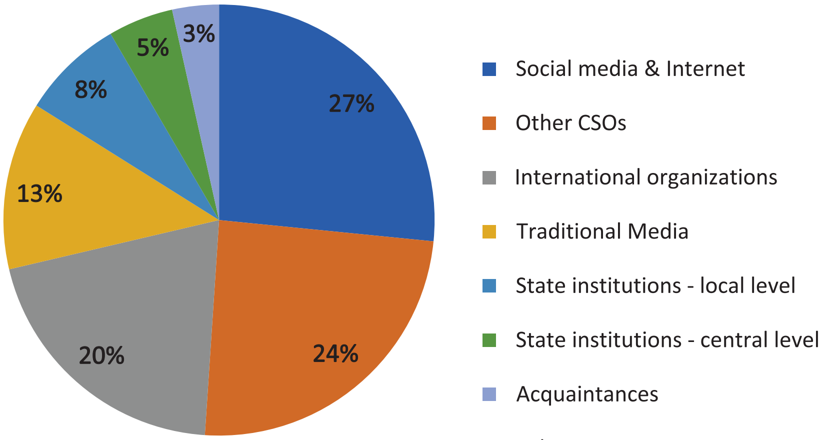
Diagram #17. Support required by CSOs from the Georgian government and donor organizations



Sources of information about the DCFTA

The survey also inquired about the main sources of information about the DCFTA. CSOs reported receiving information through four main channels: social media/internet (27%), other civil society organizations (24%), international organisations (20%), and traditional media (newspaper, television, radio, 13%). Other sources of information mentioned by CSOs include local state institutions (8%), central state institutions (5%) and acquaintances — family members, friends and neighbours (3%). (see Diagram #18).

Diagram #18 Sources of information about DCFTA



Main findings

The level of Georgian CSOs awareness and their capacity to work on DCFTA and SME related topics significantly increased due to the project. CSOs surveyed at the beginning of the project said that they would like to receive additional information and training about DCFTA and would like to work on DCFTA-related issues. Out of those surveyed at the end of project implementation, 83% stated that their level of awareness about the DCFTA has been 'very much' increased through their participation in the project activities and the absolute majority were interested in working on DCFTA-related issues in the future.

Overall, 76% of surveyed CSOs have already applied the know-how acquired from the project activities. While project development and management skills were low among re-grantees, their strength relies in their ability to engage the local public. With the help of regional CSOs 9,275 people from the Georgian regions and the Autonomous Republic of Adjara attended events meant to provide a deeper understanding about DCFTA and the benefits it provides. It was estimated that over one million Georgian citizens were reached and informed about DCFTA/SME strategy implementation via the distributed materials, TV and radio programs and interviews.

Furthermore, as a result of the project, new CSOs in Georgian regions were established. Also, regional CSOs started to work more on economy-related issues: at the beginning of the project such fields of activities as economic development, agriculture, DCFTA implementation, food safety and export promotion accounted for just 47% of CSOs' work, while at the end of the project 90% of surveyed CSOs were covering these fields of activities. This increase is applicable only to those CSOs that were involved in the project.

Assesment of Georgian SMEs with export potential

This part of the study analyzes the state of DCFTA and SME strategy implementation in Georgia. Compared to large companies, small businesses face more difficulties and barriers to reach the EU market. For example, large companies can more easily acquire the necessary certification. In addition, they produce at volumes large enough to compete with other foreign exporters to the EU market. Micro and small enterprises have not reached the capacity that would allow them to enter the EU market successfully, and face obstacles obtaining the certificates that prove their products meet the quality standards required by the EU. What is more, this study — backed by international experience — has found that the transformation of Georgian SMEs into successful exporters will be a lengthy process and will require support from the government, international institutions and donors—as well as collaboration with the civil society to promote the necessary reforms in the country. This study aims to analyze and find possible solutions for the problems that face SMEs with the potential to export goods to the EU.

In general, DCFTA implementation aims to motivate local producers and increase Georgian exports to the EU market. However, exporters face many barriers before they can reach the EU market. In order to have the legal right to sell their agricultural products, Georgian producers should meet EU requirements in terms of quality as well as sanitary and phytosanitary standards. The transportation cost, which is also a huge problem for local producers, should also be taken into consideration: in 2018 as much as 43% of Georgia's export went to neighboring countries due to the shorter distances, lower transportation costs, common language, lower phytosanitary standards, brand awareness and established trade partnerships.

This project has identified the key challenges for SMEs to successfully export to the EU and developed recommendations on how to address them through consultations with local SMEs, civil society representatives and local and central authorities. However, it is important to note that, based on this study alone, it will be impossible to measure the impact of the DCFTA on Georgian SMEs' exports to the EU. This is due to the fact that the last part of the agreement was signed in November 2017, and there has not been enough time for local producers to make adjustments and benefit from this opportunity. Therefore, while in-depth analysis focuses on the ongoing reforms and SMEs' development, the survey also includes the period since the Association Agreement was signed in 2014. The data for this research was collected in several different ways: (1) desk research – analyzing existing studies and the data from the National Statistics Office of Georgia (GEOSTAT); (2) surveys of SMEs conducted in all nine regions of Georgia and the Adjara Autonomous Republic in summer 2017 and spring 2019; and (3) inputs provided by SME representatives at the meetings of Local and Central DCFTA Advisory Councils (4) a focus group involving the owners of eight SMEs from different regions of Georgia organized in spring 2019. The analysis seeks to answer the following research questions:

- Can local SMEs financially benefit from the DCFTA agreement?
- What are the main challenges and barriers for them to reach the EU market and be successful?
- What role should the Georgian government play? How can the government, international donors and civil society help local SMEs overcome existing barriers and export their products to the European market?

International experience of trading with the EU

Foreign trade is very important for the economy of any developing country. It is extremely difficult to achieve a high GDP growth rate when one lacks natural resources like gas or oil and cannot produce high technology products. For a developing economy, the only way to grow faster is to concentrate on producing export-oriented products. Georgia's economic integration with the EU could be compared to the DCFTAs of Ukraine and Moldova. Their experience shows that Georgia should not expect to benefit from the DCFTA with the EU in the short-term and the successful implementation of the AA will only be possible with the strong support and involvement of the government.

An analysis of Ukraine's and Moldova's DCFTAs with the EU shows that the DCFTA will result in winners and losers in business on both sides.[3] **Without strong government support, countries cannot benefit from free trade opportunities: the government should play a crucial role**. State investment in the public and private sector is needed to finance the implementation of reforms as agriculture exports from the DCFTA countries to the EU are traditionally strongly subsidized.[4] It is crucial and also very expensive to meet the high food safety standards required in the EU market, which means most benefits will be realized only in the long run. Profit in the short-term is highly unlikely. Adjusting Georgia's national standards to those of the European market in several segments — sanitary, veterinary and phytosanitary — will be fundamentally important for local businesses. At the same time however, this will have direct impact on domestic consumers as the quality of products, food safety and standards of services will increase. This will mean safer products and food, better services and strengthening the rights of consumers as well as increased added value on the side of the producers and subsequently higher income for them.

