



The European Union
for Georgia
EU4Business



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

RESULTS OF THE DCFTA RELATED MAPPINGS OF GEORGIAN SMES AND CSOS

**Awareness and Involvement of Georgian Small and Medium
Enterprises and Civil Society in Implementation of the Deep
and Comprehensive Free Trade Area with the EU**

SURVEY RESULTS

www.GeorgiaDCFTA.ge

This publication is an integral part of the project “Georgia on the European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation” launched in April 2017 and to be implemented by Spring 2019. The Project addresses the lack of awareness about opportunities provided by the Deep and Comprehensive Free Trade Area (DCFTA) Agreement between Georgia and the EU. It seeks to increase the role of Georgian civil society organizations in a nation-wide DCFTA/SME communication campaign and their capacities to assist local small and medium entrepreneurs (SMEs) in their preparations to access the EU single market.

The project is 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).

This study has been produced with the assistance of the European Union. Its contents are the sole responsibility of Project implementers and do not necessarily reflect the views of the European Union.

CONTENTS

Introduction	5
Survey methodology	7
Mapping Georgian CSOs	11
General information about local CSOs	11
The scope of CSO activities in Georgia's regions	13
Main findings	17
Mapping Georgian SMEs	18
General information about Georgian SMEs	18
Assessment of SME export potential	22
Assessing SMEs' level of awareness about the DCFTA	28
Main findings	33
SWOT analysis of the surveyed SMEs	34

ABBREVIATIONS

AA – Association Agreement

Adjara A.R. – Autonomous Republic of Adjara

ACDA – Agricultural Cooperatives Development Agency

ACF (Action contre la Faim) – Action against Hunger

BSO – Business support organization

CIPDD – Caucasus Institute for Peace, Democracy and Development

CSO – Civil society organization

DCFTA – Deep and Comprehensive Free Trade Area

ENPARD – European Neighborhood Programme for Agriculture and Rural Development

EU – European Union

EUR – Euro (currency)

FAO – Food and Agriculture Organization (United Nations)

FDI – Foreign direct investment

GEL – Georgian Lari (currency)

HACCP – Hazard Analysis and Critical Control Point

HS Code – Harmonized System Codes

IFAD – International Fund for Agricultural Development

ISO – International Organization for Standardization

MDGs – Millennium Development Goals

PIN – People in Need

RCDA – Rural Communities Development Agency

SMEs – Small and medium-sized enterprises

UMCOR – United Methodist Committee on Relief

USAID – United States Agency for International Development

INTRODUCTION

Since signing the Association Agreement (AA) with the EU in 2014, and subsequent initiation of the Deep and Comprehensive Free Trade Area (DCFTA), Georgia has come several steps closer to integration into the European market. Moreover, with increased quality standards for Georgian products, there will be more possibilities for Georgian businesses to export to other parts of the world and for the country's continued economic growth. The Georgian government, in cooperation with the EU and international actors, has launched a number of programs and services for the local business sector, including consultations on standards and requirements for exporting to the EU single market, support in establishing new trade and investment contacts with EU-based partners, and information about trade-related reforms and regulatory changes.

The DCFTA represents both an opportunity and a challenge for Georgia's small and medium-sized enterprises (SMEs). In addition to providing a boost to exports and foreign direct investment (FDI), the DCFTA could catalyze institutional and regulatory reforms, helping align Georgia's domestic standards with those of the EU single market. On the other hand, the DCFTA requires changes both in the ways Georgian producers operate and in the ways their activities are regulated. That comes with a price tag – investments into modernization of production and higher quality of products will be required. Until now, it has not been clear to what extent Georgian SMEs are willing and capable of adapting to these new, more stringent requirements. In order to better understand the needs of Georgian SMEs in adapting to the DCFTA, in summer 2017, a consortium of Georgian and European organizations, under the project “Georgia on European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation”, launched a nationwide survey evaluating the preparedness of local producers to adapt to EU regulations and integrate into the EU single market.

Additionally, the consortium recognized the importance of civil society organizations (CSOs) in the DCFTA's implementation. Despite ongoing information campaigns, awareness of the DCFTA in Georgia remains low among business owners, managers and the wider population. In such a context, CSOs can become “campaign agents” and inform a significant portion of the population about the benefits of the AA/DCFTA, as well as advocate for reforms and improvements to the implementation process. For this reason, the consortium also launched a nationwide survey of CSOs. The survey estimated the interest and capacities of regional Georgian CSOs to support DCFTA implementation, and in particular to support local SMEs in the implementation process.

The overall objective of the project “Georgia on European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation” is to strengthen the capacities of Georgian CSOs and BSOs in relation to the implementation of DCFTA and the SME strategy¹ for Georgia. The results of both surveys to be used to identify relevant SMEs and CSOs² with potential to be partners and beneficiaries of the project activities. The project further includes trainings for CSOs aimed at strengthening their capacities to: a) contribute to public awareness campaigns about the DCFTA in their particular regions; and b) assist and advise local SMEs on accessing and benefiting from the EU single market due to the DCFTA implementation.

The first part of this report presents the results of the survey of Georgian CSOs. It serves as a baseline for mapping CSOs in Georgia's regions that deal with economic affairs and EU-related issues and are capable of and willing to increase their capacities through relevant training programs, as well as to engage and contribute to DCFTA/SME strategy implementation.

¹ Source: SME Development Strategy of Georgia 2016-2020, November, 2015.

² The CSO sample also includes business support organizations (BSOs) operating in the nine regions as well as Adjara [A.R.](#) Many Georgian BSOs encompass a wide range of activities. In addition to supporting businesses, they act as integral parts of Georgian civil society and perform activities that fall under the areas of expertise and activities of CSOs. Such overlap of functions is common for both CSOs and BSOs, making Georgian BSOs relevant for CSO mapping purposes.

The objectives of the CSO survey included:

- ▶ Collecting general information about regional CSOs and BSOs;
- ▶ Assessing the capacities of Georgian CSOs and BSOs to provide assistance for DCFTA/SME strategy implementation and to join a nationwide public awareness campaign about the DCFTA;
- ▶ Identifying CSOs and BSOs capable and willing to participate in project activities; and
- ▶ Assessing the interest of CSOs and BSOs in receiving additional information about DCFTA/SME strategy implementation as well as participating in the project activities.

The second part of this report presents the results of the survey of Georgian SMEs and aims to analyze Georgian producers' readiness to enter the EU single market as well as the challenges they face along the way. The collected data also allowed the project's consortium to analyze SMEs' exposure and participation in existing SME support programs.

The main objectives of the Georgian SMEs mapping were to:

- ▶ Obtain general information about regional SMEs and develop their profiles (production capacity and export potential);
- ▶ Assess their level of awareness about the DCFTA;
- ▶ Assess their export potential and participation in the EU single market; and
- ▶ Identify the key challenges preventing them from developing a more viable presence in the EU single market.

The both surveys also serve as baseline for other activities, that follow in later phases of the project. First and foremost, for CSOs trainings in regions that should strengthen capacities and knowledge of above-mentioned CSOs about the topic of DCFTA implementation in Georgia. The trainings then will be adjusted according to the level of awareness of the DCFTA in given region of Georgia. Secondly, the survey provided project implementers with better understanding of regional specifics and mapped certain region-specific trends. This will also easier the establishment of DCFTA Local Advisory Councils (LACs) in each of the regions of Georgia. Based on proper feedbacks from regions, efficient DCFTA Central Advisory Council (CAC) could be established, that will merge in one body feedbacks from regions with the expert representation of the decision-making from state institutions involved in the DCFTA implementation in Georgia. Last but not least, the both surveys will serve as the reference for the research done by the end of the project, that will evaluate the impact on target groups after the project activities will be implemented.

SURVEY METHODOLOGY

CSO MAPPING

The process of mapping local civil society organizations covered Georgia's nine regions as well as the Autonomous Republic of Adjara during summer 2017. While identifying local CSOs, the researchers found there is no reliable database of CSOs in Georgia; the contact lists available online are not comprehensive and many CSOs that have been registered are no longer active. Considering the increasing attention on regional development within the framework of the DCFTA, it is important to identify partners from the local civil society that can support development programs through their active engagement and presence in local networks.

The CSO survey sample included those organizations that fit the following criteria:

- ▶ They are legally registered and operating in Georgian regions. Sampling excluded those CSOs registered in Tbilisi, as the project focuses on providing skills and engagement opportunities for regional CSOs;
- ▶ They are actively implementing activities in their regions;
- ▶ Priority was given to those CSOs that work in fields relevant to the following DCFTA-related topics: regional development, promoting entrepreneurship, European integration and advocacy. However, due to the small number of CSOs operating outside of regional centers, CSOs with other themes of focus were also included in the mapping.

The CSO survey covered 168 organizations in 61 municipalities (see Table #1). In some target municipalities, no operating CSOs were identified. This most often occurred in cases involving mountainous regions and municipalities that are small or remote from regional centers.

Table #1 **Number of surveyed CSOs by region and Autonomous Republic of Adjara**

REGION / AUTONOMOUS REPUBLIC	NUMBER OF SURVEYED CSOS
Autonomous Republic of Adjara (Adjara A.R.) • Municipalities: Batumi, Kobuleti, Khelvachauri, Keda, Shuakhevi, Khulo.	49
Guria • Municipalities: Ozurgeti, Chokhatauri, Lanchkhuti.	4
Imereti • Municipalities: Kutaisi, Zestaphoni, Sachkhere, Samtredia, Chiatura, Tskaltubo, Tkibuli, Baghdati, Vani, Kharagauli, Khoni, Terjola.	7
Kakheti • Municipalities: Akhmeta, Sagarejo, Dedoplistskaro, Signagi, Gurjaani, Telavi, Kvareli, Lagodekhi.	15
Kvemo Kartli • Municipalities: Marneuli, Bolnisi, Dmanisi, Gardabani, Tetrtskaro, Tsalka.	15
Mtskheta-Mtianeti • Municipalities: Kazbegi, Mtskheta, Dusheti, Tianeti.	11
Racha-Lechkhumi and Kvemo Svaneti • Municipalities: Ambrolauri, Oni, Tsageri, Lentekhi.	2
Samegrelo-Zemo Svaneti • Municipalities: Zugdidi, Abasha, Martvili, Senaki, Chkorotsku, Tsalenjikha, Khobi, Mestia.	31
Samtskhe-Javakheti • Municipalities: Borjomi, Akhaltsikhe, Adigeni, Aspindza, Akhalkalaki, Ninotsminda.	16
Shida Kartli • Municipalities: Gori, Khashuri, Kaspi, Kareli.	18
TOTAL:	168

SME MAPPING

The SME mapping identified and registered small and medium-sized enterprises within Georgia's nine regions and the Autonomous Republic of Adjara that have the potential for current or future export to the EU single market under the DCFTA. The research involved a countrywide survey. SMEs were considered for the survey if they fit the following criteria:

- ▶ They are legally registered and operating in Georgian regions. SMEs registered in Tbilisi were intentionally excluded as the project aims to engage and support regional SMEs;
- ▶ They fit the definition of a small or medium-sized enterprise according to the Georgian Tax Code³ and the Law on the National Investment Agency⁴ in Georgia;
- ▶ They are producing goods that could potentially be exported to the EU single market (e.g., SMEs that are already exporting to the EU or non-EU market, producing goods that have already penetrated the EU market from Georgia, etc). The study excluded service providers.

³ According to the Georgian Tax Code, small enterprise status is granted to entrepreneurs (natural persons) whose gross income from all economic activity during one calendar year does not exceed GEL 100,000. The status of micro business is granted to entrepreneurs (natural persons) who do not use hired labor, conduct economic activity independently and have an annual gross receivable income up to GEL 30,000. Source: Tax Code of Georgia (2010).

⁴ The SME definition, according to the Law on the Georgian National Investment Agency, is based on employment size and turnover customized to Georgia's specificities. It is used for the compilation of official statistics on the SME sector. Medium-sized enterprises employ up to 100 persons annually and have a turnover up to GEL 1,500,000 annually. Small enterprises employ up to 20 persons annually and have an annual turnover of up to GEL 500,000. Source: Law on the Georgian National Investment Agency.

The identified companies are considered to be potential future partners or beneficiaries of the DCFTA-related programs. In total, the study covered 559 SMEs⁵, with approximately nine SMEs surveyed per municipality (see Table #2). In four regions and the Autonomous Republic of Adjara, 10 or more SMEs were interviewed, while in the remaining five regions the number of interviewed SMEs varied from five to nine. The numbers were visibly lower in certain mountainous regions, especially Mtskheta-Mtianeti region, where fewer operating SMEs fit the sampling criteria.