Research shows that it takes more than two years under the DCFTA before a country can see a positive impact on exports to the EU. Georgian SMEs representatives took part in study trips to Lithuania and Slovakia, where local entrepreneurs shared their experience and advise on the challenges they will face when trading on the EU market. First and foremost, it concerns strong competition in the market, especially in the agricultural sector as EU agriculture is subsidized by direct payments within Common Agricultural Policy. In addition, companies can receive additional payments as part of the domestic agricultural policies of member countries. These subsidies and funding programs vary from country to country and can influence which companies emerge as winners and losers in the market. However, as examples from Lithuania and Slovakia show, small companies from small countries have to find a niche to compete with big producers or producers from member countries. This niche can help them succeed. The niche can be a traditional product that is only produced locally, the use of an innovative approach in production or a product of higher quality than the average that is produced in large quantities.

To better understand the main challenges and barriers for Georgian SMEs to successfully enter the EU market — and whether those challenges have changed since the initial study in 2017 — a follow-up survey was conducted among Georgian SMEs in the spring of 2019. SME representatives provided important insights at the meetings of Local and Central DCFTA Advisory Councils and during the focus group organized in March 2019. The section below explains the methodology of the sampling and the follow-up data collection, and presents the survey results as well as additional recommendations for stakeholders, which were collected at various meetings and formats in the final period of the project.

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3 M.Ryzhekov; S.Galko; V.Movchan and J.Radeke, "The impact of the EU-Ukraine DCFTA on agricultural trade" (German-Ukrainian Agricultural Policy journal, October 2013)

4 A.Adarov and P.Havlik, "Benefits and costs of DCFTA: Evaluation of the impact on Georgia, Moldova and Ukraine" (The Vienna Institute for International Economics Studies, December 2016)

Survey of Georgian SMEs with export potential

Survey methodology

A follow-up SME survey took place in the spring of 2019. Data was collected via phone interviews using a structured questionnaire that was first tested on random SMEs. The research aimed to determine the main problems facing local SMEs and how the government can help them in order to promote Georgian SMEs' exports to the EU market.

The survey data was collected from SMEs around the country that produced agricultural products that could potentially be exported to the EU market. In total, data was collected from 200 SMEs, distributed across Georgia. The SMEs were selected based on a calculation that took into consideration size and specialization, as well as geographic distribution. The business register of the National Statistics Office of Georgia (GEOSTAT) has data on the total number of active SMEs in each region.[5] To determine the share of SMEs to be surveyed in each region, the number of total active SMEs in the country was divided from the number of active SMEs in that region. For example, the share of active SMEs from Imereti region was equal to 24%, therefore the Imereti sample also comprised twenty four percent of SMEs interviewed for the study.

The next step was the selection of SMEs based on specialization and their potential to export to the EU market. To identify the SMEs producing export-oriented products, data on the agricultural products exported to the EU over the past five years, which was obtained from GEOSTAT, was analyzed. Based on this data set, it was possible to determine the top agricultural products exported to the EU market from Georgia. The business activity of each SME was compared to the export data findings and, accordingly, only the SMEs producing products that potentially could be exported to the EU were selected for phone interviews. These products include: nuts, dairy products, nonalcoholic drinks, alcoholic drinks, fruit, dried fruit, vegetables, meat products, honey and tea. Wine was excluded from the data because wine is an outlier in the market: since 2003, wine has been prioritized by the Georgian government and, with considerable government support, Georgian wine producers are successfully exporting wine to the EU and other international markets. It was decided to add honey producers to the sample because it has been recently added to the list of Georgian products that are allowed to be exported to the EU.[6]

SME survey results

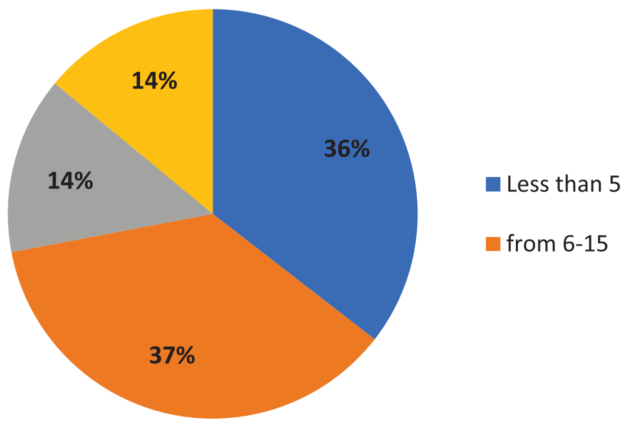
The 2019 survey included questions that had been used in the 2017 survey concerning the number of employees, products and annual production volume as well as the certificates they already have or plan to apply for in the future. Surveyors asked SMEs if they are exporting their products and, if yes, how much, to where and for how long they have been exporting. These questions were supplemented by more detailed questions for the follow-up study, including how SMEs are using their profits and whether they intend to expand their production in the future. For some questions, the sum of total responses is less than 200, because some respondents did not answer all the questions and there are some gaps in the data. The questions where the sample size differs are noted in the data analysis.

Diagram #19 shows the distribution of the number of employees for all 200 SMEs. According to Georgian legislation, SMEs employ up to 100 persons and have an annual turnover of up to 1,500,000 GEL. From the surveyed SMEs, 36% have less than 5 employees; 37% employ from 6 to 15 people. Larger companies take up a smaller portion: 14% of the surveyed SMEs employ from 15 to 30 people, and 14% employ more than 30 people. A similar distribution of SMEs by size has been documented by a baseline study conducted as part of this project in the summer of 2017: the vast majority of SMEs surveyed at that time had up to 15 employees; notably, the data was distributed similarly among different regions nationwide.

5 GEOSTAT, Registry of Economic Subjects, http://br.geostat.ge/register_geo/index.php?action=search

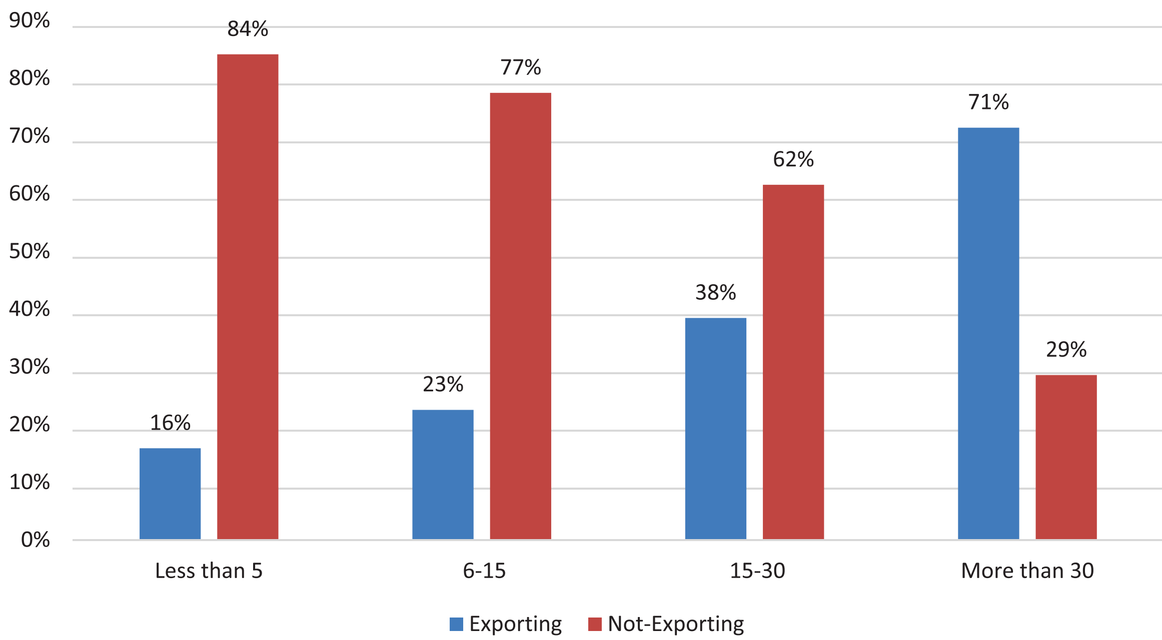
6 "Georgian Honey Producers can export to the EU market ", accessed on 20 June 2019, http://www.dcfta.gov.ge/en/news/98/Georgian-Honey-Producers-can-export-to-the-EU-market

Diagram #19. The size of SMEs by number of employees



When analyzing each category separately, it can be seen that there is a correlation between the number of people employed by an SME and its capacity to export (see Diagram #20). From the four categories that represent the number of employees in each internationally exporting SME, only 10 SMEs (16%) have less than five employees. The share of exporters increases category by category, topping out at 71% SMEs with more than 30 employees. In numbers, while 26 SMEs with between 6 and 30 employees are exporting, 20 SMEs with more than 30 employees are exporting. Only seven of the surveyed SMEs currently export their products exclusively to the EU; they range from 6 to over 30 employees. These findings indicate that **SMEs with more employees have better chances to export to the EU**.

Diagram #20. Share of exporters vs non-exporters



[7] UN Comtrade is a repository of official international trade statistics and relevant analytical tables. Source: UN Comtrade, https://comtrade.un.org/data/

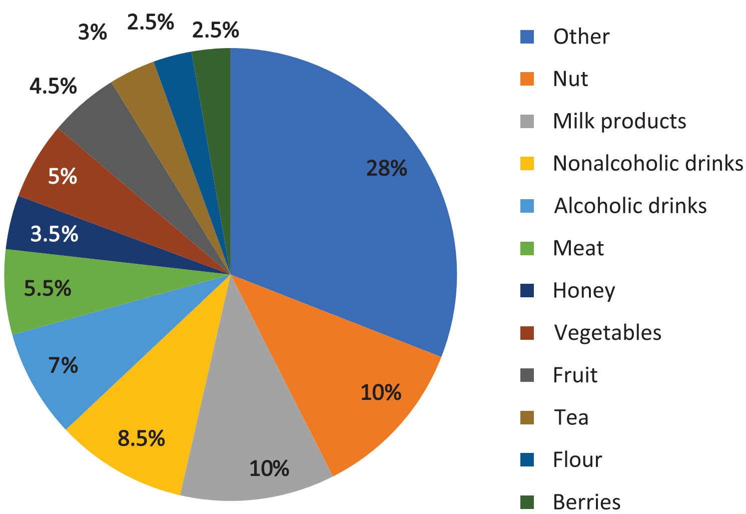
Diagram #21 shows the top products selected from the list of products already allowed to be exported from Georgia to the EU market. For classification of the products, this report uses the 2-digit coding provided by "Harmonized System Codes" (HS code), developed by the UN.[7]

The collected data demonstrates that the leading products exported by the surveyed SMEs were nuts (10.5% of SMEs from the total sample) and milk products (10%), followed by nonalcoholic and alcoholic drinks. Meat was in fifth place with 5.5% and honey with 3.5%. Other exported goods include berries, fruit and tea.

The research also included the international export ratio for each product. Internationally, the majority of SMEs are exporting nuts (see Diagram #22): 15 nut-producing SMEs are exporting their product to international market; five out of those 15 are exporting to EU market. Only nine nut-producing SMEs are not exporting at all. Similar results can be found for tea-producing SMEs: four SMEs are exporting tea and only two SMEs are not exporting their product. For all other products, the number of SMEs that do not export greatly outnumbers those who are exporting.

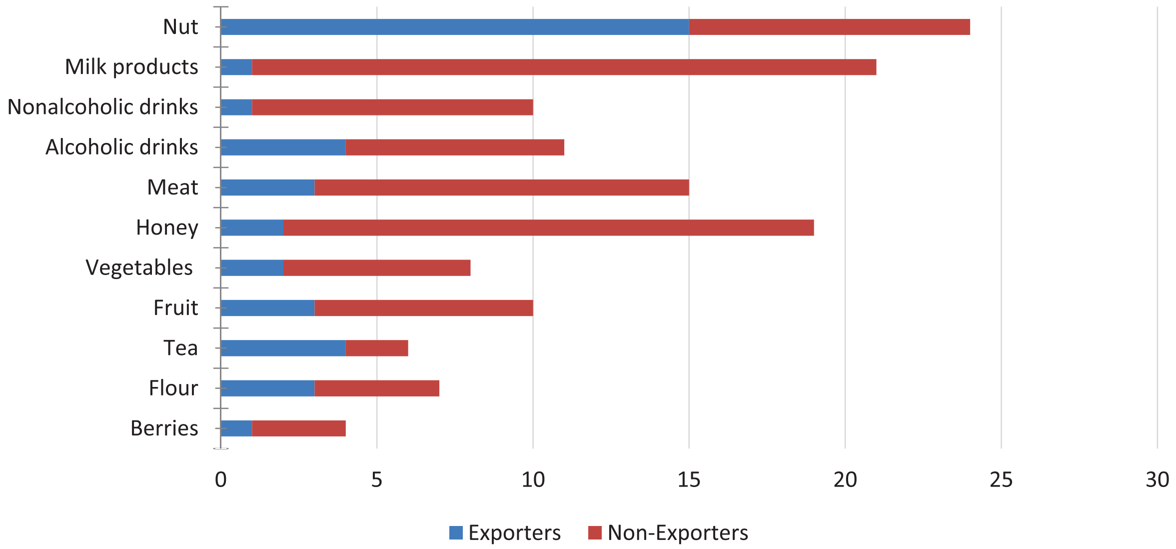
Some products like berries, fruit and vegetables are perishable products which makes them difficult for small SMEs to export. For honey makers, the main challenge is the absence of a laboratory to testing the level of antibiotics and pesticides in the honey and its products. In 2017, Georgia was added to the list of countries allowed to export honey to the EU market — however, throughout the duration of the project only 135 kilograms of honey was exported from Georgia to the EU.[8] Concerning the exceptions — tea and nuts — there is a surplus of both products on the local market, which makes it worthwhile for SMEs to export their goods. **This data illustrates that the number of SMEs with the capacity to export their products to the EU is still low, and it will take time for Georgian SMEs to feel the full impact of the DCFTA**.