⁵ It should be noted that more SMEs were identified through the conducted research than those indicated in this report. However, their interviewing and reporting was prevented by temporary non-accessibility due to various reasons. The interviewers maintain their contact information and will consider expanding the sample to include those SMEs at the second stage survey to be conducted at the final stage of the project in 2019.

Table #2 Number of surveyed SMEs by region

REGION / AUTONOMOUS REPUBLIC	NUMBER OF SURVEYED SMES
Autonomous Republic of Adjara (Adjara A.R.) • Municipalities: Batumi, Kobuleti, Khelvachauri, Keda, Shuakhevi, Khulo.	64
Guria • Municipalities: Ozurgeti, Chokhatauri, Lanchkhuti.	30
Imereti • Municipalities: Kutaisi, Zestaphoni, Sachkhere, Samtredia, Chiatura, Tskaltubo, Tkibuli, Baghdati, Vani, Kharagauli, Khoni, Terjola.	112
Kakheti • Municipalities: Akhmeta, Sagarejo, Dedoplistskaro, Signagi, Gurjaani, Telavi, Kvareli, Lagodekhi.	60
Kvemo Kartli • Municipalities: Marneuli, Bolnisi, Dmanisi, Gardabani, Tetrtskaro, Tsalka.	55
Mtskheta-Mtianeti • Municipalities: Kazbegi, Mtskheta, Dusheti, Tianeti.	20
Racha-Lechkhumi and Kvemo Svaneti • Municipalities: Ambrolauri, Oni, Tsageri, Lentekhi.	45
Samegrelo-Zemo Svaneti • Municipalities: Zugdidi, Abasha, Martvili, Senaki, Chkorotsku, Tsalenjikha, Khobi, Mestia.	62
Samtskhe-Javakheti • Municipalities: Borjomi, Akhaltsikhe, Adigeni, Aspindza, Akhalkalaki, Ninotsminda.	62
Shida Kartli • Municipalities: Gori, Khashuri, Kaspi, Kareli.	49
TOTAL:	559

Both surveys were conducted using quantitative methods. The research subjects were asked to fill out electronic questionnaires composed of open- and closed-ended questions. In the second phase, field research was conducted by polling researchers going to the regions and conducting face-to-face interviews with research subjects using the same questionnaires that were utilized via the online method.

The questionnaire used for CSOs included 16 questions, grouped into: general information about local CSOs (part I); and the scope of their activities, including target groups, working areas and communication tools (part II). The semi-structured questionnaire for SMEs, on the other hand, was composed of 31 questions and divided into three parts: part I – general information about the SME; part II – assessment of export potential; and part III – assessment of level of awareness about the DCFTA.

The methodology for conducting the surveys involved:

- ▶ **Desk research:** obtaining necessary data about CSOs, including lists and contact information, from such sources as: csogeorgia.org, cso.ge and the database compiled by CIPDD⁶ in the case of CSOs; and consulting centers of the Ministry of Agriculture of Georgia in the target municipalities, Bia.ge and the Georgian Chamber of Commerce and Industry (GGCI) in the case of SMEs. The researchers also engaged relevant governmental departments at target municipalities and the networks of partner organizations in mapping target SMEs and CSOs.
- ▶ **Field research:** on-site interviews with target SMEs and CSOs based on semi-structured questionnaires conducted by the Georgian partner organizations: GIP, ABCO, Young Scientists Union “Intellect”, ATINATI and Caucasus Genetics.
- ▶ **Online survey:** the questionnaires were uploaded online and research subjects were asked to fill them out using the links provided by the interviewers.
- ▶ **Telephone inquiry:** contacting and interviewing the representatives of target SMEs and CSOs by telephone using the same questionnaires as in the online and field research.

⁶ Source: the database of Georgian CSOs, Caucasus Institute for Peace, Democracy and Development (CIPDD), www.cipdd.org.

MAPPING GEORGIAN CSOS

Mapping Georgian CSOs aims to shed light on the profile of the local organizations active in Georgian regions and to contribute to more systematic engagement of local partners in DCFTA-related projects. The below sections highlight: the regional distribution and size of CSOs; the scope of their activities, relevant target groups and communication tools used to reach local stakeholders; and their interest in the DCFTA.

GENERAL INFORMATION ABOUT LOCAL CSOS

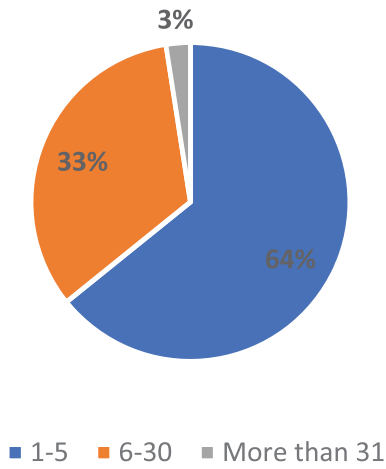
As the regions surveyed differ in size, social and economic development and access to infrastructure, the survey results clearly demonstrate that active CSOs are not proportionally distributed across the country. The largest number of active CSOs are found in Adjara A.R. (49 CSOs, 29% of the total). By contrast, the least active civil society sector was recorded in Racha-Lechkhumi and Kvemo Svaneti region, where only 1% of the surveyed CSOs are located (see Diagram #1.1.).

1.1. Surveyed CSOs by region

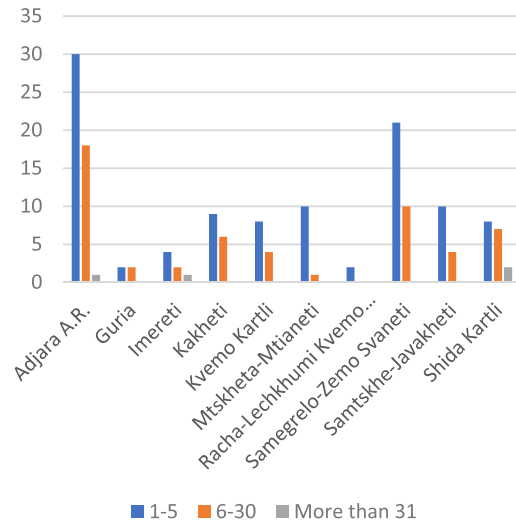


The majority of CSOs active in the regions are relatively small. The survey results demonstrate that 64% of CSOs employ between one and five people. By contrast, 33% employ between six and 30 people and only 3% employ more than 30. The bigger CSOs are mostly concentrated in larger cities: two of them are located in Gori, one in Kutaisi and one in Batumi. In most cases, the larger CSOs have branches or offices located in different geographical areas in Georgia (see Diagram #1.2.).

1.2. Size of the CSOs according to the number of employees

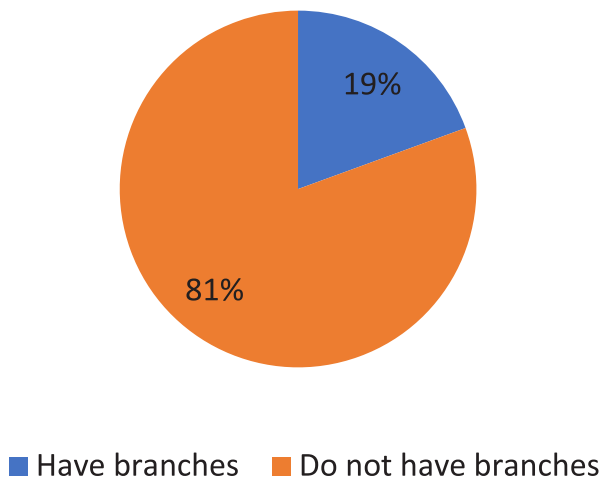


1.3 Size of the CSOs according to the number of employees by region



The majority of CSOs work in only one region, the one in which they are registered - that accounts to eighty-one percent of the surveyed organizations. By contrast, 19% of the surveyed CSOs reported having branches, or being a branch of a larger organization. The largest proportion of such CSOs are located in Adjara A.R. and Shida Kartli. Among those CSOs that formed a part of a larger organization or reported having a branch in one of Georgia’s regions, the majority are branches of Tbilisi-based organizations⁷ (see Diagram #1.4.).

1.4. CSOs that have branches in the regions



⁷ Tbilisi-based CSOs were not subjected to the survey, as the project focused on CSOs located in Georgia’s regions. However, regional branches of Tbilisi-based CSOs were included in the survey.

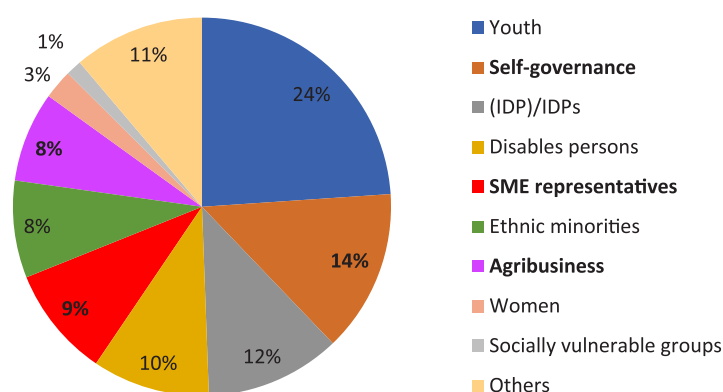
THE SCOPE OF CSO ACTIVITIES IN GEORGIA'S REGIONS

This subsection of CSO mapping provides more detailed profiles of the local organizations. It analyzes the target groups of local CSOs, assesses the relevance of current fields of activities among local CSOs for DCFTA implementation and summarizes the communication tools the CSOs use to reach their target audiences.

Survey data shows few CSOs in Georgia's regions are engaged in supporting SMEs. When asked to list the groups they are working with (they could name one or more target groups), only 9% of CSOs indicated SME representatives among their target groups; agribusinesses are in the focus of 8% of local CSOs. Fourteen percent of CSOs work with local self-governing bodies – closer engagement with these bodies could be beneficial when promoting reforms to support SME development at the local level.

The most popular target group appeared to be youth – 24% of the organizations claimed to work mainly with young people. For 12% of the surveyed organizations, their main target groups include internally-displaced persons (IDPs); for 10% – people with disabilities; 8% work with ethnic minorities; 3% – women; and 1% – socially vulnerable groups. Eleven percent of the CSOs identified other target groups among their focus, such as mountain communities, the elderly, teachers and others. One percent of surveyed CSOs could not identify their main target groups (see Diagram #1.5.).