Diagram #21. Goods produced by SMEs



8 GEOSTAT, data requested by Georgian Institute of Politics, March 2019

Diagram #22. Production by exporting vs non-exporting SMEs



To further analyze Georgian SMEs' export potential to the EU market, the respondents were asked whether they were exporting their products and, if they were, where. Out of the 200 respondents, 189 SMEs answered this question: 56 of them stated that they were exporting their products outside of Georgia, out of which 25 are selling their products in the EU market (see Diagram #23). **The percentage of exporting SMEs is similar to the initial study conducted in 2017, when 23% of respondents were exporting SMEs (127 out of 559 SMEs surveyed nationwide).** A similar tendency is noticeable in the 2019 survey: the biggest share of SMEs sell their products only on the local market and **the majority of exporters sell their products in non-EU markets**. From the current sample, 33 respondents are exporting to non-EU countries, while 14 are exporting to both EU and non-EU countries, and seven are exporting exclusively to the EU. Four SMEs were exporting before 2003, while 14 SMEs started to export between 2004-2011, and 33 SMEs started to export after 2012. **From the surveyed SMEs, only one started to export to the EU in 2017, i.e. within the duration of the project**.

Diagram #23. Export destinations for Georgian SMEs

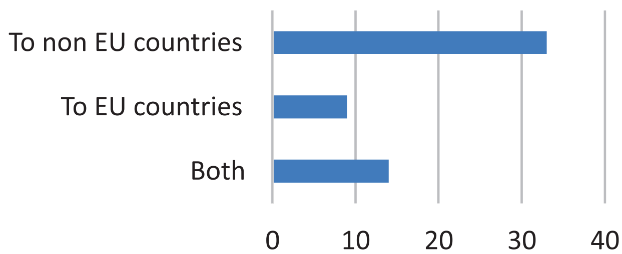
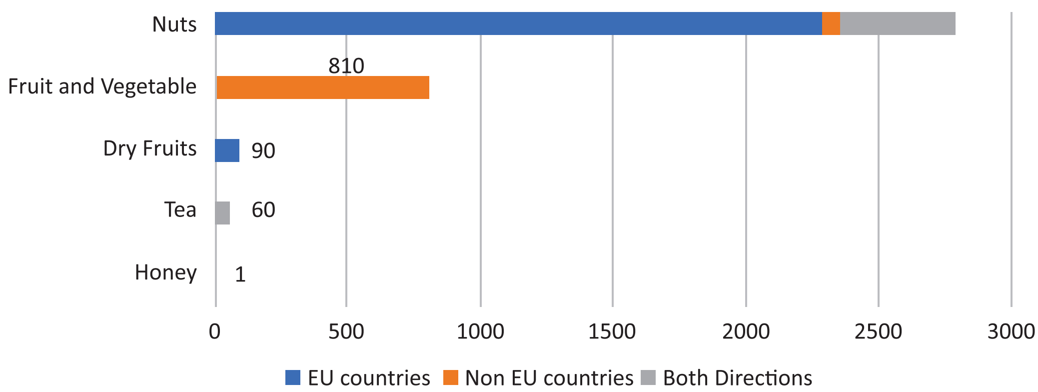


Diagram #24 shows where Georgian SMEs were exporting their agricultural product and how much they were exporting. One can see that in total SMEs exported 2,790 tons of nuts: three SMEs exported 2,295 tons to the EU, 45 tons were exported by one SME to non-EU countries and one SME exported 450 tons to the EU and to non-EU markets. The data shows that SMEs also exported dry fruits to the EU, specifically one SME exported 90 tons. Tea is being exported to both the EU market and non-EU markets. The survey also included SMEs exporting fruits, vegetables and honey to non-EU markets.

Diagram #24. The amount of exported products distributed by export markets



The next part of the questionnaire was dedicated to the certificates SMEs need in order to officially export to EU single market countries. The survey results show that the most popular certificates among SMEs are International Organization for Standardization (ISO standards), acquired by 27 SMEs; and Hazard Analysis and Critical Control Point (HACCP), obtained by 22 SMEs. Only one SME has a certificate for organic products. Thirty-eight SMEs that already have at least one type of certificate are planning to apply for an additional type of certificate (see Diagram #25). However, most SMEs (114) do not have any certificates at all. Unfortunately, 62 out of those 114 SMEs are not planning to get any certificate in the future. These findings show that **54% of the SMEs that do not have any certificates are not planning to get one in the future, which indicates that they do not aspire to enter the EU market**. Similar results were found in the first survey conducted in 2017, when 57% of SMEs without certificates were not planning to get one in the future.

Diagram #25. Certificates and standards obtained by SMEs

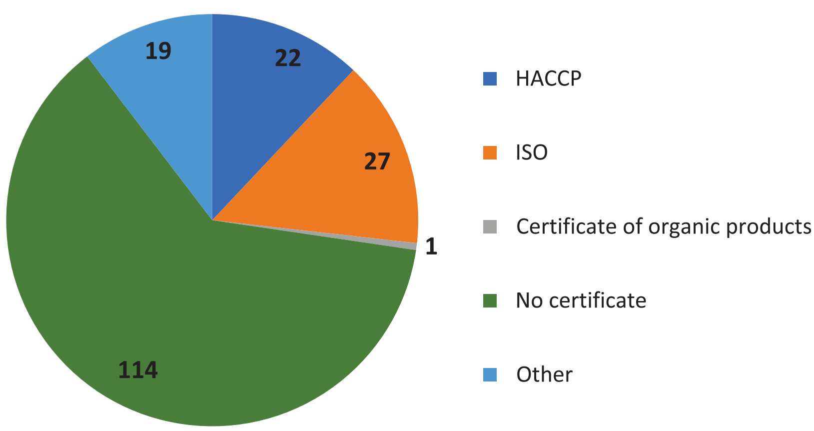
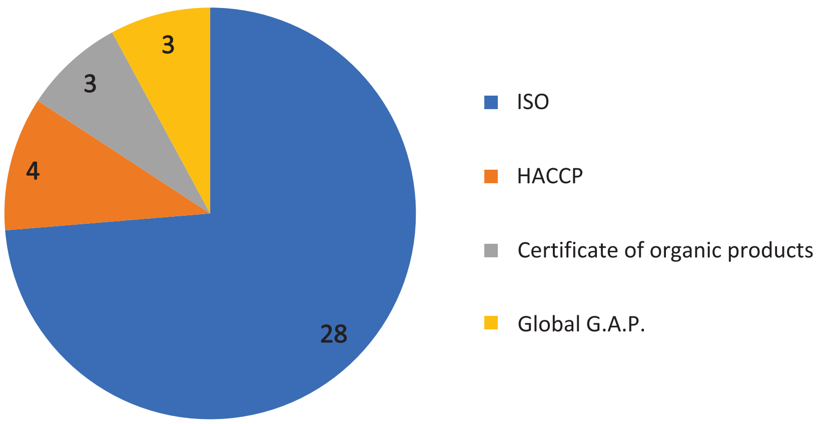