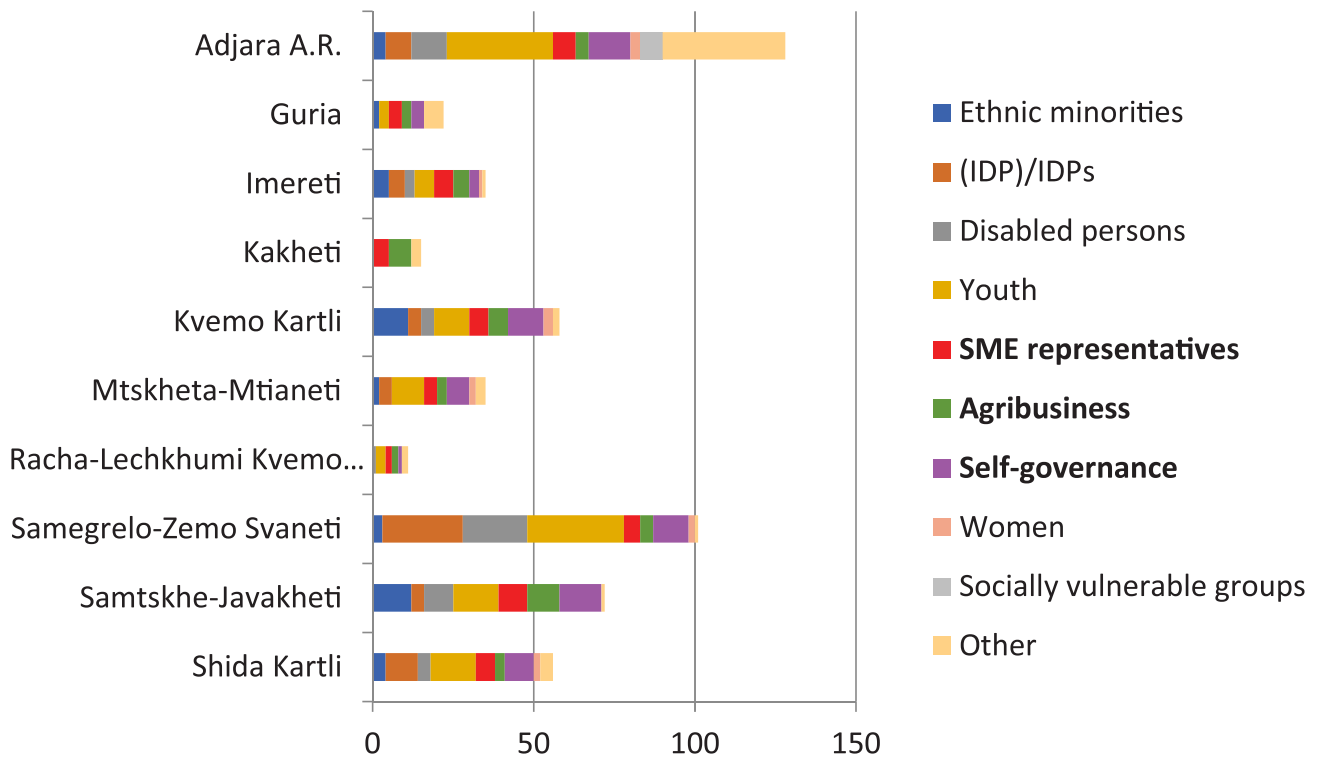
1.5. Target groups of CSO activities



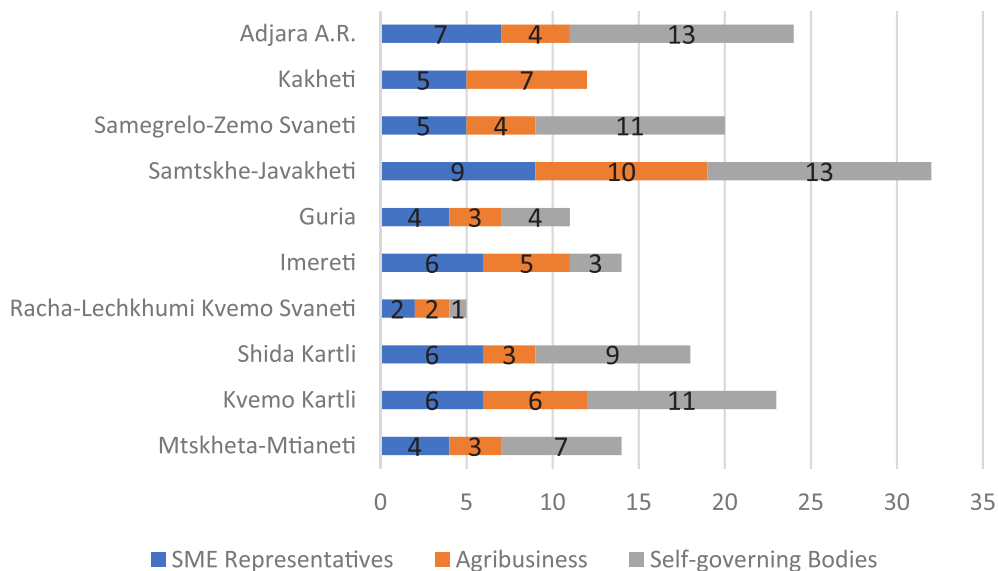
Looking at regional particularities, the largest number of CSOs that work with SMEs and agribusinesses are located in Samtskhe-Javakheti, where nine CSOs work with SMEs and 10 work with agribusinesses; Adjara A.R. – seven and five, respectively; and Kakheti – five working with SMEs and seven with agribusinesses. The importance of these two groups are somewhat similar in all other regions, however, as the number of CSOs focusing on these target groups range between two and six in every other region.

Looking at the other groups, CSOs from Adjara A.R. have the most diverse range of target groups. The largest proportions of CSOs specializing in working with IDPs can be found in Samegrelo - Zemo Svaneti and Shida Kartli, which are bordering territories of Abkhazia and South Ossetia. Ethnic minorities are the focus of the highest proportions of CSOs in Samtskhe-Javakheti and Kvemo Kartli (see Diagram #1.6).

1.6. Target groups by region



1.7. Share of CSOs working with SMEs, agribusiness and self-governing bodies



When asked about their fields of activities, 17% of interviewed CSOs indicated economic development, 16% mentioned agriculture, 13% legal support and 9% education. Only 5% of respondents work on issues related to DCFTA implementation and food safety. Even fewer – 4% - work on export promotion (see Diagram #1.8). Other fields covered by the local CSOs include human rights, healthcare and social issues. It should be noted that many organizations work simultaneously in several areas, and the survey allowed respondents to choose multiple answers to this question.

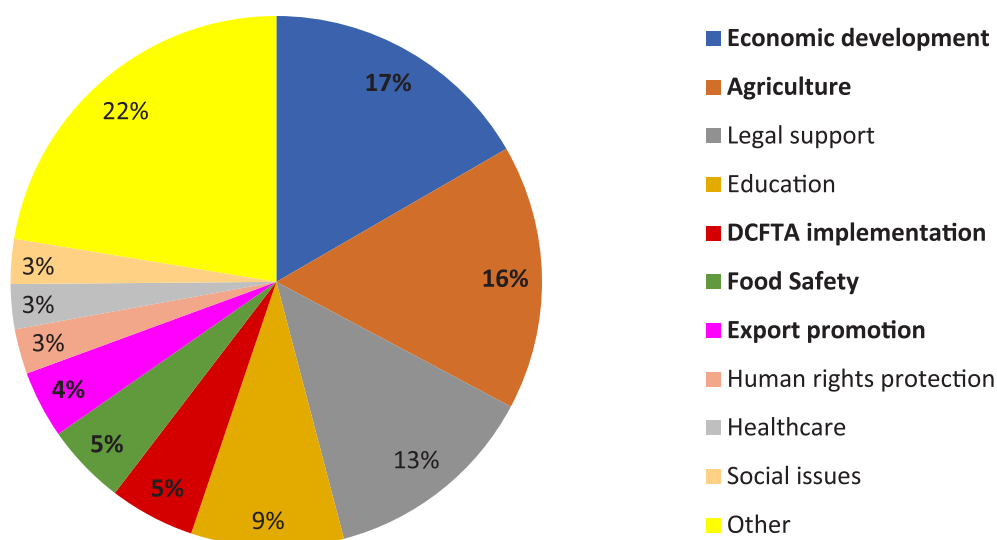
The largest numbers of CSOs working on the DCFTA are located in Samegrelo-Zemo Svaneti, Kvemo Kartli and Shida Kartli regions. Similarly, the largest numbers of CSOs that focus on export promotion are from Samegrelo-

Zemo Svaneti, Samtskhe-Javakheti and Shida Kartli regions. Economic development is the most popular area of focus among surveyed CSOs in Adjara A.R., Shida Kartli and Samegrelo-Zemo Svaneti. (See Table 1.1.)

Table #3 **Fields of activities of Georgian CSOs by regions (table indicates the number of CSOs)**

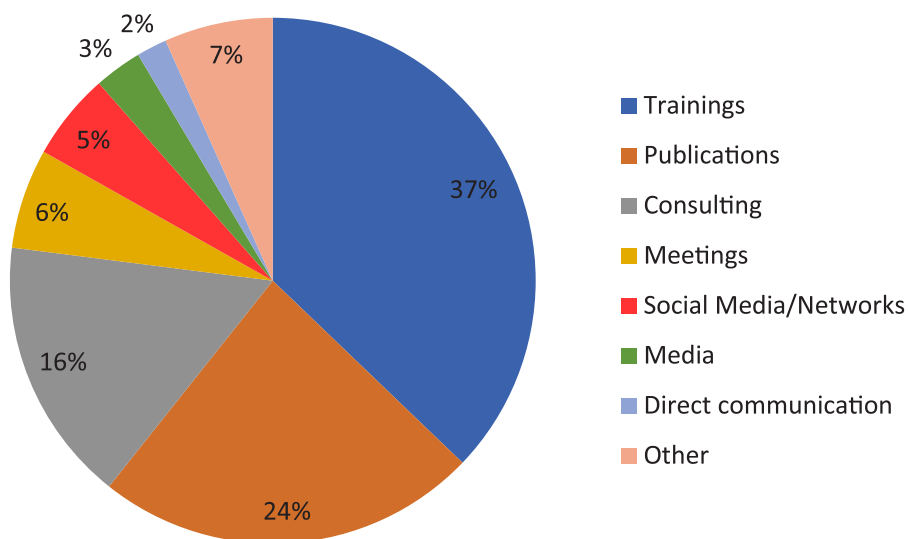
REGION/ FIELD OF ACTIVITIES	ECONOMIC DEVELOPMENT	AGRICULTURE	DCFTA IMPLEMENT.	FOOD SAFETY	EXPORT PROMOTION
Adjara A.R.	12	7	2	2	2
Guria	1	1			1
Imereti	2				2
Kakheti	3	6	1	1	1
Kvemo Kartli	7	7	3		2
Mtskheta-Mtianeti	3		1		1
Racha-Lechkhumi and Kvemo Svaneti	2				
Samegrelo-Zemo Svaneti	11	9	4	7	4
Samtskhe-Javakheti	8	9	2	6	4
Shida Kartli	11	5	3	2	3

1.8. Fields of activities of Georgian CSOs



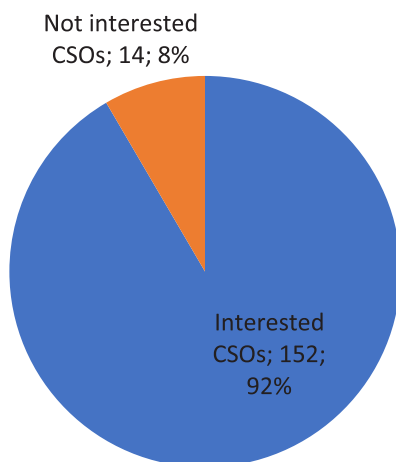
The survey results show that CSOs communicate with their target groups using different forms and channels, in many cases using several in combination. Training is one of the most commonly-used tools for outreach (used by 37% of surveyed CSOs), followed by publications (24%) and consulting (16%). Other forms of communication mentioned by the CSOs include public meetings, social media channels, events, publishing in media outlets and creating posters, among others (see Diagram #1.9.).

1.9. Forms of communication used by surveyed CSOs



Ninety-two percent of surveyed CSOs expressed interest in working on DCFTA-related issues. The organizations that are not interested in the DCFTA (8% of all surveyed CSOs) tend to focus on directions not connected to SME development, such as culture, the social integration of people with disabilities and election monitoring, among other things (see Diagram #1.10.).

1.10. Number of CSOs interested in working on DCFTA-related Issues



Of those CSOs who are interested in the DCFTA, a full 100% reported needing additional information or training on DCFTA-related issues.

MAIN FINDINGS

The majority of civil society organizations surveyed within the project showed interest in DCFTA implementation programs – 92% of surveyed CSOs claimed they would like to receive additional information and trainings about the DCFTA and would like to work on DCFTA-related issues. However, while motivation is high, the CSOs’ capacities to contribute to DCFTA implementation in their respective regions remains rather limited. The majority of CSOs reported lack of information about the services provided by governmental agencies to promote the DCFTA implementation.

The gap in awareness could be explained by the fact that many of the CSOs that expressed interest in the DCFTA are not necessarily working on economic issues. While 17% of surveyed CSOs noted economic development as one of their directions, with 16% mentioning agriculture, only 5% of all CSOs mapped nation-wide are currently engaged in DCFTA- and food safety-related projects. Even fewer – 4% – work 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 would like to work on DCFTA issues, many of them will need to adjust their profiles and receive additional trainings in order to become successfully engaged in export promotion to the EU single market.

In addition, regional distribution of the results demonstrate quite significant disparities between the regions: there are comparatively far fewer active CSOs in some regions, such as Guria or Racha-Lechkhumi and Kvemo Svaneti (each account for 4% of the total), while Adjara A.R. and Samegrelo - Zemo Svaneti together account for nearly half of all mapped CSOs (47%). Therefore, it is reasonable to expect more active civil society engagement in the DCFTA implementation process in those regions where there are more organizations operating locally.