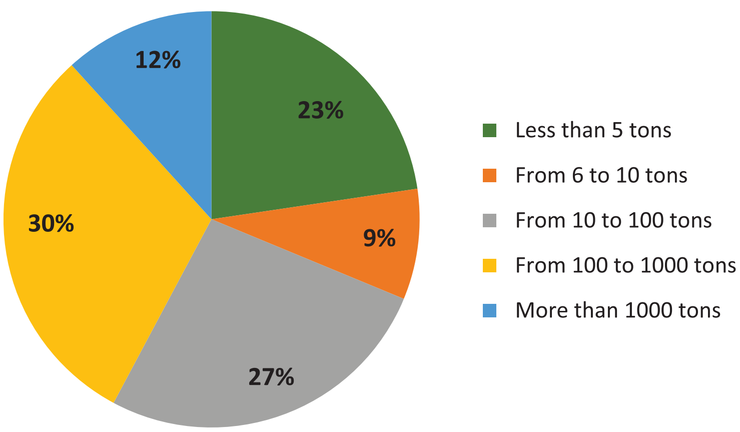
Diagram #26 illustrates that the majority of SMEs planning to apply for international certificates prefer to obtain an ISO standard, while four SMEs plan to get a HACCP and three SMEs plan to receive a certificate for organic products and the Global G.A.P. The data shows that 27 SMEs already have ISO standard and 28 will receive it in the future. This is a very positive message as ISO standards will definitely help local SMEs expand their businesses and sell their products in different markets.

Diagram #26. Types of certificates and standards SMEs plan to obtain



Acquiring standards is just one step to start exporting to the EU market. SMEs' production capacity is also an important factor, which is closely linked to their potential to export to the EU market. Diagram #27 shows that the surveyed SMEs differ a lot in terms of their production size. The biggest share, or 30% of respondents, produce from 100 to 1000 tones, closely followed by those producing from 10 to 100 tones (27%), and the smallest producers with less than 5 tons per year (23%).[9] However, there is a positive correlation between the volume of production and international exporting potential. Table #1 shows that SMEs exporting their product produce an average of four times more compared to SMEs that do not export. **Similarly, SMEs that only export to the EU are producing 2.7 times more than SMEs that do not export anything at all**.

Diagram #27. Annual production of Georgian SMEs



[9] From the 200 surveyed SMEs, 141 responded to this question

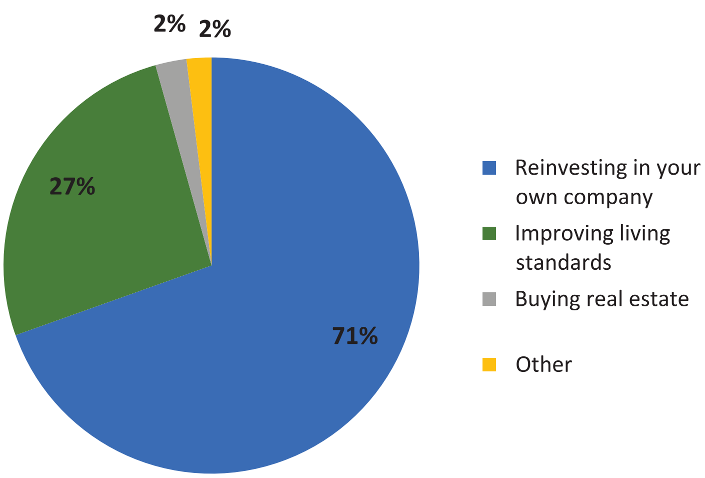
Table #1. Production volume and export potential

	Number of SMEs	Total production in Tons	Average production in Tons
Not an exporter	91	14,081	**154**
Exporter	41	25,394	**619**
Exporter to the EU	9	3,720	**413**

To measure the potential of SME development and growth, the survey asked how SMEs use their profit and what are their plans for the future. Diagram #28 shows that 71% of the surveyed SMEs are currently reinvesting their profit in their business, 27% of SMEs are improving their living standards with the profits obtained from their business and 2% are investing money in real estate. The fact that the majority of local SMEs are reinvesting money into their business means that they want to increase their production and market share, which is very important.

In response to the "Are you planning to expand your business?" 69% SMEs said they plan to expand (see Diagram #29), compared to 21% of SMEs are not planning to expand because they do not have enough money or they are risk averse. Only 9% of respondents said that they do not know what they will do in the future.

Diagram #28. Use of profits of Georgian SMEs



Diagrams #30 and #31 show that a significant part of SMEs are looking for ways to expand their business, including both exporting and non-exporting SMEs. Out of the 133 SMEs that are not exporting, 99 are reinvesting their income into their business, and 94 SMEs are planning to grow. This means that those SMEs are not satisfied with their market share and they want to change something. When an SME is reinvesting money, this means that it wants to produce more and hire more workers, which will increase the chance it will start exporting. The survey data also shows that out of the SMEs that are already exporting, 51 are still reinvesting and 38 are planning to grow. This means that even though they are exporting, these SMEs want to produce more and gain a larger share in the market.

Diagram #29. Plans to expand

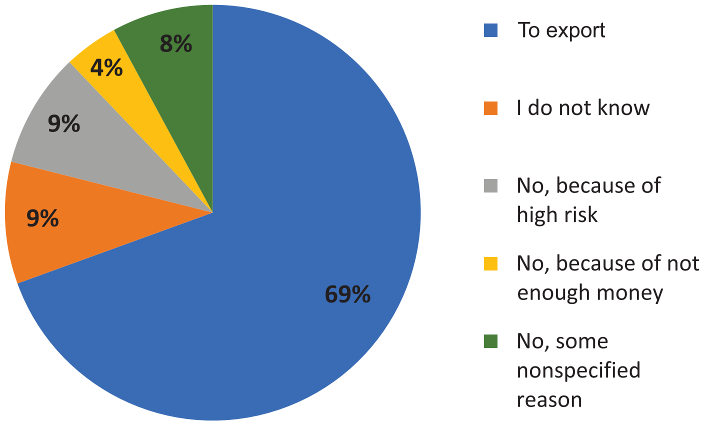


Diagram #30. Export trends among SMEs reinvesting their income into their business

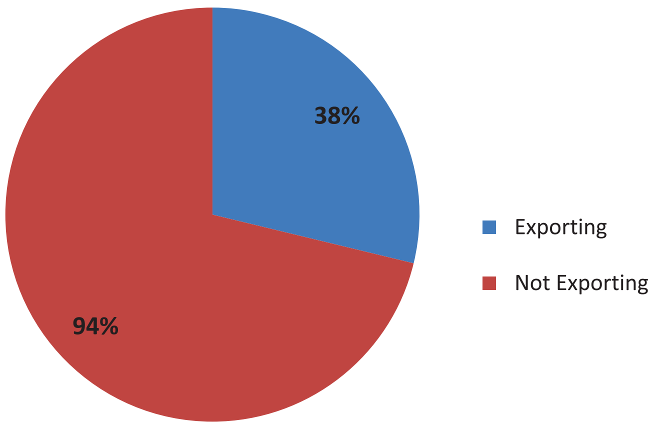
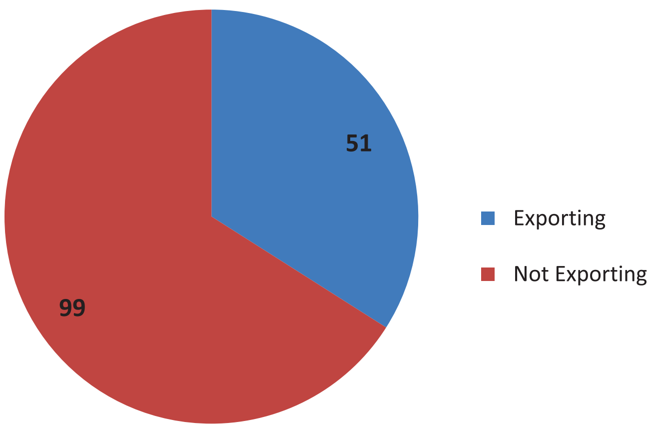


Diagram #31.Export trends among SMEs planning to expand



The most challenging part of the survey was collecting data on revenue. The majority of SMEs avoided sharing their revenue in absolute numbers but they spoke about revenue trends over the past several years. The response rate was higher for the change of the revenue in 2017-2018: almost all, i.e., 198 SMEs out of 200, answered this question. When asked about revenue trends during 2013-2014, only 15 SMEs responded.

Table #2 demonstrates how SMEs' revenue has changed over the last five years. One can see that 48.4% of SMEs reported that their revenue increased in 2018 compared to 2017. Almost an identical percent (48.1%) of SMEs reported higher revenues in 2017 compared to 2016. For the previous years, 69% of SMEs reported increase revenue in 2016, compared to 86% in 2015 and 93% in 2014. While this may seem like a positive result—in 2018 almost half of the surveyed SMEs increased their revenue—the dynamics over time reveals a challenging trend: every year the share of SMEs reporting an increase in revenue is lower than the previous year. Such negative tendencies undermine Georgian SMEs' motivation to expand their business and may negatively affect their capabilities to start exporting to the EU market.

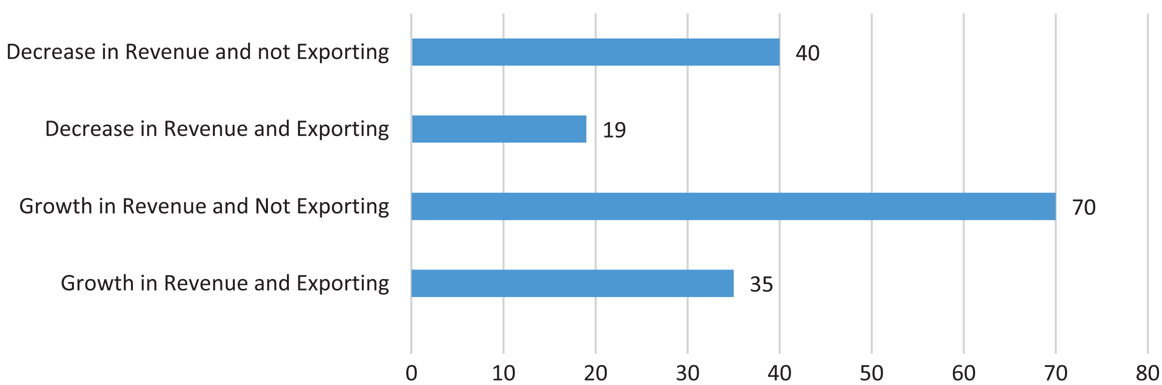
The survey showed that more SMEs are reporting a fall in revenues. Sixteen percent said their revenue decreased in 2016-2017, compared to 34% in 2017-2018.

Table #2. Change in revenue of Georgian SMEs from 2013 to 2018

Dynamics	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Increased	14	30	58	59	95
Same level		2	15	20	64
Decreased	1	3	11	43	28

Diagram #32 indicates that there are twice as many SMEs that are not exporting goods compared to those who are exporting, regardless of revenue trends. This finding can be explained by the structure of Georgia's economy. Georgia is not an export-oriented country as it is not exporting more than it is importing.[10] In 2018 Georgia imported 1.4 times more agricultural products than it exported, according to official statistics.

Diagram #32. Revenue and export trends



[10] GEOSTAT, http://geostat.ge/?action=page&p_id=133&lang=geo

Main findings

The SME survey provides data about the size of the company, production type, production volumes, use of profits, future plans and trading areas. This data was analyzed to see which variables positively affect the exporting process and which variables affect it negatively.

The analysis indicates that there is a correlation between the number of employees in a SME and its possibility to export. Only 16% of SMEs are exporting with fewer than five employees, while 71% of SMEs are exporting if they have more than 30 workers. The analysis also found that there is a positive correlation between the volume of production and the export potential. SMEs that are exporting their product on average are producing an average of four times more than SMEs that are not exporting at all.

One interesting finding was that most of surveyed SMEs are planning to expand. In addition, most SMEs are reinvesting their profit in their business, which means that they are not satisfied with their market share. They want to hire more workers and produce more as they know that this will increase their chances to export.

The findings were more negative in terms of revenue trends. It was found that the share of SMEs with increased revenue has been decreasing over the past five years. In addition, the situation is not entirely positive in terms of SMEs' certification. Out of 114 SMEs that do not have any certificates, 62 are not planning to obtain one in the future, which means that 54% of surveyed SMEs are not targeting the EU market. While 38 SMEs with at least one type of certificate plan to obtain additional certificates, most of them plan to apply for an ISO certificate. These numbers confirm the trend from the Initial Study in 2017, when 57% of surveyed SMEs declared that they had no plans to apply for a certificate and/or additional standards.

Findings of local and central advisory councils

In addition to the survey, information was collected throughout the project, during Local Advisory Councils (LACs), conducted in all nine regions of Georgia and the Adjara Autonomous Republic, and the Central Advisory Council (CAC), which brought delegates from each LAC in Tbilisi, to discuss their findings and recommendations with representatives of the relevant ministries. The first round of LACs and CAC took place in May and June 2018. The second round of the Councils took place in September and October 2018. The third round of LACs was conducted in February and March 2019 and was followed by **four sectoral meetings with representatives of the Ministry of Environmental Protection and Agriculture (MEPA)** on cattle and fish breeding, bee keeping, fruit growing and market gardening. These meetings provided a format for an in-depth discussion with local SMEs, CSOs and MEPA specialists and officials about the challenges that exist in these sectors. After these meetings, the third CAC meeting was held on March 6 – 7, 2019 in Tbilisi. The outputs and recommendations from the LACs and CACs that were organized during this project are provided below.

Additional data was also collected from an eight-person focus group conducted in March 2019. The focus group consisted of representatives of SMEs operating in various sectors and based in different regions of the country. The focus group participants were asked to expand on issues discussed during LACs and CACs, and provided additional insights for assessment.

While the participants of the 33 LACs and CACs raised a number of issues, several overlapping problems stood out as particular challenges for SME development and DCFTA implementation throughout the country: **lack of highly skilled workers in the labor market with specific agricultural knowledge** such as veterinary experts, agronomists and food safety experts; **the absence of favorable insurance packages** for SMEs, especially those working in agriculture; **difficulties accessing finance and affordable loans** for SMEs; and a **lack of information on the rapidly changing regulations and the DCFTA in general**. These problems cut across sectors and are related to broader policies that have not been resolved, despite the ongoing reforms.