MAPPING GEORGIAN SMEs

GENERAL INFORMATION ABOUT GEORGIAN SMEs

The diagrams below represent the information obtained by interviewing SMEs in the 61 Georgian municipalities. The survey sample includes nine SMEs per municipality on average, with the number of surveyed enterprises reflecting the size of each region: Imereti is the largest region with twelve municipalities, and therefore the highest number of regional SMEs were identified there (112 SMEs). Other regions, such as Guria and Racha-Lechkhumi and Kvemo Svaneti, have only three and four municipalities respectively, and accordingly the sample of SMEs was smaller. On the other hand, SMEs in Mtskheta-Mtianeti mostly focus on services such as tourism, which were excluded from this survey. The average number of SMEs surveyed per municipality in Mtskheta-Mtianeti was 6.7. (see Diagram #2.1).

2.1. Distribution of surveyed enterprises by region



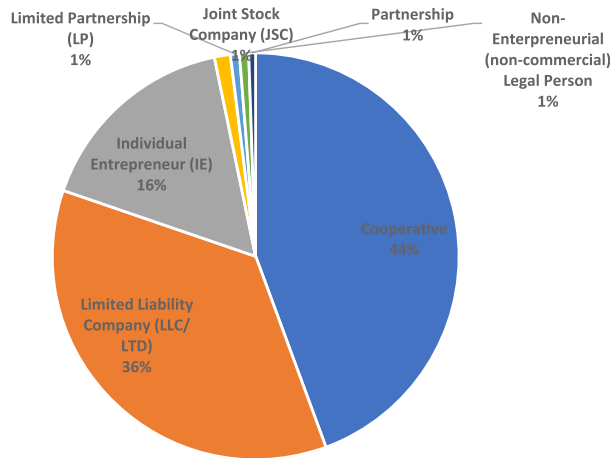
As the below diagram demonstrates, the range of legal forms of the identified and surveyed SMEs include individual entrepreneurs, cooperatives⁸, Limited Liability Companies (LLC/LTD), Joint Stock Companies (JSC) and partnerships⁹. The most popular legal form for local SMEs is cooperative, making up 44% of all surveyed SMEs. The establishment of the cooperative as a category of legal entity was first established in 2013 following adoption of the Law of Georgia on Agricultural Cooperatives. As a result, the Agricultural Cooperatives Development Agency (ACDA) was created to manage state support programs for cooperatives in Georgian regions – such as consultations, grants and other target projects. Cooperatives are also eligible to receive EU support, for example, through ENPARD programs.

⁸ A Cooperative is a company based on the labor activity of its members or established for developing the business and increasing the income of its members. Source: Entrepreneurs Law of Georgia, <http://economist.ge/img-site/upload/legislation/936519836802.pdf>. An agricultural cooperative is a legal entity organized under private law and legally established as a cooperative according to the Law of Georgia on Entrepreneurs. Such an organization carries out agricultural activity and has been given the status of an agricultural cooperative. Source: Law of Georgia On Agricultural Cooperatives, <https://matsne.gov.ge/en/document/download/1972742/0/en/pdf>.

⁹ The term "Partnership" refers to an entrepreneurial entity established by the legal grouping of a number of Individual Entrepreneurs. This legal entity form was created specifically for the grant recipient beneficiaries of the "Small Grant Project" within the Georgian government program "Produce in Georgia." In reality, members of such a Partnership are only registered as an Individual Entrepreneur because without such legal status, the individual cannot form an entity of a Partnership. Source: Entrepreneurs Law of Georgia, <http://economist.ge/img-site/upload/legislation/936519836802.pdf>.

Cooperative is followed by LLC/LTD (36% of all surveyed SMES) and individual entrepreneurship (16%) (see Diagram #2.2).

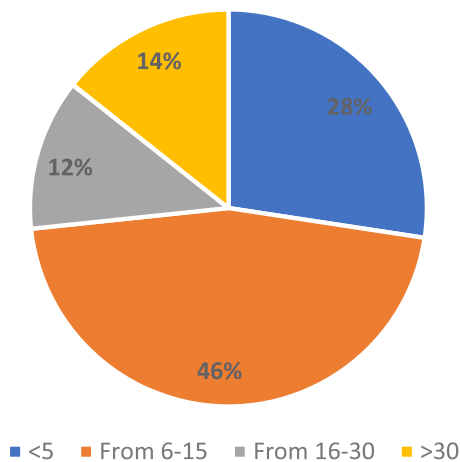
2.2. Legal entity form of surveyed enterprises



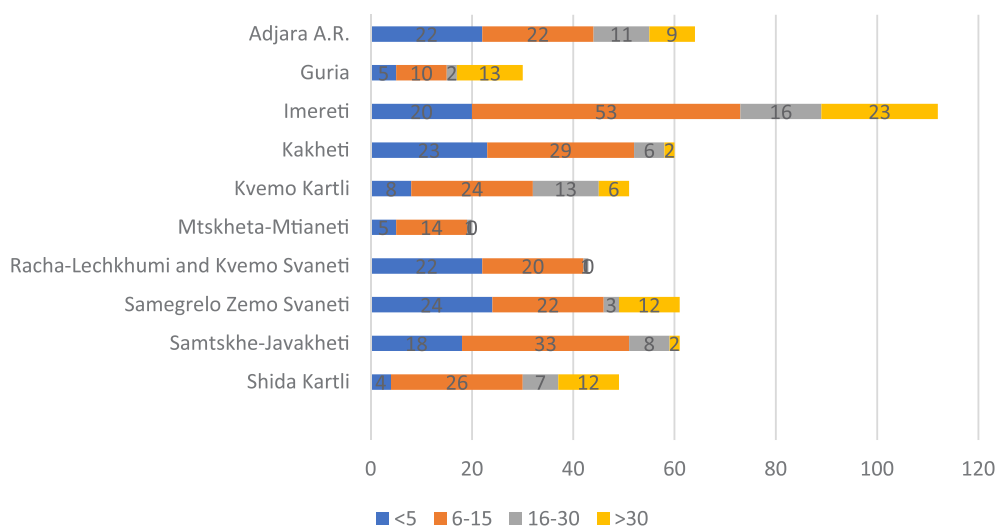
Small and medium-sized enterprises are defined under Georgian law as companies that employ up to 100 persons and have up to GEL 1,500,000 in annual turnover. Nationwide, 46% of surveyed enterprises employ six to 15 people; 28% constitute the smallest category of SMEs, employing fewer than five people. Fourteen percent employ more than 30 people and 12% have 16 to 30 employees (see Diagram #2.3).

Proportionally, the data is distributed similarly in most regions: the predominant SME size is 6 to 15 employees almost everywhere – for example, in Mtskheta Mtianeti, 70% (14) of all surveyed SMEs in the region are in this size range. The exceptions are Racha-Lechkhumi and Kvemo Svaneti and Samegrelo-Zemo Svaneti regions, where the majority of SMEs are smaller and employ up to five people. In these two regions, no companies with more than 30 employees were identified for the survey. In Adjara A. R., both categories (>5 and 6-15 employees) share an equal proportion, 34% each among surveyed SMEs. On the opposite side is Guria, where most companies that fit the sampling requirements have more than 30 employees – 43% of surveyed SMEs in Guria (see Diagram #2.4).

2.3. The size of SMEs by number of employees



2.4. Regional distribution of SMEs by number of employees



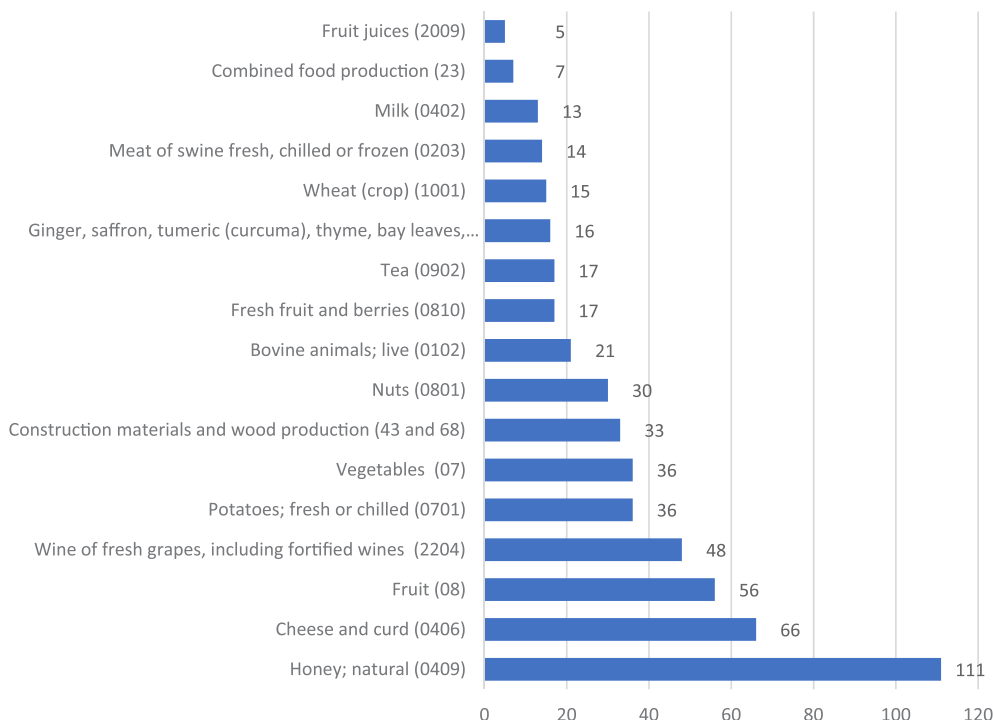
PRODUCTION AREAS OF GEORGIAN SMES

In order to make the production of Georgian enterprises easier to compare and analyze, this report uses “Harmonized System Codes” (HS Code 2017)¹⁰ for classification of production areas. For example, vegetables such as tomatoes, cucumbers and beans (except potatoes) were combined under one code (08) instead of being listed separately. Accordingly, 2-digit HS codes were used. Another example was the unification of construction materials and wood production materials under one group of 2-digit commodity codes (43 and 68). Given the huge diversity in construction and wood production materials, the use of HS Code 2017 was used for creating a workable system for analysis.

Diagram #2.5 lists the top products grouped by number of companies producing them. Honey is the most common product, produced by 111 out of 559 interviewed SMEs. It is followed by cheese/curd (66) and fruit/dry fruit (56). In case of fruit juices (mostly apple concentrates), all five producers are located in Shida Kartli region, and all five reported exporting their products to the EU single market.

¹⁰ UN Comtrade is a repository of official international trade statistics and relevant analytical tables. Source: UN Comtrade, <https://comtrade.un.org/data/>.

2.5. Production areas of surveyed SMEs



HONEY PRODUCTION

Honey is one of the Georgian products best placed for entering the EU single market. The demand for honey in the EU is growing by 6% every year, with 55% of the honey consumed in EU single market, about 150,000 tons in total, imported from other countries.¹¹ In 2017, Georgia was added to the list of countries from which the import of honey into the EU single market is allowed. The DCFTA enables Georgia to export 1,500 tons of honey to the EU single market every year.

At the moment, however, the main export destinations for Georgian honey are Middle Eastern and Asian countries, and only then come EU member states. One of the reasons for this is that the EU has strict requirements related to testing honey. Identifying the level of antibiotics and pesticides in honey is the main requirement for exporting to the EU single market.

CHEESE PRODUCTION

Currently, exporting Georgian cheese to the European single market is not an easy task, as Georgian cheese producers usually do not meet the production standards required by the EU. On the other hand, domestic demand is high and dairy producers mostly sell their products at local markets, concentrating their production on traditional Georgian varieties of cheese (such as Imeruli and Sulguni).

FRUIT AND BERRIES

Cultivating fruit and berries is one of the most traditional forms of agriculture in Georgia. It is common in almost every part of the country and, due to the natural and climatic conditions of the different regions, species of fruit are wide and diverse. The berry sector is currently more developed, and there is increasing demand for berries from the EU single market. In 2016, EU single market countries imported berries worth a total of more than EUR 1.3 billion¹². The biggest importers among them are Germany and Poland. One potential challenge for Georgian

¹¹ Source: The Centre for the Promotion of Imports from developing countries, <https://www.cbi.eu/market-information/honey-sweeteners/trade-statistics/>.