Vocational Education

Vocational education prepares competitive and qualified staff for the labor market. In other words, it provides a critical workforce for businesses in a country. However, vocational education institutions in Georgia face numerous challenges, such as a perceived lack of prestige; a low level of awareness about vocational training among potential students; the absence of degree programs for some professions; and limited access to courses in some regions and municipalities. These challenges have caused a gradual decline in the number of students studying at vocational education institutions in recent years.[11] Meanwhile, SMEs in different parts of the country say it is difficult to hire young professionals knowledgeable about agriculture, production cycles or quality requirements.

Over the past three decades, a number of reforms have been conducted in Georgia's higher education system to prepare a competitive and qualified workforce for the labor market. In 2013, the Georgian government adopted a strategy of vocation education and training (VET) sector reform (2013-2020), and initiated the development of the VET field. The reforms have been facilitated by the Ministry of Education, Science, Culture and Sport of Georgia and supported by the EU representation to Georgia.

While the reforms have resulted in changes in the higher education system (eradication of corruption and nepotism in higher educational institutions, etc.), the competitiveness of higher education graduates on the labor market and the employment rate of young people is still low. Furthermore, there is a supply and demand gap in the

11 "Brief Summary of the Progress Achieved under the Vocational Education Reform in Georgia", VET Reform Progress Report, https://mes.gov.ge/uploads/VET%20Reform%20Progress%20Report%202014-2016%20EN.pdf

Georgian labor market: employers need workers with different qualifications and skills than those offered by the higher education institutions in Georgia.

To fill the gap in labor market, vocational education institutions should elaborate programs based on the needs and requirements of potential employers. The private sector should become a strong partner for Georgian vocational education institutions (vocational-community colleges) and work with them to develop the vocation education system in Georgia.

To increase competition among the VET institutions, the government should support involvement of businesses in vocation education system, simplifying authorization process for potential providers of the vocation education. A number of entrepreneurs involved in the project expressed their readiness to participate in establishing VET institutions in their regions, but claimed it to be a challenging process. In particular, they cited rigid authorization rules, which do not consider the specificities of different teaching programs, and apply the same technical requirements regardless of the content.

At the same time, to ensure that graduates of vocational colleges have the skills to enter the labor market, dual education should be introduced on a wider scale in Georgia. Such a system, favored in German-speaking European countries, combines apprenticeships in a company and theoretical training at vocational college, within a single program. The concept of a dual education system is already included in the plans of Ministry of Education, Science, Culture and Sport, but has not yet been implemented.

State control on production, sale and use of agricultural chemicals

One common challenge voiced by LACs was related to the quality control of products available locally. This issue is also covered by the DCFTA. Namely, agricultural chemicals used to boost the productivity of soil and plants in Georgia are often misused, either due to a lack of knowledge on the producers' side; or a lack of government oversight on the production and sales of agricultural chemicals.

The government, particularly the Ministry of Environmental Protection and Agriculture of Georgia, should tighten quality control of the plant protection means available on the local market and apply strict measures against distributors and sellers providing low-quality and/or expired products. All products sold on the market should be accompanied with instructions for users in the Georgian language. Consultations on the product's application and dosages should be delivered exclusively by qualified and trained salespersons. The government should introduce a control system and create a list of agricultural chemicals with highly hazardous content, which should be sold only by certified sellers.

Insurance and financing sectors and instruments for accessing finance

One of the biggest challenges for local SMEs is access to finance. Before exporting products to the EU, first of all it is necessary to be successful in the local market and have the means to grow and expand. Once that criteria is met, SMEs might consider exporting to the EU market.

Exporting to the EU market requires serious investment to improve production technologies, meet higher food safety standards and complete expensive certification/standardization processes. While adopting the DCFTA regulations requires improved production technologies, adjustment to food safety standards and going through expensive certification/standardization process, SMEs lack operational capital and funds for reinvesting. The two main challenges to receive loans are the high interests' rate set by commercial banks and a new requirement on equity as a loan guarantee for a bank. This is especially difficult for SMEs in the regions.

To increase local SMEs' access to finance, the government should encourage commercial banks to develop special banking products to address the needs of specific sectors and inform the population about these products. The EU has been supporting better access to funding for local enterprises through the EBRD Credit Line, which is distributed via Bank of Georgia and TBC bank. However, after two phases of this initiative, the requirements proved to be too high for the local SMEs: they could not prepare the proper low-risk business plans that would be acceptable to the bank and receive lower interest rates, or SMEs did not qualify for the loans due to a lack of equity. In addition, discussions in the regions indicated SMEs still lack information about the EBRD incentive and the opportunities that it provides.

One of the tools to ease access to finance for SMEs is to share the financial risk with local producers. One internationally successful practice has been creating a Loan Guarantee Fund which could be potentially established with the support of international donor organizations active in Georgia. The Georgian government should ask the donor community to consider implementing a pilot project to establish a Loan Guarantee Fund in Georgia.

Insurance mechanisms

While considered a priority, the agricultural sector carries considerable risks for local producers. However, currently insurance mechanisms in Georgia are inflexible, and the evaluation process is slow. The government, in cooperation with insurance companies, should elaborate effective insurance products for the agricultural sector and launch an informational campaign about them via social media advertising and the public broadcasting channel.

LACs also raised issues related to the lack of a flexible and favorable insurance system for different types of agricultural goods, particularly goods that are sensitive to weather conditions. Berry-producing SMEs from Western Georgia stated that a lot of small SMEs in their region want to expand their business and produce more but they are afraid of the weather conditions. The SME representative at the focus group argued that if there was an option to insure their harvest, SMEs would plant more and would consider expanding. In response to the question, "how could the government protect SMEs from possible adverse weather conditions?", one SME representative answered that the government should play the role of intermediary between SMEs and the insurance sector, and motivate the insurance sector to offer specific insurance packages to SMEs to protect their harvest in case of bad weather.

Raising awareness about DCFTA among local SMEs

One of the issues that project implementers came across in all target groups and in all regions was the lack of information about DCFTA and its implementation process in Georgia. During the two years of the project activities, a large number of people—entrepreneurs, civil society representatives and journalists—became more informed about DCFTA and what it means for their regions and communities. However, this was only the first stage of the implementation process, and the complexity of the DCFTA provides both potential and a challenge to those interested in benefiting from it.

The approximation process being conducted as part of AA/DCFTA implementation means there is a number of ongoing reforms, changes in regulations and requirements for local producers. The Georgian government should prioritize providing citizens with updated information in this fast-changing environment. In the absence of official information, misconceptions and disinformation is spreading and disrupting the proper implementation of DCFTA in the regions. In fact, 11% of SME representatives questioned as part of the project's study said that their main source of information about the DCFTA was family, friends and neighbors.

Currently, the State Information-Consultation and Extension Centers (ICCs), operated by the Ministry of Environmental Protection and Agriculture of Georgia, are the most accessible sources of information about the DCFTA. The centers operate in all municipalities of Georgia, however, they cover only agricultural products, which means other sectors of the economy lack access to information and consulting. In addition, SMEs involved in the project noted the low effectiveness of the ICCs due to the lack of resources and the insufficient level of experienced staff and qualified consultants.