¹² Source: Eurostat, "The fruit and vegetable sector in the EU - a statistical overview", http://ec.europa.eu/eurostat/statistics-explained/index.php/The_fruit_and_vegetable_sector_in_the_EU_-_a_statistical_overview.

exporters lies in the export requirements: to export their fruit and berries to the EU single market, farmers are most often asked for a GLOBAL GAP certificate, which is not financed by the export support programs currently available in Georgia.

Table #4 **Main products by region**

REGION/ FIELD OF ACTIVITIES	PRODUCT 1	PRODUCT 2	PRODUCT 3
Adjara A.R.	Honey	Construction materials	Fruits
Guria	Tea	Wine	Nuts
Imereti	Honey	Wine	Nuts
Kakheti	Cheese	Wine	Livestock
Kvemo Kartli	Honey	Cheese	Potatoes
Mtskheta-Mtianeti	Fruit/Dry fruit	Spices	Wheat
Racha-Lechkhumi and Kvemo Svaneti	Honey	Wine	Meat
Samegrelo-Zemo Svaneti	Nuts	Bay leaves	Honey
Samtskhe-Javakheti	Cheese	Honey	Potatoes
Shida Kartli	Fruit	Vegetables	Fruit juices

The surveyed SMEs were also asked about their perceived production potential. According to the survey, 45% of SMEs believe they could produce twice their current production.

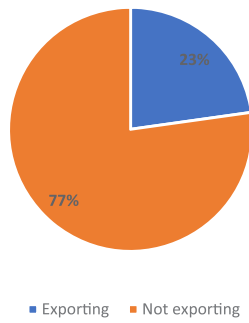
ASSESSMENT OF SME EXPORT POTENTIAL

The second section of the SME questionnaire assessed the SMEs’ export potential. SMEs were asked whether they exported their products. If they did export, they were asked to which countries. If they did not export, they were asked additional questions: what were the main obstacles to export; whether they planned to export in the future; whether they met quality standards; whether they possessed certifications of quality; or whether they planned to obtain such certifications in the future.

The first stage of the survey involved identifying those SMEs that export their products. The number of companies that already export – (127; 23% of the total) – was low in comparison to non-exporters, which account for the vast majority (426; 77% of the total) (see Diagram #2.6).

The three regions with the highest proportion of companies exporting their products are the following: Guria (14 SMEs, or 47%); Imereti (42 SMEs, or 37.5%); and Adjara A.R (22 SMEs, 33%) – while the region with the lowest proportion of exporters among its surveyed SMEs is Samtskhe-Javakheti (four SMEs, 7%) (see Diagram #2.7).

2.6. SMEs which export their products



2.7. Regional distribution of exporting SMEs

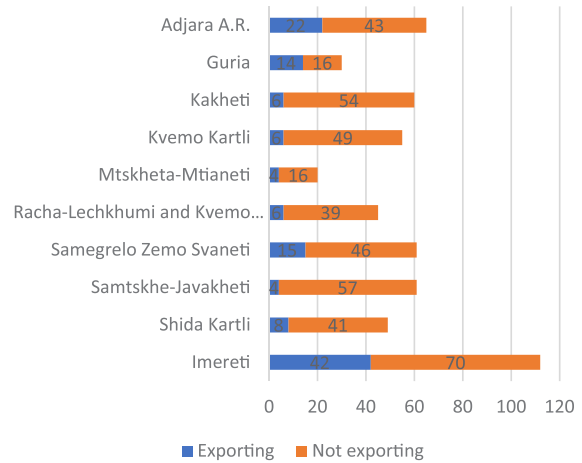
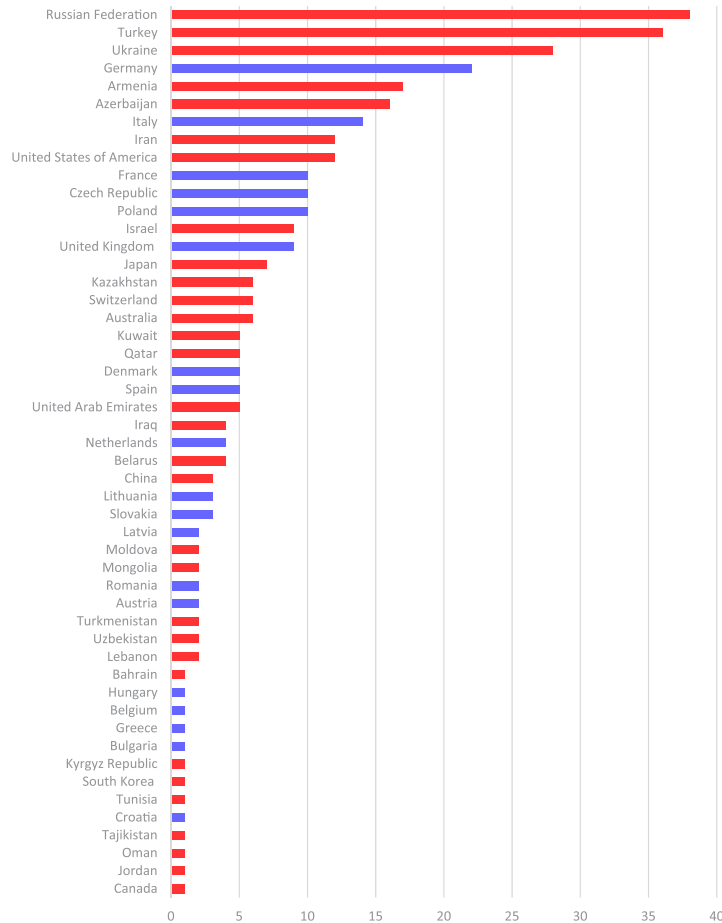


Diagram #2.8 demonstrates the range of foreign countries to which the surveyed SMEs export their products. The top three destinations are Russia, Turkey and Ukraine. From the EU countries, the surveyed SMEs are most likely to export their products to Germany, Italy and France. Among the top 10 export destinations, there are only three EU member states: Germany (5th), Italy (7th) and France (10th).

2.8. Countries to which SMEs export their products



The survey asked those SMEs that reported exporting their products whether they exported to EU states, non-EU states or both. The results show that 15% of SMEs are solely exporting to EU countries and 27% are exporting

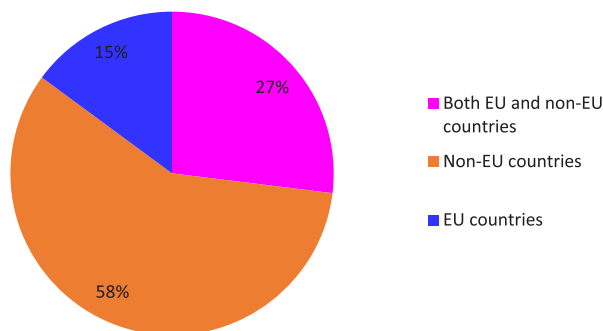
to both the EU and non-EU countries. However, the majority, 58% of all surveyed SMEs that are exporting, export their production solely to non-EU countries (see Diagram #2.9).

Moreover, as the survey results show, throughout the country the number of SMEs exporting to the EU single market remains low. There are five companies in Imereti exporting exclusively to the EU single market, which is the largest number in any region surveyed. It is followed by Guria with four such SMEs. The highest proportion of companies exporting only to the EU single market is found in Mtskheta-Mtianeti (66.7%, two out of three exporting companies). On the other hand, Racha-Lechkhumi and Kvemo Svaneti is the only region from which no SMEs export exclusively to the EU single market.

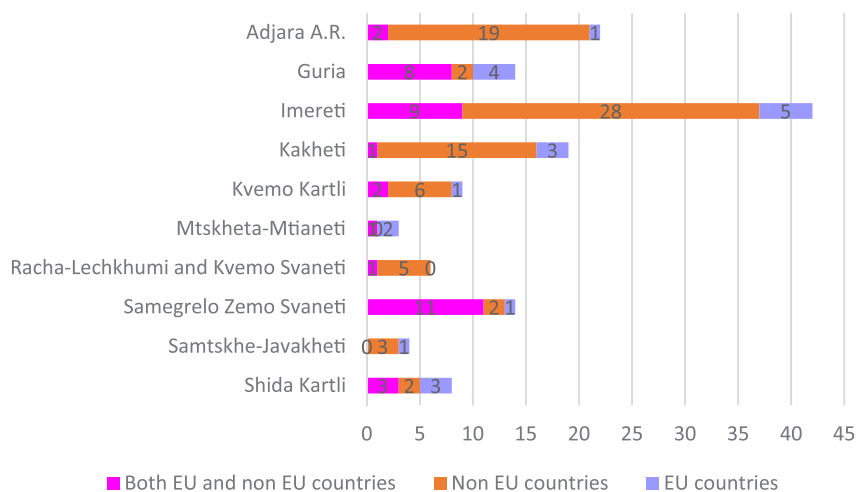
The largest number of companies that export to both EU and non-EU states are found in Samegrelo-Zemo Svaneti. There, 11 companies (79% of surveyed SMEs in that region) reported exporting to both groups of countries. It is followed by Imereti (nine companies, or 21%) and Guria (eight companies, which is the majority of SMEs in the region at 57%). There were no such companies identified in Samtskhe-Javakheti – here, SMEs export to either the EU single market (only one SME) or exclusively to non-EU markets (three SMEs).

Imereti leads in the number of companies (28) exporting exclusively to non-EU states. However, the highest proportion of companies exporting exclusively to non-EU states is found in Adjara A.R. (86.4%, 19 of 23 exporting companies) – which is not surprising, considering its proximity to Turkey, the second-largest destination for Georgian SMEs’ exports. Exclusive export to non-EU states characterizes over 50% of companies in each region except for Guria, Samegrelo-Zemo Svaneti and Mtskheta-Mtianeti. The latter is the only region that does not have any companies exporting exclusively to non-EU states (see Diagram #2.10).

2.9. Export destinations of SMEs



2.10 Export destinations by number of exporting SMEs

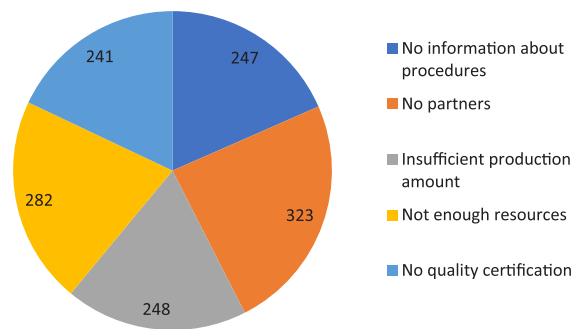


The proportion of surveyed SMEs that do not export at all is relatively high (77%). From the perspective of the survey, it was thus worth identifying and addressing the main obstacles to export. Five factors were identified as main obstacles for exporting to the EU:

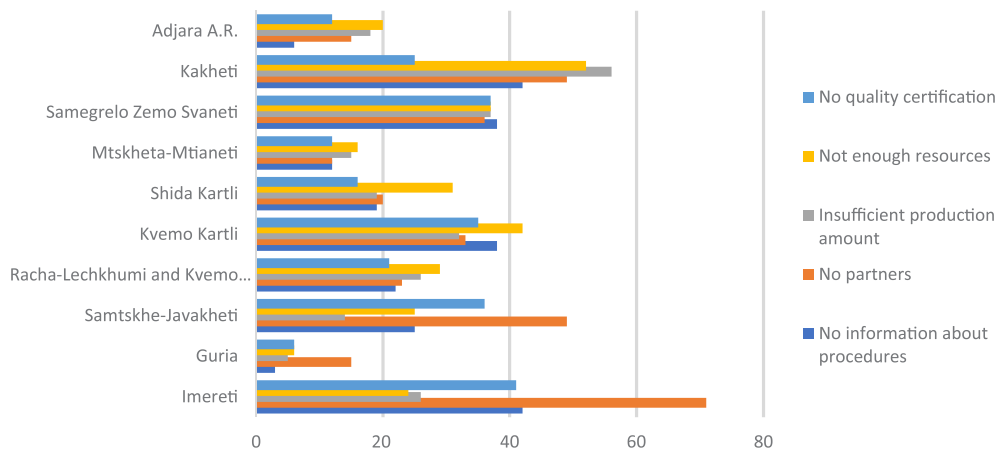
- ▶ Lack of partners in EU countries;
- ▶ Lack of information about the procedures for exporting to the EU single market;
- ▶ Production volumes are small and insufficient for exporting;
- ▶ Lack of resources to produce sufficient volumes for exporting; and
- ▶ Not having the quality certification required for exporting to the EU.