In addition, DCFTA Information Centers operate in five regions, coordinated by the Georgian Chamber of Industry and Trade. These centers are available for other sectors, but they are difficult to access and do not have sufficient resources: at the moment, only one person is employed at each center, and there are no centers in half the regions in the country.

To fill the existing still wide information gap, Georgian government should strengthen already established instruments and develop information-consultation channels for all producers, including and beyond the field of agriculture.

To address the lack of resources, the Ministry of Environmental Protection and Agriculture of Georgia could outsource agricultural information provision-consultation and extension services through open tenders. This solution would allow the government to utilize local non-governmental and private organizations' existing capacities and potential to provide agricultural information-consultation and extension services to local producers in Georgia. A similar system, of combined management of information and consultation centers, already exists in some EU countries, including Slovakia, where the state institutions and the state-run "Agroinštitút" operate alongside specialized private consultation companies that provide consultations as well as trainings and additional education for SMEs and farmers.

To ensure the efficiency of the existing information mechanisms, the Ministry of Environmental Protection and Agriculture of Georgia should develop an effective system of monitoring and evaluating agricultural information-consultation and extension services. It is also possible to transfer (outsource) the task of monitoring to private structures through open tenders.

Trade with the EU requires producers to adapt to a lot of new rules and follow the approximation process; internal regulations are changing fast, and they need to keep up to date.

Recommendations for further action

It is crucial to ensure the continuous existence of the Local and Central Advisory Councils to sustain the project's impact. The LACs and CAC formats helped create an on-going partnership between Georgian civil society, SMEs and local and central government institutions. The CSO survey indicates a deep interest and motivation from civil society to continue supporting and promoting DCFTA/SME strategy implementation. The local and central government institutions should take advantage of this momentum and become sponsors of the councils by providing a venue for meetings and suggesting suitable dates to ensure proper representation from the government side. CSOs could take the lead in organizing the councils by inviting participants, summarising discussion results and setting the agenda for the next gathering. The donor community should consider supporting this activity, especially costs related to human resources.

Below are recommendations for Georgian government, CSOs, SMEs and the donor community.

Recommendations for the Georgian government:

- The lack of a skilled workforce remains a big challenge for Georgian SMEs willing to expand their operations and hire young people. The Georgian government should strengthen the private-public partnership in vocational education by simplifying the authorization process and adjusting the study programs based on the needs of the labor market. Including the dual education program in the governmental strategies is a welcome step.

- There is a need to tighten quality control of the plant protection means that are locally available: the government should regulate how the agricultural chemicals are sold and labeled, and provide a list of chemicals with higher-risk hazardous content. Chemicals on this list should be sold only by certified sellers.

- Considering that access to finances is one of biggest remaining challenges for Georgian SMEs, the government should encourage commercial banks to develop sector-specific banking products for SMEs, and conduct a wide-reaching informational campaign about these products among the population.

- The government, in cooperation with insurance companies, should create effective insurance products for the agricultural sector, considering the risks it carries for local producers. In addition, it is paramount to ensure communities in all parts of the country are informed about the insurance products.

- The 2017 and 2019 surveys showed that Georgian society in general, and the SMEs sector in particular, lack information about DCFTA implementation. The Georgian government should place a higher priority on providing access to updated information in this fast-changing environment. To this end, the Georgian government should strengthen already established instruments, for example, ICCs, and develop information-consultation channels for all producers, including and beyond the field of agriculture.

- Use the momentum of CSOs willing to work on DCFTA-related issues. One-third of the CSOs surveyed support holding regular meetings to provide SMEs with up-to-date information on the DCFTA/SME strategy implementation. This could easily be done during regular LACs and CAC meetings, or similar formats. In addition to informing and generating public support for DCFTA/SME strategy implementation, CSOs are instrumental in reaching out to SMEs, voicing most prevalent issues faced by SMEs and consulting on how it is best to address them.

Recommendations for CSOs:

- In order for as many SME representatives as possible to benefit from the DCFTA, it is important that CSOs study the specifics of their own region as well as elaborate proper recommendations and disseminate them in their respective regions.

- The complexity of the DCFTA requires a combined effort from different actors and stakeholders in order to better monitor and evaluate the progress. It is almost impossible for a single sector to improve the DCFTA implementation process. That means the creation of coalitions and groups of experts between CSOs and SMEs. This would also help put more pressure on the authorities and give SMEs a platform to make sure their concerns are being heard.

- It is important to make sure that the authorities listen to CSOs. The most efficient way to reach policy-makers is through direct communication in combination with public presentations for the media. Maintaining the LAC format will ensure that CSOs' recommendations and challenges are heard directly. At the same time, it is important to present this information to the media, which can disseminate it to the wider public, providing the general population with independent insight on the DCFTA implementation process.

Recommendations for SMEs:

- Georgian SMEs still have low capacity to export to the EU market. They should find ways to cooperate more effectively, which would allow them to increase the volume of production and ensure an even and continuous supply to export to the EU market. Although such cooperation has proved difficult in the past, it would open opportunities to participate in governmental programs like those provided by the Agricultural Projects Managment Agency (APMA), which are directed at larger producers.

- Many of the SMEs involved in the project lacked awareness about available support mechanisms and programs. Also, negative experiences with previous programs prevail, which serves to discourage them from exploring and trusting new initiatives. SMEs need to boost their awareness about the support that already exists. In addition to the LACs and CAC formats and sharing information among themselves, SMEs also need to boost their engagement with the local administration, ICCs and other business promoting and consulting agencies.

- Medium enterprises, especially those in the regions, should engage in dual education cooperation with local colleges and contribute to training future knowledgeable and experienced work force.

- SMEs involved in the project recognized the benefit of taking part in LACs and CAC, as a platform to exchange information, as well as advocate for change. There is a higher chance that the government will listen to recommendations and respond to concerns when there is a larger group raising the issues. SMEs should coordinate their actions within such formats like business associations, to strengthen their case and jointly monitor ongoing reforms. Business owners should also cooperate with CSOs more closely, to strengthen advocacy campaigns at both local and national levels.

Recommendations for donor community:

- Study visits to Lithuania and Slovakia proved extremely inspirational and informative. The well-structured agenda allowed all participants — Georgian SMEs, CSOs and public officials from regional administration—to learn from Lithuanian and Slovak know-how. The result was visible during the round of LACs and CAC that followed the visit. SMEs started integrating Lithuanian and Slovak experiences into solutions of discussed problems. Similar study visits should be initiated in the future.

- The re-granting experience revealed that regional CSOs lack the capacity to develop project proposals but excel at reaching out and informing their community members. The fact that over one million Georgians were reached at a cost of 60 000 EUR proves that small grants, mostly covering human resource costs, are worth administrating. Also, grants that are specifically focused on regional CSOs revitalize their activities and even encourage the establishment of new organizations.

- One fourth of surveyed CSOs expressed the need for more training. Therefore initiatives supporting development of economic competence of regional CSOs should continue.

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