According to the survey results, the most important factor hindering export in Imereti, Guria and Samtskhe-Javakheti regions is the lack of partners in EU countries. In Kakheti region, the surveyed SMEs indicated insufficient resources for production as the biggest obstacle. In Samegrelo-Zemo Svaneti, the main problem is a lack of information about export procedures. In the remaining five regions, the lack of resources was identified as the main problem (see Diagram #2.11).

2.11. Export obstacles for SMEs



2.12. Export obstacles for SMEs by region

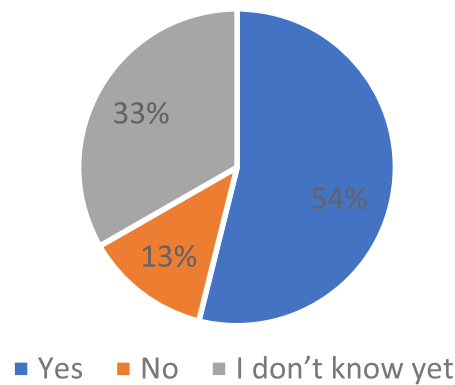


It should be noted that more than half of the respondents plan to export their products in the future, either to EU or non-EU countries (54%). One-third (33%) of the surveyed SMEs do not yet have a clear picture of their

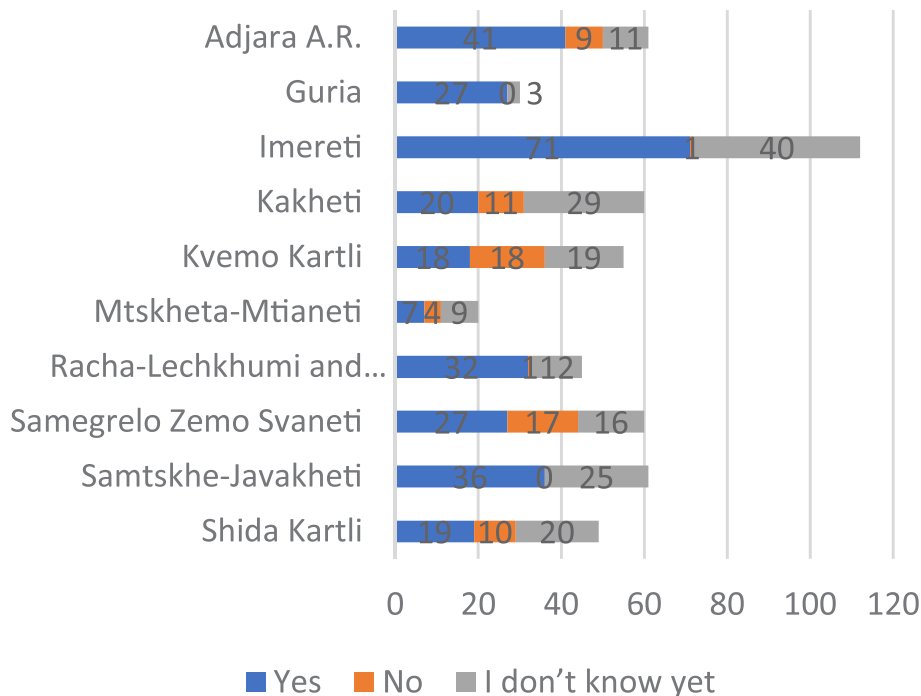
future export plans, and 13% do not plan to export in the near future. This can be explained, in many cases, by the fact that the majority of the surveyed SMEs are cooperatives still waiting for additional sources of funding or assistance from different institutions (the ENPARD program, state programs or other donors). By contrast, some companies reported that their needs were fully satisfied by the domestic market.

The region with the highest proportion of companies planning to export to the EU single market is Guria (90%). It is worth mentioning that only three SMEs from this region had no plans to export to the EU. The two regions with the lowest proportions of companies planning to export are Kvemo Kartli (32.7%) and Mtskheta-Mtianeti (35%). The latter region also has the highest proportion of SMEs that are uncertain about whether they plan to export to the EU single market in the future (45%) (see Diagram #2.14).

2.13. Number of SMEs planning to export their products to the EU single market



2.14. Number of SMEs planning to export their products to the EU single market by region

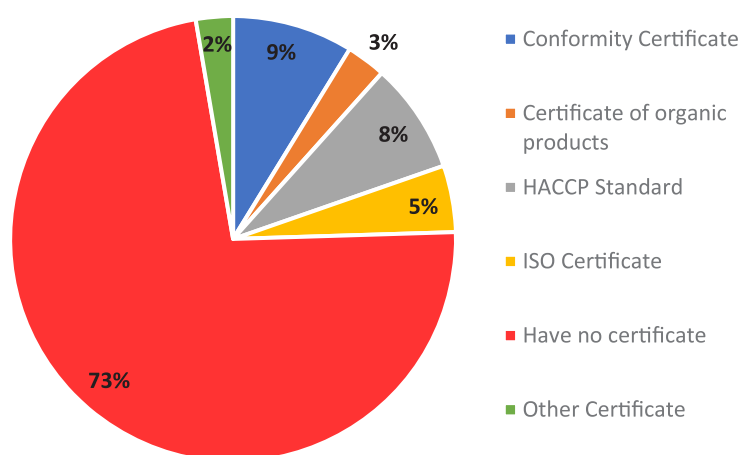


Georgia's SMEs must acquire certification in order to export to the EU single market. Certification requires undergoing a conformity assessment (testing and certification) in order to demonstrate compliance with EU regulatory requirements. Seventy-three percent of the surveyed SMEs lack certification of any kind. Among the SMEs possessing certification (27%), most of them have the conformity certificate – 9%, followed by

Hazard Analysis and Critical Control Point (HACCP)¹³ – 8%; International Organization for Standardization - ISO standards¹⁴ – 5%; certificate of organic products – 3%; and other certificates – 2% (including BIO standards and halal certificates, among others).

One common trend was found in all nine regions and in Adjara A.R.: the overwhelming majority of companies do not have any certificate and/or standard. Those regions with the largest numbers of companies with the HACCP standard are Samtskhe-Javakheti (13 companies) and Kvemo Kartli (five), while the regions with the largest numbers of holders of the ISO certificate are Adjara A.R. (10), Imereti (six) and Mtskheta-Mtianeti (two). The regions with the largest numbers of companies with the Conformity certificate are Racha-Lechkhumi and Kvemo Svaneti (eight), Shida Kartli (eight), Samegrelo-Zemo Svaneti (three) and Guria (two). Guria, Kvemo Kartli and Mtskheta-Mtianeti have no companies with a Certificate of Organic Products. In the case of BIO, only one company located in Kvemo Kartli and three SMEs in Mtskheta-Mtianeti have the certificate (see Diagram #2.15).

2.15. Certificates and/or standards obtained by SMEs



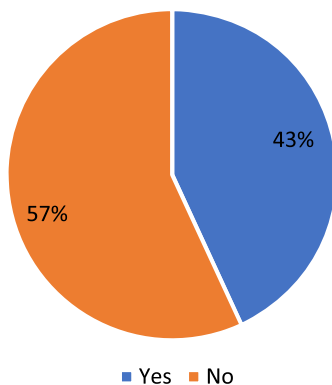
The survey revealed that a significant share – 43% of the total SMEs surveyed – planned to apply for certificates in the near future. The region with the highest proportion of companies planning to apply for any certificate and/or standard in the near future is Adjara A.R. (62.7%). At the same time, the only region – except for Adjara A.R. – with an absolute majority of companies planning to apply is Racha-Lechkhumi and Kvemo Svaneti (53.3%). Mtskheta-Mtianeti has the lowest proportion of companies planning to apply (20%) (see Diagram #2.16).

According to several respondents, there have been instances when even the ISO certificate was not accepted by EU partners, who instead took samples and performed their own examinations. After these examinations, these Georgian companies only needed the Conformity certificate to export to the EU single market.

¹³ HACCP is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product.

¹⁴ International Organization for Standardization (ISO) - gives world-class specifications for products, services and systems, to ensure quality, safety and efficiency.

2.16. Proportion of SMEs planning to apply for certificates and/or standards



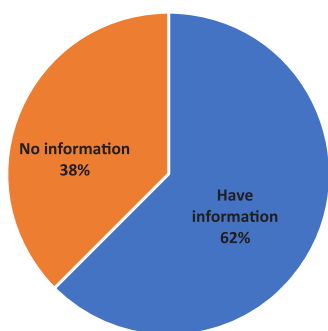
ASSESSING SMEs’ LEVEL OF AWARENESS ABOUT THE DCFTA

The third section of the SME survey assessed SMEs respective levels of awareness about the DCFTA. Sixty-two percent of the surveyed SME representatives knew about the DCFTA, but many of them could not provide more details when asked to assess it. The highest proportions of companies who reported being informed about the DCFTA are in Samegrelo-Zemo Svaneti and Samtskhe-Javakheti regions (72.1% in each), followed by Racha-Lechkhumi and Kvemo Svaneti (66.7%). The lowest proportion is in Kvemo Kartli, where only 39% of companies have information about the DCFTA (see Diagram #2.17).

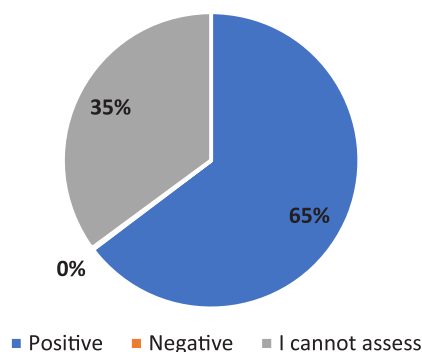
Among those that are informed about DCFTA, 21% is already exporting to the EU single market (that equals 13% of the total number of surveyed SMEs).

When asked their opinion about the DCFTA, the majority of respondents either assessed it positively (65%) or were not able to assess it due to lack of information or knowledge (35%). It should be noted that out of all 559 companies surveyed, only one SME representative assessed the DCFTA negatively. The region with the highest proportion of SME representatives with positive opinions about the DCFTA is Samegrelo-Zemo Svaneti (78.7%), followed by Adjara A.R. (76.4%). The regions where the majority of surveyed SME representatives could not assess the DCFTA at all are Kvemo Kartli (60.8%) and Shida Kartli (55.1%) (see Diagram #2.18).

2.17. Proportion of SMEs that have information about the DCFTA



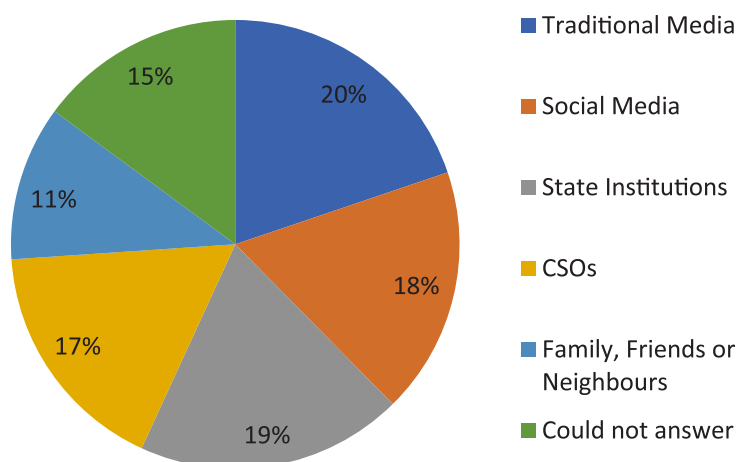
2.18. Opinions of SME representatives about the DCFTA



The polling teams also inquired about the main sources of information about the DCFTA, finding that the overwhelming majority of companies surveyed did not have any information about the possibilities of exporting to the EU single market. The representatives of those SMEs that do have information about the DCFTA reported receiving this information through four main channels: traditional media (newspaper, television, radio) (20%); state institutions (19%); social media (18%); and civil society organizations (17%). Another source of information

mentioned in the survey is family members, friends and neighbors – 11% of SME representatives identified this as an important channel for learning about the DCFTA (see Diagram #2.19).

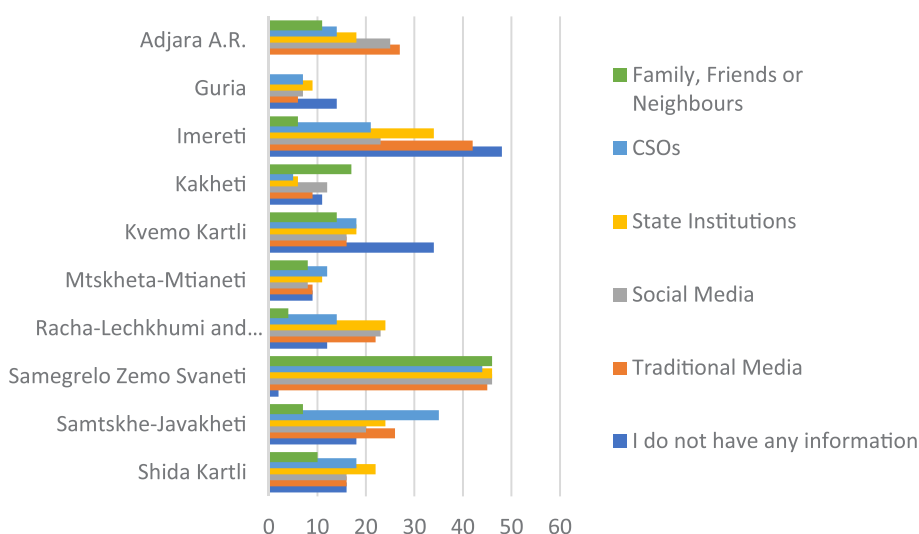
2.19. Sources of information about the DCFTA



The regions where traditional media is the most important source of information for companies include Imereti (19 companies) and Adjara A.R. (17). State institutions are the main source of information for SMEs in Racha-Lechkhumi and Kvemo Svaneti (11 companies), Shida Kartli (11), Kvemo Kartli (six) and Mtskheta-Mtianeti (two). It should be mentioned that in Mtskheta-Mtianeti, state institutions share their leading role with CSOs, with the two being the sole sources of information in the region. The only region where social media is the main source of information for a sizeable number of companies is Samegrelo-Zemo Svaneti (20).

Interestingly, while popular in other regions, traditional media is not a source of information for any company in Guria, while in Shida Kartli the same situation exists in relation to social media. The regions where CSOs represent the main source of information for a sizeable number of companies are Samtskhe-Javakheti (14) and Guria (eight). And lastly, family, friends and neighbors are important sources of information for companies in Kakheti (17) (see Diagram #2.20.).

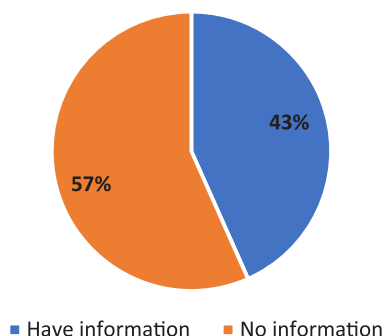
2.20. Sources of information about the DCFTA by region



In addition to questions about the DCFTA, the survey asked the respondents whether they were informed about export possibilities. The majority of non-exporting SMEs reported not being ready to export and not having

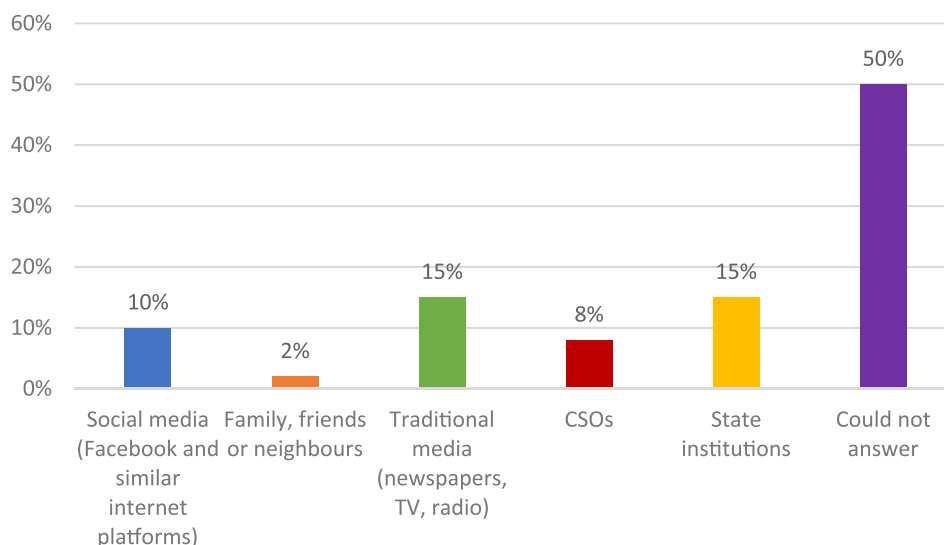
sufficient information about export possibilities to the EU single market. Only 43% of the surveyed SMEs know where and how they can export their products (see Diagram #2.21).

2.21. Proportion of SMEs with information about export possibilities to the EU single market



The main sources of information about export possibilities are state institutions (relevant ministries, agencies and consulting centers, among others) and traditional media (newspapers, television and radio). While 50% of the surveyed SMEs could not indicate their sources, 15% receive relevant information from state institutions and traditional media; 10% – from social media; 8% – from CSOs; and 2% – from family, friends or neighbors (see Diagram #2.22).

2.22. Sources of information about export possibilities

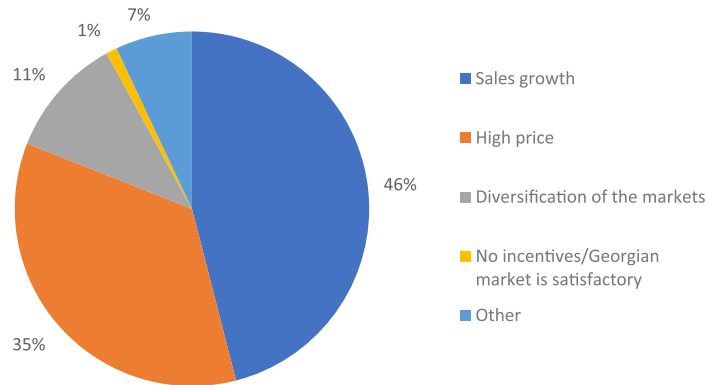


The survey also asked about the main incentives for SMEs to export to the EU single market. The main motivation for Georgian SMEs in terms of exporting their products is related to sales growth: nearly half (46%) of the surveyed enterprises mentioned this as an incentive. More than one-third (35%) mentioned high prices in the EU market and 11% mentioned export diversification opportunities. Seven percent specified other factors such as gaining experience and technology transfer. One percent could not name any incentives to export to the EU single market.

The combination of two factors, high prices and sales growth, was specified by more than 80% of companies in nearly every region (in both Mtskheta-Mtianeti and Samegrelo-Zemo Svaneti regions, this combined number exceeded 90%). The exceptions are Shida Kartli (66.7%) and Adjara A.R. (55.4%), where comparatively smaller proportions of SMEs identified this combination of factors. Without taking other factors into account, diversification of markets was identified as a motivator by the smallest proportion of companies in every region.

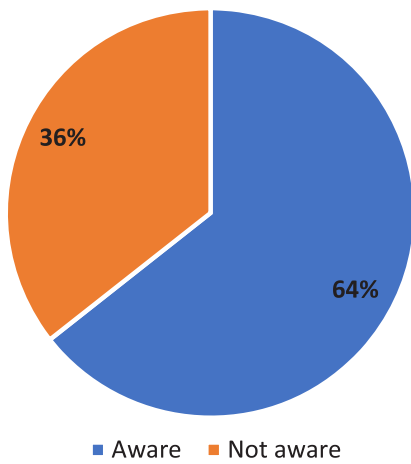
The only regions home to companies that did not identify any incentives were Shida Kartli (two companies) and Adjara A.R. (four companies) (see Diagram #2.23).

2.23. Incentives for SMEs to export their products to the EU single market

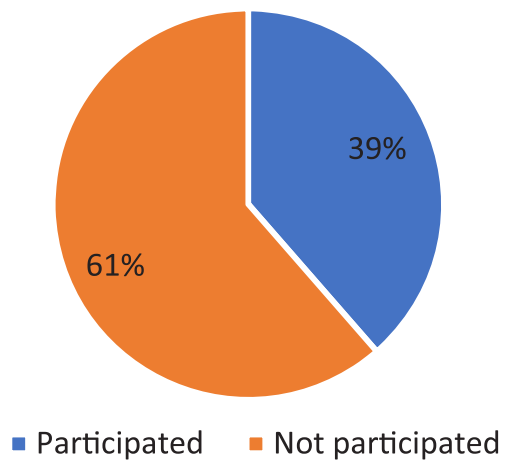


Overall, the majority of SMEs surveyed (64%) are aware of the state SME support program. In addition, 39% SMEs reported participating in one or more programs. Among these, the most commonly-cited programs were the ENPARD grant program (29%), Enterprise Georgia and other state programs (35%) and grants from donors such as Mercy Corps, CARE, USAID, FAO, PIN and ACF, among others (see Diagrams #2.24, 2.25 and 2.26).

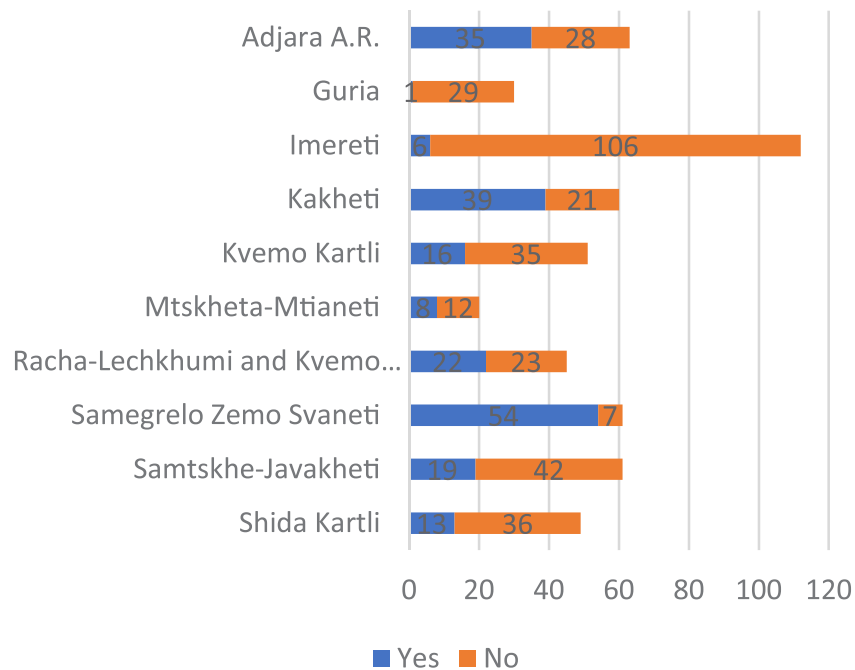
2.24. Awareness of SME support programs



2.25. Number of SMEs participating in SME support programs



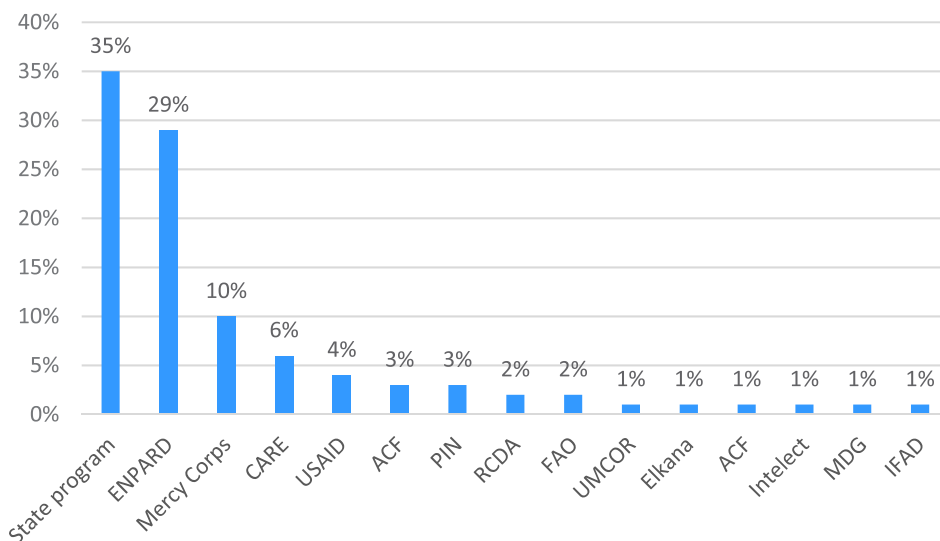
2.26. Number of SMEs participating in SME support programs by region



The three regions with the highest proportion of companies aware of the SME support programs are Samegrelo-Zemo Svaneti (95.1%), Mtskheta-Mtianeti (95%) and Adjara A.R. (93.8%). Awareness is lowest in Guria, where the proportion of companies aware of SME support programs is only 3.3%.

The only regions where absolute majorities of companies have participated in SME support programs are Samegrelo-Zemo Svaneti (88.5%) and Adjara A.R. (55.6%), while the regions with the lowest proportions of companies that have participated in SME support programs are Imereti (5.4%) and Guria (3.3%) (see Diagram #2.27).

2.27. Programs in which SMEs have participated



The available support programs and active donors vary from region to region. State support programs have acted as donors for sizeable numbers of companies in Adjara A.R. (26 companies); Samegrelo-Zemo Svaneti (19);

Racha-Lechkhumi and Kvemo Svaneti (11); Kakheti (eight); Kvemo Kartli (seven); and Shida Kartli (five). In Kvemo Kartli, ENPARD has acted as a donor for the same number of companies (seven) as have been supported by the state programs. ENPARD has also been the donor for sizeable numbers of companies in Kakheti (13), Samtskhe-Javakheti (eight), Mtskheta-Mtianeti (four) and Imereti (two). In Guria, only one company has benefited from a donor, which in that case was USAID. In Samtskhe-Javakheti, the donor for the largest number of companies (10) has been Mercy Corps. It is noteworthy that in Samegrelo-Zemo Svaneti, in addition to state programs, the donor for a notable number of companies (seven) has been CARE.

Table #5 Donor support to SMEs by region

REGION	STATE SUPPORT PROGRAMS	ENPARD1	MERCY CORPS2	CARE3	USAID4	OTHER
Adjara A.R.	26	4	4		1	
Guria					1	
Imereti		2				1
Kakheti	8	13			3	13
Kvemo Kartli	7	7				2
Mtskheta-Mtianeti		4				3
Racha-Lechkhumi and Kvemo Svaneti	11	3		1		8
Samegrelo-Zemo Svaneti	19	1		7		4
Samtskhe-Javakheti	1	8	10			2
Shida Kartli	5	2	1			
TOTAL	77	44	15	8	5	33

MAIN FINDINGS

The SME survey studied nine SMEs per region on average, compiling their profiles and identifying their current export patterns and readiness to export their products to the EU single market. In addition, the SME survey identified the challenges Georgian SMEs are facing in the process. The majority of surveyed SMEs fit the definition of small enterprises defined by the number of employees, with 74% employing up to 15 persons. As to the legal entity forms these enterprises take, the legal entity of cooperative has been actively promoted by the Georgian government and the EU over the last four years, and accordingly has had an impact on the landscape of Georgian SMEs. Cooperatives comprised the largest portion of all surveyed SMEs (44%) and some of the products produced by these cooperatives, such as honey, are not only among the most popular products in Georgia but also have gained recognition by the EU, allowing for export to the EU single market.

Other products produced by Georgia’s SMEs have varying prospects for penetrating the EU single market: while some of the more popular products such as wine, honey, fruits and berries are already being sold in the EU single market, others still need to adhere to the EU requirements for production in order to be considered for export, such as cheese and curd.

SMEs in Georgia’s regions are beginning to realize their potential for exporting to the EU single market. However, from all surveyed SMEs, only 23% are exporting their products. Among them, 42% are selling all or part of their products to the EU single market countries, but the number of such companies throughout the country is still not very high. Imereti is leading with five companies exporting exclusively to the EU; the largest number of SMEs exporting to both EU and non-EU countries is in Samegrelo-Zemo Svaneti, with 11 such SMEs. The main obstacles for selling Georgian products to the EU that were identified by the surveyed SMEs include: lack of business 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, seem to be an important issue facing Georgian SMEs. The survey results show that 57% of SMEs do not have enough information about export possibilities, and 38% lack information about the DCFTA. Importantly, however, all surveyed SMEs that were informed about the DCFTA expressed a positive opinion about it, accounting for 65% of all SMEs surveyed. 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 positive assessment is connected to the perception of opportunities that SMEs see in relation to export to the 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 to export indicated by the surveyed SMEs.

SWOT ANALYSIS OF THE SURVEYED SMEs

The combined results of the surveys, desk research and interviews are summarized below in the form of the SWOT analysis that assesses the factors affecting the participation of Georgian SMEs in DCFTA and exporting to the EU single market. The table below highlights the main strengths and weaknesses of the surveyed SMEs as well as the main opportunities and challenges for the future (see Table #2.3).

Table #6 **SWOT analysis**

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ▶ Relatively small tax burden and preferential tax system for micro and small businesses; ▶ SMEs support programs sponsored by the state, the EU and other international donors; ▶ Liberal trade regimes— DCFTA, FTAs and GSP+; and ▶ Some niche products with high demand in the EU single market that can be developed for export (such as dried fruit, honey, juice concentrates, bio fruits and berries). 	<ul style="list-style-type: none"> ▶ Lack of entrepreneurial skills and experience; ▶ Limited access to finance/long-term investment resources; ▶ Low level of innovation. Research and Development (R&D) (e.g., use of new technologies in the production process); ▶ Insufficient knowledge of the requirements of the EU single market; ▶ Lack of knowledge about the DCFTA; ▶ Weak and undeveloped informational and consulting services; ▶ Low interest in exporting products especially for micro and small businesses; ▶ Majority of small businesses have low production output (especially in agriculture); ▶ No cooperation of SMEs inside the country and for exporting products across the country; ▶ Over-reliance on agriculture and agricultural products; and ▶ Emphasis on products with low added-value and lack of companies producing products with higher level of sophistication.

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▶ Stronger involvement of government and state institutions in DCFTA-related issues; ▶ Increasing knowledge among public servants on DCFTA-related issues; ▶ Increasing access to finance via EU-developed programs; ▶ Diversifying sources of funding (EU, USAID, UNDP, SDC, ADC, FAO and other programs); ▶ Increasing the number of SMEs who fit international standards of production and processing; ▶ Strengthening economy-focused CSOs and enabling them to assist local producers; ▶ Strengthening links between local and central governments, SMEs and CSOs; ▶ Providing motivation to SMEs by informing them about the success of companies in other countries that have entered the EU single market; ▶ Exchanging experience with other DCFTA signatories – Moldova and Ukraine; and ▶ Strengthening international cooperation, especially with EU enterprises, including the internationalization of enterprises; 	<ul style="list-style-type: none"> ▶ Political instability and lack of political will to implement the DCFTA; ▶ Possible external economic factors (financial crisis and shocks from international markets, among others); and ▶ Economic overdependence on third countries (Russia, Turkey, China).

The important **strengths** of SMEs’ development in Georgia stem from association with the EU. Liberal foreign trade regimes with the EU and another countries/groups of countries (DCFTA, FTAs, GSP+) enable Georgian SMEs to trade on a preferential basis. Within the European Neighborhood Policy, and especially via the AA, support mechanisms for SMEs have been established and expanded through agencies such as Enterprise Georgia, Competition Agency, Accreditation Center and Innovation and Technology Agency, among others¹⁵. At the same time, SME support and DCFTA implementation programs are being financed by international and local donors, providing new opportunities for local SMEs. As shown by the survey, some SMEs have already started taking advantage of these programs to begin exporting to the EU single market. Domestic regulation is also rather favorable to SMEs development, with simplified administrative procedures, relatively low taxes and a preferential tax system for micro and small businesses. Furthermore, the survey outlined some niche products of high demand in the EU single market that can be developed for export (e.g.: dried fruit, honey, juice concentrates, bio fruits and berries, among others). Such directions should be developed in order to penetrate the EU single market and establish a competitive advantage. From the point of view of the project, this is the most relevant „strength” identified – Georgian SMEs and producers have the best chance of succeeding at the European market with niche products, that are either in high demand in Europe or are being considered a regional (Georgian) specialty and thus rarity in Europe.

Weaknesses: While there are some support programs and mechanisms for SMEs, their capacity is still lacking to efficiently penetrate the EU single market. The main problems facing SMEs are the lack of entrepreneurial skills and experience as well as lack of interest in exporting, especially among small and micro businesses, which is

¹⁵ Source: Free Trade with the EU - www.dcfta.gov.ge.

given by their production limitations – simply do not produce enough in order to sustainably supply export chain to Europe. The survey also shows that SMEs do not have enough information about the opportunities presented by the DCFTA as well as the challenges that SMEs will face due to the DCFTA requirements. In addition, local SMEs lack utilization of new technologies in their production processes and also have limited access to finance, which deteriorate their levels of productivity and export possibilities to the EU single market. One of the main problems stems from the fact that the majority of small businesses have low production capacities (especially in agriculture) and no established mechanisms for cooperation. The survey outlined the need for additional information campaigns to raise awareness of SMEs in the sphere of DCFTA-related issues, requirements of the EU single market and obligations to meet the EU standards.

Opportunities: DCFTA implementation in Georgia has received increasing attention from the Georgian government, the EU and the international donors' community and its focus on strengthening the export potential of Georgian producers so they are more capable of entering and competing in the EU single market. The twenty deliverables for 2020 confirmed at the Eastern Partnership Summit in November 2017, prioritize economic development and market opportunities for SMEs in the following five dimensions:

- ▶ Improving the investment and business environment and unlocking SMEs' growth potential;
- ▶ Addressing gaps in access to finance and financial infrastructure;
- ▶ Creating new job opportunities at the local and regional level;
- ▶ Harmonizing digital markets; and
- ▶ Supporting intra-regional trade among partner countries and the EU.¹⁶

¹⁶ Source: European Commission, Eastern Partnership - 20 Deliverables for 2020. Focusing on key priorities and tangible results, Joint staff working document, Brussels, 9.6.2017, https://eeas.europa.eu/sites/eeas/files/swd_2017_300_f1_joint_staff_working_paper_en_v5_p1_940530.pdf.

The deliverables address several challenges that were also raised by the survey respondents. To strengthen the capacity of Georgian SMEs, these SMEs need to diversify their sources of funding and gain access to the programs supported by different donors (EU, USAID, UNDP, SDC, ADC and FAO). In addition, SMEs should be provided with more information about the DCFTA, expanding the newly-established consulting services in the regions. This, in turn, requires deeper involvement in the DCFTA promotion and implementation from both government institutions and local civil society organizations. The survey shows that CSOs are an important source of information for SMEs in Georgia's regions. Therefore, strengthening economy-focused CSOs would enable them to better assist local producers. Finally, international and regional cooperation could provide new opportunities, and such cooperation would especially include strengthening ties with EU enterprises, experience exchange with other DCFTA signatories – Moldova and Ukraine – and learning from the successes and lessons learned by other countries that have already entered the EU single market.

Threats: While at the moment there is a political will of the Georgian government to implement the AA commitments, and DCFTA, political support and continuity of the process is paramount to its success. Both current and future Georgian governments will have an obligation to strengthen state services for SMEs to facilitate export to the EU single market, as well as address possible external challenges, such as financial crisis and shocks from international markets, among others. In addition, economic dependence on third countries, such as Russia, Turkey and China, affect the interest and possibilities of Georgian SMEs to export to the EU, as the report shows the preference of those known markets, while they lack knowledge about the benefits that DCFTA implementation could bring. Also entering the markets of the third countries does not require the same level of production quality. On one hand this makes it easier for SMEs to export their products to these markets; on the other hand it makes it much more difficult for businesses to adapt to the needed quality requirements requested by the DCFTA in Georgia internally. The advantage of the export to the EU single market also rests in higher prices of products and thus higher profit than the third countries' markets.

PROJECT IMPLEMENTERS



Eastern Europe Studies Centre (EESC)

Vilnius, Lithuania, www.eesc.lt



Association of Business Consulting Organizations of Georgia (ABCO Georgia)

Tbilisi, Georgia, www.abco.ge



Georgian Institute of Politics (GIP)

Tbilisi, Georgia, www.gip.ge



GLOBSEC, Bratislava

Slovakia, www.globsec.org



Young Scientists Union "Intellect"

Batumi, Autonomous Republic of Adjara, Georgia, www.intellect.org.ge



ATINATI

Zugdidi, Samegrelo Region, Georgia, www.atinati.org



Caucasus Genetics

Signagi, Kakheti Region, Georgia